LAS VEGAS RAILWAY EXPRESS, INC.
Form 10-Q
August 14, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014
Commission file number: 000-54648

LAS VEGAS RAILWAY EXPRESS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware	56-646797
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

6650 Via Austi Parkway, Suite 140
Las Vegas, NV 89119
(Address of principal executive offices)

(702) 583-6715
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 [X] No [ ]

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

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

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

Number of outstanding shares of common stock as of August 14, 2014 was 26,702,072.

LAS VEGAS RAILWAY EXPRESS, INC.
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

LAS VEGAS RAILWAY EXPRESS, INC.
CONDENSED BALANCE SHEETS

	June 30, 2014 (Unaudited)	March 31, 2014
Assets		
Current assets		
Cash	$43,413	$87,910
Other current assets	88,986	101,250
Total current assets	132,399	189,160
Property and equipment, net of accumulated depreciation	699,328	684,407
Other assets		
Other assets	21,500	22,385
Total other assets	21,500	22,385
Total assets	$853,227	$895,952
Liabilities and Stockholders' Deficit		
Current liabilities		
Short term notes payable	$-	$13,333
Accounts payable and accrued expenses	480,231	442,711
Derivative liability	1,519,753	1,198,018
Notes payable - related parties	59,000	-
Current portion of convertible notes payable, net of discount	1,942,060	1,271,984
Total current liabilities	4,001,044	2,926,046
Long-term portion of convertible debt, net of current portion	257,625	150,000
Total liabilities	4,258,669	3,076,046
Commitments and contingencies		
Stockholders' deficit		
Common stock, $0.0001 par value, 200,000,000 shares authorized, 24,075,114 and 16,041,143 shares issued and outstanding as of June 30, 2014 (unaudited) and March 31, 2014, respectively	2,408	1,604
Additional paid-in capital	32,707,028	29,445,945
Common stock payable	66,485	-
Accumulated deficit	(36,181,363)	(31,627,643)
Total stockholders' deficit	(3,405,442)	(2,180,094)
Total liabilities and stockholders' deficit	$853,227	$895,952

See accompanying notes to condensed financial statements

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LAS VEGAS RAILWAY EXPRESS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Operating Expenses:		
Compensation and payroll taxes	$2,866,004	$849,329
Selling, general and administrative	384,050	208,123
Professional fees	769,388	581,788
Depreciation expense	2,436	1,434
Total expenses	4,021,878	1,640,674
Loss from operations	(4,021,878)	(1,640,674)
Other income (expense)		
Interest expense	(1,402,041)	(2,521,627)
Change in derivative liability	870,199	950,245
Total other income (expense)	(531,842)	(1,571,382)
Net loss from operations before provision for income taxes	(4,553,720)	(3,212,056)
Provision for income taxes	-	(4,491)
Net loss	$(4,553,720)	$(3,216,547)
Net loss per share, basic and diluted	$(0.34)	$(0.40)
Weighted average number of common shares outstanding, basic and diluted	13,357,337	8,003,339

See accompanying notes to condensed financial statements

LAS VEGAS RAILWAY EXPRESS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Cash flows from operating activities		
Net loss	$(4,553,720)	$(3,216,547)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,436	1,434
Amortization of discounts on note payable	1,041,344	2,305,550
Amortization of debt offering costs	-	155,391
Deferred tax provision	-	4,491
Change in value of derivative liability	(870,199)	(950,245)
Stock issued and subscribed for services	511,869	400,905
Stock option compensation	2,446,615	-
Stock issued in connection with exchange agreements	103,388	-
Warrants issued for services	82,354	221,789
Changes in operating assets and liabilities:		
Other current assets	12,264	20,531
Other assets	885	(3,349)
Liabilities of discontinued operations, net	-	(109,000)
Accounts payable and accrued expenses	129,443	104,303
Net cash used in operating activities	(1,093,321)	(1,064,747)
Cash flows from investing activities		
Purchases of property and equipment	(17,357)	(107,565)
Net cash used in investing activities	(17,357)	(107,565)
Cash flows from financing activities		
Proceeds from exercise of stock options	514	-
Proceeds from convertible notes payable	1,006,667	880,000
Proceeds from notes payable - related parties	59,000	-
Net cash provided by financing activities	1,066,181	880,000
Net change in cash	(44,497)	(292,312)
Cash, beginning of the period	87,910	1,262,615
Cash, end of the period	$43,413	$970,303
Supplemental disclosure of cash flow information:		
Interest paid	$-	$-
Income taxes paid	$-	$-

Supplemental disclosure of non-cash investing and financing transactions:		
Stock issued as payment of accounts payable	$38,771	$-
Stock issued for debt and accrued interest	$84,929	$270,911

See accompanying notes to condensed financial statements

LAS VEGAS RAILWAY EXPRESS, INC.
NOTES TO CONDENDED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and basis of presentation

Basis of Financial Statement Presentation:

The accompanying unaudited interim financial statements of Las Vegas Railway Express, Inc. (the "Company") have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. However, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending March 31, 2015 or any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2014.

Going Concern:

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, the Company has net losses of $4,553,720 for the three months ended June 30, 2014. The Company also has an accumulated deficit of $36,181,363 and a negative working capital of $3,868,645 as of June 30, 2014, as well as outstanding convertible notes payable of $2,959,792. Management believes that it will need additional equity or debt financing to be able to implement the business plan. Given the lack of revenue, capital deficiency and negative working capital, there is substantial doubt about the Company’s ability to continue as a going concern.

Management is attempting to raise additional equity and debt to sustain operations until it can market its services and achieves profitability. The successful outcome of future activities cannot be determined at this time and there are no assurances that, if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

The accompanying financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

(2) Summary of Significant Accounting Policies

Risks and Uncertainties:

The Company operates in an industry that is subject to intense competition and potential government regulations. Significant changes in regulations and the inability of the Company to establish contracts with rail services providers could have a materially adverse impact on the Company’s operations.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods.

Property and Equipment:

Property and equipment are recorded at historical cost and depreciated on a straight-line basis over their estimated useful lives of approximately five years once the individual assets are placed in service. The Company expenses all purchases of equipment with individual costs of under $500, and these amounts are not material to the financial statements.

Long-Lived Assets:

In accordance with FASB ASC 360-10, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. The Company's management believes there has been no impairment of its long-lived assets during the three months ended June 30, 2014 or 2013. There can be no assurance, however, that market conditions will not change or demand for the Company's business model will continue. Either of these could result in future impairment of long-lived assets.

Income Taxes:

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The deferred tax assets of the Company relate primarily to operating loss carryforwards for federal income tax purposes. A full valuation allowance for deferred tax assets has been provided because the Company believes it is not more likely than not that the deferred tax asset will be realized. Realization of deferred tax assets is dependent on the Company generating sufficient taxable income in future periods.

The Company periodically evaluates its tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of June 30, 2014 and March 31, 2014, the Company has not established a liability for uncertain tax positions.

Basic and Diluted Loss Per Share:

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 260, "Earnings Per Share," the basic loss per common share is computed by dividing the net loss available to common stockholders after preferred stock dividends, by the weighted average common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if diluted potential common stock had been converted to common stock. Common stock equivalents have not been included in the earnings per share computation for the three months ended June 30, 2014 and 2013 as the amounts are anti-dilutive. As of June 30, 2014, the Company had 1,770,969 outstanding options which were excluded from the computation of net income per share because they are anti-dilutive. As of June 30, 2014, the Company also had convertible debt of $2,959,792 which was excluded from the computation. As of June 30, 2014, the Company had 2,315,649 outstanding warrants which were also excluded from the computation because they were anti-dilutive.

Share Based Payment:

The Company issues stock, options and warrants as share-based compensation to employees and non-employees.

The Company accounts for its share-based compensation to employees in accordance FASB ASC 718. Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period.

The Company accounts for share-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505-50 “Equity - Based Payments to Non-Employees.” Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The final fair value of the share-based payment transaction is determined at the performance completion date. For interim periods, the fair value is estimated and the percentage of completion is applied to that estimate to determine the cumulative expense recorded.

The Company values stock compensation based on the market price on the measurement date. As described above, for employees this is the date of grant, and for non-employees, this is the date of performance completion.

The Company values stock options and warrants that do not qualify as derivative instruments using the Black-Scholes option pricing model. Assumptions used in the Black-Scholes model to value options and warrants issued during the three months ended June 30, 2014 are as follows. There were no options or warrants granted during the three months ended June 30, 2013 that were valued using the Black-Scholes model.

	Three Months Ended June 30, 2014	
Expected life in years	2.5	
Stock price volatility	170.94% - 178.31	%
Risk free interest rate	0.76% - 0.95	%
Expected dividends	NA	
Forfeiture rate	0	%

Certain warrants qualify as derivative instruments and are valued using the binomial lattice method. See discussion below regarding accounting for derivative liabilities.

Derivative Liabilities:

In connection with the private placement of convertible notes beginning in February 2013, the Company became contingently obligated to issue shares of common stock in excess of the 200 million authorized under the Company’s certificate of incorporation. Consequently, the ability to settle these obligations with shares would be unavailable causing these obligations to potentially be settled in cash. This condition creates a derivative liability.

The Company has a sequencing policy regarding share settlement wherein instruments with the earliest issuance date would be settled first. The sequencing policy also considers contingently issuable additional shares, such as those issuable upon a stock split, to have an issuance date to coincide with the event giving rise to the additional shares.

On December 2, 2013, the Company effected a one-for-twenty reverse stock split of the Company's issued and outstanding common stock shares. As a result, the Company's outstanding shares of common stock and common stock equivalents no longer exceeded the number of authorized shares. As a result, as of December 2, 2013, these instruments that were accounted for as derivative liabilities were reclassified as equity.

The Company also has certain warrants and embedded conversion options in notes payable with elements that qualify as derivatives. The warrants have anti-dilution clauses that prevent calculation of the ultimate number of shares that may be issued upon exercise, and four outstanding notes payable that had a variable conversion feature that similarly prevented the calculation of the number of shares into which they were convertible.

The Company values these warrants and embedded conversion options in notes payable using the binomial lattice method. The resulting liability is valued at each reporting date and the change in the liability is reflected as change in derivative liability in the condensed statement of operations (see Note 6).

Fair Value of Financial Instruments:

The Company's financial instruments as defined by FASB ASC 825-10-50 include cash, notes payable and derivative liabilities. Derivative liabilities are recorded at fair value. The principal balance of notes payable approximates fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

In determining the appropriate fair value of the goodwill and derivative liabilities, the Company used the following input levels for its valuation methodology.

	Fair Value as of June 30, 2014	Fair Value Measurements at June 30, 2014 Using Fair Value Heirarchy		
		Level 1	Level 2	Level 3
Liabilities:				
Derivative liability	$1,519,753	$-	$ 1,519,753	$ -

New Accounting Pronouncements:

There are no recent accounting pronouncements that management believes will have a material impact on the Company's present or future consolidated financial statements

(3) Property and Equipment

Property and equipment consisted of the following.

	June 30, 2014 (Unaudited)	March 31, 2014
Office equipment	$ 65,084	$ 61,611
Computer software	24,167	24,167
Transportation equipment under construction	635,686	621,802
	724,937	707,580
Less: accumulated depreciation	(25,609)	(23,173)
	$ 699,328	$ 684,407

(4) Notes payable

A summary of outstanding notes payable is as follows:

	June 30, 2014 (Unaudited)	March 31, 2014
Secured promissory notes, dated May 17, 2011 through May 17, 2012 to an investor bearing interest at 8% per annum, payable on May 17, 2012.	$ -	$ 13,333
Total outstanding notes payable	$ -	$ 13,333

The above note payable was repaid in full during the three months ended June 30, 2014. Debt Securities Assignment and Purchase agreement (see Note 7).

(5) Convertible Notes Payable

On October 1, 2013, the Company entered into a promissory note with JMJ Financial which provides for the Company to borrow up to $350,000 in principal (the “JMJ Note”). As of March 31, 2014, the Company had borrowed $150,000 under this Promissory Note. Outstanding borrowings mature two years from the effective date of each payment. If the outstanding balance of the note is repaid by the Company on or before 90 days from the effective date of the borrowing, the interest charged is 0%. However, if the Company does not repay the note within 90 days, a one-time interest charge of 12% shall be applied to the outstanding principal sum. The outstanding balance of the note may be converted into common stock at the option of the debt holder at a rate equal to $0.90 per share, or 60% of the lowest trading price in the 25 days trading days previous to the conversion date, subject to other adjustments in the agreement. During the three months ended June 30, 2014, the Company borrowed an additional $40,000 under the JMJ Note. During the three months ended June 30, 2014, JMJ Financial converted $69,785 of outstanding principal into 785,000 shares of common stock under the terms of the agreement. As of June 30, 2014, the outstanding balance of the JMJ Note amounted to $120,125.

On November 22, 2013, the Company, entered into and closed a purchase agreement (the “Purchase Agreement”) with an institutional investor, pursuant to which the Company sold to the investor a senior secured convertible promissory note in the principal amount of $1,750,000 (the “Note”), and warrants to purchase 300,000 shares of common stock (the “Warrants”), for an aggregate purchase price of $1,750,000. The Note was scheduled to mature on June 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company’s option (subject to certain conditions), and is convertible into shares of the Company’s common stock at a conversion price equal to $0.70, subject to adjustment in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. The Company’s obligations under the Note are secured by substantially all of the Company’s assets. The Warrants have a five year term, are exercisable on a cash or cashless basis, and have an exercise price equal to $1.00, subject to adjustment in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the exercise price then in effect.

On April 11, 2014, the Company entered into a Note Exchange Agreement with the debt holder holding the $1,750,000 Note originally issued on November 22, 2013 under the Purchase Agreement. Under the terms of the Note Exchange Agreement, the original senior secured convertible promissory note and accrued interest is cancelled and replaced with a new note for $2,000,000. The new note matures on November 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company's option (subject to certain conditions), and is convertible into shares of the Company's common stock at a conversion price equal to $0.45, subject to adjustments in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. Under the new note, the Company's obligations are secured by substantially all of the Company's assets, excluding any railcar assets. The difference between the book value of the principal and accrued interest of the old note of $1,818,055 and the value of the new note of $2,000,000 of $181,944 was recorded as interest expense during the three months ended June 30, 2014.

On March 24, 2014, the Company entered into a Convertible Promissory Note with Iconic Holdings, LLC (the "Iconic Note") in which the Company has access to borrow a total principal amount of $165,000. All borrowings incur interest at a rate of 8% per annum, which is payable as of the maturity date of March 24, 2015. The initial borrowing made by the Company amounted to $55,000, which represented the amount outstanding on the Iconic Note as of March 31, 2014. At the option of the debt holder, the outstanding balance may be converted at any time into shares of the Company's common stock at a conversion rate equal to the lower of $0.50 or 60% of the lowest trading price of the Company's common stock during the 25 consecutive trading days prior to conversion election date. During the three months ended June 30, 2014, the Company borrowed an additional $100,000 under the Iconic Note. The outstanding principal balance as of June 30, 2014 amounted to $155,000.

On March 25, 2014, the Company entered into a convertible note agreement with KBM Worldwide, Inc. (the "KBM Note") for total principal borrowings of $68,000, which represented the amount outstanding as of June 30, 2014 and March 31, 2014. The amounts are due nine months after the issuance of the note on December 25, 2014, and bear interest at a rate of 8% per annum. At the option of the debt holder, beginning 180 days after the issuance of the note, the debt holder may convert the outstanding balance of the KBM Note into shares of the Company's common stock at a conversion rate equal to 61% of the average of the lowest three closing trading prices during the 10 trading day period prior to the conversion election date.

On April 2, 2014, the Company entered into a convertible promissory note for $100,000 with Beaufort Capital Partners LLC with a maturity date of October 2, 2014. The note is convertible into shares of the Company's common stock at a discount of 42% of the lowest traded price during the 5 trading days preceding the conversion date.

On April 11, 2014, the Company entered into a Note Exchange Agreement with the debt holder holding the $1,750,000 senior secured convertible promissory note originally issued on November 22, 2013 under the Purchase Agreement. Under the terms of the Note Exchange Agreement, the original senior secured convertible promissory note is cancelled and replaced with a new note for $2,000,000. The new note matures on November 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company's option (subject to certain conditions), and is convertible into shares of the Company's common stock at a conversion price equal to $0.45, subject to adjustments in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. Under the new note, the Company's obligations are secured by substantially all of the Company's assets, excluding any railcar assets.

On April 17, 2014, the Company entered into a convertible note payable with Vista Capital Investments, LLC providing for borrowings up to $250,000 with a maturity date of April 17, 2016. The note has a one-time interest charge of 12% and is due on the maturity date. The outstanding balance of the note along with accrued interest is convertible into shares of the Company's common stock at a rate equal to the lesser of $0.25 or 60% of the lowest trade occurring during the 25 trading days preceding the conversion date. The Company received borrowings under this convertible note payable of $50,000 in April 2014, which represented the outstanding balance as of June 30, 2014.

On April 30, 2014, the Company entered into a convertible note payable with Redwood Management, LLC providing for total borrowings of $250,000, which is payable in 3 installments of $83,333, one upon execution of the note, one due one month after execution, and one due two months after execution. Interest on the note equals 10% of the total principal balance, regardless of how long the note is outstanding for. The Company received payments of $83,333 on May 5, 2014 and on May 30, 2014. The convertible note matures 6 months after the issuance, at which point the outstanding principal and interest is due. The outstanding balance related to this note amounted to $166,667 as of June 30, 2014.

On May 6, 2014, the Company entered into a convertible note payable with KBM Worldwide, Inc. providing for total borrowings of $32,500 which accrue interest at a rate of 8% per annum. The convertible note matures and is due in full on February 12, 2015 along with any unpaid accrued interest. The outstanding principal and accrued interest is convertible into shares of common stock at the option of the holder at a conversion rate equal to 61% of the average of the lowest 3 trading prices during the 10 trading days prior to the conversion.

On May 12, 2014, the Company entered into a secured convertible promissory note with Typenex Co-Investment, LLC (the "Typenex Note") providing for total borrowings up to $335,000 which accrue interest at a rate of 10% per annum. All outstanding borrowings mature and are due in 20 months from the issuance date. The Company received an initial payment of $87,500 on the note issuance date. The outstanding principal and interest is convertible into shares of common stock at the option of the holder at a conversion rate equal to the lesser of $0.35 per share or 60% of the average of the 3 lowest closing bid prices in the 20 trading days preceding the conversion date. If the average of the 3 lowest closing bid prices is less than $0.10, then the conversion factor is reduced from 60% to 55%. The debt holder was also issued warrants on May 12, 2014 in connection with this note payable granting the right to purchase a number of common stock shares equal to $167,500 divided by the market price (defined as the higher of the closing price on the issuance date or the volume weighted average price of the stock for the trading day that is 2 days prior to the exercise date) at an exercise price of $0.35 per share. The outstanding balance related to this note amounted to $87,500 as of June 30, 2014.

On May 28, 2014, the Company issued into a convertible promissory note with Beaufort Capital Partners LLC providing for borrowings of $125,000. The convertible promissory note matures on August 28, 2014, at which point the Company owes $187,500 which includes a total of $62,500 in interest expense. The outstanding amounts are convertible into shares of common stock at the option of the holder at a conversion rate equal to 60% of the lowest traded price during the prior 20 trading days from the date of the conversion.

On June 13, 2014, the Company entered a convertible debenture agreement with Group 10 Holdings, LLC providing for total borrowing of $55,000 which accrue interest at the rate of 12% per annum. All borrowings mature and are due in one year from the issuance date. The debenture is convertible into shares of common stock at the option of the holder at the conversion rate lesser of 55% discount of the lowest closing bid price during the 25 trading days prior to the date of notice conversion or $0.25 per share. In connection with the agreement, the Company issued 50,000 shares of common stock as a commitment fee. The fair value of the common stock issued amounted to $8,500 and has been recorded as a discount to the note payable. The amount is being amortized into interest expense through the maturity date of June 13, 2015.

The above warrants issued with the Purchase Agreement and Typenex Note have anti-dilution clauses and variable exercise rates that prevent calculation of the ultimate number of shares that may be issued upon exercise, and all of the outstanding convertible note balances described above have variable conversion features that similarly prevented the calculation of the number of shares into which they were convertible. As a result, the Company accounts for both the conversion feature associated with these notes and the warrants as derivatives. The Company values these warrants and conversion features using the binomial lattice method. The resulting liability is valued at each reporting date and the change in the liability is reflected as change in derivative liability in the statement of operations.

The following summarizes the book value of the convertible notes payable outstanding as of June 30, 2014 and March 31, 2014.

	June 30, 2014 (Unaudited)	March 31, 2014
Principal balance of convertible notes payable outstanding	$ 2,959,792	$ 2,023,000
Less: discount on convertible notes payable	(760,107)	(601,016)
Convertible notes payable, net	$ 2,199,685	$ 1,421,984

Future scheduled maturities of these notes payable are as follows:

	Year Ended June 30,
2015	$ 2,702,167
2016	257,625
Total	$ 2,959,792

(6) Derivative Instruments

Excess Shares

In connection with the private placement of convertible notes beginning in February 2013, the Company became contingently obligated to issue shares of common stock in excess of the 200 million shares authorized under the Company’s certificate of incorporation. Consequently, the ability to settle these obligations with shares would be unavailable causing these obligations to potentially be settled in cash. This condition creates a derivative liability.

The Company had a sequencing policy regarding share settlement wherein instruments with the earliest issuance date would be settled first. The sequencing policy also considers contingently issuable additional shares, such as those issuable upon a stock split or anti-dilution, to have an issuance date to coincide with the event giving rise to the additional shares.

Using this sequencing policy, all instruments convertible into common stock, including warrants and the conversion feature of notes payable, issued subsequent to November 30, 2012 were classified as derivative liabilities. On December 2, 2013, the Company effected a one-for-twenty reverse stock split of the Company’s issued and outstanding common stock shares. As a result, the Company’s outstanding shares of common stock and common stock equivalents no longer exceeded the number of authorized shares. As a result, as of December 2, 2013, these instruments that were accounted for as derivative liabilities were reclassified as equity.

Other Derivatives

The Company has certain warrants and notes payable with elements that qualify as derivatives. The warrants have anti-dilution clauses that prevent calculation of the ultimate number of shares that may be issued upon exercise, and the notes payables have variable conversion features that similarly prevented the calculation of the number of shares into which they were convertible.

The derivative liability, as it relates to the different instruments, is shown in the following table.

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Warrants	Conversion Feature of Notes Payable	Total	Warrants	Conversion Feature of Notes Payable	Total
Beginning balance, April 1	$205,248	$992,770	$1,198,018	$1,663,394	$1,518,143	$3,181,537
Additional issuances	148,903	1,043,031	1,191,934	2,472,282	1,364,711	3,836,993
Exercised/converted	-	-	-	-	(266,459)	(266,459)
Change in derivative liability	(247,591)	(622,608)	(870,199)	22,441	(972,686)	(950,245)
Ending balance, June 30	$106,560	$1,413,193	$1,519,753	$4,158,117	$1,643,709	$5,801,826

The derivative liability was valued using the binomial lattice method with the following inputs.

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Expected life in years	0.25 - 5 years	0.59 - 4.43 years
Stock price volatility	160.4% - 256.7%	112.3% - 270.1%
Discount rate	0.04% - 1.68%	0.09% - 1.20%
Expected dividends	None	None
Forfeiture rate	0%	0%

(7) Equity

Common Stock

The Company is authorized to issue 200,000,000 shares of common stock and no other class of stock at this time. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders and are not entitled to cumulate their votes in the election of directors. The holders of common stock are entitled to any dividends that may be declared by the Board of Directors out of funds legally available therefore subject to the prior rights of holders of any outstanding shares of preferred stock and any contractual restrictions we have against the payment of dividends on common stock. In the event of our liquidation or dissolution, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive or other subscription rights and no right to convert their common stock into any other securities.

During the three months ended June 30, 2013, the Company issued an aggregate of 270,911 shares of common stock for the conversion of $270,911 in convertible notes payable and accrued interest. This included 200,000 shares of common stock for the conversion of a $200,000 convertible note payable held by a related party entity owned by a Director of the Company. During the three months ended June 30, 2014 the Company issued an aggregate of 785,000 of common stock for the conversion of $69,875 of outstanding notes payable.

During the three months ended June 30, 2013, the Company issued an aggregate of 129,500 shares of common stock as payment for services, directors' and employee compensation resulting in total expense of $318,550. During the three months ended June 30, 2014, the Company issued an aggregate of 1,390,000 shares of common stock as payment for services, directors' and employee compensation resulting in an expense of $511,870. The fair value of the directors' and employees' service was determined by the closing price of the stock on date of grant and board of director minutes authorizing the shares.

During the three months ended June 30, 2013, the Company issued 9,823 shares of common stock for the exercise of warrants. There were no warrants exercised during the three months ended June 30, 2014.

During the three months ended June 30, 2014, the Company issued 5,144,054 shares of common stock for the exercise of stock options. There were no stock options exercised during the three months ended June 30, 2013.

On May 30, 2014, the Company entered into a Debt Securities Assignment and Purchase agreement, along with a Securities Exchange and Settlement Agreement with Beaufort Capital Partners LLC ("Beaufort"). Per the terms of the agreements, the Company assigned $38,771 of outstanding accounts payable to Beaufort, in exchange for allowing Beaufort to convert the amounts into common stock, at a date of their choosing, at a rate equal to 40% of the lowest traded price over the 20 days previous to the conversion date. During the three months ended June 30, 2014, Beaufort elected to convert the amount into 646,176 shares of common stock per the terms of the agreement. The difference between the conversion amount of $38,771 and the fair value of the shares issued amounted to $103,388, and was recorded as interest expense during the three months ended June 30, 2014.

On May 30, 2014, the Company entered into additional Debt Securities Assignment and Purchase and Securities Exchange and Settlement Agreements with Beaufort which provide for the assignment of $66,485 of liabilities from the Company to Beaufort, including $51,432 of outstanding account payables, outstanding note payable balance of $13,333 (see Note 4) and $1,720 of accrued interest. In connection with the agreements, the amounts are payable to Beaufort in common stock at a date of Beaufort's choosing, at a rate equal to 40% of the lowest traded price over the 20 days previous to the conversion date. As of June 30, 2014, the amount of $66,485 is still outstanding as Beaufort has not elected to convert the amounts yet. As the amounts are required to be paid in common stock, the Company has classified these amounts as a component of stockholders equity on the accompanying condensed balance sheet as of June 30, 2014.

Warrants

During the three months ended June 30, 2013, the Company issued an aggregate of 880,000 warrants in connection with the Convertible Notes issued during the period, as well as 238,000 warrants for the payment of commissions associated with acquiring the Convertible Notes. These warrants have been accounted for as derivative liabilities (see Note 6).

During the three months ended June 30, 2013, the Company issued an additional 100,000 warrants as payment of directors' services. The warrants have been accounted for as derivative liabilities (see Note 6).

During the three months ended June 30, 2014, the Company issued warrants in connection with the Typenex Note (see Note 5) granting the debt holder the right to purchase a number of common stock shares equal to $167,500 divided by the market price (defined as the higher of the closing price on the issuance date or the volume weighted average price of the stock for the trading day that is 2 days prior to the exercise date) at an exercise price of $0.35 per share. The warrants have been accounted for as derivative liabilities (see Note 6).

(8) Stock Option Plan:

The Company's 2011 Stock Option Plan provides for the grant of 1,000,000 incentive or non-statutory stock options to purchase common stock. Employees, who share the responsibility for the management growth or protection of the business of the Company and certain non-employees, are eligible to receive options which are approved by a committee of the Board of Directors. These options vest over five years and are exercisable for a ten-year period from the date of the grant. As of June 30, 2014 and March 31, 2014, the Company had 100,000 fully vested options outstanding under the 2011 Stock Option Plan at an exercise price of $10.00 per share. The options expire in November 2018.

On April 1, 2014, the Company adopted the 2014 Stock Option Plan which provides for the grant of options to certain members of management totaling an aggregate of 20% of the total issued and outstanding shares of common stock. The options are considered granted on each day that the Company issues shares, at which point the Company values the options using the Black-Scholes method and records the applicable share-based compensation expense. On April 1, 2014, the Company also issued stock options to directors as compensation which provides for the purchase of an aggregate total of 2,000,000 shares of common stock. All options granted have an exercise price of $0.0001 per share. The stock options are fully vested on the date of issuance and have a contractual life of 5 years.

The following is a summary of the Company's stock option activity.

	Options	Weighted-Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at March 31, 2014	100,000	$ 10.00	4.59	$ -
Granted	6,815,023	0.0001		2,446,581
Exercised	(5,144,054)	0.0001		1,268,912
Outstanding at June 30, 2014 (unaudited)	1,770,969	$ 0.56	4.73	$ 166,930
Vested and expected to vest at June 30, 2014	1,770,969	$ 0.56	4.73	$ 166,930
Exercisable at June 30, 2014	1,770,969	$ 0.56	4.73	$ 166,930

As of June 30, 2014, the Company had no unvested stock options or unrecognized stock option expense. The weighted average grant date fair value of $0.36 per option.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2014.

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 10.00	100,000	4.34	$ 10.00	100,000	$ 10.00
0.0001	1,670,969	4.76	0.0001	1,670,969	0.0001
	1,770,969			1,770,969	

(9) Related Party Transactions

During the three months ended June 30, 2014, the Company entered into short-term borrowings with the Chief Financial Officer and Chief Executive Officer amounting to a total of $59,000. The outstanding amounts accrue interest at a rate of 10% per month and are payable on demand.

(10) Subsequent Events

On July 1, 2014, the Company entered into a convertible promissory note with KBM Worldwide, Inc. for borrowings of $32,500 which bear interest at a rate of 8% per annum. The outstanding borrowings and accrued interest are payable on March 19, 2015. The outstanding amounts are convertible into shares of common stock at the debt holder's option at a conversion rate equal to 61% of the average of the lowest three trading prices during the 10 trading days prior to the conversion.

On July 18, 2014, the Company entered into a convertible note payable with LG Capital Funding, LLC providing for total borrowings of $90,000, which is payable in 2 installments of $45,000, one upon execution of the note and one is the back end. Interest on the note equals 8% of the total principal balance. The Company received payment of $45,000 on July 22, 2014. The convertible note matures 12 months after the issuance, at which point the outstanding principal and interest is due. The outstanding amounts are convertible into shares of common stock at a conversion rate equal to 57% of the lowest trading price during the fifteen trading days prior to the conversion.

On July 24, 2014, the Company entered into a security purchase agreement with ADAR BAYS, LLC providing for total borrowings of $71,000, with the first note being of $36,000 and the second note being in the amount of $35,000. Interest on the note equals 8% of the total principal balance. The Company received payment of $36,000 on July 28, 2014. The convertible note matures 12 months after the issuance, at which point the outstanding principal and interest is due. The outstanding amounts are convertible into shares of common stock at a conversion rate equal to 57% of the lowest trading price during the fifteen trading days prior to the conversion.

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

Forward-Looking Statements

This Quarterly Report contains forward-looking statements about the Company's business, financial condition and prospects that reflect management's assumptions and beliefs based on information currently available. There can be no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, Las Vegas Railway Express, Inc., actual results may differ materially from those indicated by the forward- looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, managements' ability to raise capital in the future, the retention of key employees and changes in the regulation of our industry, as well as the risk factors identified in the Company’s Annual Report on Form 10-K for the year ended March 31, 2014, filed with the SEC on June 30, 2014.

When used in this Report, words such as, "believes," "expects," "intends," "plans," "anticipates," "estimates" and similar expressions are intended to identify and qualify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. However, the forward-looking statements contained herein are not covered by the safe harbors created by Section 21E of the Securities Exchange Act of 1934.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere herein.

Business Overview

Las Vegas Railway Express, Inc. (the “Company”, “we”, “us”, or “our”), formerly known as Liberty Capital Asset Management, Inc., acquired 100% of the issued and outstanding stock of Las Vegas Railway Express, a Nevada corporation on January 21, 2010. In connection with the acquisition, the Company changed its name to Las Vegas Railway Express, Inc. and changed its business plan to one of developing passenger rail transportation and ancillary ticketing and reservation services between the Los Angeles area and Las Vegas, Nevada. In November 2012, the Company executed an agreement with Union Pacific Railroad which allowed the Company to operate its passenger service on their property from Daggett, California to Las Vegas, a distance of 175.8 miles. In May 2013, the Company and Amtrak, which was planning to haul the Company’s rail cars from Los Angeles to Las Vegas in regular service, was informed by BNSF Railway (“BNSF”) that it would not approve Amtrak’s request to operate on the BNSF system. Although the Company tried several alternative approaches to satisfy BNSF’s denial, none were accepted and both Amtrak and the Company were forced to suspend their efforts to establish the planned service over the Cajon Pass route.

Our assessment is that when we started, BNSF had 3,000 locomotives in mothballs and 2,000 crews furloughed. Traffic through Cajon Pass was at 86 trains per day with a total capacity of 160 trains per day. In short, they had capacity. Today, all locomotives are back in service and BNSF is leasing 1,000 more. Oil is being hauled over this corridor and capacity is at a premium with 120+ trains per day over the pass. With pending capacity issues, BNSF is reserving its rail franchise for freight and has closed off any access via the Cajon pass.

During the development period for the Los Angeles to Las Vegas route, the company became visible in the press and several independently owned passenger rail companies discussed how the Club X style could be deployed on existing excursion lines. The Company began to focus its infrastructure towards acquiring independently owned passenger rail operations throughout the United States and providing upscale commuter Club X railcars for various state Department of Transportation municipal transportation agencies.

On April 23, 2014, the Company entered into an agreement with the Santa Fe Southern Railway, located in Santa Fe New Mexico, to manage the passenger services on the railroad. The Company will be adding its Club X cars to the train consists. Operations on the route are planned to commence in August 2014. Subsequent routes will follow with a similar deployment format.

The Company owns outright a series of 16 bi-level passenger railcars as well as two leased cars acquired through an agreement with Mid America Leasing Company. These cars are planned for use in the deployment of cars on our future affiliated routes and acquired companies. The first two cars have been completed and are scheduled to go into service on the Santa Fe Southern Railway in August of 2014. The remaining cars are scheduled to be refurbished during the remainder of 2014.

The Company's common stock is currently quoted on the OTCQB under the symbol "XTRN". The company website is www.vegasxtrain.com. The contents of this website are not incorporated into this Report.

The Company maintains offices at 6650 Via Austi Parkway, Suite 140, Las Vegas, Nevada 89119.

Critical Accounting Policies

The preparation of our condensed financial statements and notes thereto requires management to make estimates and assumptions that affect the amounts and disclosures reported within those financial statements. On an ongoing basis, management evaluates its estimates, including those related to impairment of long-lived assets, contingencies, litigation and income taxes. Management bases its estimates and judgments on historical experiences and on various other factors believed to be reasonable under the circumstances. Actual results under circumstances and conditions different than those assumed could result in differences from the estimated amounts in the financial statements. There have been no material changes to these policies during the fiscal year.

Long-Lived Assets:

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 360-10, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made.

Share Based Payment:

The Company issues stock, options and warrants as share-based compensation to employees and non-employees.

The Company accounts for its share-based compensation to employees in accordance FASB ASC 718. Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period.

The Company accounts for share-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505-50 "Equity - Based Payments to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The final fair value of the share-based payment transaction is determined at the performance completion date. For interim periods, the fair value is estimated and the percentage of completion is applied to that estimate to determine the cumulative expense recorded.

The Company values stock compensation based on the market price on the measurement date. As described above, for employees this is the date of grant, and for non-employees, this is the date of performance completion.

The Company values stock options and warrants that do not qualify as derivative instruments using the Black-Scholes option pricing model. Assumptions used in the Black-Scholes model to value options and warrants issued during the three months ended June 30, 2014 are as follows. There were no options or warrants granted during the three months ended June 30, 2013 that were valued using the Black-Scholes model.

	Three Months Ended June 30, 2014
Expected life in years	2.5
Stock price volatility	170.94% - 178.31%
Risk free interest rate	0.76% - 0.95%
Expected dividends	NA
Forfeiture rate	0%

Certain warrants qualify as derivative instruments and are valued using the binomial lattice method. See discussion below regarding accounting for derivative liabilities.

Derivative Liabilities:

In connection with the private placement of convertible notes beginning in February 2013, the Company became contingently obligated to issue shares of common stock in excess of the 200 million authorized under the Company's certificate of incorporation. Consequently, the ability to settle these obligations with shares would be unavailable causing these obligations to potentially be settled in cash. This condition creates a derivative liability.

The Company has a sequencing policy regarding share settlement wherein instruments with the earliest issuance date would be settled first. The sequencing policy also considers contingently issuable additional shares, such as those issuable upon a stock split, to have an issuance date to coincide with the event giving rise to the additional shares.

On December 2, 2013, the Company effected a one-for-twenty reverse stock split of the Company's issued and outstanding common stock shares. As a result, the Company's outstanding shares of common stock and common stock equivalents no longer exceeded the number of authorized shares. As a result, as of December 2, 2013, these instruments that were accounted for as derivative liabilities were reclassified as equity.

The Company also has certain warrants and embedded conversion options in notes payable with elements that qualify as derivatives. The warrants have anti-dilution clauses that prevent calculation of the ultimate number of shares that may be issued upon exercise, and four outstanding notes payable that had a variable conversion feature that similarly prevented the calculation of the number of shares into which they were convertible.

The Company values these warrants and embedded conversion options in notes payable using the binomial lattice method. The resulting liability is valued at each reporting date and the change in the liability is reflected as change in derivative liability in the condensed statement of operations.

20

Fair Value of Financial Instruments:

The Company's financial instruments as defined by FASB ASC 825-10-50 include cash, notes payable and derivative liabilities. Derivative liabilities are recorded at fair value. The principal balance of notes payable approximates fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

Results of Operations

The following is a comparison of the results of operations for the three months ended June 30, 2014 and 2013.

	Three Months Ended			
	June 30, 2014	June 30, 2013	$ Change	% Change
Operating Expenses:				
Compensation and payroll taxes	$ 2,866,004	$ 849,329	$ 2,016,675	237.4 %
Selling, general and administrative	384,050	208,123	175,927	84.5 %
Professional fees	769,388	581,788	187,600	32.2 %
Depreciation expense	2,436	1,434	1,002	69.9 %
Total expenses	4,021,878	1,640,674	2,381,204	145.1 %
Loss from continuing operations	(4,021,878)	(1,640,674)	(2,381,204)	145.1 %
Other income (expense)				
Interest expense	(1,402,041)	(2,521,627)	1,119,586	-44.4 %
Change in derivative liability	870,199	950,245	(80,046)	-8.4 %
Total other income (expense)	(531,842)	(1,571,382)	1,039,540	-66.2 %
Net loss from operations before provision for income taxes	(4,553,720)	(3,212,056)	(1,341,664)	41.8 %
Provision for income taxes	-	(4,491)	4,491	-100.0 %

Net loss	$	(4,553,720)	$	(3,216,547)	$	(1,337,173)	41.6	%

21

Operating Expenses

Compensation expense increased by $2,016,675, or 237.4%, during the quarter ended June 30, 2014 as compared to the quarter ended June 30, 2013. The increase in compensation expense during the quarter ended June 30, 2014 is primarily due to the issuance of stock options to employees and Board members resulting in additional expenses of $2,446,615. The increase in expenses in 2014 was offset by additional expenses during the quarter ended June 30, 2013 of $221,789 for the issuance of warrants as compensation to Board members. Selling, general and administrative expenses increased by $175,927, or 84.5%, during the quarter ended June 30, 2014 as compared to the same period in 2013 primarily due to increases in rental expense for two railcars that we began leasing in August 2013, as well as increased expenses associated with our Assignment and Use Agreement with Santa Fe Railroad which we expect to start operating in August 2014. Professional fees increased by $187,600, or 32.2%, during 2014 as compared to 2013 due primarily to increases in legal fees, consulting services, accounting and financial advisory related to the implementation of the business plan and raising funds.

Other (Expense) Income

Interest expense decreased by $1,119,586, or 44.4%, during the quarter ended June 30, 2014 as compared to the same period in 2013. The decrease is due primarily to the increase in debt outstanding during the quarter ended June 30, 2013 due to the issuance of convertible notes payable from February 2013 through June 2013. The conversion feature associated with the convertible notes and the value of warrants issued in connection with the convertible notes have been accounted for as discounts to the convertible notes payable. The discount is being amortized into interest expense over the maturity date of the convertible notes. This resulted in additional interest expense during the three months ended June 30, 2013 of $2,305,550. In addition, we had capitalized debt issuance costs related to these convertible notes payable, which are being amortized over the maturity date of the notes of February 1, 2014, which resulted in additional interest expense in 2013 of $155,391. We had no additional interest expense from the amortization of capitalized debt issuance costs in 2014. During the three months ended June 30, 2014, we had no remaining capitalized debt issuance costs and amortization of debt discounts amounted to $1,041,344.

The change in value of the derivative liabilities for the three months ended June 30, 2014 amounted to $870,199, which represents the change in the fair value of the derivative liabilities since the year ended March 31, 2014. The change in value of the derivative liabilities for the three months ended June 30, 2013 amounted to $950,245, which represents the change in the fair value of the derivative liabilities since the year ended March 31, 2013. The decrease in the value of the derivative liabilities during these periods was primarily due to the decline of our stock price during the period, which has driven the reduction in value.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support asset growth, satisfy disbursement needs, maintain reserve requirements and otherwise operate on an ongoing basis. The Company has no operating revenues and is currently dependent on debt financing and sale of equity to fund operations.

As shown in the accompanying financial statements, the Company has net losses of $4,553,720 for the three months ended June 30, 2014. The Company also has an accumulated deficit of $36,181,363 and a negative working capital of $3,868,645 as of June 30, 2014, as well as outstanding convertible notes payable of $2,959,792. Management believes that it will need additional equity or debt financing to be able to implement the business plan. Given the lack of revenue, capital deficiency and negative working capital, there is substantial doubt about the Company’s ability to continue as a going concern.

We believe that the successful growth and operation of our business is dependent upon our ability to do the following:

- obtain adequate sources of debt or equity financing to pay unfunded operating expenses and fund long-term business operations; and

- manage or control working capital requirements by controlling operating expenses.

Management is attempting to raise additional equity and debt to sustain operations until it can market its services and achieves profitability. The successful outcome of future activities cannot be determined at this time and there are no assurances that, if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

Cash Flows

Net cash used in operating activities for the three months ended June 30, 2014 and 2013 were $1,093,321 and $1,064,747, respectively. Cash used in operating activities for the three months ended June 30, 2014 and 2013 were primarily due to net losses of $4,553,720 and $3,216,547, respectively. During the three months ended June 30, 2014, the net loss included significant non-cash expenses of $511,869 in stock issued for services, $1,041,344 in amortization of discounts on notes payable, and $2,446,615 in stock option compensation. During the three months ended June 30, 2013, the net loss included significant non-cash expenses of $400,905 for stock issued for services, $221,789 in warrants issued for services, and $2,305,550 in amortization of discounts on notes payable.

Net cash used in investing activities during the three months ended June 30, 2014 amounted to $17,357, which represented property and equipment acquisitions primarily related to the acquisition of rail cars and related costs. Net cash used in investing activities during the three months ended June 30, 2013 was $107,565 primarily due to the acquisition of rail cars and other capitalized costs towards the railroad project.

Net cash provided by financing activities for the three months ended June 30, 2014 amounted to $1,066,181 which consisted of $1,006,667 in proceeds from the issuance of convertible notes payable, $59,000 in proceeds from related party notes payable, and $514 from the exercise of stock options. Net cash provided by financing activities for the three months ended June 30, 2013 was $880,000 which consisted of proceeds from convertible notes payable.

Description of Indebtedness

For a complete description of our outstanding debt as of June 30, 2014 and March 31, 2014, see Notes 4 and 5 to the condensed financial statements.

On October 1, 2013, the Company entered into a promissory note with JMJ Financial which provides for the Company to borrow up to $350,000 in principal (the “JMJ Note”). As of March 31, 2014, the Company had borrowed $150,000 under this Promissory Note. Outstanding borrowings mature two years from the effective date of each payment. If the outstanding balance of the note is repaid by the Company on or before 90 days from the effective date of the borrowing, the interest charged is 0%. However, if the Company does not repay the note within 90 days, a one-time interest charge of 12% shall be applied to the outstanding principal sum. The outstanding balance of the note may be converted into common stock at the option of the debt holder at a rate equal to $0.90 per share, or 60% of the lowest trading price in the 25 days trading days previous to the conversion date, subject to other adjustments in the agreement. During the three months ended June 30, 2014, the Company borrowed an additional $40,000 under the JMJ Note. During the three months ended June 30, 2014, JMJ Financial converted $69,785 of outstanding principal into 785,000 shares of common stock under the terms of the agreement. As of June 30, 2014, the outstanding balance of the JMJ Note amounted to $120,125.

On November 22, 2013, the Company, entered into and closed a purchase agreement (the “Purchase Agreement”) with an institutional investor, pursuant to which the Company sold to the investor a senior secured convertible promissory note in the principal amount of $1,750,000 (the “Note”), and warrants to purchase 300,000 shares of common stock (the “Warrants”), for an aggregate purchase price of $1,750,000. The Note was scheduled to mature on June 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company’s option (subject to certain conditions), and is convertible into shares of the Company’s common stock at a conversion price equal to $0.70, subject to adjustment in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. The Company’s obligations under the Note are secured by substantially all of the Company’s assets. The Warrants have a five year term, are exercisable on a cash or cashless basis, and have an exercise price equal to $1.00, subject to adjustment in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the exercise price then in effect.

On April 11, 2014, the Company entered into a Note Exchange Agreement with the debt holder holding the $1,750,000 Note originally issued on November 22, 2013 under the Purchase Agreement. Under the terms of the Note Exchange Agreement, the original senior secured convertible promissory note and accrued interest is cancelled and replaced with a new note for $2,000,000. The new note matures on November 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company’s option (subject to certain conditions), and is convertible into shares of the Company’s common stock at a conversion price equal to $0.45, subject to adjustments in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. Under the new note, the Company’s obligations are secured by substantially all of the Company’s assets, excluding any railcar assets. The difference between the book value of the principal and accrued interest of the old note of $1,818,055 and the value of the new note of $2,000,000 of $181,944 was recorded as interest expense during the three months ended June 30, 2014.

On March 24, 2014, the Company entered into a Convertible Promissory Note with Iconic Holdings, LLC (the “Iconic Note”) in which the Company has access to borrow a total principal amount of $165,000. All borrowings incur interest at a rate of 8% per annum, which is payable as of the maturity date of March 24, 2015. The initial borrowing made by the Company amounted to $55,000, which represented the amount outstanding on the Iconic Note as of March 31, 2014. At the option of the debt holder, the outstanding balance may be converted at any time into shares of the Company’s common stock at a conversion rate equal to the lower of $0.50 or 60% of the lowest trading price of the Company’s common stock during the 25 consecutive trading days prior to conversion election date. During the three months ended June 30, 2014, the Company borrowed an additional $100,000 under the Iconic Note. The outstanding principal balance as of June 30, 2014 amounted to $155,000.

On March 25, 2014, the Company entered into a convertible note agreement with KBM Worldwide, Inc. (the “KBM Note”) for total principal borrowings of $68,000, which represented the amount outstanding as of June 30, 2014 and March 31, 2014. The amounts are due nine months after the issuance of the note on December 25, 2014, and bear interest at a rate of 8% per annum. At the option of the debt holder, beginning 180 days after the issuance of the note, the debt holder may convert the outstanding balance of the KBM Note into shares of the Company’s common stock at a conversion rate equal to 61% of the average of the lowest three closing trading prices during the 10 trading day period prior to the conversion election date.

On April 2, 2014, the Company entered into a convertible promissory note for $100,000 with Beaufort Capital Partners LLC with a maturity date of October 2, 2014. The note is convertible into shares of the Company’s common stock at a discount of 42% of the lowest traded price during the 5 trading days preceding the conversion date.

On April 11, 2014, the Company entered into a Note Exchange Agreement with the debt holder holding the $1,750,000 senior secured convertible promissory note originally issued on November 22, 2013 under the Purchase Agreement. Under the terms of the Note Exchange Agreement, the original senior secured convertible promissory note is cancelled and replaced with a new note for $2,000,000. The new note matures on November 30, 2014, bears interest at the rate of 10% per year payable on maturity in cash or shares of common stock at the Company’s option (subject to certain conditions), and is convertible into shares of the Company’s common stock at a conversion price equal to $0.45, subject to adjustments in the event of future stock splits, stock dividends, and similar transactions, or in the event of subsequent equity sales by the Company at a price lower than the conversion price then in effect. Under the new note, the Company’s obligations are secured by substantially all of the Company’s assets, excluding any railcar assets.

On April 17, 2014, the Company entered into a convertible note payable with Vista Capital Investments, LLC providing for borrowings up to $250,000 with a maturity date of April 17, 2016. The note has a one-time interest charge of 12% and is due on the maturity date. The outstanding balance of the note along with accrued interest is convertible into shares of the Company's common stock at a rate equal to the lesser of $0.25 or 60% of the lowest trade occurring during the 25 trading days preceding the conversion date. The Company received borrowings under this convertible note payable of $50,000 in April 2014, which represented the outstanding balance as of June 30, 2014.

On April 30, 2014, the Company entered into a convertible note payable with Redwood Management, LLC providing for total borrowings of $250,000, which is payable in 3 installments of $83,333, one upon execution of the note, one due one month after execution, and one due two months after execution. Interest on the note equals 10% of the total principal balance, regardless of how long the note is outstanding for. The Company received payments of $83,333 on May 5, 2014 and on May 30, 2014. The convertible note matures 6 months after the issuance, at which point the outstanding principal and interest is due. The outstanding balance related to this note amounted to $166,667 as of June 30, 2014.

On May 6, 2014, the Company entered into a convertible note payable with KBM Worldwide, Inc. providing for total borrowings of $32,500 which accrue interest at a rate of 8% per annum. The convertible note matures and is due in full on February 12, 2015 along with any unpaid accrued interest. The outstanding principal and accrued interest is convertible into shares of common stock at the option of the holder at a conversion rate equal to 61% of the average of the lowest 3 trading prices during the 10 trading days prior to the conversion.

On May 12, 2014, the Company entered into a secured convertible promissory note with Typenex Co-Investment, LLC (the “Typenex Note”) providing for total borrowings up to $335,000 which accrue interest at a rate of 10% per annum. All outstanding borrowings mature and are due in 20 months from the issuance date. The Company received an initial payment of $87,500 on the note issuance date. The outstanding principal and interest is convertible into shares of common stock at the option of the holder at a conversion rate equal to the lesser of $0.35 per share or 60% of the average of the 3 lowest closing bid prices in the 20 trading days preceding the conversion date. If the average of the 3 lowest closing bid prices is less than $0.10, then the conversion factor is reduced from 60% to 55%. The debt holder was also issued warrants on May 12, 2014 in connection with this note payable granting the right to purchase a number of common stock shares equal to $167,500 divided by the market price (defined as the higher of the closing price on the issuance date or the volume weighted average price of the stock for the trading day that is 2 days prior to the exercise date) at an exercise price of $0.35 per share. The outstanding balance related to this note amounted to $87,500 as of June 30, 2014.

On May 28, 2014, the Company issued into a convertible promissory note with Beaufort Capital Partners LLC providing for borrowings of $125,000. The convertible promissory note matures on August 28, 2014, at which point the Company owes $187,500 which includes a total of $62,500 in interest expense. The outstanding amounts are convertible into shares of common stock at the option of the holder at a conversion rate equal to 60% of the lowest traded price during the prior 20 trading days from the date of the conversion.

On June 13, 2014, the Company entered a convertible debenture agreement with Group 10 Holdings, LLC providing for total borrowing of $55,000 which accrue interest at the rate of 12% per annum. All borrowings mature and are due in one year from the issuance date. The debenture is convertible into shares of common stock at the option of the holder at the conversion rate lesser of 55% discount of the lowest closing bid price during the 25 trading days prior to the date of notice conversion or $0.25 per share. In connection with the agreement, the Company issued 50,000 shares of common stock as a commitment fee. The fair value of the common stock issued amounted to $8,500 and has been recorded as a discount to the note payable. The amount is being amortized into interest expense through the maturity date of June 13, 2015.

The Company also has outstanding short-term borrowings from its Chief Financial Officer and Chief Executive Officer amounting to an aggregate of $59,000. The amounts are payable on demand and bear interest at a rate of 10% per month.

On July 1, 2014, the Company entered into a convertible promissory note with KBM Worldwide, Inc. for borrowings of $32,500 which bear interest at a rate of 8% per annum. The outstanding borrowings and accrued interest are payable on March 19, 2015. The outstanding amounts are convertible into shares of common stock at the debt holder’s option at a conversion rate equal to 61% of the average of the lowest three trading prices during the 10 trading days prior to the conversion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures and Changes in Internal Control over Financial Reporting

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of June 30, 2014. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2014, our disclosure controls and procedures were effective.

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this Quarterly Report on Form 10-Q. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

Changes in Internal Control Over Financial Reporting

There were no changes during the three months ended June 30, 2014 in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company may be or has been involved in legal proceedings from time to time. As of the date of this quarterly report on Form 10-Q, there have been no material changes to any legal proceedings relating to the Company which previously were not reported.

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

During the 3 months ended June 30, 2014, the Company issued shares of its common stock as follows:

- 785,000 shares issued to convertible promissory notes holders for conversion of $69,875 of outstanding notes payable.
- 1,390,000 shares issued for services of $511,870.
- 5,144,054 shares issued to employees and Board of Director members for the exercise of stock options.
- 664,917 shares issued as payment of outstanding accounts payable of $38,771

The above referenced issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, for transactions not involving a public offering.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.
32.	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002
EX-101.INS	XBRL INSTANCE DOCUMENT
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

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 hereunto duly authorized.

Date: August 14, 2014	Las Vegas Railway Express, Inc.
	By: /s/ Michael A. Barron Chief Executive Officer (principal executive officer)
Date: August 14, 2014	
	By: /s/ Wanda Witoslawski Chief Financial Officer (principal financial officer)