

ICOA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
December 31, 2010  
Unaudited

ASSETS

CURRENT ASSETS:

Cash	\$ 15,909
Accounts receivable (net of allowance of \$0)	121,508
Inventories	500
TOTAL CURRENT ASSETS	<u>137,917</u>

EQUIPMENT, net

3,960

OTHER ASSETS:

Long term receivables	39,627
Deferred finance costs	46,875
TOTAL OTHER ASSETS	<u>86,502</u>
	<u>\$ 228,379</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable and accrued expenses	4,670,433
Payroll tax liability	2,118,872
Convertible debentures due in one year, net of unamortized discount of \$0	1,950,541
Notes payable	1,133,622
Notes payable - officers	25,925
Derivative instrument liability	821,670
TOTAL CURRENT LIABILITIES	<u>10,721,063</u>

STOCKHOLDERS' DEFICIT:

Preferred "A" stock, \$.0001 par value; authorized shares - 2,100,000 shares; 2,100,000 issued and outstanding	210
Preferred "B" stock, \$.0001 par value; authorized shares - 25,000,000 shares; 728,000 issued and outstanding	73
Preferred "C" stock, \$.0001 par value; authorized shares - 20,000,000 shares; 0 issued and outstanding	-
Common stock, \$.0001 par value; authorized shares - 10,000,000,000 shares; 4,329,055,308 shares issued and outstanding	432,906
Common stock to be issued	39,600
Preferred stock to be issued	1,374,725
Additional paid-in capital	862,338,114
Accumulated deficit	(874,678,311)
TOTAL STOCKHOLDERS' DEFICIT	<u>(10,492,684)</u>

\$ 228,379

See notes to unaudited consolidated financial statements

ICOA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Unaudited

	Year Ended December 31,	
	2009	2009
REVENUES:		
Transaction service fees	\$ 63,476	\$ 142,214
Equipment sales and installation	985	36,324
Managed services	71,566	182,216
TOTAL REVENUE	136,026	360,754
COST OF SERVICES:		
Telecommunication costs	50,069	62,640
Equipment and installation	-	112,055
Managed services	113,727	57,723
TOTAL COST OF SERVICES	163,796	232,418
GROSS MARGIN (LOSS)	(27,770)	128,336
OPERATING EXPENSES:		
Selling, general and administrative	838,665,434	149,352
Depreciation	11,709	4,400
Loss (Gain) on extinguishment of debt	322,708	(201,839)
TOTAL OPERATING EXPENSES	838,999,851	(48,087)
OPERATING INCOME (LOSS)	(839,027,620)	176,423
INTEREST EXPENSE	(758,573)	(990,796)
MARK TO MARKET - DERIVATIVE LIABILITY	(444,826)	-
AMORTIZATION OF NOTE DISCOUNT	-	-
NET LOSS	\$ (840,231,019)	\$ (814,373)
BASIC AND DILUTED - LOSS PER SHARE	\$ (0.23)	\$ (0.00)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic and Diluted	3,592,959,705	1,058,636,614

See notes to unaudited consolidated financial statements

ICOA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
Unaudited

	Preferred "A" Stock (\$ .0001 par value)		Preferred "B" Stock (\$ .0001 par value)		Common Stock (\$ .0001 par value)		Additional Paid-In Capital (Restated)	Preferred Stock to be Issued	Common Stock to be Issued	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, January 1, 2009	2,100,000	\$ 210	6,736,774	\$ 674	648,303,380	\$ 64,832	\$ 22,385,744	\$ -	\$ -	\$ (33,504,148)	\$ (11,052,689)
Issuance of stock for:											
Compensation		-		-	375,000,000	37,500	150,000			-	187,500
Exercise of warrant		-		-	35,333,334	3,533	17,670			-	21,203
Net loss		-		-	-	-	-			(814,373)	(814,373)
Balance, December 31, 2009	2,100,000	\$ 210	6,736,774	\$ 674	1,058,636,714	\$ 105,865	\$ 22,553,413	\$ -	\$ -	\$ (34,318,521)	\$ (11,658,359)
Issuance of stock for:											
Conversion of debentures		-		-	2,175,156,800	217,515	623,714			-	841,229
Compensation		-	728,000	73	1,675,000,000	167,500	838,877,369			-	839,044,942
Exercise of warrant		-		-	177,000,001	17,700	78,500			-	96,200
Adjustment for 5,000:1 reverse		-		-	(756,738,207)	(75,674)	75,674			-	-
Adjustment for revised Pfd B		-	(6,736,774)	(674)		-	674			-	-
Correction of prior year		-		-		-	128,770			(128,770)	-
Commn Stock to be issued		-		-		-	-		39,600		39,600
Preferred Stock to be issued		-		-		-	-	1,374,725		-	1,374,725
Net loss		-		-	-	-	-			(840,231,019)	(840,231,019)
Balance, December 31, 2010	2,100,000	\$ 210	728,000	\$ 73	4,329,055,308	\$ 432,906	\$ 862,338,114	\$ 1,374,725	\$ 39,600	\$ (874,678,311)	\$ (10,492,684)

See notes to unaudited consolidated financial statements

ICOA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Unaudited

	<u>For the Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (840,231,019)	\$ (814,373)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of equipment	11,709	4,400
Amortization of intangibles	-	-
Amortization of deferred financing cost	-	-
Stock issued for compensation	839,044,942	187,500
Stock to be issued for services	-	-
Settlement of loans payable for commons stock / interest expense	-	-
Amortization of note discount	-	-
Derivative instrument liability expensed	-	-
Changes in assets and liabilities:		
Accounts receivable	(43,206)	32,805
Inventory	4,500	50,445
Deposits	56,149	-
Prepaid expenses	17,600	-
Other assets	-	-
Payroll taxes	32,479	(23,770)
Accounts payable and accrued expenses	(274,229)	580,266
Net cash used in operating activities	<u>(1,381,076)</u>	<u>17,272</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition / disposition of equipment	-	6,953
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>-</u>	<u>6,953</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of warrants	39,600	-
Payments of capital leases	-	-
Payments of notes payable	-	(22,805)
Proceeds of private placement	492,477	-
Payments of convertible debentures	841,229	(17,344)
Proceeds from convertible debentures	-	-
Proceeds from capital leases	-	-
Increase in deferred finance costs	-	-
Proceeds from notes payable	-	7,296
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>1,373,306</u>	<u>(32,853)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>(7,770)</u>	<u>(8,628)</u>
<b>CASH - BEGINNING OF PERIOD</b>	<u>23,678</u>	<u>32,306</u>
<b>CASH - END OF PERIOD</b>	<u>\$ 15,909</u>	<u>\$ 23,678</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 7,585</u>	<u>\$ 7,585</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Conversion of debentures and interest into stock	<u>\$ 841,229</u>	<u>\$ -</u>

See notes to unaudited consolidated financial statements

**ICOA, INC. AND SUBSIDIARIES**  
**Notes To Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**1. Nature of Operations**

ICOA, Inc. ("ICOA" or the "Company"), formerly known as Quintonix, Inc., was organized in Nevada in September 1983 to develop and sell credit card-operated fax machines. The Company discontinued such operations in 1993 and remained inactive through 1998.

In March 1999, the Company organized WebCenter Technologies, Inc. ("WTI"), a wholly owned subsidiary, for the purpose of developing a multi-functional public access Internet terminal.

In October 2003, the Company acquired the operating assets of QGo, LLC, a provider of Wi-Fi equipment and management services to hot spot operators. The assets were assigned to the WebCenter Technologies, Inc. subsidiary.

In December 2003, the Company acquired the outstanding shares of Airport Network Solutions, Inc., a privately held corporation, that designed and managed Wi-Fi solutions for the airport industry. It was operated as a wholly-owned subsidiary.

In June 2004, the Company acquired the operating assets of iDockUSA a provider of Wi-Fi services in marinas. The assets were assigned to the WebCenter Technologies, Inc. subsidiary.

In August 2004, the Company acquired the outstanding shares of AuthDirect, Inc., a privately held corporation, incorporated in California, which provides back office, network operating center and customer care center services for the Company's operating divisions and subsidiaries as well as for a wide variety of unaffiliated wireless service providers across the country.

In May 2005, the Company acquired the outstanding shares of Wise Technologies Inc, a privately held corporation, incorporated in Maryland, which designs and manages Wi-Fi solutions in various markets. It was operated as a wholly owned subsidiary.

In July 2005, the Company acquired the outstanding shares of LinkSpot Inc., a privately held corporation, incorporated in Virginia, which designs and manages Wi-Fi solutions in RV parks through-out the United States. It was operated as a wholly owned subsidiary.

**2. Going Concern**

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses of \$840,231,019 and \$814,373 for the years ended December 31, 2010 and 2009, respectively. Additionally, the Company had a working capital deficiency of \$10,583,146 at December 31, 2010. These conditions raise substantial doubts about the Company's ability to continue as a going concern.

Management is actively pursuing new debt and/or equity financing and continually evaluating the Company's profitability; however, any results of these plans and actions cannot be predicted. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company has satisfied its cash requirements to date primarily through private placements of common stock, warrants, debentures convertible into shares of common stock and the issuance of common stock in lieu of payment for services. Also, officers have at times loaned the Company funds to provide working capital.

### **Going Concern (*Continued*)**

The Company anticipates that its use of cash will remain substantial for the foreseeable future. In particular, management of the Company expects substantial expenditures in connection with the planned deployment of new Wi-Fi hot spots in the coming year, the ongoing restructure of the Company, and settlement of past debts.

The Company has been delinquent in its payroll tax filings. It has accrued \$2,118,872 consisting of the principal amount of \$1,504,439, accrued interest of \$254,028 and accrued penalties of \$360,405. The Company has entered into a payment arrangement under which a percentage of revenue is applied to the delinquent payments on a monthly basis.

The Company needs to raise a minimum of \$1,500,000 through public or private debt or sale of equity to continue expanding communications services, voice, facsimile, data and electronic publishing network and the service operation center, and to develop and implement additional contracts at airports, hotels and retail locations in order to continue placing terminals in high traffic locations. Such financing may not be available when needed. Even if such financing is available, it may be on terms that are materially adverse to our interests with respect to dilution of book value, dividend preferences, liquidation preferences, or other terms. If the Company is unable to obtain financing on reasonable terms, the Company could be forced to delay, scale back or eliminate certain product and service development programs. In addition, such inability to obtain financing on reasonable terms could have a material adverse effect on the Company's business, operating results, or financial condition.

### **3. Summary Of Significant Accounting Policies**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash includes demand deposits, saving accounts and money market accounts. The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

#### **Impairment of Long-Lived Assets**

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value.

## **Estimates**

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those reported.

## **Accounts receivable and concentration of credit risk**

Concentration of credit risk with respect to trade receivables is limited to customers dispersed across the United States of America. While trade receivables are concentrated in the quick service restaurant segment of the economy, the Company has begun to diversify its sales and has developed additional markets such as marinas, RV Parks, and Hotels for its services; accordingly the Company has reduced its exposure to business and economic risk. Although the Company does not currently foresee a concentrated credit risk associated with these trade receivables, repayment is dependent upon the financial stability of the various customers.

## **Allowance for doubtful accounts**

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts and the aging of the accounts receivable. The Company regularly reviews the adequacy of the Company's allowance for doubtful accounts through identification of specific receivables where it is expected that payments will not be received. The Company also establishes an unallocated reserve that is applied to all amounts that are not specifically identified. In determining specific receivables where collections may not have been received, the Company reviews past due receivables and gives consideration to prior collection history and changes in the customer's overall business condition. The allowance for doubtful accounts reflects the Company's best estimate as of the reporting dates.

At December 31, 2010, the Company created an allowance for bad debts in the amount of \$0.

## **Income Taxes**

Income taxes are provided for using the liability method of accounting. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Deferred income taxes and tax benefits are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax loss and credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company provides an allowance against deferred tax assets for the estimated future tax effects attributable to temporary differences and carry-forwards when realization is more likely than not.

Effective December 1, 2007, the Company adopted ASC 740 which requires that the Company recognize in the financial statements, the impact of a tax position if that position is more likely than not of being sustained on examination by taxation authorities, based on the technical merits of the position.

## **Financial Instruments**

The Company adopted FASB ASC 820-Fair Value Measurements and Disclosures, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

## Financial Instruments (Continued)

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

As required by FASB ASC Topic No. 820 – 10 (formerly SFAS 157), financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The estimated fair value of the derivative liability was calculated using the Black-Scholes option pricing model (see Note 8).

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010:

Description	Fair Value Measurements at December 31, 2010			Total Carrying Value
	(Level 1)	(Level 2)	(Level 3)	
	\$ -	\$ -	\$ 821,670	\$ 821,670
Derivative liability - Total	\$ -	\$ -	\$ 821,670	\$ 821,670

The Company did not have any Level 2 or Level 3 assets or liabilities as of December 31, 2010 and 2009, with the exception of its notes payable. The carrying amount of the notes payable at December 31, 2010 and 2009, approximate their respective fair value based on the Company's incremental borrowing rate.

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of December 31, 2010 and 2009, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option was effective at the time of adoption. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

## Basic and Diluted Loss Per Share

Basic and diluted loss per share is based on the weighted average number of shares outstanding. Potential common shares includable in the computation of fully diluted per share results are not presented in the financial statements as their effect would be anti-dilutive.

## **Recently Adopted Accounting Pronouncements**

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC 820 to require a number of additional disclosures regarding (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect that the adoption of ASU 2010-06 will have a material impact on the Company's financial statements.

On March 5, 2010, the FASB issued authoritative guidance to clarify the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This guidance also has transition provisions, which permit entities to make a special one-time election to apply the fair value option to any investment in a beneficial interest in securitized financial assets, regardless of whether such investments contain embedded derivative features. This guidance is effective on the first day of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of any fiscal quarter beginning after March 5, 2010. This amendment is not expected to have a material impact on the Company's financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our financial statements.

## **Inventories**

Inventories consists of equipment held for resale or staged for future installation. Inventories are valued at the lower of cost or market based on specific identification. Obsolete inventory is written off and disposed of on a periodic basis.

## **Equipment**

Equipment is recorded at cost. Depreciation is provided by the straight - line method over the estimated useful lives of the related assets, which is estimated to be from three to seven years.

## **Stock Based Compensation**

Financial Accounting Statement No. 123R, Accounting for Stock Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the

## **Stock Based Compensation (Continued)**

excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company has adopted the "disclosure only" alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

## **Revenue Recognition**

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" and 104 "Revenue Recognition," and Emerging Issues Task Force Issue 00-21, "Revenue Arrangements with Multiple Deliverables." In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the resulting receivable is reasonably assured.

Revenue generated for Internet access via Wi-Fi or Internet terminals (transaction service fees) is recognized at the time the service is used. Costs associated with providing the services are expensed as incurred.

Revenue generated from the sale and configuration of Wi-Fi equipment is recognized at time of shipment FOB to the customer. Costs associated with the equipment sold are expensed at the time of shipment. Configuration and setup labor is expensed as incurred.

Revenue generated from managed services (both help desk and network management) is recognized at the time of billing. Services are billed at the beginning of each month's activity.

Revenue from technology licensing is recognized on receipt. These licenses do not carry any long term obligations on the part of the Company

## **4. Capital Stock**

### **a) Authorized**

Authorized capital stock consists of:

2,100,000 preferred A shares with a par value of \$0.0001 per share; and

25,000,000 preferred B shares with a par value of \$0.0001 per share; and

20,000,000 preferred C shares with a par value of \$0.0001 per share; and

10,000,000,000 common shares with a par value of \$0.0001 per share

In April 201, the Company did a reverse stock split issuing 1 share for every 5,000 issued and outstanding.

### **b) Share Issuances**

In October 2009, the Company issued 125,000,000 common shares to the Company's CEO, President, and a director. The shares were issued at a price of \$0.0005 per share which is the market price of the stock on the date of issuance.

In October 2009, the Company issued 125,000,000 common shares to the Company's CFO, and a director. The shares were issued at a price of \$0.0005 per share which is the market price of the stock on the date of issuance.

In October 2009, the Company issued 125,000,000 common shares to a Director of the Company. The shares were issued at a price of \$0.0005 per share which is the market price of the stock on the date of issuance.

### **Share Issuances (Continued)**

In October 2009, the Company issued 35,333,334 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 53,000,000 warrants at a price of \$0.0006 per share which was the market price of the stock on the date of exercise.

In January 2010, the Company issued 41,666,667 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 75,000,000 warrants at a price of \$0.00072 per share which was the market price of the stock on the date of exercise.

In February 2010, the Company issued 50,000,000 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 75,000,000 warrants at a price of \$0.00045 per share which was the market price of the stock on the date of exercise.

In April 2010, the Company issued 50,000,000 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 75,000,000 warrants at a price of \$0.00045 per share which was the market price of the stock on the date of exercise.

In May 2010, the Company issued 750,000,000 common shares to the Company's CEO, President, and a director. The shares were issued at a price of \$0.50 per share which is the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In May 2010, the Company issued 750,000,000 common shares to the Company's CFO, and a director. The shares were issued at a price of \$0.50 per share which is the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In May 2010, the Company issued 500,000,000 common shares to a Director of the Company. The shares were issued at a price of \$0.50 per share which is the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In May 2010, the Company issued 512,947,400 common shares in connection with the conversion of \$525,500 of convertible debentures and \$25,670 of accrued interest. The conversion was at an average price of \$0.00107 per share.

In May 2010, the Company recorded 300,000 preferred B shares to be issued under a \$750,000 settlement agreement with a lease company.

In June 2010, the Company issued 54,821,429 common shares in connection with the conversion of \$80,000 of convertible debentures. The conversion was at an average price of \$0.00146 per share.

In June 2010, the Company recorded 100,000 preferred B shares to be issued for gross proceeds of \$250,000 received in June of 2006 under a Subscription Agreement with a non-affiliated, accredited investor which was previously recorded as a note payable.

In July 2010, the Company issued 111,111,111 common shares in connection with the conversion of \$10,000 of convertible debentures. The conversion was at an average price of \$0.00009 per share.

In July 2010, the Company recorded 5,600 preferred B shares to be issued for gross proceeds of \$14,000 under a Subscription Agreement with a non-affiliated, accredited investor.

In August 2010, the Company issued 208,333,333 common shares in connection with the conversion of \$17,500 of convertible debentures and \$3,333 of accrued interest. The conversion was at an average price of \$0.0001 per share.

In August 2010, the Company recorded 9,000 preferred B shares to be issued for gross proceeds of \$22,500 under a Subscription Agreement with a non-affiliated, accredited investor.

In September 2010, the Company issued 643,115,941 common shares in connection with the conversion of \$50,700 of convertible debentures and \$13,912 of accrued interest. The conversion was at an average price of \$0.0001 per share.

### **Share Issuances (Continued)**

In September 2010, the Company recorded 45,000 preferred B shares to be issued for gross proceeds of \$112,500 under a Subscription Agreement with two non-affiliated, accredited investors.

In October 2010, the Company cancelled 250,000,000 common shares to the Company's CEO, President, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In October 2010, the Company cancelled 250,000,000 common shares to the Company's CFO, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In October 2010, the Company cancelled 162,500,000 common shares to a Director of the Company. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In October 2010, the Company issued 494,827,586 common shares in connection with the conversion of \$35,500 of convertible debentures and \$13,983 of accrued interest. The conversion was at an average price of \$0.0001 per share.

In October 2010, the Company recorded 36,000 preferred B shares to be issued for gross proceeds of \$90,000 under a Subscription Agreement with a non-affiliated, accredited investor.

In November 2010, the Company issued 651,315,789 common shares in connection with the conversion of \$15,000 of convertible debentures and \$50,132 of accrued interest. The conversion was at an average price of \$0.0001 per share.

In November 2010, the Company recorded 34,290 preferred B shares to be issued for gross proceeds of \$85,725 under a Subscription Agreement with a non-affiliated, accredited investor.

In December 2010, the Company cancelled 400,000,000 common shares previously issued to the Company's CEO, President, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In December 2010, the Company cancelled 400,000,000 common shares previously issued to the Company's CFO, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In December 2010, the Company cancelled 200,000,000 common shares previously issued to a Director of the Company. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

### **5. Warrants**

From time to time, the Company has issued warrants in connection with the issuance of certain financial instruments.

July 2008 the Company issued 1,853,000 warrants in connection with convertible debentures; the warrants were issued at an exercise price of \$0.0001 per share and have a cashless conversion feature. At the time of issuance, the Company recorded the fair value of the warrants as a debt discount based on the Black-Scholes valuation and amortized this over the life of the note.

In October 2009, the Company issued 35,333,334 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 53,000,000 warrants at a price of \$0.0006 per share which was the market price of the stock on the date of exercise.

### Warrants (Continued)

In January 2010, the Company issued 41,666,667 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 50,000,000 warrants at a price of \$0.00072 per share which was the market price of the stock on the date of exercise.

In February 2010, the Company issued 50,000,000 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 75,000,000 warrants at a price of \$0.00045 per share which was the market price of the stock on the date of exercise.

In April 2010, the Company issued 50,000,000 common shares to upon the cashless exercise of a warrant. The shares were issued in exchange of 75,000,000 warrants at a price of \$0.00045 per share which was the market price of the stock on the date of exercise.

Below are the currently unexercised, open warrants:

Date of issuance	Expiration Date	Number of Warrants	Exercise Price	Total Face Value
7/31/2008	12/18/2015	1,600,000,000	\$0.0001	\$ 160.00
<b>Total</b>		<b>1,600,000,000</b>	<b>\$0.0001</b>	<b>\$ 160.00</b>

### 6. Concentration Risk

The Company's financial instruments consist of cash, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. Because of the short maturity and capacity of prompt liquidation of such assets and liabilities, the fair values of these financial instruments approximate their carrying values.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. The Company places its cash with high credit quality financial institutions in the United States. Bank deposits in the United States did not exceed federally insured limits as of December 21, 2010 and as of December 31, 2009.

### 7. Income Taxes

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

Period ended December 31,	2010	2009
Income tax benefit at Federal statutory rate of 35%	\$ 294,100,000	\$ 285,000
Income tax benefit, net of Federal effect	42,000,000	41,000
Permanent differences (primarily stock-based compensation)	(293,700,000)	(7,500)
Change in valuation allowance	(42,400,000)	(318,500)
	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's deferred income tax assets are as follows:

As at December 31,	2010	2009
Operating losses carried forward	\$ 25,400,000	\$ 22,500,000
Valuation allowance	(25,400,000)	(22,500,000)
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2010, the Company has available net operating losses of approximately \$18,600,000 which may be carried forward to apply against future taxable income. These losses will expire in 2030. Deferred tax assets related to these losses have not been recorded due to uncertainty regarding their utilization.

### 8. Payroll Taxes

The Company has been delinquent in its payroll tax filings. It has accrued \$2,118,872 consisting of the principal amount of \$1,504,439, accrued interest of \$254,028 and accrued penalties of \$360,405. The Company has entered into a payment arrangement under which a percentage of revenue is applied to the delinquent payments on a monthly basis.

## **9. Convertible Debentures**

During the third quarter of fiscal 2003, the Company reached an agreement with the holders of \$1,496,594 in Convertible Debentures and accrued interest. The settlement resulted in the cancellation of the notes and required the Company to make cash payment of \$507,850 in January 2004. In addition, the Company agreed to issue Common Stock valued at \$225,000 on the date of issuance and preferred stock with a value of \$337,500 on the date of issuance, provided the shareholders approve a class of preferred stock and an increase in the amount of authorized shares of Common Stock at the next shareholder's meeting.

In November 2003, the Company issued 2,600,000 shares of common stock at an average price of \$0.055 per share (\$143,000) in partial settlement of the Common Stock to be issued. The Company did not make the cash payment due in January 2004. The remaining balance of cash and common stock were settled in April 2004 and February 2005.

In April 2004, the Company issued 5,633,333 shares of common stock to Laurus Master Fund in full settlement of cash due from the previously negotiated settlement of \$450,000 and the remaining balance of common stock due of \$57,000 per the terms of the July 2003 settlement agreement. The average issuance price of \$0.09 per share was based on the market price on date of issuance.

In February 2005, the Company issued 5,332,736 shares of common stock to Tusk Investments, a party to the settlement agreement of July 2003 with Laurus Master Fund, et al, in full settlement of \$161,691 of cash and accrued interest, common stock of \$25,000 and \$37,500 of preferred stock due from the previously negotiated settlement. The average issuance price of \$0.042 per share was based on a combination of the market price on date of issuance and conversion of the preferred note at \$0.03 per share, as required under the terms of the settlement.

A balance of \$300,000 in connection with the above described settlement is recorded on the books of the Company as 'Preferred Stock to be Issued'.

In December 2003, the Company issued a convertible debenture in connection with the acquisition of Airport Network Solutions. The face value of the debenture is \$200,000 and it begins accruing interest on December 18, 2004 at 5% per annum, and is convertible at a fixed price of \$0.01 per share. The Company recorded a beneficial conversion feature of \$200,000 on this loan which was charged to interest during 2004. In March 2005, the Company issued the shares in connection with the conversion of this debenture into equity.

In March 2004 the Company issued a Secured Convertible Debenture to Cornell Capital Partners ("Cornell") in the face amount of \$350,000 and in May 2004, we issued a second Secured Convertible Debenture to Cornell in the face amount of \$200,000. Both of these debentures were issued in connection with a Securities Purchase Agreement entered into with Cornell. The debentures accrued interest at a rate of 5% per annum and were convertible into shares of the Company's common stock. The Company also issued to Cornell a three-year warrant to purchase 400,000 shares of common stock at price of \$0.108 per share, which price may be adjusted pursuant to the terms of the warrant.

In June 2004, the Company issued a Promissory Note to Cornell in the face amount of \$800,000. The note accrued interest at a rate of 5% per annum. In January 2005, the Company issued Promissory Notes to Cornell in the face amount of \$75,000 each, for an aggregate of \$150,000. These notes accrued interest at 12% per annum.

## **Convertible Debentures (Continued)**

In March 2005, the Company issued a Promissory Note to Cornell in the face amount of \$500,000. The note accrued interest at 12% per annum. In April 2005, the Company issued a Secured Promissory Note to Cornell in the face amount of \$449,804.79. This note was issued simultaneously with, and in consideration for, the cancellation of the entire remaining principal balance and accrued interest on the debentures issued to Cornell in March and May 2004. This note accrued interest at rate of 12% per annum.

In September 2005, the Company issued a Promissory Note to Cornell in the face amount of \$57,500. The note accrued interest at 12% per annum.

On November 2, 2005 the Company issued a Secured Convertible Debenture in the principal amount of \$2,187,327.24, and on December 16, 2005 the Company issued a second Secured Convertible Debenture to Cornell in the principal amount of \$200,000 for a total of \$2,387,327.24. Both debentures were issued in connection with a Securities Purchase Agreement entered into with Cornell. The principal amount of these debentures represented (i) \$1,787,327.24 paid in consideration of the cancellation of the remaining principal balance and accrued interest on six outstanding promissory notes issued to Cornell from June 2004 through September 2005 and (ii) \$600,000 funded to the Company as additional financing. These debentures are secured by all of the assets of the Company and its subsidiaries, accrue interest at a rate of 10% per annum, and are due on or before November 2, 2007.

These debentures are convertible, at the option of the holder, into shares of common stock of the Company at the lower of \$0.044 per share or 90% of the lowest volume weighted average price as quoted by Bloomberg LP for the ten (10) trading days immediately preceding the date of conversion. In connection with the transaction, the Company issued to Cornell a five year warrant to purchase 3,000,000 shares of common stock at a price of \$0.04 per share.

In February 2006, the Company issued a two year, secured convertible debenture to Cornell, in the principal amount of \$125,000. The debenture carries similar conversion provisions as the November 2, 2005 and December 16, 2005 debentures. In addition, the Company issued 25,000,000 warrants to purchase common shares at a price of \$0.01 per share, and 25,000,000 warrants to purchase common shares at a price of \$0.03 per share. The warrants have a term of 5 years.

In August 2006, the Company issued a two year convertible debenture to an individual accredited investor, in the principal amount of \$50,000. The debenture is convertible at a fixed price of \$0.0058 per share. The debenture carries interest at a rate of 9% per annum. In addition, the Company issued 8,620,689 two year warrants to purchase common shares; one third at a price of \$0.02 per share, one third at a price \$0.05 per share, and one third at a price of \$0.08 per share. The warrants are subject to a call provision by the Company if the market price per share is above \$0.05 per share, \$0.08 per share, and \$0.11 per share respectively for a period of 5 or more days.

In August and September 2006, the Company issued a two year convertible debenture to, an accredited investor, in the principal amount of \$350,000. The debenture is convertible at a fixed price of \$0.0066 per share. The debenture carries interest at a rate of 9% per annum. In addition, the Company issued 40,000,000 two year warrants to purchase common shares; one third at a price of \$0.02 per share, one third at a price \$0.05 per share, and one third at a price of \$0.08 per share. The warrants are subject to a call provision by the Company if the market price per share is above \$0.05 per share, \$0.08 per share, and \$0.11 per share respectively for a period of 5 or more days.

In 2005, the Company raised \$700,510 from accredited investors through the issuance of one year convertible debentures at the closing market price on the day prior to the closing. In connection with the issuance of the convertible debentures, the Company also issued 2,437,896 warrants to the investors exercisable at the same price. The debentures mature at various dates throughout the year. The debentures are convertible at fixed prices ranging from \$0.040 to \$0.072 per share.

#### **Convertible Debentures (Continued)**

In March 2005, the Company issued \$300,000 in convertible debentures, in connection with the settlement of outstanding liabilities to William Lord, the former president of our WebCenter Technologies, Inc. division. The debentures were convertible at the market price on the day prior to conversion. Subsequent to its issuance, Mr. Lord converted the debenture into 6,716,616 shares of common stock.

Convertible debentures consist of the following all of which are current:

<u>Lender</u>	<u>Amount</u>
Cornell Capital Partners, 5% interest, due March 2007	\$1,665,000
Accredited individual investors 10% to 12% interest due various dates in 2006	951,366
	<hr/> 2,616,366
Notes payable discounts	<hr/> (874,015)
Total	<hr/> \$ 1,742,351

## 10. Derivative Liabilities

In June 2008, the FASB finalized ASC 815, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock." Under ASC 815, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company has determined that it needs to account for 5 convertible debentures issued during the fiscal year convertible into shares of its common stock, as derivative liabilities, and apply the provisions of ASC 815. The instruments have a ratchet provision that adjust either the exercise price and/or quantity of the shares as the conversion price is equal to 60% of the "market price" at the time of conversion, which "market price" will be calculated as the average of the three lowest "trading prices" for the Company's common stock during the ten day trading period prior to the date a conversion notice is sent to the Company.

As a result, the instruments need to be accounted for as derivative liabilities. In accordance with ASC 815, these convertible debentures have been re-characterized as derivative liabilities. ASC 815, "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815") requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in fair value reported in the consolidated statement of operations.

The fair value of the derivative liabilities was measured using the Black-Scholes option pricing model and the following assumptions:

Discount Rate – Bond Equivalent Yield	0.30%
Annual rate of dividends	--
Volatility	165.87%

The discount rate was based on rates established by the Federal Reserve. The Company based expected volatility on the historical volatility for its common stock. The expected life of the debentures was based on their full term. The expected dividend yield was based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the future.

## 11. Accounts Payable and Accrued Expenses

At December 31, 2010, the Company had accounts payable and accrued expenses. The table below breaks this amount out by major category.

	Amount
Accounts payable – trade	\$ 872,738
Accrued payroll	367,316
Accrued interest	2,952,954
Other accrued expenses	477,425
Total Accounts payable and accrued expenses	<u>\$ 4,670,433</u>

## 12. Subsequent Events

In January 2011, the Company issued 277,777,777 common shares in connection with the conversion of \$5,000 of convertible debentures and \$20,000 of accrued interest. The conversion was at an average price of \$0.00009 per share.

In April 2011, the Company cancelled 600,000,000 common shares previously issued to the Company's CEO, President, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

### Subsequent Events (*Continued*)

In April 2011, the Company cancelled 600,000,000 common shares previously issued to the Company's CFO, and a director. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In April 2011, the Company cancelled 475,000,000 common shares previously issued to a Director of the Company. The shares were issued at a price of \$0.50 per share which was the market price of the stock on the date of issuance. The issuance was subject to an absolute recall provision by the Company.

In May 2011, the Company raised \$24,000 through the issuance 220,000,000 shares at a price of \$0.0001091 through a Reg D, 504 offering.

In June 2011, the Company raised \$22,000 through the issuance 340,000,000 shares at a price of \$0.0000647 through a Reg D, 504 offering.

In October 2011, the Company raised \$19,000 through the issuance 380,000,000 shares at a price of \$0.00005 through a Reg D, 504 offering.