Net Element, Inc.
Form 10-KT
February 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
¨ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

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

For the transition period from April 1, 2010 to December 31, 2010

Commission file number 000-51108

Net Element, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-0715816
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

(305) 507-8808
(Registrant’s telephone number, including area code)

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

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

Common Stock, par value $0.001 per share
(Title of class)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x YES (None Required) o NO

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
o YES x NO

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Note. —If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

The aggregate market value of the voting common equity held by non-affiliates was $218,562 based upon the last traded price of $0.01 per share on January 21, 2011.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

At January 31, 2011, the number of shares outstanding of the issuer's common stock was 642,119,111 shares.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

Explanatory Note

Net Element, Inc. (formerly TOT Energy, Inc.) is filing this Annual Report on Form 10-K for the transition period from April 1, 2010 to December 31, 2010 as a result of a change in its fiscal year end from March 31 to December 31. Additionally, included in this Annual Report is information relating to the Company's acquisitions of Motorsport, LLC and Music1, LLC, each effective as of February 1, 2011, as more fully described herein. Net Element, Inc. had previously registered its securities pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and has been a reporting company subject to the requirements of Section 13 of the Exchange Act since 2005.

Defined Terms

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

Forward-Looking Statements

This report contains forward-looking statements that reflect the current views of our management with respect to future events. Forward-looking statements generally are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "aims," "plans," "will," "will continue," "seeks" and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors: the development or acquisition of profitable operating businesses, attracting and retaining competent management and other personnel, successful implementation of our business strategies, and successful integration and promotion of any business developed or acquired. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements.

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

NET ELEMENT, INC.

Form 10-K
For the Year Ended December 31, 2010
INDEX

PART I

Item 1. Business.

Development of Business – Overview

Net Element, Inc. (formerly TOT Energy, Inc.) was organized on February 6, 2004 under the laws of the State of Delaware under the name Splinex Technology, Inc., which was a wholly-owned subsidiary of Splinex, LLC, a Florida limited liability company, and was the surviving entity pursuant to a merger with Ener1 Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of Ener1, Inc., a Florida corporation. The Company initially intended to develop advanced technologies in the three-dimensional or 3D computer graphics industry. Since October 28, 2003 (“Inception”), the date of formation of Splinex, LLC, through December 17, 2007, we operated in a development phase typical of a software company and focused on developing technologies and products and securing intellectual property rights while we developed relationships with potential customers and resellers. Under an agreement effective April 1, 2004 (the “Contribution Agreement”), Splinex, LLC contributed substantially all of its assets, liabilities and operations to the Company. Due to lack of significant sales, we substantially reduced our workforce and overhead costs beginning in September 2005. From September 2005 through July 2007, Ener1 Group, Inc., a related party, loaned us money to fund our operations. In July 2007, Ener1 Group, Inc. stopped funding our operations.

On December 17, 2007, (1) certain holders, who had received shares in the Company as distributions from Splinex LLC, transferred their ownership of 35,162,334 shares of common stock of the Company to Splinex LLC for nominal consideration, and (2) Bzinfin, S.A., a British Virgin Islands limited corporation (indirectly owned by an affiliate of Ener1 Group, Inc., a Florida company of which Mike Zoi (our current Chief Executive Officer and President) is a shareholder and director and which is the majority shareholder of Ener1, Inc.) and Ener1 Group assigned debt obligations of the Company to Splinex LLC in the amount of $2,805,207 and $845,864, respectively. Under a Purchase Agreement dated December 17, 2007, TGR Capital, LLC (which changed its name to Enerfund, LLC in September 2008), a Florida limited liability company (“Enerfund”), which is wholly-owned by Mike Zoi, acquired all of the membership interests in Splinex LLC, thereby giving Enerfund control of Splinex LLC.

Under an Exchange Agreement dated December 18, 2007, we agreed to issue 113,500,000 newly issued shares of the Company to Splinex LLC of which 8,500,000 shares were issued to Bzinfin and 2,125,000 were issued to a former affiliate of Splinex, LLC. Splinex LLC owned 98,157,334 shares of the Company as of December 17, 2007 and an aggregate of 201,032,334 shares after the completion of the Exchange Agreement on December 18, 2007. We had 100,757,769 shares outstanding at December 17, 2007 and 214,257,769 shares outstanding after the completion of the Exchange Agreement. In June 2008, Splinex, LLC changed its name to TGR Energy, LLC.

Until December 31, 2010, short term financing was provided by TGR Energy, LLC (“TGR”), an entity controlled by our president, Mike Zoi, pursuant to a Subscription Agreement dated August 7, 2008 (the “Subscription Agreement”). TGR agreed to provide up to $2,000,000 (the “Investment Amount”) in exchange for up to 100,000,000 shares of common stock and warrants to purchase up to 50,000,000 shares of common stock at an exercise price of $0.05 per share. Pursuant to the Subscription Agreement, TGR funded the Investment Amount as required in our operational budget. On January 12, 2010, TGR agreed to increase its funding commitment from $2,000,000 to $4,000,000 in exchange for up to an additional 100,000,000 shares of our common stock and warrants to purchase up to 50,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. TGR has funded the full amount required under the Subscription Agreement.

On December 31, 2010, we entered into a Subscription Agreement with Enerfund, LLC (a company controlled by Mike Zoi) (the “Enerfund Subscription Agreement”) pursuant to which we received an aggregate of $2,000,000 in exchange for 200,000,000 shares of our common stock and warrants to purchase 100,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. The proceeds of the Enerfund Subscription Agreement will be used to fund our operations.

1

On July 16, 2008, we entered into a Joint Venture Agreement (the “JV Agreement”) with Evgeny Bogorad (“Bogorad”), owner of Sibburnefteservis, Ltd. of Novosibirsk, Russia, an oil services company (“SIBBNS”). Pursuant to the JV Agreement, Bogorad contributed certain of SIBBNS’ assets and personnel to a joint venture company named TOT-SIBBNS, Ltd., a Russian corporation (“TOT-SIBBNS”). An independent appraisal company appraised the contributed assets at USD$6,221,881.We ended development stage activity on July 16, 2008 when we acquired a 75% interest in the TOT-SIBBNS joint venture and began operations in the oil and gas service industry, including the exploration, development, production, and marketing of crude oil and natural gas in Russia and Kazakhstan. At the closing on July 16, 2008, we issued to Bogorad 3,000,000 shares of our common stock in exchange for a 75% interest in TOT-SIBBNS.

TOT-SIBBNS obtained its first contract and began drilling operations in the Fall 2008. However, financial constraints and the declining price of oil resulted in a suspension of drilling operation in January 2009. Drilling operations did not recommence during the Winter 2009 and most employees were furloughed in April 2009.

TOT-SIBBNS had expectations of continuing exploratory drilling (both through its existing customer and new customers) for the 2009/2010 drilling season as the price of oil had risen significantly and TOT-SIBBNS was able to secure an additional drilling contract in November 2009. However, in January 2010, it became questionable whether activities with TOT-SIBBNS’ initial customer would recommence in the short term, and there remained uneasiness in the market over the continued improvement in crude oil prices, which had a negative impact on the exploratory drilling market in Russia at that time. Accordingly, on January 27, 2010, after several weeks of exploring other business opportunities, we altered our business focus and decided to exercise our option to unwind the joint venture and pursue other development opportunities.

We executed an unwind agreement with TOT-SIBBNS whereby we exchanged our 75% interest in TOT-SIBBNS for the 3,000,000 shares given to Evgeny Bogorad in 2008. The unwind of the joint venture was consummated as of March 31, 2010. The unwind of the TOT-SIBBNS joint venture has been accounted for using the guidance provided in ASC 845 (previously APB 29), as a disposal “other than by sale” similar to a spin-off transaction, with the shares received reflected as treasury stock and recorded on our balance sheet at its carrying basis in the net assets of the joint venture as of March 31, 2010.

Korlea-TOT Energy s.r.o. (“KORLEA-TOT”) is our 51% joint venture with Korlea Invest Holding AG of Switzerland (“Korlea”) who is a provider and trader of energy assets in the Czech Republic. The joint venture, Korlea-TOT, established as of July 17, 2008, was expected to assist in the marketing of oil assets sourced by us and our contacts and affiliates. There has been no activity to date with this joint venture. Accordingly, in November 2010, we sent Korlea notice of our intention to unwind this arrangement. We intend to sell our ownership in the KORLEA-TOT joint venture to Korlea in exchange for a cash payment equal to 51% of the cash balance in the joint venture on the date of unwind. Consummation of this transaction will be subject to obtaining certain approvals and making certain filings overseas. It is expected that this transaction will be completed during the first quarter of 2011.

Since April 1, 2010, we have engaged in the development of an alternative energy services business and we have concurrently pursued a strategy to develop and/or acquire technology and applications for use in the online media industry. In furtherance of this strategy, we acquired Openfilm, LLC, a Florida limited liability company, engaged in the development of technology and operation of a website that supports the advancement of independent film on the Internet, as more fully described below. We believe that our technology platforms and development expertise will enable us to enhance the digital distribution of content in a variety of industries. Accordingly, in addition to our acquisition of Openfilm, we intend to explore the possibility of acquiring other internet portal properties and companies with similar goals of connecting people in various vertical markets, such as the medical, music, film, sports and legal markets. In this regard, on February 1, 2011, we acquired Motorsport, LLC and Music1, LLC, each as more fully described below. As of December 31, 2010, we have terminated our efforts to develop an alternative energy services business in order to focus on our growing online media businesses.

In pursuing our strategy to develop an online media company, from time to time, we may be engaged in various discussions to acquire businesses or formulate joint venture or other arrangements. Our policy is not to disclose discussions or potential transactions until definitive agreements have been executed. Where appropriate, acquisitions will be financed with equity shares and this may result in substantial dilution to existing stockholders.

Several factors raise significant doubt as to our ability to continue operating as a going concern. These factors include our history of net losses and, from March 31, 2010 until December 14, 2010, due to the unwind of the TOT-SIBBNS joint venture, we had no significant operations until the acquisition of Openfilm. Additionally, as of December 31, 2010, we had a working capital deficit. Management recognizes that we must raise capital sufficient to fund business activities until such time as we can generate sufficient revenues and net cash flows in amounts necessary to enable us to continue contemplated operations, of which there can be no assurance. We are dependent upon TGR, Enerfund or Mike Zoi (as a result of his controlling interest in TGR and Enerfund and our dependence on the continued support of our operations by Mr. Zoi) to fund our operations. Our independent auditors' report on our financial statements for the year ended December 31, 2010 contains an explanatory paragraph about our ability to continue as a going concern. Management believes that our current operating strategy, as described in the preceding paragraphs and the proceeds received from the Enerfund Subscription Agreement and expected continued financial support from Mr. Zoi, provides the opportunity for us to continue as a going concern; however, there is no assurance this will occur and Mr. Zoi is not obligated to continue to fund our operations.

On November 11, 2010, our Board of Directors adopted a resolution changing our fiscal year end from March 31 to December 31. Management believes that this change will allow better alignment of our annual planning and budget processes with our new business strategy as we are no longer engaged in the seasonal oil and gas business.

Recent Acquisitions

Openfilm

As part of our strategy to develop an online media company, on December 14, 2010, we entered into a purchase agreement (the "Openfilm Purchase Agreement") with the members of Openfilm, LLC, a Florida limited liability company engaged in the development of technology and operation of a website that supports the advancement of independent film on the Internet. Mike Zoi, our President, through his control of Enerfund, LLC and MZ Capital, LLC, both Florida limited liability companies, held approximately 70% of Openfilm's outstanding membership interests prior to the acquisition by the Company. Pursuant to the Openfilm Purchase Agreement, we acquired all of the outstanding membership interests in Openfilm by exchanging for such interests an aggregate of 107,238,421 shares of our common stock to the security holders of Openfilm, of which 45,937,500 shares were issued to Enerfund (a company controlled by Mike Zoi), 29,062,500 shares were issued to MZ Capital, LLC (a company controlled by Mike Zoi), 24,950,000 shares were issued to Dmitry Kozko, CEO of Openfilm, and an aggregate of 7,288,421 shares were issued to the remaining seven non-controlling security holders of Openfilm. Upon completion of the acquisition transaction on December 14, 2010, Openfilm became a wholly-owned subsidiary of the Company. Additionally, in connection with the acquisition of Openfilm, we established NetLab Systems, LLC (NetLab), a Florida limited liability company, and transferred the ownership of certain intellectual property assets from Openfilm to NetLab. Openfilm and NetLab entered into a Technology Transfer and License Agreement granting Openfilm the right to use certain technology transferred to NetLab. For more information, see "– Licensing Arrangement between Openfilm and NetLab" below. Research and development activities are conducted primarily through Zivos, LLC, a Ukrainian limited liability company and wholly-owned subsidiary of Openfilm. Up until the date of acquisition, Openfilm operations were funded primarily by entities controlled by our President, Mike Zoi.

Motorsport.com

On February 1, 2011, we entered into a purchase agreement (the "Motorsport Purchase Agreement") with Enerfund, LLC, an entity controlled by Mike Zoi, to purchase all of the issued and outstanding interests of Motorsport, LLC, a Florida limited liability company that held 80% of the outstanding common stock of Motorsport.com, Inc., a Florida corporation engaged in the operation of a news and information website relating to the international motorsport industry. Motorsport, LLC purchased the interest of Motorsport.com, Inc. on December 17, 2010. The remaining 20%

of the outstanding common stock of Motorsport.com, Inc. is held by the original stockholders (4 persons) of Motorsport.com, Inc.

Purchase Price. Pursuant to the Motorsport Purchase Agreement, on February 1, 2011, we paid Enerfund an aggregate of $130,000 (excluding a $20,000 contingent payment relating to the purchase of certain domain names) and agreed to take over responsibility for the obligations contained in the purchase agreement of December 17, 2010, which includes, among other things, the aggregate payment to the original stockholders of Motorsport.com, Inc. of an additional $450,000 payable in four quarterly installments commencing on December 1, 2013. In the event the domain names and related registrations are unable to be purchased on or before June 16, 2011, then we will not have to make the contingent payment ($20,000). The original sellers have a security interest in the domains of Motorsport.com, Inc. as collateral for payment of the additional purchase price. Failure to pay the additional purchase price when due may result in forfeiture of the shares in Motorsport.com, Inc. held by us.

Purchase Option on Outstanding Shares. In addition, we will have the option until December 16, 2018 to purchase the remaining interests of Motorsport.com, Inc. currently held by the original stockholders. We may exercise this option at any time upon thirty days prior written notice and the payment, in cash or preferred stock of Motorsport.com, Inc., as follows:

(i) until December 16, 2015: $0.1075 per share;
(ii) from December 17, 2015 through December 16, 2016: $0.1185 per share;
(iii) from December 17, 2016 through December 16, 2017: $0.1305 per share; and
(iv) from December 17, 2017 through December 16, 2018: $0.1435 per share.

At our option, we can pay the foregoing purchase price for the additional shares held by the original sellers in either (i) cash or (ii) preferred stock of Motorsport.com, Inc., which preferred stock will have a dividend payment equal to 2.5% of the value of the preferred stock on the date of issuance payable quarterly from the date of issuance. We may redeem any preferred stock issued at any time upon the payment in full of the value of the preferred stock as of the date of issuance.

Music1

In furtherance of our strategy to become an online media company, on February 1, 2011, we acquired Music1, LLC, a Florida limited liability company, from Enerfund (an investment company controlled by Mike Zoi), for an aggregate purchase price of $15,000. Music1, LLC owns 97% of the membership interests of A&R Music Live, LLC, a Georgia limited liability company that owns and operates two websites that provide an online social community and marketplace for musicians, songwriters, producers and record companies and an opportunity to showcase artist talents. Music1, LLC purchased its interest in A&R Music Live, LLC on November 8, 2010. The remaining 3% of the membership interests of A&R Music Live, LLC is owned by Stephen Strother, the Founder and President of Music1. We are required to invest at least $500,000 in Music1 by December 31, 2012 (which amount may include salaries and other expenses of Music1). In the event such amount is not invested in Music1 by December 31, 2012 or the employment agreement of Mr. Strother is terminated other than for cause or good reason on or before May 7, 2012, then Mr. Strother will have the right to repurchase Music1 for $1.00. Additionally, Mr. Strother has granted a royalty free license to Music1 to use certain technology owned by him for the term of his employment agreement. For more information, see " – License Agreement with Stephen Strother" below.

Business Description

As a result of the acquisitions described above, we operate several online media websites in the film, auto racing and emerging music talent markets, as more fully described below. We intend to continue to seek additional opportunities to exploit our technologies in other vertical markets, such as legal and medical.

Openfilm Development of Business

Openfilm, LLC was formed as a Florida limited liability company on November 16, 2007 under the name Zivos, LLC. On April 9, 2008, Zivos, LLC changed its name to Openfilm, LLC. Openfilm is an online media company that supports a community of independent film enthusiasts and filmmakers. Openfilm owns and operates a website (www.Openfilm.com), which is based on a proprietary video platform (licensed to Openfilm by NetLab) and certain know-how and methods developed by Openfilm that unite elements of the film industry that are of most interest and value to Openfilm's users in a single location. Openfilm derives revenues from video advertising, video content syndication, display advertising and membership fees, as well as, contest entry fees, as discussed more fully below.

4

Openfilm has developed an award-winning website that currently showcases over 7,200 films of various lengths and genres, aggregated from film festivals, film schools and independent filmmakers from around the world. Films are displayed online in large HD video format and filmmakers are able to upload their films and interact with other users through a networking platform.

Openfilm offers aspiring filmmakers an opportunity to have their work seen by a distinguished group of Hollywood insiders who make up the Openfilm Advisory Board, including actor James Caan (Chairman), fellow Godfather co-star Robert Duvall, director Marc Rydell and actor and filmmaker Scott Caan. Advisory Board members act as a group of "mentors" who interact with Openfilm's premium members through online web chats that are held on a periodic basis. The Advisory Board members also serve as judges for various competitions promoted by Openfilm.

The proprietary technologies and software platform developed for Openfilm have applications in many other vertical online markets that will enable Openfilm and NetLab to generate revenues through the sale of software licensing, market reports, e-commerce transactions, festival services and others products and services. Openfilm believes that it is well positioned to capitalize on the rapidly growing independent film market (estimated by eMarketer, Inc., an independent digital marketing research company, to be in excess of $4 billion annually), as well as the online advertising market (estimated by eMarketer™ to be approximately $25.8 billion in 2010).

Openfilm.com Website

Openfilm.com is an online platform created from various proprietary technologies that provides a unique value proposition for independent filmmakers, advertisers, film festivals, film schools and viewers. The website provides its community of filmmakers and film enthusiasts with an opportunity to interact with each other and directly with "Hollywood insiders" who comprise our Advisory Board. Poised to capitalize on the emerging online video market, Openfilm believes its software (licensed from NetLab) will transform the way independent films are discovered, produced and distributed.

Openfilm.com offers filmmakers free basic services, including unlimited uploads and streaming of approved premium HD video content. In addition, Openfilm provides a revenue sharing program for filmmakers, including advertising revenues derived from distribution of their film content, thus allowing Openfilm to attract some of the best content creators in the world, as well as their existing fan bases.

Content

Openfilm has aggregated a content library of over 7,200 independently produced films from film schools, festivals, organizations and independent filmmakers. All content goes through various screenings to ensure it meets specified quality and copyright standards. The films are then converted to HD formats to ensure they will be seen in the highest quality on the Internet. The Openfilm library consists of short, feature-length and animated works.

Recognition and awards

To date, Openfilm has been recognized by industry publications and has received the following industry awards:

- Movie Maker Magazine named Openfilm one of the "top 50 websites for filmmakers" – June 2009
- 13th Annual Webby Award Official Honoree – May 2009
- Reelseo.com named Openfilm "The Lexus of Video Sharing Social Communities" – February 2009
- Video Maker Magazine named Openfilm "Video Sharing Site of 2008" – December 2008

Openfilm Growth Strategy

Openfilm intends to grow its membership base organically and through premium upgrades in membership status, and also to acquire online properties with targeted communities that will maximize traffic to the Openfilm website. Maximization of traffic to the Openfilm website will increase membership enrollment and provide an enhanced value proposition for advertisers.

Additionally, Openfilm (in conjunction with NetLab) intends to provide services to film festivals and other film related enterprises, as well as other vertical markets that would benefit from the technology and know-how developed for Openfilm.

Revenue Streams

Openfilm has identified several revenue streams that it intends to develop further as resources permit as follows:

Advertising

Openfilm believes it is in a strong position to monetize its video content library through targeted advertising based on user behaviors and also through direct sales and distribution of films uploaded by its members. Openfilm utilizes proprietary technology (licensed from NetLab) that tracks online user activity on its website (in accordance with applicable Openfilm website privacy policies) and builds profiles based on the content metadata accessed to determine the interests of users. Based on user activity, targeted advertisements can be offered to specific users at different areas of the website or imbedded within the accessed content. Accordingly, multiple products and services can be offered to users that would be of interest to them based on their activity on the Openfilm website.

Openfilm will offer the two most commonly used ad monetization tools for video websites, but will bundle them with NetLab’s proprietary technology to create higher return on investment (ROI) for advertisers. Openfilm believes it can significantly increase click-through-rates (CTR) using NetLab’s proprietary technology and know-how as compared with currently available methods used on other websites. Openfilm’s behavior tracking system will further add to CTR and enhance the user’s experience on the website. Several types of advertising opportunities are offered through the Openfilm website:

Display Ads – traditional banner advertising placed throughout the site will be offered in standard sizes with a minimum insertion fee and specified rates for CPM (cost per 1,000 views). Premium subscription members will have the option to turn off banner advertisement exposure.

Video Insertions – small segmented video commercials inserted into video content, similar to how commercials are displayed on Television, and include video pre-roll, post roll, or mid-roll insertions. The current standard compensation metric is also based on CPM. Currently Openfilm has an arrangement with the leading ad provider in the market to provide insertion ads until Openfilm can fully launch its behavior tracking system, which will enable Openfilm to better target and place ads.

Video Overlay Ads – ads that play every 90 seconds located primarily at the bottom of film content that generate multiple impressions per content view. These ads are currently provided by ScanScout, the largest provider of overlay ads.

Currently, over 80% of all Openfilm.com advertising can be found on video content pages. Openfilm expects to be able to provide advertising opportunities with respect to approximately 70% of all traffic to its website.

Other revenue opportunities are available through sponsorship of a particular channel (content categories or groupings created by users) or event on Openfilm.com. Rates will generally be based on monthly CPM exposure.

Membership Fees

Openfilm offers viewers and filmmakers three levels of membership enrollment – Free, Plus and Pro membership plans. Free membership allows users to upload films and videos and comment on content of other members, and also view live web chats and vote on and rate film content submissions. Premium membership services require payment of a monthly fee and are currently available at two distinct levels:

§ "Plus" membership enrollment at $2.95 per month allows members all of the benefits of free membership plus access to a comprehensive database of film festivals, the ability to submit to participating contests via the Openfilm website, the option to sell mobile versions of their film content and the ability to opt in or opt out of banner advertisements. A Plus membership also provides the ability to solicit and accept donations to fund member projects and to request that Openfilm assist in obtaining third party syndication of the member's work.

§ "Pro" memberships enrollment at $9.95 per month allows members to enjoy all of the benefits of Plus membership as well as priority uploading of new content, the ability to submit questions and participate in the Openfilm Live web chats, access to detailed earnings reports relating to the member's content, direct sales of digital versions of content and other premium services.

All members are afforded the opportunity to win a contract to produce a feature-length film in conjunction with Openfilm Studios. Premium members also have the ability to interact with Openfilm Advisory Board Members and other celebrity guests through live web chat forums, email, and blogs. Interaction with Advisory Board Members ranges from viewing a filmmaker's work to chatting with them live online or via e-mail and blogs.

Film Festival Services

Openfilm intends to attract independent filmmakers who actively submit to film festivals. Film festivals attract submissions in return for potential exposure and cash prizes to the filmmaker. There are over 6,000 Film Festivals and contests around the world, each with average annual submissions in the hundreds. Most of these annual entries are submitted via regular post. Very few film festivals have the capability to receive submissions by electronic means. Openfilm has developed software that it believes will streamline the electronic submission process, which can be utilized with all festival formats.

The Openfilm film festival solution incorporates patent pending software (licensed from NetLab), the Contest System (using Launchpad), which provides film festivals and sponsoring brands a secure online solution for hosting and conducting competitions, including submission processing and management applications and database reporting and analysis tools. Openfilm already maintains a database on its website that consists of more than 2,000 film festivals with descriptions and details for submission of content.

Designed to meet the high demand of the film festival marketplace, the Contest System provides easy-to-use functionality that Openfilm believes will transform the film festival market into a predominantly online market, which will also increase the reach and accessibility of each of the film festivals. The Contest System will reduce administrative work and redundancies and streamline the submission and tracking process. The Contest System also contains a judging module, which is intended to assist judges in their review and evaluation functions.

Openfilm believes that through the use of the Contest System, film festivals and brands will be provided with an added value proposition to offer their sponsors and brands in a more streamlined, controlled and targeted environment.

The Contest System can be modified for other contest applications. The Contest System includes a "know-how" comparison module, which allows individuals to upload their content and match the content to current and upcoming contests in the database, thus ensuring compatibility with format and other contest criteria.

Contest Entry Fees

Contest Entry Fees relate to the submission of films for participation in Openfilm Studios competitions. Currently, competitions are limited to Short Film submissions on a semi-annual basis. These contests provide the filmmaker with the opportunity to win a management and production contract with Openfilm Studios. Short Film entries will be accompanied by a fee that Openfilm believes is substantially lower than comparable offline competitions. For more information, see “ – Openfilm Studios” below.

Sponsorships of Celebrity Chats

Openfilm expects celebrity chats to be sponsored for a fee by a variety of companies. To secure celebrity participation beyond Openfilm's current Advisory Board members (Advisory Board members have committed to participate in two chats per year), Openfilm may share revenues generated from the chats with certain celebrities. Openfilm believes that the celebrity's participation will result in increased traffic to the website and consequently increased subscriptions from the celebrity's own fan base and increased advertising revenues. Openfilm may pay a small fee to the guest celebrity or share membership revenues for a brief period leading up to the celebrity's appearance.

Other Potential Revenue Streams

Openfilm has identified other potential sources of revenue that it is currently exploring, such as:

Guest Lectures – Using the Openfilm platform to invite filmmakers and industry experts to conduct online seminars. Participants would be charged an access fee to view and interact with the expert on a real-time basis. Separate fees will be charged for those desiring to view archived sessions. Current system processes allow Openfilm to run up to 1,000 simultaneous sessions.

Online Education – Through guest lectures, especially those conducted by professors, Openfilm can provide educational seminars in various film industry areas and may seek to obtain educational accreditation to offer online courses to institutions of higher learning.

Targeted Screenings – The Openfilm platform is available for public or private screenings of content, whereby filmmakers can arrange screenings of their work for a predetermined group and time with full chat capabilities. This service will help filmmakers and other industry professionals discuss films and content in real-time with a specifically targeted audience prior to distribution or production.

Motion Picture Studios – The Openfilm platform will be able to test market films for major motion picture studios. Upon releasing and marketing a trailer or segment of film, the Openfilm platform, along with its community of users, can be exposed to new content for feedback analysis. Public or private options can be accommodated, as well as detailed customized reporting metrics.

Market Reports – As a result of the large collection of information from the Openfilm behavior tracking system and contest management solutions, Openfilm will be able to compile market trend and other reports for brands/advertisers and major motion picture studios.

E-commerce distribution of videos – Similar to the Apple® iTunes model, which revolutionized the way music is distributed online, Openfilm's platform allows filmmakers to sell their own content on the Openfilm website. Content creators will be able to sell their own content for the price they determine and pay Openfilm a small fee. Additionally, Openfilm can offer all types of distribution models, from mobile downloads to downloads via television sets, and through other devices and platforms.

Openfilm Studios

Openfilm has held contests accepting short film submissions from filmmakers who desire an opportunity to win a financing and management contract to produce a feature film with Openfilm Studios, a movie production company and wholly-owned subsidiary of Openfilm. Openfilm Studios may raise additional funding for the feature film production through co-production partnerships. Openfilm Studios may also sell films it produces to film studios or distribution companies for distribution to theatrical venues, for DVD production, network and cable broadcast, and device downloads. Openfilm Studios intends to acquire and produce scripts and films not associated with contests.

Openfilm intends to promote a semi-annual competition through its website. Registered users will be able to vote on films submitted. The voting cycle will be open for one month after all submissions are received. The finalists will be presented to the Advisory Board for further review and evaluation. Openfilm premium subscribers will be invited to view select online evaluation and award events. Winner(s) will be awarded financing and management contracts. Runners-up will be given additional opportunities to collaborate with Openfilm Studios.

Films produced by Openfilm Studios will be distributed through various methods through Openfilm's distribution partners. Revenues received from contest winner collaboration will be shared with the winning filmmaker. Openfilm is currently looking for a strategic partner to help evolve and finance its Openfilm Studios business. In addition to contest winners, Openfilm Studios intends to produce films in conjunction with various collaborators, including independent filmmakers, and engage in film distribution activities through traditional sources as projects are completed.

Openfilm Distribution Arrangements

Openfilm has secured distribution partnerships to create additional revenue sources for both Openfilm and its filmmaker members. These partnerships include arrangements with TiVo, Inc. – owner of the TiVo® digital video recording device, MiniWeb Technologies Limited – a 9 million member TV/Internet video distribution services company based in the UK (which recently released an application called Woomi for Samsung "internet-ready" TVs and DVD players that also allows Openfilm content to be viewed by these devices), Boxee, Inc. – a digital device company that provides Internet and social applications through TV sets, and others. Most of these distribution arrangements permit Openfilm and its filmmakers to distribute content that includes embedded advertising that can yield additional revenues to Openfilm and its filmmaker members. Openfilm also has an agreement with HCCTV (Houston Community College Television on local Comcast channel 12), a Houston-based cable channel with over 700,000 subscribers.

Online Video Viewing Market

According to comScore, Inc., a leading digital information service, more than 172 million U.S.-based Internet users viewed over 5.2 billion video content sessions online during December 2010 for an average of approximately 14.6 hours per viewer. Google (including its YouTube subsidiary) serviced approximately 83.5% of all videos viewed online by U.S. viewers during the month. According to comScore, approximately 84.6% of the total U.S. Internet audience viewed online video during December 2010.

Although there is a wide spectrum of video-related websites, we believe that Openfilm serves a unique and growing audience. While YouTube is the market leader in viewed videos, a significant portion of videos uploaded are of low production quality. Hulu™, a collaboration of film studios and television broadcast networks, primarily offers a selection of network TV shows, clips and movies from its affiliates. Openfilm believes that it is currently the premiere destination for independently produced, high quality video content and that its product and service offerings present an attractive alternative for consumers in this market space.

Online Video Advertising Market

According to eMarketer™, total online advertising expenditures for 2010 were in excess of $25.8 billion and are expected to grow substantially over the next several years, approaching $30 billion by 2012. Openfilm believes that as companies become more aware of the ROI metrics offered online compared to television, which is currently estimated as a $58.6 billion market in terms of advertising expenditures, advertisers will increasingly gravitate toward targeted online advertising to reach selected audiences. TV advertisement is mostly made up of video ads. In comparison, online video ads are estimated to represent approximately $1.5 billion of the total online advertising market. According to comScore, American online users viewed approximately 5.2 billion video advertisements during the month of December 2010. Openfilm believes that online video advertising will ultimately dominate the online advertising marketplace. Current online industry efforts are focusing on replicating the traditional cable television model, which includes charging for content viewership. Whether such efforts prove successful or another model emerges, Openfilm believes that it is well positioned to become a significant market participant.

Openfilm is working with the top video ad networks, including Tremor Media, Inc. (ranked second largest online advertiser and number one among video advertisers), which supplies a significant portion of advertising content on the Openfilm website on behalf of Openfilm, including targeted marketing to its viewer audience. Openfilm also has advertising relationships with other online video advertisers, such as SpotXchange (5th largest online advertiser) and ScanScout (8th largest online advertiser, which was acquired by TremorMedia in November 2010).

Since the average online video viewer watched 14.6 hours of video content during the month of December 2010, Openfilm believes that during that period of time the viewer can be exposed to approximately 500 targeted ads. With the assistance of the Openfilm platform, Openfilm believes that its products and services present a compelling value proposition for advertisers.

Motorsport.com Development of Business

In 1993, Tom Haapanen developed the concept to facilitate and distribute free motorsport news and content on the emerging Internet, and was joined by Jack Durbin soon thereafter. Operating under the brand name Motorsport News International (MNI), in 1994, the motorsport.com domain name was registered and the MNI website began operations as one of the first motorsport news websites on the Internet.

Motorsport.com, Inc. was formed as a Florida corporation on April 9, 1999, and since inception has operated a website (www.Motorsport.com) that distributes content related to the motor sports industry to racing enthusiasts all over the world. Motorsport.com derives revenues primarily from display advertising.

In 1999, with the addition of Eric Gilbert, responsible for art direction, graphic design, photography, advertising sales and business development, the website was transformed from a text only website into a graphic-based interface and a database-driven site with a multi-channel navigation structure, including, News, Features, Photos, Statistics, Directory, Online Competitions and Forums. New types of content were also added, such as news articles, exclusive news and feature stories, and photos. Additionally, at this time, Motorsport.com’s advertising-based business model took shape and the website began providing advertisers the opportunity to offer placement of ads and site-specific campaigns.

From February 2000 through January 2003, average daily page view traffic grew from approximately 5,000 to approximately 25,000. During that time, Motorsport.com established its reputation as a reliable source of news and content by covering major international racing series and events. It became the first online-only media company to obtain media credentials from prestigious events such as the “24 Hours of Le Mans®,” the “Indianapolis 500,” the “24 Hours of Daytona®” and the “NASCAR Daytona 500®.” Nancy Knapp Schilke joined Motorsport.com in the summer of 2001 as Editor in Chief responsible for text content, news editing and publishing and relations with race series and organizers. Jack Durbin is responsible for news editing and day-to-day business operations. Each of Jack Durbin, Eric Gilbert and Nancy Knapp Schilke provide services to Motorsport pursuant to consulting agreements, which are discussed in more detail in “Item 11. Executive Compensation – Employment/Consulting Agreements.”

With a full redesign and enhancements to the website in 2003, Motorsport.com traffic grew from an average of approximately 25,000 daily page views to an average of approximately 130,000 daily page views in 2010. During the past eight years, Motorsport.com consolidated its reputation with racing series and event organizers, as well as race teams and drivers. It has become a reputable and reliable source of information, news and content for the racing community.

Motorsport.com has won the American Auto Racing Writers and Broadcasters Association (AARWBA) Award for Best Professional Racing Website for six straight years (2004 to 2009).

Motorsport.com has been in operation for over ten years and is a mature online media company with a well-established brand name. According to Google Analytics, Motorsport.com received approximately 46 million page views in 2010 from 2.5 million unique visitors (an average of approximately four million page views per month from approximately 260,000 unique visitors per month).

Content

Most of the content on Motorsport.com is in text format (news articles, stories, race reports, interviews, feature stories) and photo images, as well as, statistical information. In 2010, Motorsport.com featured approximately 42,000 news articles and 143,000 photo images. Additionally, Motorsport.com has an archived content database of approximately 397,000 news articles (dating back to 1994) and approximately 1,076,000 photos (dating back to 1901). News and photos account for the bulk of page views on the website.

News content is obtained from Motorsport.com regular contributors, special guest contributors, press releases and other press material from race teams, events, drivers, series, manufacturers and news organizations. Magazine content is obtained primarily from Motorsport.com regular contributors, and, to a lesser extent, from special guest contributors. Most news content is provided free of charge. In addition, Motorsport.com also offers free email newsletters sent on a daily basis to subscribers.

The photo content consists of a database of more than one million photos and is obtained from Motorsport.com regular photographers, guest photographers, copyright-free for media use photo material (primarily from race teams, events, drivers, series, manufacturers, etc.) and photo agencies.

Statistical content is derived primarily from publicly available records and databases.

Motorsport.com also sponsors two competitions (F1 Pick 6 and F1 PP) among fans to determine who could predict the top ten finishing positions in various Formula 1 races. In 2010, 1,150 distinct users participated in these competitions.

The Motorsport.com website also hosts various forums where racing enthusiasts can participate in real-time discussions and share stories, opinions and photos with others in the forum community.

Growth Strategy

We believe that through our proprietary online platforms and technologies developed initially for Openfilm, that we can transform the Motorsport.com website into the premier destination for motor racing enthusiasts and advertisers on the Internet. We intend to expand Motorsport.com’s media offerings to include video content and brand leveraging similar to that employed by Openfilm. We believe that we can increase the brand and traffic of Motorsport.com and obtain additional content and partnerships with companies that are looking for additional distribution channels and cross promotion opportunities. We also believe that we can provide a compelling value proposition for advertisers.

With our proprietary technologies and know-how, we intend to offer user generated content on the Motorsport.com website in the form of uploaded racing related videos and images and more interactive features. Users will be able to place comments at various points within a video upload and other users will be able to preview and then jump forward to that point if they find the comments of interest. Users will also be able to cross reference their content with content already found on the website, thus generating more views using relevant navigation by other users. For example, a captured photo of an event can be uploaded and tagged, which will be automatically matched and distributed to those users on the website that our proprietary system determines would be interested in the photo based on similar preferences and other criteria.

Motorsport.com also intends to develop social media content and tools, both online, offline and at race events, which will enable users to follow their favorite profiles, users, teams, drivers, tracks and sponsors, as well as, other control and interactive features.

Revenue Streams

Advertising

Motorsport.com revenues are derived primarily from display advertising placement on the website. Motorsport.com currently partners with Google Adsense in America and Xprima in Canada with respect to display advertising. Motorsport.com intends to leverage the technologies and relationships developed by OpenFilm to increase the CPM return on traffic generated through the Motorsport.com website and is developing additional advertising programs.

Motorsport.com intends to offer racing related classified ads as a means of offering a value-added service for our users and increasing revenue by offering to sell related services such as premium ad placement, bold headlines, additional photos, and other premium ad services.

Subscription Services

Additional subscription-based revenue streams are currently being developed that will offer users multiple levels of membership, including premium content, personal fan pages, e-mail accounts, fantasy racing, product promotion and other services. Merchandise will also be showcased throughout the website based on relevancy, navigation and interest preferences determined by our proprietary systems.

Music1 Development of Business

A&R Music Live, LLC was originally formed under the name A&R Music1.com, LLC on June 22, 2001 and changed its name to A&R Music Live, LLC on September 11, 2009. Music1 owns and operates two websites (www.arlive.com and www.music1.com) engaged principally in the discovery and promotion of new and emerging musical artists. Music1 provides two complimentary artist discovery services:

- A&R Live Hookup Service (www.arlive.com) provides unsigned artists, producers and songwriters (“Artists”) the opportunity to speak directly with record company personnel (also known as A&R (artist and repertoire)) responsible for scouting, signing and recording of artists on a record company roster, learn the music business, and have their music reviewed live by record company A&R and receive feedback and the possibility of a record company contract.

- Through the Music1 Artist Discovery Service (www.music1.com), members are afforded the opportunity to discover new music and Artists, create communities of fans, and distribute their content via Internet and mobile media platforms.

A&R Live Hookup Service

A&R Live Hookup Service provides Artists an opportunity to speak directly with record company A&R, learn the music business and have their music reviewed live by record company A&R and receive feedback and the possibility of a record company contract. Users of this service come from all over the world and pay a fee for access to industry A&R professionals, and can participate by phone, Internet or mobile devices. Music1 currently supports and promotes the following music genres: Adult Contemporary, Alternative, Christian, Country, Dance, Gospel, Hip Hop, Jazz, Neo-soul, Pop, Rap, R&B and Rock.

The A&R Live Hookup Service has hosted more than 2300 online music listening sessions and workshops with top industry executives since 2001. Even Grammy award-winning recording artists, such as India Arie and TLC, have used Music1’s services to advance their careers before they became top industry acts. Other attendees of listening sessions and workshops have landed major label production work and television licensing deals that featured their music on internationally broadcasted TV shows on MTV and Oprah’s Oxygen network. Most recently, Emphatic, a rock band from Omaha, Nebraska, signed a major record deal with Atlantic Records as a result of having their music showcased on the A&R Live Hookup Service. Emphatic's first album with Atlantic Records is scheduled for release in the first quarter of 2011.

Record executives and alumni who have reviewed music on the A&R Live Hookup Service have worked with some of the biggest names in the American music industry. Since 2001, A&R from, or formerly associated with, the following companies have reviewed music from aspiring talent on the A&R Live Hookup Service: Aftermath

Entertainment, Asylum Records, Atlantic Music Group, ASCAP, Bad Boy Entertainment, BMG Publishing, BMI, Capitol Records, Cherry Lane Music Publishing, Compadre Records, Def Jam Recordings, Disney Music Publishing, Geffen Records, Island Def Jam Records, Hidden Beach Recordings, Interscope Records, J-Records, Jive Records, Koch Records, Maverick Records, Motown Universal, Music World Entertainment, MTV's The Real World, RCA Music Group, SESAC, Shady Records, So So Def, Interscope, Universal Music Group, TVT Records, Verity-Gospel Centric Records, Warner Bros. Records and others. In some cases, Music1 will pay a small stipend to A&Rs for their appearance at a listening session or workshop.

Music1 Artist Discovery Service

Music1's artist discovery service provides members with the tools and opportunity to discover new music and Artists, create communities of fans around Music1 industry and user-generated content, and distribute content via the Music1 Radio Player that can be shared via the Internet and mobile media devices.

Members develop a profile on the Music1.com website, which permits them to upload music, photos, event dates, biographical information and videos. Members have the option of making their songs available for sale to fans or for inclusion in fan-created playlists and Stream Shows in order to follow their favorite Music1 Artists.

The Music1 Stream Show allow members to create personal radio shows by utilizing the content of the social network. Music1 Stream Shows combine various groups of users, such as Artists (who provide songs), Stream Show personalities (who create stream shows), and listeners (general audience). Through Music1 Stream Shows, Artists are provided the opportunity to promote new material, Stream Show personalities can promote radio shows and events, and listeners can enjoy a vast selection of personal streamed stations of independent music. Listeners can become fans of particular Artists and Stream Show personalities, purchase music, share their favorite Artist's content on other social networks, and communicate directly with Artists and Stream Show hosts.

Music1 Artists benefit by having their music promoted to fans and potential consumers throughout the Internet, and by showcasing their talent directly to record company A&Rs, who are looking to sign new acts. Music1 Artists, fans and Stream Show personalities, receive valuable social activity stream data on who is listening, sharing and purchasing their content. Once Music1 users reach a certain visitor traffic threshold for their content and Music1 generates advertising revenues as a result of that traffic, then they may qualify for a share of advertising revenue.

Music1 intends to provide record company partners with reports to help identity top performing Music1 Artists based on fan volume and activity reports generated by proprietary and integrated tracking tools across the web and mobile devices. Record company executives can track specific Music1 Artists popularity and traffic demographics, and receive notifications when specified targets have been achieved, activity reports and music and video streams into their dashboards (an online control panel allowing customization of the user experience). Record company executives can also communicate with Music1 Artists directly and scout them for record deal consideration.

Revenue Streams

Music1 derives revenues from advertising and targeted marketing/sponsorship arrangements, selling access to social analytic data, music review services, talent placement fees, music content syndication, music licensing and publishing, music sales and membership subscriptions for premium services.

- Social analytic data – Music1 provides marketing and fan tracking data through paid premium services to Artists and members of Music1 to help identity the demographics of their fan bases. Music1 enables advertisers to reach and target their audiences more effectively by providing general demographic data of members and visitors to the Music1 website.

- Music Review Services – Music1 offers Artists several ways to have their music reviewed by record company A&R:

  - A&R Live Hookup Service is a unique workshop and music review session that enable Artists to speak live with record company A&R, learn the music business, pitch their Music1 promotional profile, and have their music heard for possible record deal consideration and receive immediate feedback. Each A&R Live Hookup session includes a moderator, record company A&R and up to 10 Artists. The A&R Live Hookup Service is hosted by phone teleconference through the Arlive.com website. Record company A&R review Artists' music, answer questions about the industry and career options, and provide insider tips on how to manage their careers and maneuver through the music industry process. A&R interest in an Artist will typically result in follow-up requests for content and discussions relating to the Artist's career path. Artists pay a registration fee on arlive.com to attend A&R Live Hookup sessions. Record company A&R may be paid a small stipend for their time, consultation and participation. Attendee registration fees are determined by the level of participation (e.g., view-only, content upload and review, etc.) and the number of songs an Artist chooses to have reviewed in addition to the workshop segment.

- o VIP Private 1-off Hookup is an exclusive one-on-one A&R Live service that includes a music consultant, one attendee, and a record company A&R, in which an Artist can talk one-on-one with record company A&R, learn the music business and have their music heard for deal consideration and receive immediate one-on-one feedback. These sessions average approximately 45 minutes and involves up to four Artist songs. The Arlive follow-up system automates and manages the exchange of music and follow-up between an Artist and an interested record company A&R. Artists pay a registration fee to participate, create a promotional profile and upload their music, photos, videos and biographical information. Record company A&R may be paid a small stipend for their time, consultation and participation.

- o Quick Demo Review, which is licensed to Music1, enables an Artist to register, upload their music and receive a recorded music review by a specific record company A&R. Attendees can register and upload up to three songs for review by a record company A&R. Reviews are conducted generally within three to ten business days and feedback is provided through the Quick Demo Review system. If an A&R is interested in an Artist's music, he or she may request additional submissions from the Artist through the Arlive follow-up system which automates and manages the exchange of music and follow-up between Artists and record company A&R. Registration fees are charged depending on the number of songs uploaded by the Artist. Record company A&R may be paid a small stipend for their time, consultation and participation.

- Talent placement fees – Music1 provides talent placement services bringing together Artists and A&Rs for possible collaboration. If a project or contractual relationship develops, Music1 will be entitled to a fee generally based on a percentage of the value of the project or contract, which is standard in the music industry.

- Content syndication – Music1 intends to receive distribution and other fees in connection with the non-record company commercial syndication and distribution of Artists' content through revenue sharing arrangements with the Artist.

- Music licensing and publishing – Music1 intends to create a publishing company and enter into music publishing agreements with its most talented Artists, who have created original content. Music1 intends to provide licensing services on behalf of Artists and assist in the distribution of content in exchange for royalty fees.

- MP3 E-commerce sales – Similar to other popular online music distribution models, Music1's platform allows Artists to sell and distribute their own content through the Music1 website. Artists are given the opportunity to sell their content at any price determined by them. Music1receives a small fee for each sale. Additionally, Music1 can offer Artists a variety of distribution models, including mobile downloads to other devices and platforms.

- Premium services membership fees – Music1 offers Artists and member's two levels of membership enrollment. Free membership allows users to upload music and videos and comment on content of other members and Artists, and rate content submissions. Premium membership allows members all of the benefits of free membership plus the opportunity to retain MP3 sales profits, access to a comprehensive database of music festivals, control of privacy settings on how their content is used, the ability to participate in contests via the Music1 website, the option to sell mobile versions of their music content, receive social and fan tracking analytics on the usage of their content and have this data transmitted to record company partners and prospects to gauge fan preference and loyalty, access to detailed earnings reports and other analytics relating to the member's content, and assistance with direct sales of digital versions of content.

Advertising

Music1 believes it is in a strong position to monetize its video and music content library through targeted advertising based on user behaviors and also through direct sales and distribution of content uploaded by its members. Music1 utilizes proprietary technology (licensed from NetLab) that tracks online user activity on its website (in accordance with applicable Music1 website privacy policies) and builds profiles based on the content metadata accessed to determine the interests of users. Based on user activity, targeted advertisements can be offered to specific users at different areas of the website or embedded within the accessed content. Accordingly, multiple products and services can be offered to users that would be of interest to them based on their activity on the Music1 website.

Music1 will offer the two most commonly used ad monetization tools for video websites, but will bundle them with NetLab's proprietary technology to create higher return on investment (ROI) for advertisers. Music1 believes it can significantly increase click-through-rates (CTR) using NetLab's proprietary technology and know-how as compared with currently available methods used on other websites. Music1's behavior tracking system (currently under development with NetLab) will further add to CTR and enhance the user's experience on the website. Several types of advertising opportunities will be offered through the Music1 website:

- Display Ads – traditional banner advertising placed throughout the site will be offered in standard sizes with a minimum insertion fee and specified rates for CPM (cost per 1,000 views). Premium subscription members will have the option to turn off banner advertisement exposure.

- Video Insertions – small segmented video commercials inserted into video content, similar to how commercials are displayed on Television, and include video pre-roll, post roll, or mid-roll insertions. The current standard compensation metric is also based on CPM. Music1 expects to be able to leverage the Openfilm model and relationships with leading ad providers in the market.

- Video Overlay Ads – ads that play every 90 seconds located primarily at the bottom of film content that generate multiple impressions per content view.

As a consequence of the nature of our proprietary music discovery method, we are able to collect more information on which images, songs, texts and video content is viewed and those that are not, thus creating even higher targeting capability based on user preference. This will allow us to introduce and leverage a CPA (cost per action) or CPL (cost per lead) model of monetization, which will result in higher revenue potential.

Current Market Environment

According to the RIAA (Recording Industry Association of America), the total U.S. revenue for online and mobile digital music sales has steadily increased since its official tracking began in 2004 from $190.4 million to $3.12 billion in 2009. Physical sales (CD's) have steadily decreased from $13.35 billion to $7.39 billion during this same period.

According to a November 16, 2010 Morgan Stanley Research report – "Ten Questions Internet Execs Should Ask & Answer" – presented at the Web 2.0 Summit in San Francisco, global unit shipments of smartphones have been rapidly rising since 2005 and are expected to overtake desktop PCs and notebook PCs as the platform of choice by 2012. It is anticipated that in the near term, people will use mobile devices over PC's to connect to the Internet.

According to the International Federation of the Phonographic Industry (IFPI) Digital Music Report 2010, the music business is continuing to lead the creative industries into the digital revolution. In 2009, for the first time, more than a quarter of the recorded music industry's global revenues (27%) came from digital channels – a market worth an estimated $4.2 billion, up 12 percent from 2008. In the U.S., the world's largest music market, online and mobile revenues now account for around 40 percent of music sales. Consumer choice has been transformed as companies have licensed more than 11 million tracks to approximately 400 music distribution services worldwide.

These reports illustrate that consumer preference and purchasing trends support distribution of digital music content via the Internet and mobile platforms, and the continued development of technology infrastructure to access and support these markets.

Proprietary Technologies

In connection with the acquisition of Openfilm, we transferred certain intellectual property assets of Openfilm to our wholly-owned subsidiary, NetLab Systems, LLC, a Florida limited liability company, in order to better protect and manage our proprietary technologies and further exploit them for other vertical markets, including Motorsport and Music1. Each of the proprietary technologies used by Openfilm is subject to a Technology Transfer and License Agreement with NetLab. For more information, see "– Licensing Arrangement between Openfilm and NetLab" below. It is expected that similar licensing arrangement's will be entered into with each of Motorsport and Music1 upon development of applications for their respective websites.

We believe that in the online video sector, only a small percentage of the hundreds of Internet portals are able to employ proprietary technologies because most systems are generally built on open source coding platforms. We believe that as a result of the proprietary technology used by Openfilm (licensed from NetLab) combined with its "know-how," Openfilm can better serve its target markets and members. Further, we believe that these technologies allow us to build scalable systems that can be implemented in virtually any market, including those served by Motorsport and Music1.

The Openfilm Contest Management System, called Launchpad (licensed from NetLab), uses various methods and algorithms to conduct and manage online contests of any form. The system enables Openfilm to "white label" online contests, with robust backend functionality that allows control of the contest with minimal technical training. We believe that Launchpad controls allow contest hosts to receive, filter and judge submissions quicker, more easily and more efficiently. Submissions can be in the form of video files, audio and other common digital formats. The system is designed to provide scalability in functionality and application processing. We believe that the Launchpad contest platform enables optimum engagement of consumers and more effective capturing of data and management of content.

Although Film Festivals are considered natural consumers of the Launchpad platform, as it will help them significantly reduce administrative expenses and streamline the submission and judging process, it can also be an effective tool in the corporate and education sectors and other areas that may need a resource or talent management system.

Subconscious user behavior tracking is another proprietary system owned by NetLab, which monitors viewers as they interact with Internet websites. Content on the website is coded using mathematical algorithms to arrange content based on its collective and/or average evaluations. The resulting data gathered through user experiences can be used in a variety of ways. This preference monitoring system will assist Openfilm's advertising clients in directed marketing campaigns and will provide Openfilm with effective and reliable audience participation in its offerings. Additionally, user behavior tracking will yield profiles for each user, allowing the best possible video recommendations system to evolve. NetLab engineers are developing similar applications for use in Motorsport's and Music1's businesses.

Openfilm currently offers, to a limited extent, video with programmable story lines that allow content creators to offer interactive experiences for their viewers, such as selection of alternative movie endings. The Openfilm interactive system (licensed from NetLab) allows digital product placement of any branded item into any frame of content. Dynamic tracking of the insertion and user interaction is expected to result in valuable brand placement optimization and advertisers will be able to determine the best frames within videos to place their brand for maximum exposure and return on investment.

Music Brain (developed by NetLab for Music1) is a tool for predicting musical user preferences based on visual user preferences. The voting for songs and images, and other metrics are used to identify user preferences and apply them in other intuitive situations. Music Brain suggests playlists and songs for a particular user based on prior preference metrics and behaviors. Music Brain utilizes advanced mathematical algorithms and implements psychological models for accurate prediction of song preferences.

NetLab is currently developing additional technology that is intended to allow Artists' music to be automatically distributed to listeners based on behaviors, navigation, preferences and interaction with content on the website.

Other Technology Advancements

Showcasing quality content is one of the highest priorities on the Internet. Openfilm utilizes a unique submission processing system (licensed from NetLab), which converts videos into High Definition (HD) and allows publication in multiple resolutions. Additionally, Openfilm products and services provide a wide array of tools that permit content owners to enhance and control various aspects of the distribution and viewing process and to generate a variety of useful analytical reports.

Through the reach of the Openfilm website and other online syndication partners, Openfilm's content providers are able to offer their content for sale through various methods including desktop downloads and on mobile devices.

A 3-D viewing experience will also be available through the Openfilm video player later in 2011 as this method of delivery gains market acceptance.

Technology Diversification

The online software currently utilized by Openfilm (licensed from NetLab) was designed with scalability to enable it to be utilized across different vertical markets, including Motorsport and Music1. This platform and its proprietary technological advantages can be adapted to other markets, such as sports, education, government and corporate applications, music and other sources and uses of online content.

The algorithms of classification users' feedback developed for Music Brain can be also used for other applications, such as analysis of user's activity on the website to identify groups of users with similar behavior and deliver them content with high probability that the user group will like it. Another application of this technology is the development of various business intelligence tools such as data mining and predictive analytics.

Due to a variety of technological innovations and advantages, many of which are eligible for patent protection, we believe that our online media businesses and NetLab will be able to generate revenue from various sources, maximizing utilization of these technologies in various markets. Multiple revenue streams leave no dependency on one business model. The platform utilized by Openfilm and other NetLab technologies are built on broad principles, with flexibility, scalability and adaptability in mind.

We will generally rely on a combination of trade secret, copyright, trademark and patent law to protect our proprietary rights in the intellectual property. Although Openfilm, Motorsport, Music1 and other customers will utilize NetLab's proprietary platforms and other products in object code form, no assurance can be given that unauthorized third parties will not be able to copy such software. In addition, there can be no assurance that our competitors will not independently utilize existing technologies to develop products that are substantially equivalent or superior to ours. We could incur substantial costs in defending ourself or our licensees in litigation brought by third parties, or in seeking a determination of the scope and validity of the proprietary intellectual property rights of others.

Development Team

Our technology development team consists of more than 35 engineers. The majority of the team has been working together for the past three years to enhance the Openfilm website and develop new proprietary features that will bring additional functionality to users and revenue sources to Openfilm, as well as, Motorsport, Music1 and others. Development activities are conducted primarily offshore in Dnepropetrovsk, Ukraine through Openfilm's wholly-owned subsidiary, Zivos, LLC, a Ukranian company. We believe that overall research and development costs are significantly less than comparable facilities and staff in the United States.

Licensing Arrangement between Openfilm and NetLab

In connection with the acquisition of Openfilm and the transfer of certain technologies to NetLab, Openfilm and NetLab entered into a Technology Transfer and License Agreement whereby Openfilm has been granted a perpetual, non-exclusive license to use, modify and enhance certain of the NetLab technologies used in conjunction with the Openfilm website. Openfilm is required to pay to NetLab a license fee equal to five percent of the gross revenue generated by Openfilm's use of the licensed NetLab technologies. The initial term of this arrangement is ten years with automatic one year renewals unless sooner terminated in the event of breach or upon 30 days prior written notice after the initial term. It is expected that similar arrangements will be entered into with Motorsport and Music1 upon delivery of applications for use on their respective websites.

License Agreement with Stephen Strother

In connection with the acquisition of Music1, Stephen Strother entered into a License Agreement with Music1 granting Music1 a world-wide royalty-free license and rights to use certain technology and other intellectual property owned by Mr. Strother, including the Quick Demo Review technology, which enhances the functionality of the Music1 online services, and Around the Block, which is an online music video series utilizing technology developed by Mr. Strother. For more information about Quick Demo Review, see "Item 1. Business – Business Description – Music1 Development of Business – Revenue Streams."

Research and Development

Management believes that our future success depends in part upon the timely enhancement of existing products and the development of new products and applications. We are currently developing new software products relating to information management with broad applications in the commercial, government and education markets and enhancing existing products to improve price and performance, expand product capabilities, simplify user interfaces, help define and support emerging industry standards, and develop interoperability with most products and devices commonly used in our targeted markets. Up until the date of acquisition, Openfilm operations, including research and development costs, were funded primarily by entities controlled by our President, Mike Zoi. Since the date of acquisition of Openfilm, research and development costs were funded pursuant to the Subscription Agreement with TGR and the Enerfund Subscription Agreement. It is expected that revenues received pursuant to the licensing arrangements with our online media businesses will significantly contribute to NetLab's funding requirements in the future. Additionally, we may pursue other external research and development funding sources and collaborative partners.

For fiscal 2010 (April 1, 2010 through December 31, 2010), fiscal 2009 and fiscal 2008, the research and development expense of Openfilm and NetLab was approximately $443,819, $483,013, and $187,402, respectively.

Regulation

We do not believe that we are required to obtain government approval of our products or services. However, since Openfilm, Motorsport and Music1 collect, or intend to collect, certain information from members and users on their respective websites, such entities will be subject to current and future government regulations regarding the collection, use and safeguarding of consumer information over the Internet.

Our businesses are subject to the California Online Privacy Protection Act of 2003 (CA OPPA), which requires website operators to post its privacy policy on its website and to include certain disclosures relating to the type of information collected, how it is used and how users can review and make changes to the information collected. We believe that we are currently in compliance with the CA OPPA.

In recent years, the Federal government has proposed several pieces of legislation designed to regulate information obtained online and safeguard personal and confidential consumer information from theft or compromise. Although none of such legislation has yet been enacted, we believe that consumer protection initiatives similar to the Privacy Act of 2005, the Information Protection and Security Act, the Identity Theft Prevention Act of 2005, the Online Privacy Protection Act of 2005, the Consumer Privacy Protection Act of 2005, the Anti-phishing Act of 2005, and the Social Security Number Protection Act of 2005, will be enacted in the near future, compliance with which may result in significant efforts and increased costs.

Competition

Openfilm

Many of the companies with whom Openfilm competes or expects to compete have substantially greater financial resources, research and development capabilities, sales and marketing staffs and distribution channels and are better known than Openfilm. We believe that the principal factors affecting Openfilm’s ability to compete are the accessibility, functionality and ease of use of the Openfilm website, and the compelling nature of the value proposition to advertisers and brands, as well as, the performance and unique features of the Openfilm platform and other applications and solutions offered by Openfilm, the effectiveness of marketing efforts, the success of its video contests and film production and distribution abilities and pricing of membership and other offers.

Openfilm believes that it can successfully differentiate itself from its competitors due to the proprietary technology licensed from NetLab, its unique focus on independent filmmakers and their content, and its Celebrity Advisory Board. Openfilm’s tiered membership model allows flexibility for users and promotes migration from lower value membership plans to premium membership plans.

Other competitive advantages include the ability of independent filmmakers to submit their films on Openfilm’s website, receive valuable feedback from Advisory Board members and to participate in online contests. Films that are showcased on the Openfilm website undergo a rigorous screening process to ensure they meet quality standards of production and artistic merit.

We believe that the proprietary technologies (licensed from NetLab), which are utilized by Openfilm are not commonly found in the online video-sharing world and thus provide a distinct competitive advantage for Openfilm primarily because of the ability of Openfilm to deploy customized solutions for its members, advertisers and others.

Motorsport

Motorsport.com competes with other websites aimed at motorsport fans, providing news, event photos and merchandise. According to Alexa.com©, as of December 31, 2010, Motorsport.com was ranked 40,910 for most trafficked websites world-wide, 19th in relation to all racing related websites (out of 4,312) and 3rd in relation to all racing news and media websites (out of 118). The rank is is calculated using a combination of average daily visitors and page views over the past month.

Motorsport.com competes with other, well-established companies, such as Autosport.com, based in the UK and part of Haymarket Publishing, which has the advantage of viewer support from traditional weekly print magazines, including Autosport magazine and F1 Racing magazine, and Crash.net, which is an online media publishing house and multimedia agency (Crash Media) that also has the support of publications like Autocourse, Rallycourse and Motocourse.

Additionally, Motorsport.com competes with websites that are sponsored by cable TV channels, such as Speedtv.com, a U.S.-based motorsport portal that has the advantage of support from its related cable TV channel in the U.S. and Canada.

Other competitors of Motorsport.com include racing series sites (Formula1.com, NASCAR.com, etc.), sports websites that also cover motor racing (espnf1.com, BBC Sport, sports.yahoo.com, itv.com F1 Sport, etc.), and vertical motor racing sites that focus on only one form of racing (jayski.com, Planet F1, etc.)

Motorsport.com also competes with hundreds of smaller websites and independent blogs around the globe due to the low barriers and costs to enter this market on the Internet.

Motorsport.com competes primarily on the basis of the content and services offered, the relevance of news and photos, reliability, brand loyalty, functionality and ease of use of website features, and in the future, the perceived value and cost of premium membership and other fee-based services.

Music1

The current market for services to independent artists is highly competitive. Music1 believes it is uniquely positioned to capitalize on the rapidly growing online and mobile music markets and distribution of content primarily through its new artist discovery service. Music1 combines proprietary technology (primarily developed by NetLab), knowledge and connections to the music industry, to provide artists with superior opportunities to connect to the decision-makers at record companies.

Music1 competes with a variety of web-based companies in its market, some of which are larger and more well established, including Purevolume (USA), an artist discovery and promotion website, Reverbnation, an Artist discovery and social networking site, iTunes' Ping, an Artist discovery, social networking and e-commerce site, Myspace (USA), also the home of Myspace Music, which offers a growing catalogue of freely streamable audio and video content, and other music content sharing websites and social entertainment marketing websites.

Music1 competes primarily on the basis of the content and services offered, its unique relationships with, and access to, A&Rs, brand loyalty, functionality and ease of use of website features, including social networking, and access to new Artists, and the perceived value of membership and other fee-based services.

Employees

We conduct operations from our Miami, Florida headquarters, our Ukrainian technical facility and our California satellite office. Our Miami headquarters provides operations, finance, IT, legal, human resources and business development resources to our operating businesses. As of December 31, 2010, there were 12 people in our Miami headquarters, including our senior executive officers, the senior management of Openfilm and various support staff. As of February 1, 2011, six additional administrative personnel were added from Motorsport and Music1.

Our technology development is conducted primarily in facilities located in Dnepropetrovsk, Ukraine through Openfilm's wholly-owned subsidiary, Zivos, LLC, a Ukranian company. This facility includes 35 highly skilled engineers and technology professionals, as well as, management and financial personnel and support staff.

Our satellite office in Los Angeles, California accommodates our Advisory Board members and others during live studio chats, and includes Openfilm's director of communications, director of business development and one marketing support person.

Reports to Security Holders

We are required to file reports with the Securities and Exchange Commission, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Periodic Reports on Form 8-K. We also file Information Statements on Schedule 14C in lieu of Proxy Statements on Schedule 14A since the majority of our voting securities are held by entities controlled by our President, Mike Zoi.

The public may read and copy any materials we file with, or furnish to, the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information on its website at http://www.sec.gov.

We will make available free of charge on our website (www.netelement.com), our public reports as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Alternatively, we will provide electronic or paper copies of our public filings free of charge upon request.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Description of Property.

We lease approximately 6,500 square feet of office space in Miami, Florida at an annual rental of $187,785. The current lease term expires December 31, 2011 and may be extended for an additional year at our option at an annual rental of approximately $201,695. Our corporate headquarters and Openfilm, Motorsport and Music1 operations are conducted at this location. We believe that this facility is adequate for our anticipated needs.

Zivos, LLC leases approximately 1,600 square feet of office space in Dnipropetrovsk, Ukraine, where it conducts primarily research and development activities, at an annual rental of approximately $12,000 (not including utilities). The current lease term expires July 31, 2011. We believe that this facility is adequate for our anticipated needs.

Openfilm subleases approximately 450 square feet of office space in Los Angeles, CA, which is used primarily for marketing, public relations and celebrity chat (studio) activities. The lease term is month to month and the monthly rent is approximately $1,500. We believe that this facility is adequate for our anticipated needs.

Item 3. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising in the normal course of operations. We are not currently a party to any such proceedings.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Purchases of Equity Securities.

There currently is no established public trading market for our common stock. The number of shareholders of record of our common stock at December 31, 2010 was 205. The number of shareholders of record does not include beneficial owners of common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries. The principal markets for our stock were the Over The Counter Bulletin Board (OTCBB) and Pink Sheets LLC. On December 30, 2010, the price of our common stock last traded at $0.01 per share on the OTCBB.

The following table sets forth the high and low prices for our common stock for the quarterly periods indicated as reported by the OTCBB. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Fiscal Year	Quarter Ended	High	Low
2008*	June 30, 2008	$ 0.12	$ 0.12
	September 30, 2008	$ 0.13	$ 0.13

	December 31, 2008	$	0.07	$	0.07
	March 31, 2009	$	0.30	$	0.07
2009*	June 30, 2009	$	0.22	$	0.22
	September 30, 2009	$	0.23	$	0.23
	December 31, 2009	$	0.15	$	0.15
	March 31, 2010	$	0.15	$	0.15
2010*	June 30, 2010	$	0.15	$	0.09
	September 30, 2010	$	0.09	$	0.01
	December 31, 2010	$	0.01	$	0.01

* Note: Fiscal 2010 reflects the nine month transition period from April 1 through December 31, 2010 as we changed to a calendar year financial year. Accordingly, fiscal 2009 reflects the period from April 1, 2009 through March 31, 2010 and fiscal 2008 reflects the period from April 1, 2008 through March 31, 2009.

We have not paid any cash dividends during the last two fiscal years and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Plan Shares Outstanding

The following table sets forth information as of December 31, 2010 with respect to the Company's 2004 Stock Option Plan, approved by our security holders. The 2004 Stock Option Plan authorizes the issuance of a maximum of 10,000,000 shares underlying options. We previously granted options to purchase a total of 4,825,000 shares of common stock, of which options to purchase 4,737,500 shares of common stock expired unexercised.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,200,000	$ 0.25	3,975,000

Recent Sales of Unregistered Securities

On August 7, 2008, our Board of Directors approved a Subscription Agreement dated August 7, 2008 (the "Subscription Agreement") with TGR, wherein TGR committed to invest up to $2,000,000 (the "Investment Amount") in exchange for up to 100,000,000 shares of our common stock for $0.02 per share. In addition, we granted TGR warrants to purchase up to 50,000,000 shares of common stock for $0.05 per share. These warrants may be exercised within five years from the date of grant. The shares and warrants are issuable under the Subscription Agreement upon the funding from time to time by TGR. The valuation date to determine the appropriate compensation charge is the last day of the quarter then ended. The Subscription Agreement was amended on January 12, 2010 to increase the Investment Amount by an additional $2,000,000 to $4,000,000 in exchange for up to an additional 100,000,000 shares of common stock and 50,000,000 warrants to purchase common stock for $0.05 per share for a period of 5 years from date of issuance. TGR has funded the full amount required under the Subscription Agreement.

For the twelve months ended March 31, 2010, TGR was issued an aggregate of 16,186,515 shares of our common stock and fully vested warrants to purchase 8,093,757 shares of our common stock at an exercise price of $0.05 per share pursuant to the terms of the Subscription Agreement. These issuances were in exchange for financings under the Subscription Agreement in the aggregate amount of $323,730.

For the nine months ended December 31, 2010, TGR was issued 101,088,150 shares of our common stock and fully vested warrants to purchase 50,544,075 shares of our common stock for $0.05 per share in exchange for funding of $2,021,763 provided during the nine months ended December 31, 2010 under the terms of a Subscription Agreement. The Subscription Agreement was fully subscribed at December 31, 2010.

On December 31, 2010, we entered into a Subscription Agreement with Enerfund, LLC (a company controlled by Mike Zoi) (the “Enerfund Subscription Agreement”) pursuant to which we received an aggregate of $2,000,000 in exchange for 200,000,000 shares of our common stock and warrants to purchase 100,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. However, we did not have sufficient authorized shares of common stock to fully issue these securities to Enerfund as of December 31, 2010. Accordingly, this transaction has been accounted for as a purchase by Enerfund as of December 31, 2010 of 112,000,000 shares of our common stock and fully vested warrants to purchase 56,000,000 shares of our common stock for $0.05 per share in exchange for $1,120,000. The balance of the proceeds of $880,000 has been accounted for as an advance until we can issue the balance of the shares and warrants, which is expected on or about March 1, 2011, and appears on our balance sheets as a stock subscription liability. The proceeds of the Enerfund Subscription Agreement will be used to fund our operations.

Through May 15, 2009, Mr. New’s base salary was $140,000 with a $30,000 bonus payable quarterly for meeting agreed upon objectives. On May 15, 2009, Mr. New’s base salary was reduced from $140,000 to $91,000 and his bonus was reduced from $30,000 to $19,500 annually. To partially offset the reduction in salary, we provided Mr. New with 25,000 shares of fully vested common stock in lieu of his March 31, 2009 cash bonus and 200,000 shares of common stock which vested monthly from April 1, 2009 to September 30, 2009. On March 31, 2010, Mr. New was granted 250,000 fully vested shares of our common stock and a compensation charge of $37,500 was recorded based on the fair value of the stock issued on the date of grant.

Other employees (other than officers and directors) receiving salary reductions were granted a total of 50,000 shares of common stock which vested monthly between April 1, 2009 and September 30, 2009.

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

On November 1, 2008, we entered into a Letter Agreement with Olympus Securities LLC (the “Agreement”). Under the Agreement, Olympus was appointed our exclusive financial advisor and investment banker (collectively, the “Services”) for a period of seven (7) months. After expiration of this initial term, the Agreement is to automatically continue on a month-to-month basis, with each party having the right to terminate on thirty (30) days notice. The Agreement included a fee of one thousand dollars ($1,000) per month in return for the Services, except for the first month, where, instead of the monthly fee, we granted five (5) year warrants to Olympus to purchase one million (1,000,000) shares of our common stock at ten cents ($.10) per share. The warrants were valued at $149,999 and were to be amortized over the seven-month term of the Agreement. The Agreement contains other provisions relating to payments of cash, stock and warrants in connection with any future financing or investment transaction completed through Olympus. We have has not yet paid a cash fee or provided the abovementioned warrants to Olympus due to the failure by Olympus to provide meaningful investment banking services until world financial markets stabilized and, more recently, due to the unwind of the TOT-SIBBNS joint venture. We have amortized the warrant charge of $149,999 during the twelve months ended March 31, 2009 and accrued this amount in the financial statements at December 31, 2010 and March 31, 2010.

At December 31, 2010, we had options to purchase 1,200,000 shares of common stock outstanding under our stock option plan, of which options to purchase 1,005,556 shares of common stock are vested, with an exercise price of $0.25 per share and with a remaining weighted average contractual term of 4.28 years. We also had warrants to purchase 156,000,000 shares of common stock outstanding at December 31, 2010 with a strike price of $0.05 per share and a remaining average contractual term of 4.38 years.

We entered into a Sponsorship Agreement with American Speed Factory dated April 22, 2009, whereby we received certain marketing and promotional services and sponsorship rights to display our logo in connection with the 2009 Ferrari Challenge racing season in exchange for the issuance of 500,000 shares of our restricted stock.

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

On December 14, 2010, we issued 1,000,000 shares of common stock to Curtis Wolfe in exchange for legal services provided on our behalf.

We believe that each of the foregoing securities transactions were exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, by virtue of Section 4(2) of the Securities Act which exempts transactions by an issuer not involving any public offering.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

See information described under “Recent Sales of Unregistered Securities” above.

Item 6. Selected Financial Data.

Not Applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Annual Report on Form 10-K contains forward -looking statements. These statements relate to our expectations, hopes, intentions or strategies regarding future events or future financial performance. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or “continue,” or the negative of such terms or other comparable terminology. Forward-looking statements include but are not limited to statements regarding: our future business plans; future sales of our product and services; introduction of new products and services; expected hiring levels; marketing plans; increases of selling, general and administrative costs; financing requirements and capital raising plans; successful integration and development of acquired businesses; regulatory and economic factors affecting our businesses and other factors that may impact our acquisition and development strategy, some of which are beyond our control and difficult to predict. These statements are only predictions and are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important factors, in addition to those discussed in our other filings with the Securities and Exchange Commission (the “Commission”) from time to time, and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: general economic conditions; competition; our ability to raise capital; our ability to control costs; changes within our industries; new and upgraded products and services by us or our competitors; employee retention; sovereign risk; legal and regulatory issues; changes in accounting policies or practices; currency translation and exchange risks; our ability to protect our proprietary technologies; our ability to manage growth; our dependence on our major stockholder and president to continue to fund operations; and the market acceptance of our products and services.

All forward-looking statements are based on information available to us on the date of this filing, and we assume no obligation to update such statements, although we will continue to comply with our obligations under the securities laws.

The following discussion should be read in conjunction with our other filings with the Commission and the consolidated financial statements and related notes included in this report.

General

We are currently engaged in pursuing a strategy to develop and/or acquire technology and applications for use in the online media industry. In furtherance of this strategy, we acquired Openfilm in December 2010 and Motorsport and Music1 on February 1, 2011. We believe that our technology platforms and development expertise will enable us to enhance the digital distribution of content in a variety of industries. Accordingly, we intend to explore the possibility of acquiring other internet portal properties and companies with similar goals of connecting people in various vertical markets, such as the medical, educational, sports and legal markets. From time to time, we may be engaged in various discussions to acquire businesses or formulate joint venture or other arrangements. Our policy is not to disclose discussions or potential transactions until definitive agreements have been executed. Where appropriate, acquisitions will be financed with equity shares and this may result in substantial dilution to existing stockholders.

Since the unwind of the TOT-SIBBNS joint venture effective March 31, 2010, we have had no significant operations until the acquisition of Openfilm on December 14, 2010. Management recognizes that we must raise capital sufficient to fund business activities until such time as we can generate sufficient revenues and net cash flows in amounts necessary to enable us to continue operations, of which there can be no assurance.

Until December 31, 2010, short term financing was provided by TGR Energy, LLC (“TGR”), an entity controlled by our president, Mike Zoi, pursuant to a Subscription Agreement dated August 7, 2008 (the “Subscription Agreement”). TGR agreed to provide up to $2,000,000 (the “Investment Amount”) in exchange for up to 100,000,000 shares of common stock and warrants to purchase up to 50,000,000 shares of common stock at an exercise price of $0.05 per share. Pursuant to the Subscription Agreement, TGR funded the Investment Amount as required in our operational budget. On January 12, 2010, TGR agreed to increase its funding commitment from $2,000,000 to $4,000,000 in exchange for up to an additional 100,000,000 shares of our common stock and warrants to purchase up to 50,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. TGR has funded the full amount required under the Subscription Agreement.

For the fiscal year ended March 31, 2010, TGR was issued an aggregate of 16,186,515 shares of our common stock and fully vested warrants to purchase 8,093,757 shares of our common stock at an exercise price of $0.05 per share pursuant to the terms of the Subscription Agreement. These issuances were in exchange for financings under the Subscription Agreement in the aggregate amount of $323,730. A compensation charge of $4,717,677 was recorded for the fiscal year ended March 31, 2010. This amount is calculated as the difference between the market price of our common stock at the end of each quarter in which shares were issued and the subscription price of the common shares ($0.02) multiplied by the number of shares issued, plus the Black-Scholes valuation of the warrants issued as calculated at the end of each quarter.

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

On December 10, 2010, Openfilm entered into a loan agreement with Enerfund, LLC (a company controlled by Mike Zoi) in the principal amount of $1,667,020. The annual interest rate is 5% payable annually on December 31st. The loan matures on December 10, 2012 with accrued interest due at that time.

On December 31, 2010, we entered into a Subscription Agreement with Enerfund, LLC (a company controlled by Mike Zoi) (the "Enerfund Subscription Agreement") pursuant to which we received an aggregate of $2,000,000 in exchange for 200,000,000 shares of our common stock and warrants to purchase 100,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. However, we did not have sufficient authorized shares of common stock to fully issue these securities to Enerfund as of December 31, 2010. Accordingly, this transaction has been accounted for as a purchase by Enerfund as of December 31, 2010 of 112,000,000 shares of our common stock and fully vested warrants to purchase 56,000,000 shares of our common stock for $0.05 per share in exchange for $1,120,000. A compensation charge of $560,000 was recorded for the nine months ended December 31, 2010 as one of our officers is also a principal of Enerfund. This amount is calculated as the Black-Scholes valuation of the warrants issued as of December 31, 2010. The balance of the proceeds of $880,000 has been accounted for as an advance until we can issue the balance of the shares and warrants, which is expected on or about March 1, 2011, and appears on our balance sheets as a stock subscription liability. The proceeds of the Enerfund Subscription Agreement will be used to fund our operations.

We entered into a Sponsorship Agreement with American Speed Factory dated April 22, 2009, whereby we received certain promotional services and sponsorship rights to display our logo in connection with the 2009 Ferrari Challenge racing season in exchange for the issuance of 500,000 shares of our restricted stock. This arrangement was valued at $50,000, which amount was recorded as an advertising expense for the quarter ended June 30, 2009.

Through May 15, 2009, Mr. New's base salary was $140,000 with a $30,000 bonus payable quarterly for meeting agreed-upon objectives. On May 15, 2009, Mr. New's base salary was reduced from $140,000 to 91,000 and his bonus was reduced from $30,000 to $19,500 annually. To partially offset the reduction in salary, we provided Mr. New with 25,000 shares of fully vested common stock in lieu of his March 31, 2009 cash bonus and 200,000 shares of common stock which vest monthly from April 1, 2009 to September 30, 2009. A compensation charge of $12,500 was recorded for the quarter ended June 30, 2009 and a compensation charge of $10,000 was recorded for the quarter ended September 30, 2009, which reflects the market value per share ($0.10) on the first trading day after the date of grant. At March 31, 2010, we provided Mr. New with 250,000 shares of fully vested common stock for services provided to us under a salary reduction. A compensation charge of $37,500 was recorded for the quarter ended March 31, 2010, which reflects the market value per share ($0.15) on the first trading day after the date of grant.

Other employees (other than officers and directors) receiving salary reductions were granted a total of 50,000 shares of common stock vesting monthly between April 1, 2009 and September 30, 2009. We recorded a compensation expense of $2,347 for the quarter ended June 30, 2009 and a compensation expense of $1,042 for the quarter ended September 30, 2009, to reflect the market value of stock provided in lieu of cash compensation. Both of these charges were calculated using the price per share of common stock ($0.10) on the first trading date after the date of grant.

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

At December 31, 2010, we had options to purchase 1,200,000 shares of common stock outstanding under our stock option plan, of which options to purchase 1,005,556 shares of common stock are vested, with an exercise price of $0.25 per share and with a remaining weighted average contractual term of 4.28 years. We also had warrants to purchase 156,000,000 shares of common stock outstanding at December 31, 2010 with a strike price of $0.05 per share and a remaining average contractual term of 4.38 years.

As set forth in our audited financial statements for the fiscal years ended December 31, 2010 and March 31, 2010, several factors raise significant doubt as to our ability to continue operating as a going concern. These factors include our history of net losses and that as of March 31, 2010, due to the unwind of the TOT-SIBBNS joint venture, we had no significant operations until the acquisition of Openfilm effective as of December 14, 2010, and a working capital deficit. We are dependent upon TGR or Mike Zoi (as a result of his controlling interest in TGR and Enerfund and our dependence on the continued support of our operations by Mr. Zoi) to fund our operations. Our independent auditors' report on our financial statements for the year ended December 31, 2010 contains an explanatory paragraph about our ability to continue as a going concern. Management believes that our current operating strategy, as described in the preceding paragraphs and the proceeds received from the Enerfund Subscription Agreement and expected continued financial support from Mr. Zoi, provides the opportunity for us to continue as a going concern; however, there is no assurance this will occur and Mr. Zoi is not obligated to continue to fund our operations.

On November 11, 2010, our Board of Directors adopted a resolution changing our fiscal year end from March 31 to December 31 effective immediately. Accordingly, the first 12-month fiscal year will run from January 1, 2011 through December 31, 2011. The nine-month period from April 1, 2010 through December 31, 2010 is presented herein along with comparative financial information to assist in period-to-period comparisons. Our Board believes that this change will allow better alignment of our annual planning and budget processes with our new business strategy as we are no longer engaged in the seasonal oil and gas business. Accordingly, "fiscal 2010" reflects the nine month transition period from April 1 through December 31, 2010, "fiscal 2009" reflects the period from April 1, 2009 through March 31, 2010 and "fiscal 2008" reflects the period from April 1, 2008 through March 31, 2009.

Historical Overview

On July 16, 2008, we entered into a Joint Venture Agreement (the "JV Agreement") with Evgeny Bogorad ("Bogorad"), owner of Sibburnefteservis, Ltd. of Novosibirsk, Russia, an oil services company ("SIBBNS"). Pursuant to the JV Agreement, Bogorad contributed certain of SIBBNS' assets and personnel to a joint venture company named TOT-SIBBNS, Ltd., a Russian corporation ("TOT-SIBBNS"). An independent appraisal company appraised the contributed assets at USD $6,221,881.We ended development stage activity on July 16, 2008 when we acquired a 75% interest in the TOT-SIBBNS joint venture and began operations in the oil and gas service industry, including the exploration, development, production, and marketing of crude oil and natural gas in Russia and Kazakhstan. At the closing on July 16, 2008, we issued to Bogorad 3,000,000 shares of our common stock in exchange for a 75% interest in TOT-SIBBNS.

TOT-SIBBNS obtained its first contract and began drilling operations in the Fall 2008. However, financial constraints and the declining price of oil resulted in a suspension of drilling operation in January 2009. Drilling operations did not recommence during the Winter 2009 and most employees were furloughed in April 2009.

TOT-SIBBNS had expectations of continuing exploratory drilling (both through its existing customer and new customers) for the 2009/2010 drilling season as the price of oil had risen significantly and TOT-SIBBNS was able to secure an additional drilling contract in November 2009. However, in January 2010, it became questionable whether activities with TOT-SIBBNS' initial customer would recommence in the short term, and there remained uneasiness in the market over the continued improvement in crude oil prices, which had a negative impact on the exploratory drilling market in Russia at that time. Accordingly, on January 27, 2010, after several weeks of exploring other business opportunities, we altered our business focus and decided to exercise its option to unwind the joint venture and pursue other development opportunities.

We executed an unwind agreement with TOT-SIBBNS whereby we exchanged our 75% interest in TOT-SIBBNS for the 3,000,000 shares given to Evgeny Borograd in 2008. The unwind of the joint venture was consummated as of March 31, 2010. The unwind of the TOT-SIBBNS joint venture has been accounted for using the guidance provided in ASC 845 (previously APB 29), as a disposal "other than by sale" similar to a spin-off transaction, with the shares received reflected as treasury stock and recorded on our balance sheet at its carrying basis in the net assets of the joint venture as of March 31, 2010. Operations of TOT-SIBBNS are included in our consolidated financial statements at March 31, 2010 as discontinued operations, but are not included in the consolidated financial statements subsequent to March 31, 2010.

KORLEA-TOT is our 51% joint venture with Korlea Invest Holding AG of Switzerland ("Korlea"), a provider and trader of energy assets in the Czech Republic. The joint venture, Korlea-TOT, established as of July 17, 2008, was expected to assist in the marketing of oil assets sourced by other TOT-Energy companies and contacts. There has been no activity to date with this joint venture. Accordingly, in November 2010, we sent Korlea notice of our request to unwind this arrangement. We intend to sell our ownership in the KORLEA-TOT joint venture to Korlea in exchange for a cash payment equal to 51% of the cash balance in the joint venture on the date of unwind. Consummation of this transaction will be subject to obtaining certain approvals and making certain filings overseas. It is expected that this transaction will be completed during the first quarter of 2011.

We had intended to develop a downstream solar business to provide complete solar solutions (design, installation, maintenance and finance) to commercial customers. Although we commenced some activities in this regard during 2010, we have, as of December 31, 2010, abandoned further development as a result of the acquisition of Openfilm in order to focus on the development and operation of our online media businesses.

As part of our strategy to develop an online media company, on December 14, 2010, we entered into a purchase agreement (the “Openfilm Purchase Agreement”) with the members of Openfilm, LLC, a Florida limited liability company engaged in the development of technology and operation of a website that supports the advancement of independent film on the Internet. Mike Zoi, our President, through his control of Enerfund, LLC and MZ Capital, LLC, both Florida limited liability companies, held approximately 70% of Openfilm’s outstanding membership interests prior to the acquisition by us. Pursuant to the Openfilm Purchase Agreement, we acquired all of the outstanding membership interests in Openfilm by exchanging for such interests an aggregate of 107,238,421 shares of our common stock to the security holders of Openfilm, of which 45,937,500 shares were issued to Enerfund (a company controlled by Mike Zoi), 29,062,500 shares were issued to MZ Capital, LLC (a company controlled by Mike Zoi), 24,950,000 shares were issued to Dmitry Kozko, CEO of Openfilm, and an aggregate of 7,288,421shares were issued to the remaining seven non-controlling security holders of Openfilm. Upon completion of the acquisition transaction on December 14, 2010, Openfilm became a wholly-owned subsidiary. Additionally, in connection with the acquisition of Openfilm, we established NetLab Systems, LLC (NetLab), a Florida limited liability company, and transferred the ownership of certain intellectual property assets from Openfilm to NetLab. Openfilm and NetLab entered into a Technology Transfer and License Agreement granting Openfilm the right to use certain technology transferred to NetLab. Research and development activities are conducted primarily through Zivos, LLC, a Ukrainian limited liability company and wholly-owned subsidiary of Openfilm. Up until the date of acquisition, Openfilm operations were funded primarily by entities controlled by our President, Mike Zoi.

On February 1, 2011, we acquired from Enerfund (a company controlled by Mike Zoi) an 80% interest in Motorsport.com, Inc., a company engaged in providing news, community forums and information to the automobile racing enthusiast market through its website (www.motorsport.com), and a 97% interest in Music1, a company that provides opportunities for emerging musical artists, songwriters and producers to be reviewed by record company executives, as well as, an interactive website (www.music1.com) and social community that permits the uploading and sharing of subscriber-created music.

In connection with the acquisitions of Motorsport and Music1, we assumed certain indebtedness to Enerfund in the principal amount of $184,592 and $128,890, respectively. The annual interest rate is 5% payable annually on December 31st. The loans mature on the third anniversary of each funding under the respective loan agreement, which fundings occurred from October 2010 through January 2011, with accrued interest due at that time.

Net Element Results of Operations for the Nine Months Ended December 31, 2010 Compared to the Twelve Months Ended March 31, 2010

We reported a net loss of $3,101,146, or $0.01 per share, for fiscal 2010 as compared with a net loss of $6,596,834, or $0.02 per share, for fiscal 2009. The net loss for fiscal 2010 does not include discontinued operations (TOT-SIBBNS). The net loss for fiscal 2009 includes a loss from discontinued operations of $646,017 relating to the TOT-SIBBNS joint venture.

Revenues were $242 for fiscal 2010 as compared with $0 for fiscal 2009. Fiscal 2010 revenues reflect revenues received from Openfilm from the acquisition date of December 14, 2010 through December 31, 2010. Fiscal 2009 revenues reflect revenues received in connection with the TOT-SIBBNS joint venture, which was unwound as of March 31, 2010. The fiscal 2010 revenues are primarily from Openfilm membership fees and film contest entry fees.

28

The gross margin for fiscal 2010 was ($37,920) reflecting advertising revenues of $242 and cost of sales of $38,162 relating primarily to Openfilm for the period from December 14, 2010 (the date of acquisition) through December 31, 2010. Cost of sales consists of direct expenses to maintain and operate our Openfilm.com web site. The gross margin for fiscal 2009 was $0 as the company discontinued operations of TOT-SIBBNS, our oil services joint venture business.

General and administrative expenses were $3,066,261 for fiscal 2010 as compared with $5,789,352 for fiscal 2009. General and administrative expenses for fiscal 2010 reflect salaries and professional fees and a non-cash compensation expense ($2,216,391) for stock provided under the Subscription Agreement and the Enerfund Subscription Agreement, as well as, Openfilm general and administrative expenses of $37,807 for the period from December 14, 2010 (the date of acquisition) through December 31, 2010.

General and administrative expenses for fiscal 2009 were $5,789,352, which included non-cash compensation expenses of $4,864,863 for stock provided under the Subscription Agreement and, to a lesser extent, services rendered on behalf of the Company paid in shares of common stock. The non-cash compensation expenses were higher for fiscal 2009 as compared with fiscal 2010 primarily due to the intrinsic value charges from the stock provided under the Subscription Agreement and the shortened fiscal year period in 2010. The following table sets forth a comparative summary of general and administrative expenses for the fiscal years ended December 31, 2010 and March 31, 2010.

G&A Summary Comparison:

Category	Nine Months Ended December 31, 2010	Twelve Months Ended March 31, 2010	Variance
Non-cash compensation expense from subscriptions agreements and share based compensation	$ 2,216,391	$ 4,864,863	$ 2,648,472
Payroll	465,127	602,420	137,293
Professional fees	226,285	115,933	(110,352)
Rent	37,970	10,000	(27,970)
Filing fees	35,604	9,547	(26,057)
Other expenses	84,884	186,589	101,705
	$ 3,066,261	$ 5,789,352	$ 2,723,091

Payroll expenses for fiscal 2010 were lower than fiscal 2009 primarily due to the shortened fiscal year period in 2010. Professional fees and filing fees were higher for fiscal 2010 as compared with fiscal 2009 primarily due to the acquisition of Openfilm and related SEC filings. Rent expense increased in fiscal 2010 compared with fiscal 2009 due to our move to new corporate headquarters at a higher monthly rental ($15,648 versus $1,000 per month).

Other income was $2,946 for fiscal 2010 as compared with an expense of $171,025 for fiscal 2009, which reflected subscription income from Openfilm during fiscal 2010 for the period from December 14, 2010 (the date of acquisition) through December 31, 2010 and expenses from discontinued operations ($80,688) of TOT-SIBBNS and the write-off of a loan to TOT-SIBBNS ($90,282) during fiscal 2009.

On December 10, 2010, Openfilm entered into a loan agreement with Enerfund LLC (a company controlled by Mike Zoi) in the principal amount of $1,667,020. The annual interest rate is 5% payable annually on December 31st. The loan matures on December 10, 2012 with accrued interest due at that time. The proceeds of this loan are being used to fund Openfilm operations.

Going Concern

Net Element had a net loss of $3,106,146 for the twelve months ended December 31, 2010 and $6,596,834 for the twelve months ended March 31, 2010, and further losses are anticipated. We had a negative cash flow from operations of $1,519,972 for the twelve months ended December 31, 2010, and $747,945 for the twelve months ended March 31, 2010. Net Element's ability to continue operating is limited without continued availability of financing, of which there can be no assurance. These matters raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should Net Element be unable to continue as a going concern. We are dependent on continued funding by entities controlled by our President, Mike Zoi, of which there can be no assurance as Mr. Zoi is not obligated to continue such funding. We will need to raise additional funds for operations during the latter half of 2011.

Motorsport Results of Operations for the Twelve Months Ended December 31, 2010 Compared to the Twelve Months Ended December 31, 2009

Motorsport's net income for the year ended December 31, 2010 was $14,137, an increase of $35,061, as compared with a net loss of $20,924 for the year ended December 31, 2009. The increase in net income was primarily the result of an increase in revenues of $47,849, from $32,917 in 2009 to $80,766 in 2010, offset, in part, by an increase in professional fee expense of $10,167 and internet connectivity of $2,525. In 2010, revenues also increased as a result of a 9% increase in net page views from the prior year period. During the year ended December 31, 2010, loans payable to shareholders in the amount of $26,350 were repaid.

Pro Forma Results

The following unaudited pro forma condensed combined financial information gives pro forma effect to our acquisition of Motorsport, LLC and it's 80% owned subsidiary Motorsport.com, Inc. (both entities referred to as ("Motorsport"). The transaction has been accounted for as a merger between entities under common control due to the commonality of ownership between us and Motorsport. The acquisition of Music1 is not considered the acquisition of a significant business or subsidiary and as such financial statements and pro forma results of Music1 are not required.

The following unaudited pro forma condensed consolidated financial statements and explanatory notes present how our financial statements may have appeared had the acquisition occurred on April 1, 2009 (with respect to the results of operations) or as of December 31, 2010 (with respect to the balance sheet information). Adjustments to the pro forma presentation for the nine month period ended December 31, 2010 and the twelve month period ended March 31, 2010 include recording the income earned between December 17 and December 31, 2010 of Motorsport, LLC, amortizing intangible assets and eliminating equity of acquired entities.
These unaudited pro forma condensed consolidated financial statements have been derived from and should be read together with our historical financial statements and related notes included in this annual report on Form 10-K. Motorsport.com, Inc.'s historical financial statements for the years ended December 31, 2010 and 2009 are included elsewhere in this report.

The unaudited pro forma condensed consolidated financial information has been prepared by management, presented for illustrative purposes only, and do not purport to represent what the results of our operations or financial position would have been had the acquisition occurred as of the dates indicated, nor is it indicative of future financial position or results of operations for any period.

Condensed Consolidated Pro Forma Balance Sheet
December 31, 2010

	Net Element, Inc.	Motorsport.com	Adjustments (1)	Pro Forma
ASSETS				
Current assets				
Cash	$ 2,500,253	$ 1,309	$ 22,704	$ 2,524,266
Accounts receivable	3,477	6,470		9,947
Prepaid expenses and other assets	172,531	-		172,531
Total current assets	2,676,261	7,779	22,704	2,706,744
Property and equipment, net	151,416	2,398	(2,398)	151,416
Other assets	3,300	-	659,621	662,921
Total assets	$ 2,830,977	$ 10,177	$ 679,927	$ 3,521,081
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Liabilities				
Accounts payable and accrued expenses	$ 487,033	$ 4,900	$ 10,533	$ 502,466
Notes and accounts payable to related parties	49,999	-	581,307	631,306
Stock subscription liability	880,000	-		880,000
Total current liabilities	1,417,032	4,900	591,840	2,013,772
Long term liabilities				
Due to related parties (non-current portion)	1,667,020	-	-	1,667,020
Total long term liabilities	1,667,020	-	-	1,667,020
Total liabilities	3,084,052	4,900	591,840	3,680,792
STOCKHOLDERS' EQUITY (DEFICIT)				
Preferred stock	-	-		-
Common stock	642,117	1,420	(1,420)	642,117
Treasury stock	(2,641,640)	(500)	500	(2,641,640)
Paid in capital	28,143,518	23,500	(62,636)	28,104,382
Deferred compensation	(13,556)	-		(13,556)
)Accumulated other comprehensive income	9,507	-		9,507
Accumulated deficit	(26,420,933)	(19,143)	19,143	(26,420,933)
)Noncontrolling interest	27,912	-	132,500	160,412
Total stockholders’ equity (deficit)	(253,075)	5,277	88,087	(159,711)
Total liabilities and stockholders' equity (deficit)	$ 2,830,977	$ 10,177	$ 679,927	$ 3,521,081

(1) Reflects the issuance of notes payable to the shareholders of Motorsport.com, Inc. for an 80% interest pursuant to the Motorsport Purchase Agreement.

Condensed Consolidated Pro Forma Statement of Operations

	For the period ended 12-31-10			
	Net Element, Inc	Motorsport.com	Adjustments (2)	Pro Forma
Sales	$ 242	$ 80,766	$ -	$ 81,008
Cost of sales	38,162	-	-	38,162
Gross Profit	(37,920)	80,766	-	42,846
Operating Expenses				
General and administrative	3,066,261	66,629	95,868	3,228,758
Income (loss) from operations	(3,104,181)	14,137	(95,868)	(3,185,912)
Non-operating expense				
Other income	2,946	-	-	2,946
Income (loss) before income tax provision	(3,101,235)	14,137	(95,868)	(3,182,966)
Income tax provision	-	-		-
Net income (loss) from continuing operations	(3,101,235)	14,137	(95,868)	(3,182,966)
Net Loss attributable to the noncontrolling interest	89	-	16,346	16,435
Net income (loss)	(3,101,146)	14,137	(79,522)	(3,166,531)
Other comprehensive income				
Foreign currency translation loss	(465)	-	-	(465)
Comprehensive income (loss)	$ (3,101,611)	$ 14,137	(79,522)	$ (3,166,996)

Condensed Consolidated Pro Forma Statement of Operations

	For the period ended 3-31-10			
	Net Element, Inc	Motorsport.com	Adjustments (2)	Pro Forma
Sales	$ -	$ 32,917	$ -	$ 32,917
Cost of sales	-	-	-	-
Gross Profit	-	32,917	-	32,917
Operating Expenses				
General and administrative	5,789,352	53,841	127,450	5,970,643
Loss from operations	(5,789,352)	(20,924)	(127,450)	(5,937,726)
Non-operating expense				
Other income (expense)	(171,025)	-	-	(171,025)
Loss before income tax provision	(5,960,377)	(20,924)	(127,450)	(6,108,751)

Income tax provision	-	-		-
Net Loss from continuing operations	(5,960,377)	(20,924)	(127,450)	(6,108,751)
Net lLoss attributable to the noncontrolling interest	9,560	-	29,675	39,235
Net loss from discontinued operations	(646,017)	-	-	(646,017)
Net loss	(6,596,834)	(20,924)	(97,775)	(6,715,533)
Other comprehensive income				
Foreign currency translation loss	(26,903)	-	-	(26,903)
Comprehensive loss	$ (6,623,737)	$ (20,924)	$ (97,775)	$ (6,742,436)

(2) Reflects the pro forma effect on the consolidated results of operations arising from (i) increased depreciation and amortization from purchase accounting adjustments and (ii) increased interest expense from issuance of notes payable.

Liquidity and capital resources

At December 31, 2010, we had an accumulated deficit of $26,420,933 and cash of 2,500,253. We had a net loss of $3,106,146 for the nine months ended December 31, 2010 and $6,596,834 for the twelve months ended March 31, 2010, and further losses are anticipated. We had a negative cash flow from operations of $1,519,972 for the nine months ended December 31, 2010 and $747,945 for the twelve months ended March 31, 2010.

We are dependent upon receiving funds from our controlling stockholders, TGR Energy, LLC and Enerfund, LLC, which are controlled by our president, Mike Zoi. Pursuant to the Subscription Agreement, TGR was obligated to invest up to $4,000,000 to fund working capital requirements in exchange for up to 200,000,000 shares of our common stock and warrants to purchase up to 100,000,000 shares of common stock with an exercise price of $0.05. The shares and warrants were issued quarterly and we recorded an appropriate compensation expense as necessary based on the fair value of the securities on the last day of each fiscal quarter (the date of issuance). At December 31, 2010, TGR had fulfilled its investment obligations under the Subscription Agreement.
On December 10, 2010, Openfilm entered into a loan agreement with Enerfund LLC (a company controlled by Mike Zoi) in the principal amount of $1,667,020. The annual interest rate is 5% payable annually on December 31st. The loan matures on December 10, 2012 with accrued interest due at that time.

On December 31, 2010, we entered into a Subscription Agreement with Enerfund, LLC (a company controlled by Mike Zoi) (the "Enerfund Subscription Agreement") pursuant to which we received an aggregate of $2,000,000 in exchange for 200,000,000 shares of our common stock and warrants to purchase 100,000,000 shares of our common stock at an exercise price of $0.05 per share for a period of five years from date of issuance. However, we did not have sufficient authorized shares of common stock to fully issue these securities to Enerfund as of December 31, 2010. Accordingly, this transaction has been accounted for as a purchase by Enerfund as of December 31, 2010 of 112,000,000 shares of our common stock and fully vested warrants to purchase 56,000,000 shares of our common stock for $0.05 per share in exchange for $1,120,000. A compensation charge of $560,000 was recorded for the nine months ended December 31, 2010 as one of our officers is also a principal of Enerfund. This amount is calculated as the Black-Scholes valuation of the warrants issued as of December 31, 2010. The balance of the proceeds of $880,000 has been accounted for as an advance until we can issue the balance of the shares and warrants, which is expected on or about March 1, 2011, and appears on our balance sheets as a stock subscription liability. The proceeds of the Enerfund Subscription Agreement will be used to fund our operations. However, we will need to raise additional capital to fund operations during the latter half of 2011.

On February 1, 2011, we entered into a purchase agreement (the “Motorsport Purchase Agreement”) with Enerfund, LLC, an entity controlled by Mike Zoi, to purchase all of the issued and outstanding interests of Motorsport, LLC, a Florida limited liability company that held 80% of the outstanding common stock of Motorsport.com, Inc., a Florida corporation engaged in the operation of a news and information website relating to the international motorsport industry. Motorsport, LLC purchased the interest of Motorsport.com, Inc. on December 17, 2010. The remaining 20% of the outstanding common stock of Motorsport.com, Inc. is held by the original stockholders (4 persons) of Motorsport.com, Inc. We paid Enerfund an aggregate of $130,000 (exclusive of a $20,000 contingent payment relating to the purchase of certain domain names) and agreed to take over responsibility for the obligations contained in the purchase agreement of December 17, 2010, which includes, among other things, the aggregate payment to the original stockholders of Motorsport.com, Inc. of an additional $450,000 payable in four quarterly installments, without interest, commencing on December 1, 2013. In the event the domain names and related registrations are purchased by June 16, 2011, then the contingent amount ($20,000) will be paid. The original sellers have a security interest in the domains of Motorsport.com, Inc. as collateral for payment of the additional purchase price. Failure by us to pay the additional purchase installments when due may result in forfeiture of the shares in Motorsport.com, Inc. held by us.

In addition, we have an option to purchase the remaining interests of Motorsport.com, Inc. currently held by the original stockholders. The purchase option expires on December 16, 2018. We may exercise this option at any time upon thirty days prior written notice and the payment, in cash or preferred stock of Motorsport.com, Inc., as follows:

(v) until December 16, 2015: $0.1075 per share;
(vi) from December 17, 2015 through December 16, 2016: $0.1185 per share;
(vii) from December 17, 2016 through December 16, 2017: $0.1305 per share; and
(viii) from December 17, 2017 through December 16, 2018: $0.1435 per share.

We may redeem the preferred stock issued at any time upon the payment in full of the value of the preferred stock as of the date of issuance.

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

On February 1, 2011, we acquired Music1, LLC from Enerfund for an aggregate purchase price of $15,000. We are required to invest at least $500,000 in Music1 by December 31, 2012 (which amount may include salaries and other expenses of Music1). In the event such amount is not invested in Music1 by December 31, 2012 or the employment agreement of Mr. Strother is terminated other than for cause or good reason on or before May 7, 2012, then Mr. Strother will have the right to repurchase Music1 for $1.00.

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

Our ability to continue operating is limited without continued availability of financing, of which there can be no assurance. These matters raise substantial doubt about our ability to continue as a going concern as set forth in our audited financial statements included elsewhere in this Report. Management believes that our current operating strategy, as described in the preceding paragraphs and the proceeds received from the Enerfund Subscription Agreement and expected continued financial support from Mr. Zoi, provides the opportunity for us to continue as a going concern; however, there is no assurance this will occur and Mr. Zoi is not obligated to continue to fund our operations.

Critical Accounting Policies and Estimates

Our significant accounting policies are described more fully in Note 1 to Net Element's consolidated financial statements and Note 2 to Motorsport's consolidated financial statements. Management is required to make certain estimates and assumptions during the preparation of our financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities as well as disclosures regarding any contingencies. Actual results could differ from estimates and this could impact reported net income or the value of our assets and liabilities.

In applying estimates, management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by outside sources, trade journals and other sources, as appropriate.

Deferred Taxes. Estimates of deferred income taxes and items giving rise to deferred tax assets and liabilities reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and the probability of the realization. Actual income taxes could vary from these estimates for a variety of reasons including changes in tax law, operating results that vary from budget or the review of our tax returns by the IRS.

Valuation of Stock Based Compensation. Stock based compensation has been provided by the Company in order to preserve the cash flow necessary to grow our business. In addition, we entered into the Subscription Agreement described above to strengthen our available sources of capital. We believe the estimate of stock based compensation is a "critical accounting estimate" that significantly affects our results of operations. Management of the Company has discussed the development and selection of this critical accounting estimate with our board of directors and the board of directors has reviewed the Company's disclosure relating to it in this Report.

Capitalized Website Costs. Openfilm capitalizes certain software development costs. Generally, costs for developing website application and infrastructure, creating the initial graphics of the website, and adding upgrades and enhancements are capitalized whereas costs for planning, adding content, and operating the website are expensed as incurred. Net capitalized website costs are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the expected useful life of the website. Openfilm evaluates the recoverability of intangible assets periodically and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate impairment exists.

Revenue. Openfilm recognizes revenue when the persuasive evidence of an arrangement exists, no significant company obligations remain, collection of the related receivable is reasonably assured, and the fees are fixed or determinable. Openfilm recognizes revenue on a gross basis and publisher expenses that are directly related to a revenue-generating event are recorded as a component of cost of revenue. Additionally, fee revenue from transactions on Openfilm's affiliate marketing networks are recognized on a net basis where Openfilm acts as an agent in these transactions and the payments to publishers are the contractual obligation of the advertiser customers.

Off-balance sheet arrangements

At December 31, 2010, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended.

Recently Issued Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". The objective of this ASU is to address diversity in practice about the presentation of pro forma revenue and earnings disclosure requirements for business combinations, and specifies that a public entity that presents comparative financial statements should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU is effective prospectively for business combinations on or after January 1, 2011. As this ASU is limited to supplemental disclosures, its adoption will not have an impact on our financial condition or results of operations.

In December, 2010, the FASB issued ASU 2010-28, "Intangibles—Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". The objective of this ASU is to address diversity in practice in the application of goodwill impairment testing by entities with reporting units with zero or negative carrying amounts, eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. This ASU is effective for interim periods after January 1, 2010. The adoption of this ASU may require us to report goodwill impairment charges sooner than under current practice.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We do not have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held at December 31, 2010.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Net Element, Inc.
Miami, Florida

We have audited the accompanying consolidated balance sheets of Net Element, Inc. (a "Company") as of December 31, 2010 and March 31, 2010, and the related consolidated statements of operations, changes in stockholders' deficiency in assets, and cash flows for the nine and twelve months 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, Company has experienced recurring losses and has an accumulated deficit and stockholders' deficiency at December 31, 2010. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Daszkal Bolton LLP

Fort Lauderdale, Florida

February 2, 2011

NET ELEMENT, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	March 31, 2010
ASSETS		
Current assets		
Cash	$ 2,500,253	$ 277,830
Deposits	55,274	8,000
Contract receivable, net	3,477	-
Prepaid expenses and other assets	117,257	20,152
Total current assets	2,676,261	305,982
Fixed assets		
Furniture and equipment	125,730	-
Computers	110,969	12,319
Leasehold improvements	19,944	-
Less: accumulated depreciation	(105,227)	(5,530)
Total fixed assets (net)	151,416	6,789
Other Assets		
Due from related parties	3,300	-
Total other assets	3,300	
Total assets	$ 2,830,977	$ 312,771
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	61,422	23,702
Stock subscription liability	880,000	-
Due to related parties (current portion)	49,999	-
Accrued expenses	425,611	920,559
Total current liabilities	1,417,032	944,261
Long term liabilities		
Due to related parties (non-current portion)	1,667,020	-
Total long term liabilities	1,667,020	-
Total liabilities	3,084,052	944,261
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock ($.001 par value, 100,000,000 shares authorized and no shares issued and outstanding)	-	-
Common stock ($.001 par value, 800,000,000 shares authorized and 642,119,111 and 320,778,512 shares issued and outstanding)	642,117	320,778
Treasury stock, at cost; 6,250,000 and 3,250,000 shares	(2,641,640)	(2,341,640)
Paid in capital	28,143,518	24,671,186
Deferred compensation	(13,556)	-

Accumulated other comprehensive income		9,507		9,972
Accumulated deficit		(26,420,933)		(23,319,787)
Noncontrolling interest		27,912		28,001
Total deficit		(253,075)		(631,490)
Total liabilities and stockholders' deficit	$	2,830,977	$	312,771

See accompanying notes.

NET ELEMENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

		Nine Months Ended December 31, 2010		Twelve Months Ended March 3l, 2010
Sales	$	242	$	-
Cost of sales		38,162		-
Gross Profit		(37,920)		-
Operating Expenses				
General and administrative		3,066,261		5,789,352
Loss from operations		(3,104,181)		(5,789,352)
Non-operating expense				
Other income (expense)		2,946		(171,025)
Loss before income tax provision		(3,101,235)		(5,960,377)
Income tax provision		-		-
Net loss from continuing operations		(3,101,235)		(5,960,377)
Net loss attributable to the noncontrolling interest		89		9,560
Net loss from discontinued operations		-		(646,017)
Net loss		(3,101,146)		(6,596,834)
Other comprehensive income				
Foreign currency translation loss		(465)		(26,903)
Comprehensive loss	$	(3,101,611)	$	(6,623,737)
Net loss per share from continuing operations - basic and diluted	$	(0.01)	$	(0.02)
Net loss per share from discontinued operations - basic and diluted	$	-	$	(0.00)
Net loss per share - basic and diluted	$	(0.01)	$	(0.02)
Weighted average number of common shares outstanding - basic and diluted		335,761,892		309,714,392

See accompanying notes.

NET ELEMENT, INC.
CONSOLIDATED STATEMENT OF CHANGES IN
STOCKHOLDERS' DEFICIENCY IN ASSETS

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid in Capital	Deferred Compensation	Accumulated Other Comprehensive Income	Non-controlling interest	Accumulated Deficit	Total Stockhol Equity (Def in Asse
nce March 009	-	-	300,583,108	300,583	(62,500)	19,940,319	-	(1,176,614)	37,561	(16,722,953)	2,316.
k options d	-	-	-	-	-	33,791	-	-	-	-	33.
es and ants to be d uant to cription ement	-	-	16,186,515	16,187	-	5,025,220	-	-	-	-	5,041.
es issued ecutive pensation	-	-	508,889	508	-	62,880	-	-	-	-	63.
es issued dvertising promotion	-	-	500,000	500	-	49,503	-	-	-	-	50.
es issued uant to hase ement	-	-	3,000,000	3,000	-	297,000	-	-	-	-	300.
oss from ntinued ations	-	-	-	-			-	-		(646,017)	(646.
es ved on osal of -SIBBNS Venture	-	-	-	-	(2,279,140)	(737,526)	-	1,213,489	-	-	(1,803.
gn ncy ange	-	-	-	-	-	-	-	(26,903)	-	-	(26.
oss	-	-	-	-	-	-	-	-	(9,560)	(5,950,817)	(5,960.
nce March 010	-	$ -	320,778,512	$ 320,778	$ (2,341,640)	$ 24,671,187	$ -	$ 9,972	$ 28,001	$ (23,319,787)	$ (631.
k options d	-	-	-	-	-	25,463	-	-	-	-	25.
es issued ecutive pensation	-	-	1,014,028	1,013	-	9,126	-	-	-	-	10.
rred pensation respect to	-	-	-	-	-	-	(13,556)	-	-	-	(13.

ess red												
es and nts to be d uant to ription ements	-	-	213,088,150	213,088	-	5,109,463	-	-	-	-	5,322
es chased uant to hase ement	-	-	-	-	(300,000)	-	-	-	-	-	(300
es issued uant to hase ement	-										