NuMobile, Inc and Subsidiaries
Consolidated Financial Statements
For the Six Months Ended June 30, 2013

Contents

NuMobile, Inc. and Subsidiaries
Consolidated Balance Sheets
As of June 30, 2013 and December 31, 2012

	June 30, 2013 (Unaudited)	December 31, 2012 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 867	$ 879
Accounts receivable	6,986	6,986
Prepaid expenses	840	840
TOTAL CURRENT ASSETS	8,693	$ 8,705
PROPERTY AND EQUIPMENT, net	823	2,323
INTANGIBLE ASSETS, net	1,159,512	1,623,318
DEPOSIT	50,000	50,000
TOTAL ASSETS	$ 1,219,028	$ 1,684,346
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,990,728	$ 1,809,563
Unearned revenue	16,134	35,494
Due to related party	220,519	220,519
Advances payable	50,000	50,000
Advances payable, related party	83,331	83,331
Convertible debt, net of discounts of $0 and $0, related party	317,500	265,000
Convertible debt, net of discounts of $0 and $0, respectively	1,638,777	1,638,777
Notes payable - related parties	518,388	518,388
Notes payable	2,088,200	2,048,200
Dividends payable	1,172,032	1,068,562
Accrued derivative liability	1,929,677	1,859,483
Preferred stock; Series A; $0.001 par value; 5,000 shares authorized; 0 and 0 shares issued and outstanding	-	-
Preferred stock; Series D convertible; $0.001 par value; 25,000 shares authorized; 6,118 and 6,118 shares issued and outstanding	611,800	611,800
Preferred stock; Series E convertible; $0.001 par value; 25,000 shares authorized; 2,418 and 2,418 shares issued and outstanding	241,800	241,800
TOTAL CURRENT LIABILITIES	10,878,886	10,450,917
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock; Series A; $0.001 par value; 5,000 shares authorized; 2,656 and 2,656 shares issued and outstanding	3	3
Preferred stock; Series C; $0.001 par value; 12,000,000 shares authorized; 5,000 and 5,000 shares issued and outstanding	5	5
Common stock; $0.001 par value; 5,000,000,000 shares authorized; 4,987,033,932 and 4,987,033,932 shares issued and outstanding	4,987,034	4,987,034
Additional paid-in capital	2,860,302	2,860,302
Accumulated deficit	(17,507,202)	(16,613,915)
TOTAL STOCKHOLDERS' DEFICIT	(9,659,858)	(8,766,571)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,219,028	$ 1,684,346

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

NuMobile, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2013 and 2012
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
REVENUES	$ 9,681	$ 9,681	$ 19,361	$ 19,361
COST OF REVENUE	-	-	-	-
GROSS PROFIT	9,681	9,681	19,361	19,361
OPERATING EXPENSES				
General and adminstative	60,086	30,561	92,513	61,562
Depreciation and amortization	232,611	274,165	465,306	548,587
TOTAL OPERATING EXPENSES	292,697	304,726	557,819	610,149
LOSS FROM OPERATIONS	(283,016)	(295,045)	(538,458)	(590,788)
OTHER INCOME (EXPENSE)				
Interest expense	(90,895)	(87,846)	(181,165)	(175,691)
Change in accrued derivative liability	(38,783)	(30,262)	(70,194)	(60,524)
Gain (loss) on conversion of debt to equity	-	-		
Gain on forgiveness of debt		-		
Loss on extinguishment of debt		-		
Impact from re-pricing derivative liabilities		-		
TOTAL OTHER INCOME (EXPENSE)	(129,678)	(118,108)	(251,359)	(236,215)
LOSS BEFORE PROVISION FOR INCOME TAXES	(412,694)	(413,153)	(789,817)	(827,003)
PROVISION FOR INCOME TAXES	-	-	-	-
NET LOSS	(412,694)	(413,153)	(789,817)	(827,003)
PREFERRED STOCK DIVIDENDS	(51,735)	(51,735)	(103,470)	(103,470)
NET LOSS ATTRIBUTED TO COMMON STOCKHOLDERS	$ (464,429)	$ (464,888)	$ (893,287)	$ (930,473)
NET LOSS PER SHARE ATTRIBUTED TO COMMON STOCKHOLDERS - BASIC AND DILUTED:	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
WEIGHTED AVERAGE SHARES OUTSTANDING: BASIC AND DILUTED	4,987,033,932	4,987,033,932	4,987,033,932	4,987,033,932

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

NuMobile, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Deficit
For The Six Months Ended June 30, 2013
(unaudited)

	Series A		Series C		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balance, December 31, 2012	2,656	$ 3	5,000	$ 5	4,987,033,932	$ 4,987,034	$ 2,860,302	$ (16,613,915)	$ (8,766,571)
Accrued preferred stock dividends	-	-	-	-	-	-	-	(103,470)	(103,470)
Net loss	-	-	-	-	-	-	-	(789,817)	(789,817)
Balance, June 30, 2013	2,656	$ 3	5,000	$ 5	4,987,033,932	$ 4,987,034	$ 2,860,302	$ (17,507,202)	$ (9,659,858)

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

NuMobile, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2013 and 2012
(unaudited)

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (789,817)	$ (827,003)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	465,306	548,586
Issuance of convertible debt for compensation	52,500	-
Change in accrued derivative liability	70,194	60,524
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	181,165	216,123
Unearned revenue	(19,360)	(19,361)
Due to related party	-	(165)
Net cash used in operating activities	(40,012)	(21,296)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	40,000	-
Net cash provided by financing activities	40,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12)	(21,296)
CASH AND CASH EQUIVALENTS, Beginning of period	879	22,158
CASH AND CASH EQUIVALENTS, End of period	$ 867	$ 862
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

NuMobile, Inc. (the "Company") was organized under the laws of Nevada on March 25, 1999 as Thoroughbred Interests, Inc. Effective May 18, 2004, the Company changed its name to Phoenix Interests, Inc. and effective July 14, 2009 changed its name to NuMobile, Inc. The Company's prior business operations consisted of purchasing, training and selling of thoroughbred horses. The Company has recently launched a new business strategy to create a comprehensive and global mobile computing technology business.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of $789,817 and used cash for operations of $40,012 for the six months ended June 30, 2013 and has an accumulated deficit of $17,507,202 and has a working capital deficit of $10,870,193 as of December 31, 2012. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes that it can continue to raise equity or debt financing to support its operations or find an acquisition candidate to complete a merger. Management believes that this could cause additional dilution to its shares of common stock.

Stock Splits

On January 7, 2004, the Company affected a one-for-ten (1 for 10) reverse stock split of its common stock. On January 20, 2006, the Company authorized a one-for-fifty (1 for 50) reverse stock splits of its common stock. On June 1, 2009, the Company authorized a one-for-one hundred sixty (1 for 160) reverse stock split of its common stock. On September 3, 2010, the Company authorized a one-for-fifty (1 for 50) reverse stock split of its common stock. All share information for common shares has been retroactively restated for these three reverse stock splits.

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Online Enterprises, Inc., Enhance Network Communication, Inc. and Stonewall Networks, Inc. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As of June 30, 2013, the Company used estimates in determining accrued expenses, the value of stock based compensation issued for services and the value of the accrued derivative liability. Actual results could differ from these estimates.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and notes payable, the carrying amounts approximate their fair values due to their short maturities.

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815.

The following table represents our assets and liabilities by level measured at fair value on a recurring basis at June 30, 2013.

Description	Level 1	Level 2	Level 3
Liabilities			
Accrued derivative liability	-	$ 1,929,677	-

NuMobile, Inc and Subsidiaries
Notes to Consolidated Financial Statements
For the Six Months Ended June 30, 2013

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less, plus all certificates of deposit.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivables. The Company places its cash with high quality financial institutions and at times may exceed the FDIC $250,000 insurance limit. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

Computer equipment	5 years
Office furniture and fixtures	7 years
Office equipment	5 years

The following are the details of property and equipment at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012 (unaudited)
Computer equipment	$ 17,485	$ 17,485
Office furniture and fixtures	705	705
Office equipment	7,625	7,625
	25,815	25,815
Less accumulated depreciation	(24,992)	(23,492)

Fixed assets, net	$ 823	$ 2,323

Intangible Assets

Intangible assets consist of purchased technology in connection with the acquisition of Enhance Network Communication, Inc. and Stonewall Networks, Inc. (See Note 7). The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets is measured by comparing its net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

The following are the details of intangible assets at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	**December 31, 2012 (unaudited)**
Software	$ 485,078	$ 485,078
Purchased technology	4,638,049	4,638,049
	5,123,127	5,123,127
Less accumulated amortization	(3,963,615)	(3,499,809)
Intangible assets, net	$1,159,512	$ 1,623,318

The following table summarizes the amortization over the next 5 years:

Year Ended December 31,	Amount
2013	$ 463,805
2014	$ 695,707

Impairment of Long-Lived Assets

The Company applies the provisions of ASC Topic 360, “Property, Plant, and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Based on its review, the Company believes that as of June 30, 2013 and December 31, 2012, there was no significant impairment of its long-lived assets.

Accrued Derivative Liability

The Company's convertible debt and the Series A, D and E preferred stock can be converted into common stock at a conversion price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. The Company has bifurcated the beneficial conversion features embedded in its convertible debentures and preferred stock and has recorded the fair value of these beneficial conversion features as a current liability.

Convertible Preferred Stock and Convertible Note

The Company's Series A, D and E preferred stock and convertible debt are presented as liabilities since the Company has financial instruments that are convertible into common stock at a conversion price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate and the Company does not have enough authorized shares to satisfy the conversion of its convertible preferred stock.

Revenue Recognition

The Company's revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Under ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's consolidated financial statements.

Loss Per Share

The Company reports loss per share in accordance with ASC Topic 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock warrants were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. The following potential common shares have been excluded from the computation of diluted net loss per share for the six months ended June 30, 2013 because the effect would have been anti-dilutive:

	2013
Common stock issuable (approximate) upon conversion of convertible debt	45,729,867,400
Common stock issuable (approximate) upon conversion of convertible stock	3,562,624,353

Comprehensive Loss

For the year ended June 30, 2013 and December 31, 2012, the Company did not have items that represented other comprehensive income and, accordingly, a statement of comprehensive loss has not been included herein.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "*Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*." This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, this guidance was amended by ASU 2013-01, "*Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities,*" which limits the scope of ASU No. 2011-11 to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. This guidance is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have a material impact on the consolidated results of operations, financial condition, or liquidity.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Company has a number of notes payable outstanding to related parties. See Note 5.

NOTE 3 – CONVERTIBLE DEBT

Date of Convertible Debt Issuance	June 30, 2013	December 31, 2012
October 9, 2009	$ 100,000	$ 100,000
March 3, 2010	272,440	272,440
May 27, 2010	47,185	47,185
September 28, 2010	100,000	100,000
October 20, 2010	169,000	169,000
October 22, 2010	133,152	133,152
December 2, 2010	497,000	497,000
February 15, 2011	200,000	200,000
March 23, 2011	50,000	50,000
March 23, 2011	60,000	60,000
March 28, 2011	100,000	100,000
September 20, 2011	10,000	10,000
December 31, 2011	60,000	60,000
December 31, 2012	105,000	105,000
March 31, 2013	22,500	-
June 30, 2013	30,000	-
Subtotal	1,956,277	1,903,777

Less: Debt discount	-	-
Total	1,956,277	1,903,777

On October 9, 2009, in consideration for compensation earned, the Company issued two unsecured notes payable to Jim Tilton, the Company's President and Chief Executive Officer in the amount of $50,000 each, for a total principal amount of $100,000. On December 31, 2011, in consideration for compensation earned, the Company issued an unsecured note payable to Jim Tilton, in the amount of $60,000. On December 31, 2012, in consideration for compensation earned, the Company issued an unsecured note payable to Jim Tilton, in the amount of $105,000. On March 31, 2013, in consideration for compensation earned, the Company issued an unsecured note payable to Jim Tilton, in the amount of $22,500. On June 30, 2013, in consideration for compensation earned, the Company issued an unsecured note payable to Jim Tilton, in the amount of $30,000. The notes bear interest at 8% per annum and are due upon demand. Principal and accrued and unpaid interest on the notes are convertible at the option of the holder at 50% of the closing price of the Company's common stock on the date of conversion. The notes have been classified as convertible debt, related party in the accompanying balance sheets. On June 30, 2013 and December 31, 2012, the notes were convertible into a total of 6,350,000,000 and 5,300,000,000 shares of common stock, respectively.

On February 18, 2010, the Company entered into a convertible debenture for cash proceeds of $50,000. The debenture initially matured on August 18, 2010 and bears interest at 8% per annum. In October 2010, the note's maturity was extended to March 31, 2011. On March 23, 2011, the party who held the debenture assigned the debenture to a party unaffiliated with the Company, and the assignee renegotiated the terms of the note. The new note is due December 31, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion. June 30, 2013 and December 31, 2012, the debenture was convertible into 1,270,000,000 and 1,230,000,000 shares of the Company's common stock, respectively.

On March 3, 2010, the Company entered into a convertible debenture for cash proceeds of $90,000, which is in addition to a convertible debenture outstanding with the same holder in the amount of $182,440. On September 20, 2011, the Company entered into a convertible debenture for cash proceeds of $10,000. The entire $282,440 debenture matures on December 31, 2011 and bears interest at 8% per annum. In October 2010, the note's maturity was extended to March 31, 2011. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date that the Company receives notice of conversion. On June 30, 2013 and December 31, 2012, the entire debenture was convertible into 7,472,360,000 and 7,246,420,000 shares of the Company's common stock, respectively. The initial fair value of the conversion option feature was estimated at $287,354 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at March 3, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.19%, and (4) expected life of 0.59 years. On December 31, 2011, the entire $100,000 plus the $182,440 previous balance remained outstanding.

On May 20, 2010, the Company entered into a second convertible debenture with the same holder, for cash proceeds of $60,000. This debenture matured November 20, 2010, was issued on the same terms as the first convertible debenture. On March 23, 2011, the party who held the debenture assigned the debenture to a party unaffiliated with the Company, and the assignee renegotiated the terms of the note. The new note is due December 31, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion. On June 30, 2013 and December 31, 2012, the debenture was convertible into 1,500,000,000 and 1,452,000,000 shares of the Company's common stock, respectively.

On May 27, 2010, the Company issued and sold a convertible note in the principal amount of $260,000, for a purchase price of $250,000 (reflecting an original issue discount of $10,000), to St. George Investments, LLC. Principal and unpaid interest on the note is due six months from the date of issuance. The note bears interest at the rate of 12% per annum, payable upon maturity. Outstanding principal, and accrued interest thereon is convertible into such number of shares of the Company's common stock, as is determined by dividing (i) the sum of (A) the Outstanding Amount, plus (B) an amount equal to 1% of the Outstanding Amount multiplied by the number of whole months elapsed from May 31, 2010 until the date of conversion but in no event less than 10% of the Outstanding Amount by (ii) the Conversion Price (as defined in the note) at that time. The conversion price is defined in the note as the lesser of (a) 60% of the average of the closing bid price of the Company's common stock on each of the five immediately preceding trading days or (b) $1.25. During the year ended December 31, 2011, $190,420 of the outstanding balance was converted into 993,000,000 shares of common stock. On June 30, 2013 and December 31, 2012, the note was convertible into 1,389,350,000 and 1,342,166,667 shares of the Company's common stock, respectively. The initial fair value of the conversion option feature was estimated at $151,637 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at May 27, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.23%, and (4) expected life of 0.50 years.

On September 28, 2010, the Company entered into a third convertible debenture with this holder, with a principal amount and cash proceeds of $100,000. This debenture matures March 28, 2011 and was issued on the same terms as the other convertible debentures issued to this holder. On June 30, 2013 and December 31, 2012, the debenture was convertible into 2,440,000,000 and 2,360,000,000 shares of the Company's common stock, respectively. The Company has complied with the provisions of ASC 815 *"Derivatives and Hedging"*, and recorded the fair value of the embedded conversion option liability associated with the debentures. The initial fair values of the conversion option features were estimated at $50,045 on February 18, 2010, $65,283 on May 20, 2010 and $100,094 on September 28, 2010 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at the issuance dates of the debentures are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.18 – 0.22%, and (4) expected life of 0.50 years. On December 31, 2011, the entire $210,000 balance remained outstanding.

On October 20, 2010, the employee who held a note due from the Company in the amount of $300,000 plus $27,000 in accrued interest assigned the note to a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The original note was past due and the new holder waived any defaults, and the Company and the holder executed a replacement unsecured convertible promissory note with principal of $169,000. Interest on the replacement note accrues at a rate of 12% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. The note is due on demand. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder's option, to convert the outstanding amount on this note, in whole or in part, into the number of shares of common stock as is determined by dividing (i) the sum of (A) the conversion amount, plus (B) an amount equal to 1% of the conversion amount multiplied by the number of whole months elapsed from the date hereof until the date of conversion but in no event less than 10% of the conversion amount by (ii) the conversion price at that time. The conversion price means 60% of the lesser of (y) the average of the closing bid prices of the common stock on each of the five immediately preceding trading days, or (z) the closing bid price for the common stock for the trading day immediately preceding the date of conversion. On June 30, 2013 and December 31, 2012, the note was convertible to 3,703,916,667 and 3,534,916,667 shares of the Company's common stock, respectively. The assumptions used in the Black-Scholes option pricing model at October 20, 2010 in connection with this replacement note are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.50 years.

On October 22, 2010, an unrelated party who held a note due from the Company in the amount of $223,844 plus $20,146 in accrued interest assigned the note to a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The original note was past due and the new holder waived any defaults, and the Company and the holder executed a replacement unsecured convertible promissory note with principal of $133,152. Interest on the replacement note accrues at a rate of 12% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. The note is due on demand. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder's option, to convert the outstanding amount on this note, in whole or in part, into the number of shares of common stock as is determined by dividing (i) the sum of (A) the conversion amount, plus (B) an amount equal to 1% of the conversion amount multiplied by the number of whole months elapsed from the date hereof until the date of conversion but in no event less than 10% of the conversion amount by (ii) the conversion price at that time. The conversion price means 60% of the lesser of (y) the average of the closing bid prices of the common stock on each of the five immediately preceding trading days, or (z) the closing bid price for the common stock for the trading day immediately preceding the date of conversion. On June 30, 2013 and December 31, 2012, the note was convertible to 2,918,242,667 and 2,785,092,667 shares of the Company's common stock, respectively. The assumptions used in the Black-Scholes option pricing model at October 22, 2010 in connection with this replacement note are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.50 years.

On December 2, 2010, a holder of 7,500 shares of the Company's Series D convertible preferred stock, 2,500 shares of the Company's Series E preferred stock, and $349,600 in a note payable exchanged these instruments into a new Series 2010-A convertible promissory note due December 31, 2012 in the amount of $750,000. The new note bears interest at 8% per annum, payable semi-annually in arrears, on January 1 and July 1 of each year during the note's term, with the first payment due and payable on January 1, 2011. The new note, plus any accrued and unpaid interest, is convertible at the holder's option at any time, into shares of the Company's common stock at a conversion price equal to 50% of the lowest of the closing bid prices for the common stock for the ten trading days prior to and including the conversion date. During the year ended December 31, 2011, $247,019 of the outstanding balance was converted into 2,217,201,460 shares of common stock. On December 2, 2011 and 2010, the note was convertible to 12,110,631,400 and 11,713,040,000 shares of the Company's common stock, respectively. The initial fair value of the conversion option feature was estimated at $1,475,920 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at December 2, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.55%, and (4) expected life of 2.00 years.

On February 15, 2011, the Company exchanged a note payable $200,000 and accrued interest of $38,500 into a convertible note. Principal and unpaid interest on the note is due upon demand. The note bears interest at the rate of 8% per annum, payable upon maturity. The note, plus any accrued and unpaid interest, is convertible at the holder's option at any time, into shares of the Company's common stock at a conversion price equal to 50% of the lowest of the closing bid prices for the common stock for the five trading days prior to and including the conversion date. On December 31, 2011 and February 15, 2011, the note was convertible to 4,608,333,333 and 4,475,000,000 shares of the Company's common stock, respectively. The assumptions used in the Black-Scholes option pricing model at February 15, 2011 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.66 years.

On March 28, 2011 the Company entered into a convertible debenture for cash proceeds of $100,000. The debenture initially matures on September 28, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion. On December 31, 2011 and March 28, 2011, the debenture was convertible into 1,967,033,333 and 1,900,366,667 shares of the Company's common stock, respectively. The Company has complied with the provisions of ASC 815 "Derivatives and Hedging", and recorded the fair value of the embedded conversion option liability associated with the debenture. The initial fair value of the conversion option feature was estimated at $73,433 on March 28, 2011 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at the issuance dates of the debentures are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.18%, and (4) expected life of 0.50 years. *Debt*

The fair value of the conversion option feature associated with the Company's outstanding convertible debentures at June 30, 2013 and December 31, 2012 was $1,890,894 and $1,859,483, respectively. The Company recorded an expense of $31,411 in its accompanying statements of operations for the three and six months ended June 30, 2013, respectively as change in accrued derivative liability. The assumptions used in the Black-Scholes option pricing model at December 31, 2011 in connection with the Company's outstanding convertible debentures are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.01% - 0.72%, and (4) expected life of 0 - 5 years. Interest expense on the Company's debt for the three and six months ended June 30, 2013 was $90,895 and $181,165. Interest expense arising from amortization of debt discounts amounted to $0 during the three and six months ended June 30, 2013.

NOTE 4 –NOTE PAYABLE

Notes payable consisted of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Note payable to investor; interest accrues at 12%; note is unsecured and due upon demand	$ 43,400	$ 43,400
Note payable to investor; interest accrues at 18%; note is unsecured and due upon demand	10,000	10,000
Note payable assumed in connection with purchase of Enhance Network Communication, Inc.	87,168	87,168
Note payable to shareholders of Stonewall Networks, Inc.; note is due on December 31, 2011	1,322,558	1,322,558
Note payable to investor; note is unsecured; interest accrues at 8% and due upon demand	100,000	100,000
Note payable to investor; note is unsecured; interest accrues at 8% and due upon demand	25,016	25,016
Note payable to investor; note is unsecured; interest accrues at 8% and due October 15, 2011.	410,058	410,058
Note payable to investor; note is unsecured; interest accrues at 8% and due December 31, 2012.	50,000	50,000
Note payable to investor; note is unsecured; interest accrues at 8% and due December 31, 2013.	10,000	-
Note payable to investor; note is unsecured; interest accrues at 10% and due April 4, 2014.	30,000	-
	$ 2,088,200	$ 2,048,200

NOTE 5 –NOTE PAYABLE – RELATED PARTIES

Notes payable – related parties consisted of the follows at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Loan payable to company wholly owned by officer of Stonewall Networks, Inc.; interest accrued at Prime Rate plus 1%; note is unsecured and due upon demand	$ 400,178	$ 400,178
Note payable to employee of Stonewall Networks, Inc.; does not accrue interest; note is unsecured and due on	102,026	102,026

demand

Note payable to company wholly owned by officer of Stonewall Networks, Inc.; does not accrue interest; note is unsecured and due on demand	16,184	16,184
	$ 518,388	$ 518,388

NOTE 6 –STOCKHOLDERS' DEFICIT

On January 2, 2004, the Company filed a Certificate of Amendment to its Articles of Incorporation for the State of Nevada to amend its capitalization. The amendment grants the Company the authority to issue 1 billion shares of par value $0.001 stock consisting of 20,000,000 preferred shares and 980,000,000 common shares.

On October 5, 2005, the Company filed an Information Statement requesting approval from the stockholders to give the Company's board of directors the authority to (1) effect a reverse stock split of each share of common stock of the Company at a ratio of one share for up to 50 shares of common stock outstanding, as determined by the Company's board of directors at its discretion, and (2) amend the Company's Articles of Incorporation to increase from 980,000,000 to 5,000,000,000 the number of shares of common stock the Company is authorized to issue. The stockholders approved items (1) and (2) above and on November 9, 2005, the Company filed a Certificate of Amendment with the Nevada Secretary of State increasing the number of authorized common shares to 5,000,000,000.

On January 7, 2004, the Company effected a one-for-ten reverse split of its common stock. On January 20, 2006, the Company effected a one-for-fifty reverse split of its common stock. On June 1, 2009, the Company effected a one-for-one hundred sixty (160) reverse split of its common stock. On September 3, 2010, the Company effected a one-for-fifty (1 for 50) reverse split of its common stock. All share information for common shares has been retroactively restated for these three reverse stock splits.

Common Stock

The Company had no common stock transactions during the six months ended June 30, 2013.

Preferred Stock

The Company has debt and equity instruments that can be converted into common stock at a conversion prices that are a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. Therefore, the Series A, D and E Preferred Stock which can be converted into shares of common stock are shown in the accompanying consolidated balance sheet as a current liability.

Series A Preferred Stock - There are 5,000 shares of Series A preferred stock authorized. Each share of Series A preferred stock was initially entitled to receive a monthly dividend of $2.00 per share, payable quarterly in arrears, and is convertible into common stock at the rate of $100 per share ($500,000 in the aggregate) at a discount of (1) 75% of the closing bid price of the common stock (if at the option of the holder), or (2) 60% of the closing bid price of the common stock (if at the option of our company). In the event of liquidation, all shares of Series A preferred stock would automatically be converted into shares of our common stock at rate of $100 per share, with holders of shares of Series A preferred stock being entitled to receive, in the aggregate, shares of our common stock valued at $500,000. Shares of Series A preferred stock initially were to vote with shares of our common stock on an as-converted basis.

On May 3, 2010, the Company filed an amendment to the Company's certificate of designation of its Class A Preferred Stock. Pursuant to the Amendment:

- All accrued but unpaid dividends payable to the holders of Class A Preferred Stock were eliminated.

- The right of the holders of the Class A Preferred Stock to receive future dividends was eliminated.

- The holders of the Class A Preferred Stock will own 51% of the voting power of the shareholders of the Company.

Accordingly, the Company (a) reclassified its Series A preferred stock from liabilities to equity in the accompanying consolidated balance sheet at June 30, 2010, as the instrument now holds majority (51%) voting rights in Company decisions and thus is characterized more akin to an equity instrument, and (b) eliminated previously accrued dividends on Series A preferred stock in the amount of $353,592 during the year ended December 31, 2010.

Series B Preferred Stock - There are 100,000 shares of Series B preferred stock authorized. In the event of liquidation, each share of Series B preferred stock ranks equivalent to one share of our common stock. Shares of Series B preferred stock are not entitled to participate in dividends declared on our common stock. The Series B preferred stock votes together with our common stock on the basis of 1,000 votes per share.

Series C Preferred Stock - There are 12,000,000 shares of Series C preferred stock authorized. Each share of Series C preferred stock is convertible into one share of our common stock. The Series C preferred stock is non-interest bearing, does not have voting rights, and is not entitled to receive dividends. In the event of a liquidation, each share of Series C preferred stock will automatically convert into one share of our common stock and will otherwise not be entitled to any preference over shares of our common stock or any shares of our preferred stock. Shares of Series C preferred stock are entitled to name two members of our board of directors.

Series D Preferred Stock - There are 25,000 shares of Series D preferred stock authorized. Shares of Series D preferred stock are entitled to participate, on an as-converted basis, in any dividends declared on the common stock. In the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, holders of Series D preferred stock shall be entitled to share pari passu with the holders of shares of common stock in the assets of the Corporation, on an as converted basis, whether such assets are capital or surplus of any nature. Any outstanding shares of Series D preferred stock may, at the option of the holder, be converted at any time or from time to time into fully paid and nonassessable shares of common stock at the conversion rate in effect at the time of conversion, determined as provided herein, except that (1) a holder of shares of Series D preferred stock may at any given time convert only up to that number of shares of Series D preferred stock as would result in the aggregate beneficial ownership of the Company's common stock (calculated in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of that holder and all persons affiliated with that holder not being more than 4.99% of the Company's common stock then outstanding and (2) a holder of shares of Series D preferred stock may not convert more than half of that holder's shares of Series D preferred stock within any 30-day period. The number of shares into which one share of Series D preferred stock is convertible will be determined by dividing (1) the sum of (A) Stated Value plus (B) an amount equal to 1% of the Stated Value multiplied by the number of months from the original issue date until the date of conversion (pro rated for any period of less than a month) by (2) the conversion price at that time. The conversion price is the lesser of (1) 70% of the closing bid price and (2) $0.0192 (the amount being 120% of the closing bid price on December 22, 2004).

Series E Preferred Stock - There are 25,000 shares of Series E preferred stock authorized. Shares of Series E preferred stock may, at the option of the holder, be converted into shares of common stock at the conversion rate in effect at the time of conversion. The number of shares into which one share of Series E preferred stock is convertible will be determined by dividing (1) the sum of (A) the "Stated Value" (equal to $100) plus (B) an amount equal to 1.5% of the Stated Value multiplied by the number of months from the date of issuance until the date of conversion (pro rated for any period of less than a month) by (2) the lesser of (A) $0.006 and (B) the Conversion Price at that time. For these purposes, "Conversion Price" means 70% of the Closing Bid Price, and "Closing Bid Price" on a given day means the lowest closing bid price of the common stock out of the closing bid price of the common stock on each of the five immediately preceding trading days on NASDAQ or any other principal securities price quotation system or market on which prices of the common stock are reported.

On August 3, 2010, the Company filed amendments to the Company's certificates of designation of its Series D and Series E Preferred Stock, respectively. Pursuant to the amendments, the number of shares of common stock issuable upon conversion of one share of Series D or Series E Preferred Stock, respectively, will be determined by dividing the stated value of $100 by the conversion price of $0.10 (subject to adjustment in the event of stock splits, combinations and stock dividends). The Company recognized a gain from re-pricing its derivative liabilities in the amount of $1,090,783 during the year ended December 31, 2010 in connection with the change in the conversion price of the Series D and Series E preferred stock.

On December 2, 2010, a holder of 7,500 shares of the Company's Series D convertible preferred stock, 2,500 shares of the Company's Series E preferred stock, and $349,600 in a note payable exchanged these instruments into a new Series 2010-A convertible promissory note due December 31, 2012 in the amount of $750,000. See Note 3.