

DIGITAL INFO SECURITY CO & SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(Unaudited - subject to change)

	JUNE 30,	
	2010	2009
ASSETS		
Current assets:		
Accounts receivable	\$ 293,842	\$ 70,012
Marketable securities	250	10,153
Prepaid expenses	-	2,861
Notes receivable	116,000	116,000
Total current assets	410,092	199,026
Equipment and Software:		
Equipment	612,192	605,994
Leasehold improvements	61,637	61,637
Software	646,391	602,318
Less accumulated depreciation	(974,641)	(740,174)
Net equipment	345,579	529,775
Other assets:		
Deposits	38,446	37,446
Long-term investments	240,000	240,000
Goodwill	961,964	961,964
Total other assets	1,240,410	1,239,410
TOTAL ASSETS	\$ 1,996,081	\$ 1,968,211
LIABILITES AND DEFICIENCY IN ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,793,743	\$ 1,364,690
Notes payable	1,345,008	1,323,087
Deferred revenue	46,892	81,808
Current portion of capitalized lease obligation	86,383	86,383
Total current liabilities	3,272,026	2,855,968
Stockholders' equity:		
Common stock, no par value, 200,000,000 shares authorized, 123,957,204 and 123,957,204 shares issued and outstanding	7,778,961	7,778,961
Accumulated other comprehensive income	(34,983)	(25,080)
Treasury stock	(63,973)	(63,973)
Deficit	(8,955,950)	(8,577,665)
Deficiency in Assets	(1,275,945)	(887,757)
Total liabilities and stockholder's equity	\$ 1,996,081	\$ 1,968,211

See Notes to Consolidated Financial Statements.

**DIGITAL INFO SECURITY CO & SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

(Unaudited - subject to change)

	SIX MONTHS ENDED	
	JUNE 30,	
	2010	2009
REVENUES:		
Revenues from services	\$ 805,968	\$ 214,200
Gain (loss) on sale of securities and other revenues	-	42,875
	805,968	257,075
EXPENSES:		
COST OF SERVICES		
	31,473	34,330
GROSS MARGIN	774,495	222,745
OPERATING EXPENSES:		
Salaries and wages	350,035	519,358
Other employee related costs	33,130	52,115
	383,165	571,473
Rent	101,462	122,147
Depreciation & amortization	124,300	124,543
Office expense	2,734	2,661
Professional fees & consultants	73,508	184,575
Marketing	5,593	53,561
Other	70,936	96,086
	761,698	1,155,046
Net income (loss)	\$ 12,797	\$ (932,301)
Earnings (loss) per share - basic and diluted	\$ 0.00	\$ (0.01)
Shares used in computing earnings per share	123,436,204	114,917,397

See Notes to Consolidated Financial Statements.

DIGITAL INFO SECURITY CO & SUBSIDIARIES
STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(Unaudited - subject to change)

	SIX MONTHS ENDED JUNE 30,	
	2010	2009
CASH FLOWS FROM OPERATIONS:		
Net income (loss)	\$ 12,797	\$ (932,301)
Adjustments to reconcile net (loss) to net cash provided by operations:		
Depreciation	124,300	124,543
Changes in:		
Accounts receivable	(390,697)	32,274
Marketable securities	-	56,877
Other assets	(1,000)	24,272
Deferred revenue	12,514	38,800
Accounts payable	288,050	304,007
	45,964	(351,528)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(3,989)	(20,939)
Purchase of software	(17,981)	(693)
	(21,970)	(21,632)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	-	290,600
Increase in notes payable	21,920	41,256
	21,920	331,856
INCREASE IN CASH	45,914	(41,304)
CASH, BEGINNING OF PERIOD	(45,914)	41,304
CASH, END OF PERIOD	\$ -	\$ -

See Notes to Consolidated Financial Statements.

DIGITAL INFO SECURITY CO & SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
SIX MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

(Unaudited - subject to change)

	COMMON STOCK		DEFICIT	OTHER
	SHARES	AMOUNT		COMPREHENSIVE
BALANCE, JANUARY 1, 2009	106,145,204	\$ 7,488,361	\$ (7,645,364)	\$ (39,190)
Shares issued for cash	2,812,000	140,600		
Shares issued for compensation	15,000,000	150,000		
Net (Loss)			(932,301)	-
BALANCE JUNE 30, 2009	<u>123,957,204</u>	<u>\$ 7,778,961</u>	<u>\$ (8,577,665)</u>	<u>\$ (39,190)</u>
BALANCE, JANUARY 1, 2010	123,957,204	\$ 7,778,961	\$ (8,968,747)	\$ (25,080)
Net change in value of marketable securities				(9,903)
Net income			12,797	
BALANCE, JUNE 30, 2010	<u>123,957,204</u>	<u>\$ 7,778,961</u>	<u>\$ (8,955,950)</u>	<u>\$ (34,983)</u>

See Notes to Consolidated Financial Statements.

DIGITAL INFO SECURITY COMPANY & SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
SIX MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

(Unaudited – subject to change)

NOTE A: CONSOLIDATION AND ACCOUNTING POLICIES:

Digital Info Security Company (hereafter DISC, or the Company) was incorporated in the state of Colorado in October, 2004. It commenced operations effective April 1, 2005 when it completed the purchase of its wholly-owned subsidiary FLI Technologies, LLC (hereafter FLI). FLI is in the business of providing E-mail services primarily to customers in the financial services industry. The Company has opened an office and data center in Singapore through its wholly owned subsidiary, Digital Info Security Co. Pte Ltd. DISC provides additional services through its data center leasing operations.

The financial statements include the Company and its wholly owned subsidiaries; all significant inter-company balances and transactions are eliminated.

Significant accounting policies are as follows:

Revenues are recorded when services are rendered, usually billed on a monthly basis in advance. Accounts receivable are evaluated periodically for uncollectible accounts and an allowance for uncollectible accounts is established if necessary.

Investment in common stock are carried at market value based on quoted public market prices. Any resulting adjustments are made to “other comprehensive income”.

Equipment is depreciated over its estimated useful life, usually 2-5 years. Software is amortized over its estimated useful life commencing when the software is placed in service.

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using year-end spot foreign exchange rates. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates, with resulting gains and losses included in income.

Goodwill is evaluated periodically for impairment and a reduction in value taken for any permanent impairment in value.

NOTE B: MERGERS AND ACQUISITIONS:

On March 27, 2007, DISC Colorado entered into a Share Purchase Agreement with Skye Blue Ventures LLC under which DISC Colorado purchased 2,700,000 shares of Digital Info Security Company, a Delaware Corporation (an unaffiliated company) (DISC Delaware) for \$250,000. DISC Colorado also purchased an additional 7,238,487 shares from DISC Delaware for \$.01 per share, resulting in DISC Colorado owning over 90% of the outstanding shares of DISC Delaware. The remaining 1,061,516 shares of DISC Delaware were exchanged for shares of DISC Colorado on a one share for one share basis. Additionally, DISC Delaware contributed 1,000,000 shares of its common stock to Tear Drop Golf, a wholly owned subsidiary of DISC Delaware in settlement of liabilities of Tear Drop, and sold Tear Drop Golf to an unaffiliated party for \$100. Tear Drop had no assets other than DISC common stock.

Effective March 28, 2007 DISC (Colorado) entered into an Agreement and Plan of Merger with DISC Delaware. Under the Plan, DISC (Colorado) merged into DISC Delaware. The certificate of incorporation and bylaws of DISC Delaware contain provisions identical to the certificate of incorporation and bylaws of DISC Colorado immediately prior to the merger, other than differences permitted by Section 252 of the Delaware General Corporation Law. The merger is intended to constitute a tax-free reorganization pursuant to Section 368(a)(1) of the Internal Revenue Code. DISC Delaware had no assets, and no operations prior to the merger.

Shares of DISC Delaware were traded on the Pink Sheets, with the result that shares of DISC are now traded under the symbol DGIF.

On May 21, 2007 DISC executed an agreement with Patron Systems, Inc, to purchase PolicyBridge software and its associated intellectual rights for \$285,000. DISC has been a customer of Patron Systems' PolicyBridge software. Patron had announced its intention to discontinue servicing PolicyBridge and had reclassified it as a discontinued operation in its financial statements. DISC agreed to provide service and support for all current PolicyBridge customers previously served by Patron Systems.

Effective June 30, 2008 DISC purchased the SecureScan software from BeCompliant Corporation for \$300,000. SecureScan operates in conjunction with PolicyBridge to provide a complete email surveillance, archival and encryption product.

NOTE C: NOTES PAYABLE:

Notes payable consist of the following:

	DECEMBER 31,	
	2010	2009
Notes payable to private party, bearing interest at 10% per annum, payable on demand, unsecured, convertible into DISC common stock at the holder's option at \$.05 per share.	\$ 893,038	\$ 878,617
Convertible notes, bearing interest at 10% per annum, payable on demand, unsecured, convertible into DISC common stock at the holder's option at \$.05 per share.	451,970	444,470
Total	<u>\$ 1,345,008</u>	<u>\$ 1,323,087</u>

NOTE D: CAPITALIZED LEASE OBLIGATIONS:

Long-term debt consists of the following:

	<u>DECEMBER 31,</u>	
	<u>2010</u>	<u>2009</u>
Capitalized leases on equipment, bearing interest at 8.25%, payable on demand, secured by equipment with a carrying amount of \$214,000	\$ 86,383	\$ 86,383
Less amounts due in one year	<u>(86,383)</u>	<u>(86,383)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company is obligated on a lease of office space from Prudential Insurance through December 31, 2011. Lease payments are as follows:

	<u>Monthly</u>
July 2010 through December, 2011	\$ 13,672

The lease is personally guaranteed by the former President of the Company and one of the Directors.

NOTE E: INCOME TAXES

Income tax provision (benefit) consists of the following:

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2010</u>	<u>2009</u>
Federal deferred	\$ 4,687	\$ (311,132)
State deferred	595	(43,352)
Adjustment to valuation allowance related to net deferred tax assets	<u>(5,282)</u>	<u>354,484</u>
	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to the deferred tax asset, net at December 31, 2010 and 2009 are as follows:

	DECEMBER 31, 2010	2009
Federal and state NOL carryforwards	\$ 3,403,261	\$ 3,259,513
Less valuation allowance	<u>(3,403,261)</u>	<u>(3,259,513)</u>
	<u>\$ -</u>	<u>\$ -</u>