Net Element, Inc.
Form 10-K/A
May 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

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

For the transition period from to

Commission file number: **000-51108**

Net Element, Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-0715816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1450 S. Miami Avenue, Miami, Florida	33130
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(305) 507-8808**

Securities registered under Section 12(b) of the Exchange Act: None

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

Common Stock, $0.001 par value per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ YES x NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ YES x NO

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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). x YES ¨ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	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 x NO

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2011 was approximately $2,579,195 (based upon the closing price of $0.06 per share on June 24, 2011, which was the price at which the common stock was last sold as of June 30, 2011).

The registrant had 755,674,447 shares of common stock outstanding as of March 15, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

EXPLANATORY NOTE

Net Element, Inc. is filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "Original Filing"), which was filed with the U.S. Securities and Exchange Commission (the "Commission") on March 30, 2012, at the request of its independent registered public accounting firm, solely to change the first sentence of the second paragraph of the independent registered public accounting firm's audit report on page F-2 of the Original Filing from "We conducted our audit in accordance with auditing standards generally accepted in the United States of America" to "We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board." As a result of that change to the audit report, this Amendment also includes a currently dated auditor consent letter filed as Exhibit 23.1 hereto. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Amendment amends and restates in its entirety Item 8 of Part II of the Original Filing and amends Item 15 of Part IV of the Original Filing to include as exhibits currently dated certifications required by Rules 13a-14(a) and 13a-14(b) under the Exchange Act.

Except as expressly noted herein, this Amendment does not reflect events occurring after the date of the Original Filing or modify or update any of the other disclosures contained therein. Accordingly, this Amendment should be read in conjunction with the Original Filing and the Company's other filings with the Commission.

Defined Terms

Net Element, Inc. is a corporation organized under the laws of the State of Delaware. As used in this Amendment, unless the context otherwise requires, the terms "Net Element," "Company," "we," "us," and "our" refer to Net Element, Inc. and, as applicable, its majority-owned and consolidated subsidiaries.

Forward-Looking Statements

This Amendment contains forward-looking statements that reflect the current views of our management with respect to future events. Any statements contained in this Amendment that are not statements of historical fact may be deemed forward-looking statements. Forward-looking statements generally are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "aims," "plans," "may," "will," "will continue," "seeks," "should," "believe," "potential" or other variations of such terms and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors: our ability (or inability) to continue as a going concern, the willingness of our controlling stockholders, TGR Capital, LLC and Enerfund, LLC, which are controlled by our Chairman and CEO, Mike Zoi, to continue investing in Net Element to fund our working capital requirements, our ability (or inability) to obtain additional financing in sufficient amounts or on acceptable terms when needed, our ability (or inability) to adequately address the material weaknesses in our internal control over financial reporting, development or acquisition of additional online media businesses, attracting and retaining competent management and other personnel, successful implementation of our business strategy, continued development and market acceptance of our technology, protection of our intellectual property, and successful integration and promotion of any business developed or acquired by us. If these or other risks and uncertainties (including those described in Part I, Item 1A of the Original Filing and our subsequent filings with the Commission) materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements.

World Wide Web addresses contained in this Amendment are for explanatory purposes only and they (and the content contained therein) do not form a part of and are not incorporated by reference into this Amendment.

PART II

Item 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements and notes thereto and the report of the independent registered public accounting firm set forth on pages F-1 through F-22 are filed as part of this Amendment and incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) *Documents filed as part of this Amendment.*

1. The following consolidated financial statements of Net Element, Inc. and subsidiaries and notes thereto and the report of the independent registered public accounting firm thereon are set forth on pages F-1 through F-22 and are filed as part of this Amendment:

Report of Independent Registered Public Accounting Firm

Audited Consolidated Balance Sheets as of December 31, 2011 and 2010

Audited Consolidated Statements of Operations for the twelve months ended December 31, 2011 and the nine months ended December 31, 2010

Audited Consolidated Statements of Changes in Stockholders' Deficiency in Assets for the twelve months ended December 31, 2011 and the nine months ended December 31, 2010

Audited Consolidated Statements of Cash Flows for the twelve months ended December 31, 2011 and the nine months ended December 31, 2010

Notes to Consolidated Financial Statements

2. Exhibits.

A list of the exhibits filed as a part of this Amendment is set forth on the Exhibit Index that follows page F-22 of this Amendment and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Net Element, Inc.
May 2, 2012	By: /s/ Mike Zoi Mike Zoi Chief Executive Officer

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NET ELEMENT, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Net Element, Inc.

Miami, Florida

We have audited the accompanying consolidated balance sheets of Net Element, Inc. (the “Company”) as of December 31, 2011 and December 31, 2010, and the related consolidated statements of operations, changes in stockholders’ deficiency in assets, and cash flows for the twelve and nine months then ended, respectively. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and December 31, 2010, and the results of its operations and its cash flows for the twelve and nine months then ended, respectively, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced recurring losses and has an accumulated deficit and stockholders’ deficiency at December 31, 2011. These conditions raise substantial doubt about its ability to continue as a going concern. Management’s plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Daszkal Bolton LLP

Fort Lauderdale, Florida

March 30, 2012

NET ELEMENT, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current assets		
Cash	$ 83,173	$ 2,500,253
Deposits	52,129	55,274
Contract receivable, net	6,285	3,477
Prepaid expenses and other assets	266,583	117,257
Total current assets	408,170	2,676,261
Fixed assets		
Furniture and equipment	205,886	125,730
Computers	212,019	110,969
Leasehold improvements	19,955	19,944
Less: accumulated depreciation	(208,858)	(105,227)
Total fixed assets (net)	229,002	151,416
Other Assets		
Capitalized website development and Intangible assets (net)	608,823	-
Goodwill	422,223	-
Due from related parties	-	3,300
Total other assets	1,031,046	3,300
Total assets	$ 1,668,218	$ 2,830,977
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	238,955	61,422
Stock subscription liability	-	880,000
Due to related parties (current portion)	1,768,637	49,999
Accrued expenses	884,499	425,611
Total current liabilities	2,892,091	1,417,032
Long term liabilities		
Due to related parties (non-current portion)	3,999,751	1,667,020
Total long term liabilities	3,999,751	1,667,020
Total liabilities	6,891,842	3,084,052
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock ($.001 par value, 100,000,000 shares		

authorized and no shares issued and outstanding)	-	-
Common stock ($.001 par value, 2,500,000,000 shares authorized and 742,341,113 and 642,119,111 shares issued and outstanding)	742,339	642,117
Treasury stock, at cost; 6,250,000 shares	(2,641,640)	(2,641,640)
Paid in capital	48,458,205	28,143,518
Deferred compensation	(385,912)	(13,556)
Accumulated other comprehensive income (loss)	(124)	9,507
Accumulated deficit	(51,274,033)	(26,420,933)
Noncontrolling interest	(122,459)	27,912
Total stockholders' deficit	(5,223,624)	(253,075)
Total liabilities and stockholders' deficit	$ 1,668,218	$ 2,830,977

See accompanying notes.

NET ELEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Twelve Months Ended December 31, 2011		Nine Months Ended December 31, 2010	
Net Revenues	$ 183,179		$ 242	
Operating Expenses				
Cost of revenues	596,389		38,162	
Business development	385,714		-	
General and administrative	23,831,750		3,057,498	
Product development	113,159		-	
Depreciation and amortization	311,939		8,763	
Total operating expenses	25,238,951		3,104,423	
Loss from operations	(25,055,772	)	(3,104,181	)
Non-operating expense				
Interest income (expense)	(171,319	)	-	
Other income (expense)	(45,942	)	2,946	
Loss before income tax provision	(25,273,033	)	(3,101,235	)
Income tax provision	-		-	
Net Loss from operations	(25,273,033	)	(3,101,235	)
Net loss attributable to the noncontrolling interest	419,933		89	
Net loss	(24,853,100	)	(3,101,146	)
Other comprehensive income				
Foreign currency translation loss	(124	)	(465	)
Comprehensive loss	$ (24,853,224	)	$ (3,101,611	)
Net loss per share - basic and diluted	$ (0.03	)	$ (0.01	)
Weighted average number of common shares outstanding - basic and diluted	723,012,194		335,761,892	

See accompanying notes.

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NET ELEMENT, INC.

CONSOLIDATED STATEMENT OF CHANGES IN

STOCKHOLDERS' DEFICIENCY IN ASSETS

	Preferred Stock		Common Stock		Treasury	Additional	Deferred	Accumulated Other Comprehensive	Non-controlling	Accumulat
	Shares	Amount	Shares	Amount	Stock	Paid in Capital	Compensation	Income	interest	Deficit
Balance March 31, 2010	-	$-	320,778,512	$320,778	$(2,341,640)	$24,671,187	$-	$9,972	$28,001	$(23,319,7
Stock options vested	-	-	-	-	-	25,463	-	-	-	-
Shares issued as compensation	-	-	1,014,028	1,013	-	9,126	-	-	-	-
Deferred compensation with respect to business acquired	-	-	-	-	-	-	(13,556)	-	-	-
Shares and warrants to be issued pursuant to subscription agreements	-	-	213,088,150	213,088	-	5,109,463	-	-	-	-
Shares repurchased pursuant to purchase agreeement	-	-	-	-	(300,000)	-	-	-	-	-
Shares issued pursuant to purchase agreeement	-	-	107,238,421	107,238	-	(1,671,721)	-	-	-	-
Foreign currency exchange	-	-	-	-	-	-	-	(465)	-	-
Net loss	-	-	-	-	-	-	-	-	(89)	(3,101,14
Balance December 31, 2010	-	$-	642,119,111	$642,117	$(2,641,640)	$28,143,518	$(13,556)	$9,507	$27,912	$(26,420,9
Stock options vested	-	-	-	-	-	336,427	-	-	-	-
	-	-	12,115,252	12,115	-	443,916	(353,146)	-	-	-

Shares issued as compensation										
Deferred compensation with respect to business acquired	-	-	-	-	-	-	(19,210)	-	-	-
Contributed capital from equity investors	-	-	-	-	-	-	-	-	171,190	-
Employee stock options exercised			61,750	62	-	(62)	-	-	-	-
Deconsolidation of investment in Korlea - TOT	-	-	-	-	-	-	-	(9,507)	(27,912)	-
Shares and warrants to be issued pursuant to subscription agreements	-	-	88,000,000	88,000	-	19,712,000	-	-	-	-
Shares issued pursuant to purchase agreeement	-	-	-	-	-	(188,349)	-	-	126,284	-
Shares issued for advertising and promotion	-	-	45,000	45	-	10,755	-	-	-	-
Foreign currency exchange			-	-	-	-	-	(124)	-	-
Net loss	-	-	-	-	-	-	-	-	(419,933)	(24,853,1
Balance December 31, 2011	-	-	742,341,113	742,339	(2,641,640)	48,458,205	(385,912)	(124)	(122,459)	(51,274,0

See accompanying notes.

NET ELEMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2011	Nine Months Ended December 31, 2010
Cash flows from operating activities:		
Net loss	$ (24,853,100)	$ (3,101,146)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss attributable to Investment in Subsidiary	45,942	-
Decrease in noncontrolling interests	(419,933)	(89)
Loan discount interest expense	18,609	-
Depreciation and amortization	311,939	8,763
Non-cash compensation	19,335,202	2,220,154
Issuance of shares for service	15,700	-
Changes in assets and liabilities, net of acquistions and the effect of consolidation of equity affiliates:		
Prepaid expenses and other assets	(120,481)	(97,104)
Deposits	3,145	(27,275)
Contract receivable, net	14,553	(40)
Due from related parties	-	(2,000)
Due to related parties	98,388	71,840
Accounts payable	162,291	(2,366)
Accrued expenses	408,524	(590,709)
Total adjustments	19,873,879	1,581,174
Net cash used in operating activities	(4,979,221)	(1,519,972)
Cash flows from investing activities		
Deconsolidation of Korlea-TOT subsidiary	(83,361)	-
Cash acquired in acquisition of subsidiary	8,838	168,655
Capitalized web development and patent costs	(599,808)	-
Purchase of fixed assets	(180,693)	(139,495)
Net cash (used in) provided by investing activities	(855,024)	29,160
Cash flows from financing activities:		
Repurchase of common stock	-	(300,000)
Cash received from subscription liability	-	880,000
Contributed capital from non-controlling equity investors	131,280	3,141,763
Borrowings on related party note	3,600,742	-
Payments on related party note	(314,733)	(8,063)
Net cash provided by financing activities	3,417,289	3,713,700
Effect of exchange rate changes on cash	(124)	(465)
Net (decrease) increase in cash	(2,417,080)	2,222,423

Cash at beginning of period	2,500,253	277,830
Cash at end of period	$ 83,173	$ 2,500,253
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 940	$ -
Non-cash investing and financing activities:		
Common stock issued for acquisition of Openfilm LLC	$ -	$ 1,255,941
Common stock issued to settle stock subscription liability	$ 880,000	$ -
Contributed capital due from JV partner	$ 39,909	$ -

See accompanying notes.

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NET ELEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Net Element, Inc. ("we," "us," "our" or the "Company"), formerly TOT Energy, Inc., was organized on February 6, 2004 under the laws of the State of Delaware under the name Splinex Technology, Inc., which was a wholly-owned subsidiary of Splinex, LLC, a Florida limited liability company that is currently known as TGR Capital, LLC (a company indirectly wholly-owned by our Chairman and Chief Executive Officer, Mike Zoi). On January 18, 2005, the Company merged with a subsidiary of Ener1, Inc., a public reporting company. Pursuant to that merger, the Company issued 5,000,000 shares of its common stock to Ener1, Inc., which then distributed those shares as a dividend to its shareholders. That distribution was registered with the Commission, which resulted in the Company becoming a public reporting company.

Since April 1, 2010, we have pursued a strategy to develop and acquire technology and applications for use in the online media industry. During September 2010, we changed our name to Net Element, Inc. in furtherance of our shift in business focus. As part of our strategy to develop an online media company, on December 14, 2010, we acquired Openfilm, LLC, a Florida limited liability company that is engaged in the development of technology and operation of a website that supports the advancement of independent film on the Internet. Additionally, on February 1, 2011, we acquired Motorsport, LLC, a Florida limited liability company that now holds 100% (initial purchase was for an 80% interest and we subsequently bought out the remaining minority position) of the outstanding common stock of Motorsport.com, Inc., a Florida corporation engaged in the operation of a news and information website relating to the international motorsport industry, and Music1, LLC, a Florida limited liability company that owns 97% of the membership interests in A&R Music Live, LLC, a Georgia limited liability company that owns and operates two websites that provide an online social community and marketplace for musicians, songwriters, producers and record companies and an opportunity to showcase artist talents. As a result of these acquisitions, we now operate several online media websites in the film, auto racing and emerging music talent markets.

Prior to April 1, 2010, we engaged in the oil and gas drilling business. On July 16, 2008, we entered into a Joint Venture Agreement (the "JV Agreement") with Evgeny Bogorad ("Bogorad"), owner of Sibburnefteservis, Ltd. of Novosibirsk, Russia, an oil services company ("SIBBNS"). Pursuant to the JV Agreement, Bogorad contributed certain of SIBBNS' assets and personnel to a joint venture company named TOT-SIBBNS, Ltd., a Russian corporation ("TOT-SIBBNS"). An independent appraisal company appraised the contributed assets at $6,221,881. We ended development stage activity on July 16, 2008 when we acquired a 75% interest in the TOT-SIBBNS joint venture and began operations in the oil and gas service industry, including the exploration, development, production, and marketing of crude oil and natural gas in Russia and Kazakhstan. At the closing on July 16, 2008, we issued to Bogorad 3,000,000 shares of our common stock in exchange for a 75% interest in TOT-SIBBNS. On January 27, 2010, the Company altered its business focus and decided to exercise its option to unwind the joint venture and pursue other development opportunities. We executed an unwind agreement with TOT-SIBBNS whereby we exchanged our 75% interest in TOT-SIBBNS for the 3,000,000 shares issued to Bogorad in 2008. The unwind of the joint venture was consummated as of March 31, 2010.

Basis of Consolidation

The consolidated financial statements include the accounts of Net Element, Inc., the accounts of our wholly-owned subsidiaries, Openfilm, LLC and its wholly-owned subsidiaries Openfilm, Inc., Openfilm Studios, LLC and Zivos, LLC (Ukraine), the accounts of our wholly-owned subsidiary Netlab Systems, LLC, its wholly-owned subsidiary Tech Solutions LTD (formerly known as Netlab Systems, LTD) (Cayman Islands) and the accounts of its representative offices in Russia and Ukraine, the accounts of our 100%-owned subsidiary NetLab Systems IP, LLC, the accounts of our 70%-owned subsidiary LegalGuru LLC, the accounts of our 75%-owned subsidiary Yapik LLC, the accounts of our 85%-owned subsidiary Splinex, LLC and its wholly-owned subsidiary IT Solutions LTD (formerly known as Splinex LTD)(Cayman Islands), the accounts of our wholly-owned subsidiary Music1, LLC and its 97%-owned subsidiary A&R Music Live, LLC (Music1, LLC and A&R Music Live, LLC are sometimes together referred to in this Report as “Music”), and the accounts of our wholly-owned subsidiary Motorsport, LLC and its 80%-owned subsidiary Motorsport.com, Inc. (The Company acquired the remaining 20% interest not owned in Motorsport.com, Inc. on January 10, 2012). All material intercompany accounts and transactions have been eliminated in this consolidation.

On November 11, 2010, our Board of Directors adopted a resolution changing our fiscal year end from March 31 to December 31. Management believes that this change will allow better alignment of our annual planning and budget processes with our online media business strategy. In this regard, the financial statements included herein cover the fiscal year periods from April 1, 2010 to December 31, 2010 and from January 1, 2011 to December 31, 2011.

Online Media Business Activity

In December 2010, we acquired Openfilm, LLC, an online media company that supports a community of independent film enthusiasts and filmmakers. Openfilm has developed an award-winning website (www.openfilm.com) that currently showcases films of various lengths and genres, aggregated from film festivals, film schools and independent filmmakers from around the world. Openfilm derives revenues from license fees, video advertising, video content syndication, display advertising and membership fees, as well as contest entry fees (See Note 11).

In February 2011, we acquired an 80% interest in Motorsport.com, Inc. (through the acquisition of Motorsport, LLC), a news and information service that operates a website (motorsport.com) that distributes content related to the motor sports industry to racing enthusiasts all over the world. Motorsport.com revenues are derived primarily from display advertising placement on the website. We purchased the remaining 20% interest we did not own in Motorsport.com during the first quarter of 2012.

In February 2011, we acquired Music1, LLC, which owns a 97% interest in A&R Music Live, LLC (which owns and operates the website arlive.com) and is working on developing business opportunities with its domain name www.music1.com. Musc1, LLC, through its subsidiary A&R Music Live, LLC, is engaged principally in the discovery, education and promotion of new and emerging musical artists. A&R Music Live derives revenue from music review transaction services, which are premium service fees earned by providing feedback on music submitted by users for review by record company A&R professionals.

Effective March 2011, we entered into a joint venture agreement (the LegalGuru JV Agreement) with one of our directors, Curtis Wolfe, in connection with the formation of LegalGuru LLC, a Florida limited liability company, in which we own a 70% interest and Curtis Wolfe owns a 30% interest. Pursuant to the LegalGuru JV Agreement, the parties agreed to invest up to an aggregate of $1,000,000 in the joint venture, with Mr. Wolfe investing up to $200,000 and the Company investing up to $800,000. As of December 31, 2011, we have invested $609,411 in LegalGuru LLC and Mr. Wolfe has invested $31,279 in LegalGuru LLC. We agreed that Mr. Wolfe will be the Chief Executive Officer and Chairman of LegalGuru LLC and agreed to pay him a salary of $10,000 per month in cash and/or stock beginning in March 2011. Beginning June 16, 2011, Mr. Wolfe's salary was reduced to $8,000 per month. Upon launch of the website and commencement of commercial operations, we agreed to increase Mr. Wolfe's salary to $20,000 per month ($15,000 from LegalGuru LLC and $5,000 from the Company), from which we will withhold an amount equal to $100,000 over one year as part of Mr. Wolfe's investment obligations in LegalGuru LLC. Mr. Wolfe has the right, for 36 months from the date of the LegalGuru JV Agreement, to convert his interest in LegalGuru LLC into 3,000,000 shares of our common stock.

On August 9, 2011, we entered into a Stock Purchase Agreement (“SPA”) pursuant to which we were to acquire 100% of the outstanding equity interests in Stratuscore, Inc., a State of Washington corporation (“Stratuscore”), from its selling shareholder, Denise Muyco (who is the spouse of our President and Chief Operating Officer, Richard Lappenbusch), in exchange for the issuance of 10,000,000 shares of common stock of the Company. On November 10, 2011, the Company and the selling shareholder mutually agreed to terminate and unwind the SPA. Amounts advanced and costs incurred by the Company through December 31, 2011 ($196,557), are reflected as advances in the consolidated balance sheet.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of expenses for the period presented. Actual results could differ from those estimates.

Cash and Cash Equivalents

We maintain our U.S. Dollar-denominated cash in several non-interest bearing bank deposit accounts. Beginning December 31, 2010, all non-interest bearing transaction accounts are fully insured, regardless of the balance in the account, at all FDIC insured institutions. As such, our bank balances did not exceed FDIC limits at December 31, 2011 and December 31, 2010.

We maintain bank accounts in Russia, Ukraine and Cayman Islands associated with our offshore engineering offices. The following details the balances and countries where we maintain foreign bank balances:

Location	Country	US Dollar Equivalent Balance at 12/31/11
Netlab Systems, LLC Russian Representative Office	Russia	$ 4,516
Netlab Systems, LLC Ukrainian Representative Office	Ukraine	4,178
Zivos, LLC	Ukraine	69
Netlab Systems, LTD	Cayman Islands	971

Through our 51% owned joint venture Korlea-TOT, we previously maintained a bank account in the Czech Republic and, at December 31, 2010, the balance of that bank account was $83,361.

Fixed Assets

We depreciate our furniture, servers, data center software and equipment over a term of 5 years. Computers and client software are depreciated over terms between 2 and 5 years. Leasehold improvements are depreciated over the shorter of the economic life or terms of each lease. All of our assets are depreciated on a straight-line basis for financial statement purposes.

Intangible Assets

Website development costs include projects that are significant in terms of functional value added to the site, product or service. A capitalized project would be closer to a full product launch than an incremental or point release update. Costs for updates are expensed as incurred. Capitalized costs are amortized to depreciation and amortization expense over twenty-four months on a straight-line basis. We also capitalize start-up projects from the point of start to the point the application, service or website is publicly launched. Amortization is straight-line over twenty-four months and charged to depreciation and amortization. Impairment is reviewed quarterly to ensure only viable active project costs are capitalized.

We capitalize our costs that are directly related to website development. These costs include platform services, engineering, Internet hosting, Internet streaming, content delivery network fees and general and administrative expenses to directly support engineering services. Capitalized costs are amortized to depreciation and amortization expense on a straight-line basis over a twenty-four month period. We also capitalize costs related to projects that are extensive in scope and significantly add to the functionality of our websites. Additionally, we capitalize direct expenses associated with filing of patents and patent applications and amortize the capitalized intellectual property costs over five years beginning when the patent is approved.

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill and certain intangible assets are assessed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify potential impairment by comparing the fair value of the reporting unit with its net book value (or carrying amount), goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary.

If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The impairment test for other intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Additionally, we capitalize the fair value of intangible assets acquired in business combinations. The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocates the purchase price of each acquired business to its respective net tangible and intangible assets. Acquired intangible assets include: trade names, non-compete agreements, owned website names, customer relationships, technology, media content, and content publisher relationships.

Foreign Currency Transactions

We are subject to exchange rate risk in our foreign operations in Ukraine and Russia where we incur product development, engineering and website development and hosting costs. The Ukraine and Russian engineering operations pay a majority of their expenses in their local currencies, exposing us to exchange rate risk. Ukrainian salaries and consulting fees are negotiated and paid in U.S. dollars.

We do not engage in any currency hedging activities.

Revenue Recognition

We recognize revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. We consider persuasive evidence of a sales arrangement to be the receipt of a signed contract or insertion order. Collectability is assessed based on a number of factors, including transaction history with the customer and the credit worthiness of the customer. If it is determined that the collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. We record cash received in advance of revenue recognition as deferred revenue.

We periodically engage in transactions involving the exchange of certain advertising services for various goods and services from third parties (Barter transactions). These transactions are recorded at the estimated fair value of the goods or services received. Revenue from trade transactions is recognized when the related advertisements are broadcast. Expense is recognized when services or merchandise received are used.

Our revenues for the year ended December 31, 2011 and the nine months ended December 31, 2010 are principally derived from the following services:

License Fees. License fees are generated from customers who utilize Launchpad to operate and manage on-line contests.

Service Fees. Service fee is generated primarily from A&R Music Live where aspiring artists pay industry professionals to review, critique and suggest improvements of music submitted on-line for review.

Advertising Revenue. Advertising revenue is generated by performance-based Internet advertising, such as cost-per-click, or CPC, in which an advertiser pays only when a user clicks on its advertisement that is displayed on our owned and operated websites; fees generated by users viewing third-party website banners and text-link advertisements; fees generated by enabling customer leads or registrations for partners; and fees from referring users to, or from users making purchases on, sponsors' websites. In determining whether an arrangement exists, we ensure that a binding arrangement is in place, such as a standard insertion order or a fully executed customer-specific agreement. Obligations pursuant to our advertising revenue arrangements typically include a minimum number of impressions or the satisfaction of the other performance criteria. Revenue from performance-based arrangements, including referral revenues, is recognized as the related performance criteria are met.

In certain cases, we record revenue based on available and preliminary information from third parties. Amounts collected on the related receivables may vary from reported information based upon third party refinement of estimated and reported amounts owing that occurs typically within 30 days of the period end.

Subscription Services and Social Media Services. Subscription services revenue is generated through the sale of memberships to access content available on certain owned and operated websites and to be eligible to enter our contests. The majority of Openfilm's memberships have a one month term and renew automatically at the end of each month, if not previously cancelled. Membership revenue is recognized as billed, and classified as other income.

Net Loss Per Share

Basic net loss per common share is computed by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares issuable upon exercise of common stock options or warrants. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

Fair Value of Financial Instruments

Our financial instruments consist mainly of cash deposits, short-term payables and borrowings under related party payables. We believe that the carrying amounts of third-party financial instruments approximate fair value, due to their short-term maturities.

Impairment of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset or group of assets may not be recoverable. No impairment losses were recorded during the twelve months ended December 31, 2011 or the nine months ended December 31, 2010.

Uncertain Tax Positions

We review uncertain tax positions on an ongoing basis and related reserves are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and expirations of statutes of limitations. Based on information currently available, we anticipate that over the next ninety days ongoing audit activity should be resolved relating to uncertain tax positions. See Note 14.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update 2011-04, “Fair Value Measurement” (“ASU 2011-04”). The primary focus of ASU 2011-04 is the convergence of accounting requirements for fair value measurements and related financial statement disclosures under U.S. GAAP and International Financial Reporting Standards (“IFRS”). While ASU 2011-04 does not significantly change existing guidance for measuring fair value, it does require additional disclosures about fair value measurements and changes the wording of certain requirements in the guidance to achieve consistency with IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is required to be applied prospectively. The Company does not anticipate a material impact to the consolidated financial statements upon adoption in 2012.

In June 2011, the FASB issued Accounting Standards Update 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”). This guidance requires companies to present the components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, amounts reclassified from Other Comprehensive Income (“OCI”) to net income for each reporting period must be displayed as components of both net income and OCI on the face of the financial statements. The guidance does not change the items that are reported in OCI. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. Other than presentational changes, the Company does not anticipate a significant impact to the consolidated financial statements upon adoption in 2012.

In September 2011, FASB issued amendments to its accounting guidance on testing goodwill for impairment. The amendments allow entities to use a qualitative approach to test goodwill for impairment. This permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This guidance is effective for annual and interim goodwill impairment test performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company did not adopt this guidance early and does not anticipate a material impact to the consolidated financial statements upon adoption in 2012.

NOTE 2. GOING CONCERN CONSIDERATIONS

Our 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. We had negative cash flows from continuing operating activities of $4,979,221 for the twelve months ended December 31, 2011, and had an accumulated deficit of $51,274,033 and stockholders' deficiency of $5,223,624 at December 31, 2011. We remain dependent upon TGR Energy, LLC, Enerfund, LLC or Mike Zoi (as a result of his controlling interest in TGR and Enerfund) to fund our operations and raise additional capital.

Management is continuing with its plan to build a diversified portfolio of online media assets. Management believes that its current operating strategy, combined with continued fundraising and funding by our primary stockholder, will provide the opportunity for us to continue as a going concern; however, there is no assurance this will occur. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

NOTE 3. SEGMENT INFORMATION

At December 31, 2011, our sole reportable business segment was on-line media properties comprised of active sites www.arlive.com, www.motorsport.com, www.yapik.com and www.openfilm.com. Additionally, at December 31, 2011, we were engaged in the development of new web properties with a focus on music and legal education for the consumer. At December 31, 2010, our sole reportable business segment was Openfilm and its subsidiaries (Acquired December 14, 2010). Our accounting policies for segments are the same as those described in the summary of significant accounting policies.

NOTE 4. ACQUISITION OF OPENFILM, LLC

On December 14, 2010, we entered into an agreement (the "Openfilm Purchase Agreement") to purchase all of the outstanding membership interests in Openfilm, LLC, a Florida limited liability company engaged in the development of technology and operation of a website that supports the advancement of independent film on the Internet. Mike Zoi, our Chairman and Chief Executive Officer, through his control of Enerfund, LLC and MZ Capital, LLC, both Florida limited liability companies, held approximately 70% of Openfilm's outstanding membership interests prior to the acquisition. In connection with the purchase, we issued 107,238,421 shares of our common stock to members of Openfilm, of which 45,937,500 shares were issued to Enerfund, 29,062,500 shares were issued to MZ Capital, LLC, 24,950,000 shares were issued to Dmitry Kozko, CEO of Openfilm (and Executive Vice President of Business Development of the Company and a director of the Company), and an aggregate of 7,288,421 shares were issued to the remaining seven non-controlling security holders of Openfilm. Upon completion of the acquisition transaction on

December 14, 2010, Openfilm became a wholly-owned subsidiary of the Company.

The net assets of Openfilm have been recorded at book basis ("carryover historical cost") as the transaction was accounted for as a merger of entities under common control.

Cash	$168,655
Accounts receivable	3,437
Property & equipment	13,895
Other assets	37,316
Accounts Payable	(135,845)
Notes Payable	(1,651,942)
Net deficiency in assets	$(1,564,484)

Pro Forma Results

The following table presents the estimated unaudited pro forma consolidated results as if the business combination occurred on April 1, 2010. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2010:

	Period Ended December 31, 2010
Net sales	$ 35,430
Loss from operations	(4,220,933)
Net loss	(4,209,980)

NOTE 5. ACQUISITIONS OF MOTORSPORT, LLC AND MUSIC1, LLC

On February 1, 2011, we entered into a purchase agreement (the “Motorsport Purchase Agreement”) with Enerfund, LLC, a company controlled by Mike Zoi, to purchase all of the issued and outstanding interests in Motorsport, LLC, a Florida limited liability company that held 80% of the outstanding common stock of Motorsport.com, Inc., a Florida corporation engaged in the operation of a news and information website relating to the international motorsport industry. Motorsport, LLC purchased its 80% interest in Motorsport.com, Inc. on December 17, 2010. We paid Enerfund an aggregate of $130,000 (exclusive of a $20,000 contingent payment relating to the purchase of certain domain names) and agreed to take over responsibility for the obligations of Motorsport, LLC contained in the Stock Purchase Agreement dated December 17, 2010 pursuant to which Motorsport, LLC acquired its 80% interests in Motorsport.com, Inc., which obligations included, among other things, the aggregate payment to the original stockholders of Motorsport.com, Inc. of an additional $450,000 payable in four quarterly installments, without interest, commencing on December 1, 2013. The domain names and related registrations were not purchased, as required, by June 16, 2011; hence the contingent amount ($20,000) will not be paid. The original sellers have a security interest in the domain names of Motorsport.com, Inc. as collateral for payment of additional purchase price.

The net assets of Motorsport, LLC have been recorded at book basis (“carryover historical cost”) as the transaction was accounted for as a merger of entities under common control. The following table provides summary balance sheet information of Motorsport, LLC as of the date of acquisition (February 1, 2011):

Cash	$-
Accounts receivable	6,179
Property & equipment	509
Other assets	651,716
Accounts Payable & Accrued Expenses	(7,224)
Notes Payable	(590,565)
Net assets	$60,615

If we had acquired Motorsport, LLC on January 1, 2011, the results of operations of the Company would have changed by the following amounts (Motorsport, LLC results for January, 2011):

Sales	$3,994
Gross Profit	(8,625)
Total operating expenses	24,124
Net loss from continuing operations	(32,749)
Net loss attributable to non-controlling interest	5,839
Net loss	$(26,910)

On January 31, 2011, Motorsport, LLC entered into a loan agreement with Enerfund, LLC (a company controlled by Mike Zoi) in the principal amount of $184,592. The annual interest rate is 5% payable annually on December 31. The loan matures on the third anniversary of each funding under the loan agreement, which fundings occurred from October 2010 through January 2011, with accrued interest due at that time. On February 24, 2011, this loan was repaid with accrued interest for an aggregate amount of $186,808.

On January 10, 2012, the terms of the December 17, 2010 Stock Purchase Agreement were amended, reducing the $450,000 payment to $300,000, payable in four annual cash installments of $75,000 commencing January 10, 2012, plus the issuance of 1,333,333 shares of the Company’s common Stock on January 10, 2012.

In addition, Motorsport exercised its option to acquire the remaining 20% interest in Motorsport.com, Inc. held by the original stockholders for the issuance to the sellers of an aggregate of 3,333,333 shares of the Company’s common stock.

Also on February 1, 2011, we acquired Music1, LLC, a Florida limited liability company, from Enerfund, LLC (a company controlled by Mike Zoi), for an aggregate purchase price of $15,000. Music1, LLC owns 97% of the membership interests in A&R Music Live, LLC, a Georgia limited liability company that operates a website that provides a musical artist discovery service. Music1, LLC purchased its interest in A&R Music Live, LLC from Stephen Strother, the Founder and President of Music1, on November 8, 2010. The remaining 3% of the membership interests in A&R Music Live, LLC is owned by Stephen Strother. We were required to invest at least $500,000 in Music1 by December 31, 2012, which requirement was met during the fourth quarter of 2011. In the event Mr. Strother’s employment agreement is terminated other than for cause (or by Mr. Strother for “good reason”) on or before May 7, 2012, then Mr. Strother would have the right to repurchase A&R Music Live, LLC (and the domains Arlive.com and Music1.com) for $1.00. Additionally, Mr. Strother has granted a royalty free license to Music1 to use certain technology owned by him for the term of his employment agreement.

The net assets of Music1, LLC have been recorded at book basis ("carryover historical cost") as the transaction was accounted for as a merger of entities under common control. The following table provides summary balance sheet information for Music1, LLC as of the date of acquisition (February 1, 2011).

Cash	$8,838
Accounts receivable	117
Other assets	11,294
Accounts Payable	(11,935)
Notes Payable	(130,993)
Net deficiency in assets	$(122,679)

If we had purchased Music1, LLC on January 1, 2011, the results of operations for the Company would have changed by the following amounts (Music1, LLC results for January, 2011):

Sales	$4,941
Gross Profit	225
Total operating expenses	(38,219)
Net loss from continuing operations	(37,994)
Net loss attributable to non-controlling interest	841
Net loss	$(37,153)

On January 31, 2011, Music1, LLC entered into a loan agreement with Enerfund, LLC (a company controlled by Mike Zoi) in the principal amount of $128,890. The annual interest rate is 5% payable annually on December 31. The loan matures on the third anniversary of each funding under the loan agreement, which fundings occurred from October 2010 through January 2011, with accrued interest due at that time. On February 24, 2011, this loan was repaid with accrued interest for an aggregate of $131,827.

NOTE 6. JOINT VENTURES

We formed a joint venture in the Czech Republic, Korlea-TOT Energy s.r.o., in July 2008 with Korlea Invest Holding AG of Switzerland ("Korlea"). We invested $56,000 in exchange for our 51% of the share capital in the joint venture. Korlea-TOT was expected to engage in marketing and trading of oil and natural gas in Eastern Europe. To date, the joint venture has not engaged in any significant operating activity. We deconsolidated Korlea-TOT as of January 1, 2011 and we have adjusted the investment to its net realizable value. We intend to sell our ownership interest in Korlea-TOT to Korlea in exchange for a cash payment equal to 51% of the cash balance in the joint venture on the date of sale. Consummation of this transaction is subject to obtaining certain approvals and making certain filings overseas. We expect that this transaction will be completed during 2012.

On March 17, 2011, we formed a wholly-owned subsidiary, Splinex, LLC, a Florida limited liability company. Splinex, LLC is intended to develop technology and web services for use in our products and services and certain other licensed applications focused in the areas of three dimensional (3D) imagery and video. During 2011, Splinex issued 15% of its equity to certain of its employees and consultants as incentive and equity based compensation.

Effective as of March 29, 2011, we entered into a joint venture arrangement (the "LegalGuru JV Agreement") with one of our directors, Curtis Wolfe, in connection with the formation of LegalGuru LLC, a Florida limited liability company, in which we own a 70% interest and Curtis Wolfe owns a 30% interest. Pursuant to the LegalGuru JV Agreement, the parties agreed to invest up to an aggregate of $1,000,000 in the joint venture, with Mr. Wolfe investing up to $200,000 and the Company investing up to $800,000. As of December 31, 2011, we have invested 609,411 in LegalGuru LLC and, as of December 31, 2011, Mr. Wolfe had invested $31,279 in LegalGuru LLC and owed $39,909 in equity contributions (which amount was paid during the first quarter of 2012). Mr. Wolfe is the Chief Executive Officer and Chairman of LegalGuru LLC at a salary, beginning March 1, 2011, of $10,000 per month, which was reduced to $8,000 per month beginning June 16, 2011. Upon launch of the website and commencement of commercial operations (currently expected in the second quarter of 2012), Mr. Wolfe's salary will increase to $20,000 per month ($15,000 from LegalGuru LLC and $5,000 from the Company), from which we will withhold an amount equal to $100,000 over one year as part of Mr. Wolfe's investment obligations in LegalGuru LLC. Mr. Wolfe has the right, for 36 months from the date of the LegalGuru JV Agreement, to convert his interest in LegalGuru LLC into 3,000,000 shares of our common stock.

On June 16, 2011, we entered into a Subscription Agreement, with a related party that is employed by Yapik LLC, pursuant to which we sold a 15% ownership interest in our subsidiary Yapik LLC in exchange for a $100,000 investment in Yapik LLC, which was received on June 20, 2011. The investor has an option, which is exercisable for 36 months, to convert the 15% ownership interest in Yapik LLC into 1,500,000 shares of common stock of the Company.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

We capitalize certain costs for website development projects. Specifically, we capitalize projects that are significant in terms of functional value added to the site. A capitalized project would be closer to a full product launch than an incremental or point release update. Costs for updates are expensed as incurred. Capitalized costs are amortized to depreciation and amortization expense over twenty-four months on a straight-line basis. We also capitalize start-up projects from the point of start to the point the application, service or website is publicly launched. Amortization is straight-line over twenty-four months and charged to depreciation and amortization. Impairment is reviewed quarterly to ensure only viable active project costs are capitalized.

For the twelve months ended December 31, 2011, we capitalized $561,983 of website development costs related to our motorsport, social network (Yapik), and legal websites. Additionally, we amortized $154,746 to depreciation and amortization expense for the twelve months ended December 31, 2011 leaving a balance of 407,237 for capitalized website development.

Capitalized patent costs were $25,275 for the twelve months ended December 31, 2011 and we amortized $3,024 for the twelve months ended December 31, 2011 leaving a balance of $22,251 for capitalized patent costs on December 31, 2011.

Additionally, on February 1, 2011, we acquired Motorsport, LLC and Music1, LLC from a related party (Enerfund) and we assumed the balance sheets of Motorsport, LLC and Music1, LLC with existing intangible assets as follows:

Intangible Asset	Motorsport, LLC	Music1, LLC
Content	$ 14,376	$4,791
Domain Name	95,833	6,503
Customer List	95,833	-
Goodwill	442,223	-

TOTALS	$ 648,265	$ 11,294

For the twelve months ended December 31, 2011, we capitalized an additional $12,550 for Music1 and amortized $2,009 and $48,542, respectively, for Music1 and Motorsport.

NOTE 8. FIXED ASSETS

Depreciation and amortization expense was $311,939 for the twelve months ended December 31, 2011 and $8,763 for the nine months ended December 31, 2010.

NOTE 9. ACCRUED EXPENSES

Accrued expenses represent expenses that are owed at the end of the period and either have not been billed by the provider or are expenses that are estimated for services provided. At December 31, 2011 and December 31, 2010, accrued expenses consisted of the following:

	December 31, 2011	December 31, 2010
Accrued professional fees	$ 122,500	$ 152,068
Promotion Expense	50,000	50,000
Accrued interest	183,971	32,201
Accrued Salaries and Benefits	122,223	17,710
Deferred revenue	185,362	-
Other accrued expenses	220,443	173,632
	$ 884,499	$ 425,611

NOTE 10. NOTES PAYABLE

On January 31, 2011, Motorsport entered into a loan agreement with Enerfund, LLC in the principal amount of $184,592. The annual interest rate is 5% payable annually on December 31. The loan matures on the third anniversary of each funding under the loan agreement, which fundings occurred from October 2010 through January 2011, with accrued interest due at that time. On February 24, 2011, this loan was repaid with accrued interest for an aggregate of $186,808.

On January 31, 2011, Music1 entered into a loan agreement with Enerfund, LLC in the principal amount of $128,890. The annual interest rate is 5% payable annually on December 31. The loan matures on the third anniversary of each funding under the loan agreement, which fundings occurred from October 2010 through January 2011, with accrued interest due at that time. On February 24, 2011, this loan was repaid with accrued interest for an aggregate of $131,827.

On May 16, 2011, we entered into a three-year, unsecured convertible promissory note and loan agreement with Enerfund, LLC in the principal amount of $2,000,000, which is the balance outstanding at December 31, 2011. The annual interest rate is 5.0% and principal and interest is due on or before April 27, 2014. The loan may be pre-paid at any time without penalty. Outstanding principal may be converted by Enerfund at any time into shares of common stock of the Company at a conversion price of $0.11 per share.

On October 24, 2011, we entered into a three-year, unsecured convertible promissory note and loan agreement with Enerfund, LLC in the principal amount of $1,600,000. The annual interest rate under the note is 5% and principal and interest is due on or before October 24, 2014. The note may be pre-paid at any time without penalty. Outstanding principal under the note may be converted by Enerfund, LLC at any time into shares of common stock of the Company at a conversion price of $0.11 per share. Upon conversion of the note, the Company is required to issue to Enerfund, LLC a five-year warrant to purchase a number of shares of common stock of the Company equal to the number of shares issued upon such conversion with an exercise price of $0.11 per share.

At December 31, 2011, Enerfund had made advances to the Company for $100,785 which were recorded as accrued expenses. Subsequent to December, Enerfund advanced additional monies to the Company. The Company repaid all advances to Enerfund ($905,317) on March 6, 2012 that were made between December 31, 2011 and March 6, 2012.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Openfilm has completed two “Get it Made” competitions. The first contest, completed in September 2010, awarded $250,000 in cash ($50,000) and services ($200,000) to produce a film suitable for distribution. The services are provided once the winner provides a screenplay in acceptable form to Openfilm. The second contest winner was announced in June 2011, and $500,000 was awarded in cash ($50,000) and services ($450,000) to produce a feature film suitable for distribution. The terms of this contest require the winner to submit an acceptable screenplay within six months. The Company has recorded $100,000 in expense relating to the cash prizes awarded. The services will be charged to operations over the expected time it takes to produce the film beginning, once acceptable screenplays have been submitted to and approved by Openfilm.

From time to time, in the ordinary course of business, the Company is subject to legal and/or tax proceedings or inquiries. While it is impossible to determine the ultimate outcome of any such proceedings or inquiries, management believes that the resolution of any pending matters will not have a material adverse effect on the consolidated financial position, cash flows or results of operations of the Company.

NOTE 12. STOCKHOLDERS’ EQUITY

On February 1, 2011, our Board of Directors adopted a resolution recommending an amendment to the Certificate of Incorporation to increase the number of authorized shares of our capital stock to an aggregate of 2,600,000,000 shares, with 2,500,000,000 shares designated common stock, $.001 par value, and 100,000,000 shares designated preferred stock, $.001 par value per share, which may be divided into series with the designations, powers, preferences, and relative rights and any qualifications, limitations or restrictions as determined by the Board of Directors. Our majority stockholders approved the amendment to our Certificate of Incorporation through action taken by written consent without a meeting, as authorized by Section 228 of the Delaware General Corporation Law. The actions recommended by the Board of Directors and approved by the Company’s majority stockholders became effective upon the filing of a certificate of amendment relating thereto with the Secretary of State of the State of Delaware on March 4, 2011.

Pursuant to a Stock Purchase Agreement dated November 23, 2009, TGR agreed to sell to Dune Capital Group ("Dune") an aggregate of 5,000,000 shares of common stock of the Company held by TGR for a purchase price of $0.10 per share or an aggregate of $500,000. The purchase price is required to be paid on or before April 1, 2010. In order to ensure compliance with obligations under Section 16 of the Securities Exchange Act of 1934, prior to the issuance of shares to Dune by TGR, TGR assigned this Purchase Agreement to the Company. Accordingly, we received $300,000 pursuant to this agreement and issued an aggregate of 3,000,000 shares of our common stock to Dune on January 12, 2010. On April 28, 2010, we agreed to terminate the Stock Purchase Agreement with Dune and rescind the prior issuance of common stock. We repurchased the 3,000,000 shares of common stock previously issued to Dune for $300,000. The redeemed shares were accounted for as treasury stock.

During the nine months ended December 31, 2010, TGR was issued 101,088,150 shares of our common stock and fully vested warrants to purchase 50,544,075 shares of our common stock $0.05 per share in exchange for funding of $2,021,763 provided under the terms of a Subscription Agreement. A compensation charge of $1,620,787 was recorded for the nine months ended December 31, 2010 as one of our officers is also a principal of TGR and the securities issued were below market value as of the issue date. This amount is calculated as the difference between the market price of our common stock at the end of each quarter in which shares were issued and the subscription price of the common shares ($0.02) multiplied by the number of shares issued, plus the Black-Scholes valuation of the warrants issued as calculated at the end of each quarter. This subscription agreement for $4,000,000 was fully subscribed at December 31, 2010.

Pursuant to the Openfilm Purchase Agreement, on December 14, 2010, we acquired all of the outstanding membership interests in Openfilm by exchanging for such interests an aggregate of 107,238,421 shares of our common stock to the security holders of Openfilm, of which 45,937,500 shares were issued to Enerfund (a company controlled by Mike Zoi), 29,062,500 shares were issued to MZ Capital, LLC (a company controlled by Mike Zoi), 24,950,000 shares were issued to Dmitry Kozko, CEO of Openfilm, and an aggregate of 7,288,421 shares were issued to the remaining seven non-controlling security holders of Openfilm.

On December 31, 2010, we entered into a Subscription Agreement with Enerfund, LLC (the "Enerfund Subscription Agreement") pursuant to which we received an aggregate of $2,000,000 in exchange for 200,000,000 shares of our common stock and warrants to purchase 100,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from the date of issuance. However, we did not have a sufficient number of authorized shares of common stock to fully issue these securities to Enerfund at December 31, 2010. Accordingly, this transaction was accounted for as a purchase by Enerfund as of December 31, 2010 of 112,000,000 shares of common stock and fully vested warrants to purchase 56,000,000 shares of common stock for $0.05 per share in exchange for $1,120,000. A compensation charge of $560,000 was recorded for the nine months ended December 31, 2010 as one of our officers is also a principal of Enerfund. This amount is calculated as the Black-Scholes valuation of the warrants issued as of December 31, 2010. The balance of the proceeds of $880,000 was accounted for as an advance until March 7, 2011, when we issued the balance of the shares and warrants. Since Enerfund is owned by an officer/director, we recorded a compensation charge of $18,920,000, which is comprised of the Black-Scholes value of the warrants ($6,600,000) and the intrinsic market value of the common stock issued ($12,320,000).

Effective as of March 29, 2011, we entered into the LegalGuru JV Agreement with one of our directors, Curtis Wolfe, in connection with the formation of LegalGuru LLC, in which we own a 70% interest and Curtis Wolfe owns a 30% interest. Pursuant to the LegalGuru JV Agreement, Mr. Wolfe has the right, for 36 months from March 29, 2011, to convert his interest in LegalGuru LLC into 3,000,000 shares of our common stock.

On May 16, 2011 we entered into a three-year, unsecured convertible promissory note and loan agreement with Enerfund, LLC in the principal amount of $2,000,000. The annual interest rate is 5.0% and principal and interest is due on or before April 27, 2014. The loan may be pre-paid at any time without penalty. Outstanding principal may be converted by Enerfund at any time into shares of common stock of the Company at a conversion price of $0.11 per share, the market price at the date of issuance.

On June 16, 2011, we entered into a Subscription Agreement pursuant to which we sold a 15% ownership interest in our subsidiary Yapik LLC in exchange for a $100,000 investment in Yapik LLC, which was received on June 20, 2011. The investor has an option, which is exercisable for 36 months, to convert the 15% ownership interest in Yapik LLC into 1,500,000 shares of common stock of the Company.

On August 9, 2011, we entered into a Stock Purchase Agreement (“SPA”) pursuant to which we were to acquire 100% of the outstanding equity interests in Stratuscore, Inc., a State of Washington corporation (“Stratuscore”), from its selling shareholder in exchange for the issuance of up to10 million shares of common stock of the Company. On November 10, 2011, the Company and the selling shareholder mutually agreed to terminate and unwind the SPA.

NOTE 13. STOCK OPTIONS AND STOCK BASED COMPENSATION

Stock Options

At December 31, 2011, the Company had two incentive plans:

- § 2004 Stock Option Plan
- § 2011 Equity Compensation Plan

The following is a summary of Grants, Exercises and Forfeitures for the twelve months ended December 31, 2011:

PLAN	Outstanding 1/1/11	Grants for 2011	Forfeitures for 2011	Exercises for 2011	Outstanding 12/31/11
2004 Stock Option Plan	1,200,000	3,971,500	(1,284,400)	-	3,887,100
2011 Equity Compensation Plan	-	3,093,957	(1,391,127)	(102,083)	1,600,747

For the twelve months ended December 31, 2011, we issued 3,971,500 options from our 2004 Stock Option Plan. These options vest 33% per year on each anniversary date of the option grant (March 7, 2011). At December 31, 2011, 1,184,400 options in this grant were forfeited due to employees not being employed on date of first vesting (March 6, 2012). An additional 100,000 options expired due to resignation and failure to exercise of one of the Company’s board members. The 2004 Stock Option Plan options have a remaining weighted average life of 7.58 years and weighted average strike price of $0.14. For the twelve months ended December 31, 2011, we recorded a compensation charge of $76,645 for the vesting of options during this period. At December 31, 2011, we had 1,100,000 vested options in the 2004 Stock Option Plan.

Additionally, we issued 3,093,957 options from our 2011 Equity Compensation plan for the twelve months ended December 31, 2011. Of the options issued during this period, 1,391,127 were forfeited by employee terminating before options vested and 102,083 options were exercised during the year. As of December 31, 2011, we had 1,600,747 options outstanding and vested with a weighted average life of 4.67 years and a weighted average strike price of $0.14.

For the nine months ended December 31, 2010, there were no new options issued and we recorded compensation charges of $25,464 for nine months ended December 31, 2010, based on the vesting of previously issued options.

On March 6, 2011, the Board of Directors approved the grant of options to purchase an aggregate of 3,971,500 shares of common stock at an exercise price of $0.10 per share to certain employees and consultants under our 2004 Stock Option Plan. The Company valued the options using a Black-Scholes model and recorded a compensation charge of $39,715. The options vest over three years at 33.3% per year with vesting for a particular year occurring on the anniversary date of the grant. At December 31, 2011, 1,184,400 of the 3,971,500 options were forfeited by employees that are no longer with the Company.

On June 28, 2011, the Board of Directors approved the 2011 Equity Incentive Plan with 150,000,000 shares authorized. The Company's majority stockholder approved the plan pursuant to a written consent also dated June 28, 2011. The Board of Directors serves as administrator of the plan. The new plan is designed to attract and retain the services of directors, employees and consultants by offering ability to make awards of unrestricted stock, stock options or both in order to create incentives. The plan limits the strike price of incentive options issued to 100% (110% if the optionee is a 10% or more shareholder) of current market and terms can be no longer than 10 years (5 years if the optionee is a 10% or more shareholder). The Company has registered the shares issuable under this plan on a registration statement on Form S-8 filed with the SEC. This plan became effective on July 20, 2011.

On August 9, 2011, we issued incentive stock options to purchase 1,500,000 shares of our common stock under our 2011 Equity Incentive Plan to our Chief Revenue Officer at an exercise price of $0.06 per share with a term of 5 years, subject to a three-year vesting schedule. The Chief Revenue Officer's' employment was terminated in November, 2011 and he has one year to exercise vested options or they will terminate.

On August 9, 2011, the Board of Directors approved the issuance of five-year stock options to purchase shares of common stock of the Company to employees taking salary reductions. These options were immediately vested upon issuance. Accordingly, the Company recorded a compensation charge, using a Black-Scholes model for the following issuances in 2011 of fully vested options.

Date Range	# Options Issued	Strike Price of Options	Grant Expiration Date	2011 Compensation Charge	
6/15/11-7/31/11	555,207	$ 0.06	08/07/16	$ 76,645	
August, 2011	62,052	$ 0.20	08/29/16	$ 22,959	(a)
September, 2011	350,494	$ 0.15	09/28/16	$ 52,574	
October, 2011	342,223	$ 0.15	10/29/16	$ 51,333	
November, 2011	179,306	$ 0.21	11/30/16	$ 37,654	
December, 2011	52,591	$ 0.60	12/29/16	$ 31,555	
Totals	1,541,873			$ 262,171	

(a) The additional 52,742 options will be issued in first quarter of 2012 as the first issuance of options for this period did not fully reflect the options earned by employees. The compensation expense of $10,548 associated with the issuance of these options is accrued in the 2011 compensation charge.

At December 31, 2011, we had options to purchase 5,487,847 shares of common stock outstanding under its stock option plans, of which options to purchase 2,700,747 shares of common stock are vested, with an exercise price of $0.14 per share and with a remaining weighted average contractual term of 6.73 years. We also had warrants to purchase 200,000,000 shares of common stock outstanding at December 31, 2011 with a strike price of $0.05 per share and a remaining contractual term of 3.74 years and warrants to purchase an addition 47,272,727 shares if notes are converted pursuant to Subscription Agreements with TGR Energy and Enerfund, LLC.

At December 31, 2011, we had outstanding options to purchase 1,600,747 shares of common stock under our 2011 Equity Incentive Plan, of which options to purchase 1,600,747 shares of common stock are vested, with a weighted average exercise price of $0.14 per share and with a remaining weighted average contractual term of 4.67 years.

Additionally, at December 31, 2011, we had outstanding options to purchase 3,887,100 shares of common stock under our 2004 Stock Option Plan, of which options to purchase 1,100,000 shares of common stock are vested, with a weighted average exercise price of $0.14 per share and with a remaining weighted average contractual term of 7.58 years.

Stock Based Compensation

On December 14, 2010, we issued 1,000,000 shares of common stock to Curtis Wolfe in exchange for legal services provided on behalf of the Company. We recorded an expense of $10,000, the fair value of the legal services received.

At March 31, 2010, we issued to Jonathan New, our Chief Financial Officer, 250,000 shares of fully vested common stock for services provided to us under a salary reduction implemented in 2009. A compensation charge of $37,500 was recorded for the quarter ended March 31, 2010, which reflects the fair value of the shares at the date of the grant.

During the period ended December 31, 2010, we issued 1,014,028 shares of restricted stock to employees in lieu of cash compensation. We recorded a charge of $10,140 for the nine months ended December 31, 2010, based on the fair value of the shares issued.

On February 18, 2011, the Company’s Board of Directors approved the hiring of Richard Lappenbusch as President and Chief Operating Officer. In addition to salary and benefits, Mr. Lappenbusch was granted 6,100,000 shares of our common stock with vesting as follows: 100,000 shares on February 15, 2012; 4,000,000 shares vesting semi-annually over a three year period from the date of the grant; and 2,000,000 shares upon the Company achieving $20,000,000 in gross revenues (other than through acquisitions), subject to the terms and conditions of a restricted stock agreement. Accordingly, the fair value of the restricted shares issued of $33,549 will be amortized over the vesting periods.

The remaining 2,000,000 restricted shares of common stock vest upon the Company’s attainment of $20 million in aggregate gross revenues. For the twelve months ended December 31, 2011, we amortized $14,664 of this amount as an expense to operations.

Also on February 18, 2011, our Board of Directors approved a grant of 100,000 shares of our common stock to a consultant as compensation for marketing and investor relations services. We recorded a charge of $4,000 based on the fair market value of shares issued.

On March 6, 2011, our Board of Directors approved the issuance of 100 shares of our common stock to certain employees and consultants located in the U.S., Russia and Ukraine. This resulted in an issuance of 5,800 shares of common stock and a corresponding compensation charge of $580 to reflect the fair market value of the shares issued.

On April 4, 2011, we entered into a public relations contract with Roar Media, LLC to provide press related services and assist with community outreach and strategic alliances. The term of this agreement was for six months and provided for monthly remuneration of $14,000 and 5,000 shares of our common stock, with an option by the Company to renew for successive six-month periods. This agreement was modified to provide remuneration in July of $7,000 and 5,000 shares. August and September were revised to $6,500 per month plus 5,000 shares per month. Beginning in October, we have agreed to the same terms, as revised, on a month to month basis.

As partial consideration for certain consulting services pursuant to an Advisor Agreement entered into on July 19, 2011 among the Company, Motorsport.com, Inc. and Emerson Fittipaldi, the Company granted Mr. Fittipaldi 5 million shares of the Company’s common stock. In addition, pursuant to the Advisory Agreement, Mr. Fittipaldi has the opportunity to earn a bonus of up to 1 million additional shares of common stock of the Company based upon his success in promoting motorsport.com through his social networking activities, which bonus is in the sole discretion of the Board of Directors of the Company. If Mr. Fittipaldi terminates the Advisor Agreement, he is required to forfeit a pro rata amount of the 5 million shares of the Company’s common stock that were granted to him in accordance with the terms of the Advisor Agreement.

NOTE 14. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts of assets and liabilities used for income tax purposes. At December 31, 2011 and December 31, 2010, we had cumulative federal net operating loss carry forwards (NOL) of approximately $9.4 million and $6.6 million, respectively. We have determined that the net operating loss may not be realized, and have recorded a valuation allowance for the full amount of the tax loss carryforward.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of any of our net operating loss and credit carry forwards will be limited. The tax loss carryforward amounts begin to expire in December 2025.

The net provision (benefit) for income taxes consisted of the following at December 31, 2011 and December 31, 2010:

	December 31,	December 31,

	2011	2010
Current Federal income taxes	$ -	$ -
Deferred income tax benefit		
Domestic	(868,148)	(814,492)
Foreign	-	-
Valuation allowance	868,148	814,492
Total income tax provision	$ -	$ -

Significant components of our deferred tax assets at December 31, 2011 and December 31, 2010 are as follows:

	December 31, 2011	December 31, 2010
Net operating loss carry forwards	$ 3,205,333	$ 2,474,037
Fixed assets and other	150,617	13,765
	3,355,950	2,487,802
Valuation allowance for deferred tax assets	(3,355,950)	(2,487,802)
Net deferred tax asset	$ -	$ -

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Reconciliation between actual income taxes and amounts at December 31, 2011 and December 31, 2010 computed by applying the federal statutory rate of 34% to pre-tax loss is summarized as follows:

	December 31, 2011		December 31, 2010	
U. S. Federal statutory rate on loss before income taxes	34.0	%	34.0	%
Compensation and penalties related permanent differences	-26.5	%	-17.8	%
State income tax, net of federal tax benefit	0.8	%	1.7	%
Increase in valuation allowance	-8.3	%	-17.9	%
Total income tax provision	0.0	%	0.0	%

In the past, we have been delinquent in the filing of our federal tax returns for several years. Although we did not owe tax due to a lack of profits, we incurred penalties and interest in the amount of $60,000 for the failure to file returns. We are in the process of appealing this assessment.

NOTE 15. RELATED PARTY TRANSACTIONS

The Company was party to a $4,000,000 Subscription Agreement with TGR Capital, LLC for the issuance of common stock and warrants to purchase common stock. See Note 12.

The Company was party to a $2,000,000 Subscription Agreement with Enerfund, LLC (“Enerfund”) for the issuance of common stock and warrants to purchase common stock. See Note 12.

On January 31, 2011, Motorsport, LLC (“Motorsport”) entered into a three-year, 5% $184,592 loan agreement with Enerfund. On February 1, 2011, the Company acquired the equity of Motorsport from Enerfund. The loan was repaid on February 24, 2011. See Note 10.

On January 31, 2011, Music1, LLC (“Music1”) entered into a three-year, 5% $128,890 loan agreement with Enerfund. On February 1, 2011, the Company acquired the equity of Music1 from Enerfund. The loan was repaid on February 24, 2011. See Note 10.

On May 16, 2011, the Company issued a three-year, 5% unsecured convertible promissory note in the amount of $2,000,000 to Enerfund. See Note 10.

On October 24, 2011, the Company issued a three-year unsecured convertible promissory note in the amount of $1,600,000 to Enerfund. See Note 10.

NOTE 16. SUBSEQUENT EVENTS

On January 10, 2012, the Company, Motorsport, LLC and the Sellers named therein entered into an amendment (the “Amendment”) to the Stock Purchase Agreement dated December 17, 2010 pursuant to which Motorsport, LLC acquired its 80% interest in Motorsport.com, Inc. Pursuant to the Amendment, the Company’s and Motorsport’s remaining obligations to pay an aggregate of $450,000 to the Sellers in four quarterly installments beginning on December 1, 2013 were amended to provide that: (i) Motorsport must pay to the Sellers $300,000 in cash in four equal annual installments of $75,000 each beginning on January 10, 2012, with each subsequent installment payable on each annual anniversary thereafter until such $300,000 is paid in full; and (ii) the Company must issue to the Sellers an aggregate of 1,333,333 shares of its common stock on January 10, 2012. The initial $75,000 installment was paid by the Company and the Company issued such 1,333,333 shares of its common stock to the Sellers. In addition, pursuant to the Amendment, Motorsport exercised its option to acquire the remaining 20% interest in Motorsport.com, Inc. for a purchase price consisting solely of the Company’s issuance to the Sellers of an aggregate of 3,333,333 shares of its common stock.

On February 2, 2012, the Company into a Subscription Agreement with one of its directors, Felix Vulis, pursuant to which Mr. Vulis purchased from the Company for $100,000: (i) 666,667 shares of common stock of the Company; (ii) a three-year warrant to purchase up to an additional 666,667 shares of common stock of the Company with an exercise price of $0.25 per share; (iii) a three-year warrant to purchase up to an additional 666,667 shares of common stock of the Company with an exercise price of $0.50 per share; and (iv) a three-year warrant to purchase up to an additional 666,666 shares of common stock of the Company with an exercise price of $1.00 per share.

On February 10, 2012, the board approved a stock option grant to key employees awarding 1,600,000 fully-vested options with a strike price of $0.16 and a life of three years.

On February 23, 2012, the Company entered into a Subscription Agreement pursuant to which it sold 13,333,334 newly issued shares of common stock of the Company to Kenges Rakishev for an aggregate purchase price of $2,000,000.10, or $0.15 per share. Pursuant to the Subscription Agreement, the Company granted Mr. Rakishev the right to participate in any equity-based financing of the Company so long as Mr. Rakishev and his affiliates beneficially own greater than 5% of the Company's common stock, as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder. In connection with that participation right, Mr. Rakishev may elect to purchase all or any part of any equity or equity-based securities proposed to be issued by the Company in any financing transaction.

On February 24, 2012, the Company entered into a Shareholder Rights Agreement (the "Shareholder Rights Agreement") with Mark Global Corporation, Kenges Rakishev, Mike Zoi, TGR Capital, LLC, MZ Capital, LLC (Delaware), MZ Capital, LLC (Florida) and Enerfund, LLC (collectively, the "Shareholders"). The companies TGR Capital, LLC, MZ Capital, LLC (Delaware), MZ Capital, LLC (Florida) and Enerfund, LLC are directly or indirectly owned and controlled by Mike Zoi. As further described below, pursuant to the Shareholder Rights Agreement, the Shareholders agreed to certain corporate governance matters pertaining to the Company and the Company granted registration rights to each of Mark Global Corporation, Kenges Rakishev, TGR Capital, LLC, Mike Zoi and certain of their assignees (collectively, the "Holders").

The Shareholder Rights Agreement is not effective until 12:01 a.m. (New York time) on the first business day immediately following the date on which Mark Global Corporation, together with its affiliates, has beneficial ownership (as determined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of greater than 10% of the Company's common stock.

The Shareholders agreed to cause the Board of Directors of the Company to be comprised of not less than four and not more than eight directors. For so long as TGR Capital, LLC, together with its affiliates, has beneficial ownership (as determined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of greater than 5% of the Company's common stock, TGR Capital, LLC is entitled to nominate one director. For so long as Mark Global Corporation, together with its affiliates, has beneficial ownership (as determined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of greater than 5% of the Company's common stock, Mark Global Corporation is entitled to nominate one director. For so long as the Shareholder Rights Agreement remains in effect, TGR Capital, LLC and Mark Global Corporation are entitled to nominate two independent directors mutually acceptable to TGR Capital, LLC and Mark Global Corporation. In the event that Mark Global Corporation's director nominee is unable to attend any meeting of the Board of Directors, Mark Global Corporation is entitled to have another representative attend such meeting in a non-voting observer capacity. In addition, so long as Mark Global Corporation, together with its affiliates, has beneficial ownership (as determined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of greater than 10% of the Company's common stock, the Shareholders agreed to cause Mark Global Corporation's director nominee to be a member of any compensation committee, nominating committee and audit committee that the Board of Directors may establish, in each case to the extent such directors are permitted to serve on such committees under applicable Securities and Exchange Commission rules.

Additionally, the Company agreed to obtain customary director and officer indemnity insurance and the Shareholders agreed to cause the Company's bylaws to be amended, in a manner acceptable to Mark Global Corporation, to provide mandatory indemnification and advancement of expenses for directors of the Company.

Upon demand by any of the Holders, the Company agreed to register from time to time with the Securities and Exchange Commission for resale (i) all shares of common stock of the Company from time to time owned by Mark Global Corporation, Kenges Rakishev or any other person or entity controlled by Kenges Rakishev, and (ii) all shares of common stock of the Company from time to time owned by TGR Capital, LLC, Mike Zoi or any other person or entity controlled by Mike Zoi. The Company also granted the Holders piggyback registration rights with respect to all of such shares. The Company agreed to bear substantially all expenses incidental to the registration rights granted pursuant to the Shareholder Rights Agreement.

On March 6, 2011, the Company repaid the Enerfund short term advance of $905,317.

On March 7, 2011, the Company entered into a consulting agreement with CSFG1 who agreed to provide certain investor relations services in exchange for $3,000 in cash and 25,000 restricted shares of the Company's common stock per month.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Membership Interest Purchase Agreement dated December 14, 2010 by and among the Company, Enerfund, LLC, MZ Capital LLC, Dmitry Kozko, James Caan, Scott Caan, Mark Rydell, Robert Duvall, Scott Walters, Stacey Lindsey and Carl Paoli, for the purchase of Openfilm (incorporated by reference to Exhibit 10.27 to the Company's Current Report on Form 8-K filed with the Commission on December 15, 2010)
2.2	Membership Interest Purchase Agreement (Motorsport) dated as of February 1, 2011 between Enerfund, LLC and the Company (incorporated by reference to Exhibit 10.29 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
2.3	Amendment dated as of January 10, 2012 among Motorsport, LLC, Tom Haapanen, Jack Durbin, Nancy Schilke and Eric Gilbert (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the Commission on March 30, 2012)
2.4	Membership Interest Purchase Agreement (Music1) dated as of February 1, 2011 between Enerfund, LLC and the Company (incorporated by reference to Exhibit 10.30 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817))
3.2	Certificate of Merger of the Company (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed with the Commission on December 27, 2004 (Registration No. 333-116817))
3.3	Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 13, 2008 (incorporated by reference to Exhibit A to the Company's Schedule 14C filed with the Commission on February 15, 2008)
3.4	Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 13, 2009 (incorporated by reference to Appendix A to the Company's Schedule 14C filed with the Commission on February 11, 2009)
3.5	Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on October 13, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on October 15, 2010)
3.6	Articles of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 4, 2011 (incorporated by reference to Exhibit A to the Company's Schedule 14C filed with the Commission on February 4, 2011)

3.7	Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Company’s Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817))
4.1	Shareholder Rights Agreement, dated February 24, 2012, among Mark Global Corporation, Kenges Rakishev, Mike Zoi, TGR Capital, LLC, MZ Capital, LLC (Delaware), MZ Capital, LLC (Florida), Enerfund, LLC and the Company (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the Commission on February 29, 2012)
4.2	Consulting Agreement dated October 12, 2009 between Openfilm, LLC and James Caan, as amended by the letter agreement dated October 12, 2009 signed by Mike Zoi and the letter agreement dated September 28, 2010 among Enerfund, LLC, Dmitry Kozko, James Caan and Mike Zoi (incorporated by reference to Exhibit 21.1 to the Company’s Annual Report on Form 10-K filed with the Commission on March 30, 2012)

10.1#	2004 Stock Option Plan of the Company (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817))
10.2#	First Amendment to 2004 Stock Option Plan of the Company (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed with the Commission on June 30, 2009)
10.3#	Form of Stock Option Agreement of the Company (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817))
10.4#	2011 Equity Incentive Plan of the Company (incorporated by reference to Appendix A to the Company's Information Statement on Schedule 14C filed with the Commission on June 28, 2011)
10.5	Lease Agreement, dated October 8, 2010, between the Company and 1450 South Miami, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 1, 2012)
10.6	Amendment, dated November 16, 2011, between the Company and 1450 South Miami, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on March 1, 2012)
10.7	Form of Employee Innovations and Proprietary Rights Assignment Agreement (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817))
10.8	Subscription Agreement dated August 7, 2008 by and between the Company and TGR Capital, LLC (then known as TGR Energy, LLC) (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 18, 2008)
10.9	Amendment to Subscription Agreement between TGR Capital, LLC (then known as TGR Energy, LLC) and the Company dated January 12, 2010 (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q filed with the Commission on February 16, 2010)
10.10	Assignment between TGR Capital, LLC (then known as TGR Energy, LLC) and the Company dated January 12, 2010 (incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q filed with the Commission on February 16, 2010)
10.11	Joint Venture Dissolution Agreement dated March 31, 2010 between the Company and Sibburnefteservis, LTD., TOT-SIBBNS, LTD and Evgeni Bogorad (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed with the Commission on July 13, 2010)
10.12	Stock Repurchase Agreement dated April 28, 2010 between the Company, TGR Capital, LLC (then known as TGR Energy, LLC) and Dune Capital Group LLC (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed with the Commission on July 13, 2010)
10.13	Technology Transfer and License Agreement dated December 14, 2010 between Netlab Systems, LLC and Openfilm, LLC (incorporated by reference to Exhibit 10.28 to the Company's Current Report on Form 8-K

	filed with the Commission on December 15, 2010)
10.14#	Employment Agreement effective as of November 1, 2010 between Music1, LLC and Stephen Strother (incorporated by reference to Exhibit 10.31 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
10.15	License Agreement entered into February 1, 2011 between Music1, LLC and Stephen Strother (incorporated by reference to Exhibit 10.32 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
10.16	Loan Agreement dated as of December 10, 2010 between Enerfund, LLC and Openfilm, LLC (incorporated by reference to Exhibit 10.33 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)

10.17	Subscription Agreement dated as of December 31, 2010 between the Company and Enerfund, LLC (incorporated by reference to Exhibit 10.34 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
10.18	Loan Agreement effective as of January 31, 2011 between Enerfund, LLC and Music1, LLC (incorporated by reference to Exhibit 10.35 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
10.19	Loan Agreement dated as of January 31, 2011 between Enerfund, LLC and Motorsport, LLC (incorporated by reference to Exhibit 10.36 to the Company's Transition Report on Form 10-KT/A filed with the Commission on February 3, 2011)
10.20	Convertible Promissory Note and Loan Agreement dated May 16, 2011 between Enerfund, LLC and the Company (incorporated by reference to Exhibit 10.37 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 16, 2011)
10.21	Guru Joint Venture Agreement dated as of March 29, 2011 between the Company and Curtis Wolfe (incorporated by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 16, 2011)
10.22#	Offer Letter dated February 13, 2011 between the Company and Richard Lappenbusch (incorporated by reference to Exhibit 10.37 to the Company's Current Report on Form 8-K filed with the Commission on February 22, 2011)
10.23	Advisor Agreement, effective as of July 19, 2011, between Motorsport.com, Inc. and Emerson Fittipaldi (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 25, 2011)
10.24	Stock Purchase Agreement dated as of August 9, 2011 between the Company and Denise Muyco for the purchase of Stratuscore (incorporated by reference to Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 15, 2011)
10.25	Amendment dated as of November 10, 2011 among the Company, Denise Muyco and Stratuscore, Inc. (incorporated by reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2011)
10.26	Convertible Promissory Note and Loan Agreement dated October 24, 2011 between Enerfund, LLC and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 27, 2011)
10.27	Subscription Agreement dated February 2, 2012 between the Company and Felix Vulis (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 6, 2012)
10.28	Form of Warrant, dated February 2, 2012, with an exercise price of $0.25 per share, issued to Felix Vulis (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on February 6, 2012)

10.29	Form of Warrant, dated February 2, 2012, with an exercise price of $0.50 per share, issued to Felix Vulis (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on February 6, 2012)
10.30	Form of Warrant, dated February 2, 2012, with an exercise price of $1.00 per share, issued to Felix Vulis (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on February 6, 2012)
10.31	Subscription Agreement, dated February 23, 2012, between the Company and Kenges Rakishev (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 29, 2012)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the Commission on March 30, 2012)
23.1*	Consent of Daszkal Bolton LLP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934

31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350 (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the Commission on March 30, 2012)
101**	The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language), is incorporated by reference to Exhibit 101 to the Company's Annual Report on Form 10-K filed with the Commission on March 30, 2012: (i) the Audited Consolidated Balance Sheets; (ii) the Audited Consolidated Statements of Operations; (iii) the Audited Consolidated Statements of Changes in Stockholders' Deficiency in Assets; (iv) the Audited Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements tagged as blocks of text.

# Indicates management contract or compensatory plan or arrangement.

* Filed herewith.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.