

CYBER OPERATIONS, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2010

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WARREN, AVERETT, & KIMBROUGH MARINO, LLC

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL CONSULTANTS

INDEPENDENT AUDITORS' REPORT

May 3, 2011

Board of Directors
Cyber Operations, Inc.
Pelham, Alabama

We have audited the accompanying balance sheets of Cyber Operations, Inc. as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cyber Operations, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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CYBER OPERATIONS, INC.
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
Current Assets		
Cash	\$ 43,567	\$ 62,795
Accounts receivable, less allowance for doubtful accounts of \$75,605 (\$8,460 in 2009)	37,883	24,204
Other assets	<u>37,271</u>	<u>47,724</u>
Total Current Assets	118,721	134,723
Property and Equipment, net	18,427	36,448
Intangible Assets, net	<u>1,821,321</u>	<u>1,953,781</u>
	<u>\$ 1,958,469</u>	<u>\$ 2,124,952</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 43,315	\$ 151,400
Accrued expenses and other liabilities	142,721	277,531
Deferred revenue	228,665	162,056
Due to related parties	<u>950,444</u>	<u>1,226,075</u>
Total Current Liabilities	1,365,145	1,817,062
Stockholders' Equity		
Common stock, \$.01 par value; 60,000,000 shares authorized, 23,989,029 shares issued and outstanding	239,890	239,890
Additional paid-in capital	5,052,660	4,931,040
Accumulated deficit	<u>(4,699,226)</u>	<u>(4,863,040)</u>
	<u>593,324</u>	<u>307,890</u>
	<u>\$ 1,958,469</u>	<u>\$ 2,124,952</u>

See notes to financial statements.

CYBER OPERATIONS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Sales		
Hardware, software and professional services	\$ 1,825,441	\$ 739,231
Cost of Sales		
Cost of hardware, software and professional services	<u>303,658</u>	<u>249,696</u>
Gross Profit	1,521,783	489,535
Operating Expenses		
Salaries and related benefits	642,619	476,275
Share-based payments	35,850	25,997
Occupancy expenses	65,945	70,841
Research and development costs	146,735	102,443
Legal and professional fees	60,468	68,682
General and administrative	156,942	175,165
Impairment loss	-	258,719
Depreciation and amortization	<u>155,140</u>	<u>197,357</u>
	<u>1,263,699</u>	<u>1,375,479</u>
Income (Loss) from Operations	258,084	(885,944)
Other Income (Expenses)		
Interest income	-	1,819
Interest expense	<u>(94,270)</u>	<u>(84,413)</u>
	<u>(94,270)</u>	<u>(82,594)</u>
Net Income (Loss)	<u><u>\$ 163,814</u></u>	<u><u>\$ (968,538)</u></u>

See notes to financial statements.

**CYBER OPERATIONS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
Balance at December 31, 2008	23,989,029	\$ 239,890	\$ 4,905,043	\$ (3,894,502)	\$ 1,250,431
Share-Based Compensation	-	-	25,997	-	25,997
Net Loss	-	-	-	(968,538)	(968,538)
Balance at December 31, 2009	23,989,029	239,890	4,931,040	(4,863,040)	307,890
Share-Based Compensation	-	-	35,850	-	35,850
Stock Offering Adjustment	-	-	85,770	-	85,770
Net Income	-	-	-	163,814	163,814
Balance at December 31, 2010	<u>23,989,029</u>	<u>\$ 239,890</u>	<u>\$ 5,052,660</u>	<u>\$ (4,699,226)</u>	<u>\$ 593,324</u>

See notes to financial statements.

CYBER OPERATIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 163,814	\$ (968,538)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	155,140	197,358
Provision for bad debts	19,281	39,783
Deferred compensation	100,000	100,000
Share-based compensation	35,850	25,997
Impairment loss	-	258,719
Change in accounts receivable	(32,960)	178,754
Change in other assets	9,359	14,177
Change in accounts payable	(108,085)	33,777
Change in accrued expenses and other liabilities	(49,040)	39,484
Change in deferred revenue	66,609	(103,083)
	196,154	784,966
Net Cash Provided (Used) by Operating Activities	359,968	(183,572)
Cash Flows from Investing Activities		
Purchases of equipment	(3,565)	(1,051)
Net Cash Used by Investing Activities	(3,565)	(1,051)
Cash Flows from Financing Activities		
Advances from related parties	760,000	293,075
Repayment of due to related party	(1,135,631)	(50,000)
Net Cash Provided (Used) by Financing Activities	(375,631)	243,075
Net Increase (Decrease) in Cash	(19,228)	58,452

CYBER OPERATIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)

	2010	2009
Cash - beginning of year	<u>62,795</u>	<u>4,343</u>
Cash - end of year	<u><u>\$ 43,567</u></u>	<u><u>\$ 62,795</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u><u>\$ 109,234</u></u>	<u><u>\$ 51,686</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITY		
Charge off accounts receivable and related deferred revenue	<u><u>\$ -</u></u>	<u><u>\$ 89,977</u></u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Stock offering adjustment	<u><u>\$ 85,770</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cyber Operations, Inc. (the Company) is a technology company engaged in developing a comprehensive family of integrated security technology tools for government and security enterprises. These software-based tools are designed to operate within an enterprise's physical and virtual operating environments. Together, they provide protection to both network assets and digital assets and enable secure control of access to the client's business environment.

The Company's core security technology includes Anti-Network Terrorism and ACL Manager, Copyright Protection and Digital Media Distribution. Patents have been obtained on three products, while other products are patent-pending. This technology provides proactive and preemptive management of clients' network operating backbone to prevent unauthorized access and denial of services (DoS) risks. The Company's access control technology includes CyberSAM, using biometric technology to control physical and virtual access to the same physical and virtual assets. The Company has also developed secure software that enables clients to safeguard all digital files, ensuring these assets are not compromised. When combined, these solutions help clients become a complete "secure digital enterprise."

These technologies have been developed in collaboration with early-adopting clients to ensure their market acceptance and rapid scalability. Each product has a development plan to ensure growth and expansion.

Use of Estimates

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

Cash

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. However, management anticipates no losses from such deposits.

Accounts Receivable

Accounts receivable are stated at the estimated carrying value, which represents the amounts billed to the customers, net of an allowance for doubtful accounts. Accounts receivable are classified as past due based on contractual terms.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

The Company pursues collections until the probability of collection is remote, at which point any remaining balance would be charged to operations. The allowance for doubtful accounts is reduced for any accounts written off.

Inventories

Inventories consist of purchased finished goods and are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method. Inventories are included in other assets in the accompanying balance sheets.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and includes expenditures which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renovations are charged to operations as incurred. When property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from their respective accounts, and any gain or loss on the disposition is credited or charged to operations.

The Company provides for depreciation of property and equipment using the straight-line method designed to amortize costs over estimated useful lives of three to seven years.

Intangible Assets

Intangible assets consist of patent costs. Patent costs are amortized on a straight-line basis over the estimated life of the patents, which is generally 20 years. Patents are reviewed annually for impairment.

Revenue Recognition

The Company enters into contracts to sell hardware and computer software, to install computer systems and to provide ongoing support. The Company licenses software and provides related services, including consulting, support and education. The Company recognizes license fee revenue when a noncancelable contingency-free license agreement has been signed, the product has been delivered, fees from the arrangement are fixed or determinable and collection is probable.

Revenue on all software license transactions in which there are undelivered elements other than postcontract customer support is deferred and recognized when such elements are delivered.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Typically, the Company's licenses do not include significant postdelivery obligations to be fulfilled by the Company, and payments are due within a 12-month period from the date of delivery. In instances where software license contracts include payment terms in excess of 12 months from the date of delivery, revenue is recognized as payments are received, and all other conditions for revenue recognition have been met.

Revenue from agreements for supporting services and providing periodic upgrades to licensed software is recorded as deferred revenue and is recognized ratably over the support service period. Revenue from implementation services is recorded as deferred revenue and is recognized upon final system acceptance. Revenue from hardware sales is recognized upon shipment.

Stock Options

The Board of Directors approved the 2007 Incentive Compensation Plan (the Plan) effective December 6, 2007, to encourage and enable key officers, directors, employees and consultants of the Company to successfully conduct its business. The Plan authorizes the Company to award compensation in the form of common stock of the Company or options to purchase shares as incentive or qualified stock options.

The Plan is administered by the Compensation Committee, or in absence of such committee, the Board of Directors. The Compensation Committee or Board of Directors will determine the vesting provisions and option price for awards granted, based on the current fair market value of the shares at the date of grant.

The Company determined the appropriate fair value model to be used for valuing share-based payments, including such factors as expected term, forfeiture estimates, volatility and dividend yield, to estimate share-based compensation expense associated with the awards. The Company utilizes the Black-Scholes model for valuation of stock options issued.

Shipping and Handling Revenue and Costs

Amounts billed to customers in sales transactions related to shipping and handling are classified as revenues. Shipping and handling costs are a component of cost of sales.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled approximately \$43,000 and \$32,000 for the years ended December 31, 2010 and 2009, respectively.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Collection of Taxes on Behalf of Third Parties

The Company collects various taxes from customers and remits these amounts to applicable taxing authorities. The Company's accounting policy is to exclude these taxes from revenues and cost of sales.

Income Taxes

The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for differences in the amounts reported for book and income tax returns, net of any related valuation allowances.

The Company follows guidance issued by the Financial Accounting Standards Board (FASB) relating to uncertainty in income taxes that provides financial statement recognition threshold and measurement attributes for a tax provision taken or expected to be taken in a tax return. Under this guidance, companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. There were no uncertain tax positions that qualify for either recognition or disclosure in the financial statements in 2010 or 2009. The Company has filed its tax returns through December 31, 2009. The tax returns for the years ended December 31, 2007, and thereafter are subject to audit by the taxing authorities.

Fair Value Measurements

The Company follows FASB guidance for fair value measurements which establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

The hierarchy is separated into three levels based on the reliability of inputs, as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities to which the Company has access. Since the valuations are based on quoted prices that are readily and regularly available in an active market, the valuation of these assets and liabilities does not entail a significant degree of judgment.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued**

Level 2: Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices which are observable for the asset or liability, such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from, or corroborated by, observable market data.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

If the determination of the fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the hierarchy level within which the entire fair value measurement is placed is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability being measured.

Financial Instruments Measured at Fair Value - The Company currently has no financial assets or liabilities subject to the fair value reporting described above.

Financial Instruments Not Measured at Fair Value - Some of the Company's financial instruments are not measured at fair value on a recurring basis. However, these instruments are carried at amounts that approximate fair value due to their liquid, or short-term, nature. Such financial assets and financial liabilities include accounts receivable, inventory, accounts payable and accrued expenses and other liabilities.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued**

Recent Accounting Pronouncements

In October 2009, the FASB issued guidance on revenue arrangements with multiple deliverables that are outside the scope of software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third-party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The new guidance is effective for fiscal periods beginning on or after June 15, 2010. Management is currently evaluating the impact of adopting the new guidance on the Company's financial statements.

NOTE B - PROPERTY AND EQUIPMENT

At December 31, property and equipment consists of the following:

	2010	2009
Computer and equipment	\$ 157,007	\$ 153,442
Furniture and fixtures	47,763	47,763
Automobiles and trucks	<u>55,052</u>	<u>55,052</u>
	259,822	256,257
Less accumulated depreciation	<u>241,395</u>	<u>219,809</u>
	<u>\$ 18,427</u>	<u>\$ 36,448</u>

Depreciation expense charged to operations totaled \$21,586 for the year ended December 31, 2010 (\$38,425 in 2009).

**CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE C - INTANGIBLE ASSETS

Intangible assets include costs incurred in obtaining patents (pending or issued) in the Company's name for related products or variations of the core technologies. Patent costs are summarized in the following table:

	2010	2009
Intangible assets subject to amortization:		
Patents	\$ 3,000,000	\$ 3,000,000
Cumulative impairment loss	258,719	258,719
Less accumulated amortization	<u>919,960</u>	<u>787,500</u>
	<u>\$ 1,821,321</u>	<u>\$ 1,953,781</u>

The patents were acquired in October 2004 and are being amortized over the estimated lives of the patents, which are generally 20 years. Amortization expense recorded for patent intangibles totaled \$132,460 for the year ended December 31, 2010, and \$150,000 for 2009. Patents are subject to annual review for impairment by management; there was no impairment recorded for 2010 (\$258,719 in 2009).

NOTE D - RELATED PARTY TRANSACTIONS

Due to related parties at December 31, 2010 and 2009, consists of an eight-percent demand note, with no stated maturity date for \$600,444 and \$976,075, respectively, which is collateralized by all assets of the Company, and an unsecured promissory note with interest at eight percent and no stated maturity date. The balance of the promissory note was \$350,000 and \$250,000 at December 31, 2010 and 2009, respectively.

The Company is affiliated with Asset Management Company, LLC through common ownership and control. In 2010, the Company recorded interest expense of \$94,270 payable to a company under common ownership and control (\$80,920 in 2009).

The Company recorded sales revenue of approximately \$19,800 and \$5,030 from related parties during 2010 and 2009, respectively.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE E - SHARE-BASED COMPENSATION/STOCK OPTIONS

Warrants

The Company offered warrants under Non-Exclusive Finder's Agreements with various brokers, individuals and entities in connection with the Private Placement Memorandum offering during 2007. The Finders were offered 10-percent stock purchase warrants equal to the gross offering funds received by the Company in consideration for services rendered. The Finders also received cash compensation.

The common stock purchase warrants entitle the Finder to purchase shares of the Company's common stock at \$1.25 per share. Each stock purchase warrant was exercisable immediately and expires five years from the date of issuance.

The assumptions used and the weighted average calculated value of the warrants are as follows for the years ended December 31:

	2010	2009
Risk-free interest rate	4.12%	4.12%
Expected dividend yield	-	-
Expected volatility	34.21%	34.21%
Expected life	5 years	5 years
Service period	-	-
Weighted average calculated value of options granted	\$.4657	\$.4657
Weighted average contractual term	1.5 years	2.5 years

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE E - SHARE-BASED COMPENSATION/STOCK OPTIONS - Continued

A summary of the status of the Company's outstanding common stock purchase warrants for 2010 and 2009 and the changes during the years are presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009:	449,150	\$ 1.25
Granted, exercised or forfeited	-	-
Outstanding at December 31, 2009:	449,150	\$ 1.25
Granted, exercised or forfeited	-	-
Outstanding at December 31, 2010	449,150	\$ 1.25
Exercisable at December 31, 2010 and 2009	449,150	\$ 1.25

Incentive Compensation Plan

The Company maintains the Plan for the benefit of employees and directors. Eligibility in the Plan is limited to employees and key persons as determined by the Board of Directors. In 2007, the Board of Directors approved the issuance of 2,000,000 shares of common stock for granting both qualified and nonqualified stock options to employees, directors, consultants and other individuals under the Plan. During 2009, the Board of Directors approved the issuance of an additional 10,000,000 shares of common stock for granting both qualified and nonqualified stock options to employees, directors, consultants and other individuals.

The exercise price and vesting period of the options are determined by the Board of Directors at the date of grant. Options generally expire 10 years from the date of the grant, except for greater than 10-percent owners of the Company for which the term is five years. A portion of the options granted during 2010 and 2009 were fully vested at the time of issuance, and the remainder vest equally over a three-year period beginning from the issuance date.

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE E - SHARE-BASED COMPENSATION/STOCK OPTIONS - Continued

The exercise price of the options shall not be less than the fair market value of the shares on the date the option is awarded. For 10-percent owners of the Company, the exercise price must be at least 110 percent of fair market value. Fair market value is defined as the price per share as determined by the Board of Directors in good faith using a reasonable method on such basis as it deems appropriate provided, however, as long as the shares are traded on a major exchange.

The assumptions used and the weighted-average calculated value of stock options issued are as follows for the years ended December 31:

	2010	2009
Risk-free interest rate	2.84%	3.05%
Expected dividend yield	-	-
Expected volatility	78.94%	23.79%
Expected life	7 years	7 years
Estimated termination rate	50%	50%
Weighted average calculated value of options granted	\$.0586	\$.0192

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE E - SHARE-BASED COMPENSATION/STOCK OPTIONS - Continued

A summary of the status of the Company's incentive stock option plan as of December 31, 2010 and 2009, and the changes during the years are presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009:	1,242,807	\$ 1.09
Granted	4,010,085	.06
Exercised	-	-
Forfeited	(52,902)	-
	<hr/>	<hr/>
Outstanding at December 31, 2009:	5,199,990	.29
Granted	1,849,996	.08
Exercised	-	-
Forfeited	(1,292,812)	-
	<hr/>	<hr/>
Outstanding at December 31, 2010	<u>5,757,174</u>	<u>\$.05</u>
Exercisable at December 31, 2010	<u>4,150,254</u>	<u>\$.32</u>
Exercisable at December 31, 2009	<u>3,266,662</u>	<u>\$.43</u>

The options have a weighted average remaining contractual term of approximately 10 years. The Company recorded share-based compensation for the incentive stock options granted of \$35,850 during 2010 (\$25,997 in 2009), which is included in the accompanying financial statements. At December 31, 2010, stock-based compensation not yet vested totaled \$31,478. This cost will be recognized from 2011 through 2012.

NOTE F - CONCENTRATIONS

During 2010, revenues from one customer approximated \$1,220,000 or 67 percent of total revenues (two customers for \$296,000 or 40 percent of total revenues in 2009).

CYBER OPERATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE G - CONTINGENCIES

The Company was involved in a dispute and lawsuit with the marketing company that assisted the Company in raising additional capital during 2007. The Company settled the dispute in May 2011, and the accompanying financial statements have been adjusted accordingly.

NOTE H - OPERATING LEASE

The Company amended its current operating lease for office space effective May 1, 2009. Total rent expense for the year ended December 31, 2010, was approximately \$42,000 (\$52,000 in 2009). Future minimum lease payments under noncancelable operating leases for each of the next two years are as follows:

2011	\$ 42,000
2012	<u>28,000</u>
	<u>\$ 70,000</u>

NOTE I - INCOME TAXES

The tax effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities consist primarily of differences in book and tax treatment for depreciable lives on property and equipment, amortization periods for intangible assets, capitalized software costs and start-up expenses.

At December 31, 2010, the Company has federal and state net operating loss carryforwards of approximately \$4.2 million that expire beginning in 2027 (\$4.1 million at December 31, 2009, that expire beginning in 2027). Due to the uncertainty of the future benefit that could be derived from utilizing the net operating loss carryforwards, the total deferred tax benefit was offset by a valuation allowance of approximately \$1.7 million and approximately \$1.5 million as of December 31, 2010 and 2009, respectively. As a result, there are no deferred tax benefits recorded for the Company at December 31, 2010 or 2009.