FUSION INTERACTIVE CORP. AND SUBSIDIARY

Consolidated Financial Statements

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

FUSION INTERACTIVE CORP. AND SUBSIDIARY

Table of Contents

FUSION INTERACTIVE CORP. AND SUBSIDIARY

Consolidated Balance Sheets

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 196,818	$ 287,525
Accounts receivable, net	177,319	389,317
Loans receivable - related parties	283,755	283,755
Other receivables	21,000	21,000
Due from related parties	119,920	113,982
Other current assets	7,135	7,193
Total Current Assets	805,947	1,102,772
Furniture and equipment, net	11,645	16,435
Goodwill and intangible assets, net	250,000	250,000
Security deposits	1,120	1,120
TOTAL ASSETS	$ 1,068,712	$ 1,370,327
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,464,600	$ 2,528,615
Deferred revenue	91,505	140,528
Notes payable	240,000	240,000
Convertible notes payable	835,000	835,000
Derivative liabilities	1,375,311	804,655
Other current liabilities	1,500	1,500
Total Current Liabilities	5,007,916	4,550,298
TOTAL LIABILITIES	5,007,916	4,550,298
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT:		
Convertible preferred stock, Series A, $0.001 par value, 6,750,000 shares authorized, 6,750,000 and 6,750,000 shares issued and outstanding, respectively	6,750	6,750
Convertible preferred stock, Series B, $0.001 par value, 30,000 shares authorized, 30,000 and 30,000 shares issued and outstanding, respectively	30	30
Common stock; 750,000,000 shares authorized at $0.001 par value, 12,005,330 and 12,005,330 shares issued and outstanding, respectively	12,005	12,005
Additional paid-in capital	9,195,540	9,195,540
Accumulated deficit	(13,153,529)	(12,394,296)
TOTAL STOCKHOLDERS' DEFICIT	(3,939,204)	(3,179,971)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,068,712	$ 1,370,327

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

FUSION INTERACTIVE CORP. AND SUBSIDIARY

Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES, NET	$ 706,688	$ 716,503	$ 1,425,195	$ 1,459,151
COST OF SALES	261,671	189,745	531,393	389,517
GROSS PROFIT	445,017	526,758	893,802	1,069,634
OPERATING EXPENSES				
General and administrative	414,716	542,604	872,857	931,718
Sales and marketing	80,290	23,563	173,785	46,584
Research and development	231	13,611	2,402	14,877
Depreciation and amortization	3,155	3,888	7,160	7,662
TOTAL OPERATING EXPENSES	498,392	583,666	1,056,204	1,000,841
(LOSS) INCOME FROM OPERATIONS	(53,375)	(56,908)	(162,402)	68,793
OTHER INCOME (EXPENSES)				
Interest expense, net	(34,392)	(39,391)	(74,227)	(79,189)
Change in derivative liabilities	(560,556)	(71,780)	(570,656)	(827,905)
Other income	44,729	3,561	48,052	13,828
TOTAL OTHER INCOME (EXPENSES)	(550,219)	(107,610)	(596,831)	(893,266)
NET LOSS	$ (603,594)	$ (164,518)	$ (759,233)	$ (824,473)
LOSS PER SHARE				
Basic and diluted	$ (0.05)	$ (0.01)	$ (0.06)	$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic and diluted	12,005,305	12,005,305	12,005,305	12,005,305

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

FUSION INTERACTIVE CORP. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (759,233)	$ (824,473)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,160	7,662
Change in derivative liabilities	570,656	827,905
Changes in operating assets and liabilities:		
Accounts receivable	211,998	34,142
Due from related parties	(5,938)	-
Other current assets	58	(4,316)
Accounts payable and accrued expenses	(64,015)	5,958
Deferred revenue	(49,023)	(26,620)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(88,337)	20,258
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,370)	(1,379)
NET CASH USED IN INVESTING ACTIVITIES	(2,370)	(1,379)
CASH FLOWS FROM FINANCING ACTIVITIES:		-
Net (decrease) increase in cash and cash equivalents	(90,707)	18,879
Cash and cash equivalents at beginning of year	287,525	29,533
Cash and cash equivalents at end of period	$ 196,818	$ 48,412
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 21,000	$ -
Cash paid for income taxes	$ -	$ -

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

NOTE 1 – ORGANIZATION

Fusion Interactive Corp. ("Fusion") was incorporated in the State of Washington on March 13, 2000, as Bentley Capital Corporation.com Inc. Fusion went through several name and business changes between 2004 and 2014 (most recently The Good Water Company, Inc.). On July 7, 2014, Fusion and PhoneFusion, Inc. ("PhoneFusion") approved the merger of Fusion Unified Communications, a wholly owned Subsidiary of the Company created for the purposes of the merger, and PhoneFusion, both Delaware corporations (collectively, the "Company"). PhoneFusion was incorporated in the state of Delaware on July 10, 2007.

The merger was accounted for as a reverse merger and a recapitalization in accordance with accounting principles generally accepted in the United States of America. As a result, these unaudited consolidated financial statements reflect the: (i) historical results of PhoneFusion, Inc. prior to the merger, (ii) combined results of the Company following the merger, and (iii) acquired assets and liabilities at their historical cost. The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

The Company is a provider of unified communication services. Such services include mobile messaging, call management, VoIP, visual voicemail, audio and video conferencing, automated response and notification, Desktop-as-a-Service, storage, and more, all hosted in a distributed, fault-tolerant, highly performant, flexible cloud environment, managed through an intuitive interface with automated provisioning and easy user management. The Company also provides critical services that free a business from needing to deploy or maintain its own infrastructure, and allow for easy access to corporate resources from anywhere, at any time, on any device, thus giving rise to our tag line "Virtually Everywhere".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The unaudited consolidated financial statements include the accounts of PhoneFusion, Inc. Intercompany accounts and transactions have been eliminated in consolidation. Certain comparative figures have been reclassified to conform to the current year's presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions which affect the reporting of assets and liabilities as of the dates of the financial statements and revenues and expenses during the reporting period. These estimates primarily relate to the sales recognition, allowance for doubtful accounts, inventory obsolescence and asset valuations. Actual results could differ from these estimates. Management's estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the unaudited consolidated financial statements in the periods they are determined to be necessary.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles ("GAAP") requires certain disclosures regarding the fair value of financial instruments. The fair value of financial instruments is made as of a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal, or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the degree of subjectivity that is necessary to estimate the fair value of a financial instrument. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1 – Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 – Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 – Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The following table presents assets and liabilities that are measured and recognized at fair value as of June 30, 2016 and December 31, 2015, on a recurring basis:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Total Carrying Value**
Derivative liabilities	$ -	$ (1,375,311)	$ -	$ (1,375,311)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total Carrying Value**
Derivative liabilities	$ -	$ (804,655)	$ -	$ (804,655)

NEW ACCOUNTING PRONOUNCEMENTS

There are various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on the Company's financial position, results of operations or cash flows.

ACCOUNTS RECEIVABLE

Accounts receivable primarily consists of receivables from undeposited funds from the Company’s credit card processor and receivables arising from the normal course of business from telecommunication services.

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer’s historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. At June 30, 2016 and December 31, 2015, the Company has established, based on a review of its outstanding balances, that no allowance is necessary.

CASH AND CASH EQUIVALENTS

The Company considers highly liquid investments with original maturities of three months or less when purchased as cash equivalents. The Company had no cash equivalents as of June 30, 2016 and December 31, 2015. At times throughout the year, the Company might maintain bank balances that may exceed Federal Deposit Insurance Corporation insured limits. Periodically, the Company evaluates the credit worthiness of the financial institutions, and has not experienced any losses in such accounts. At June 30, 2016 and December 31, 2015, the Company had $0 over the insurable limit.

CONVERTIBLE INSTRUMENTS

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging* ("ASC 815").

Professional standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument".

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when "Accounting for Convertible Securities with Beneficial Conversion Features," as those professional standards pertain to "Certain Convertible Instruments." Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815 provides that, among other things, generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

INCOME TAXES

The Company accounts for income taxes under ASC 740-10-30, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date.

At the adoption date of November 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operations in the provision for income taxes. As of June 30, 2016 and December 31, 2015 the Company had no accrued interest or penalties related to uncertain tax positions. The Company files an income tax return in the U.S. federal jurisdiction and the state of Delaware. With few exceptions, the Company is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2009.

LONG LIVED ASSETS

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of ASC 360-35, *Property, Plant and Equipment, Subsequent Measurement* ("ASC 360-35"). ASC 360-35 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

VALUATION OF GOODWILL AND INTANGIBLE ASSETS

The Company assesses goodwill and intangible assets for potential impairments at the end of each fiscal year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating goodwill and intangible assets for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then no further testing of the goodwill and intangible assets assigned to the reporting unit is required. However, if the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then the Company will perform a two-step goodwill and intangible assets impairment test to identify potential goodwill and intangible assets impairment and measure the amount of goodwill and intangible assets impairment to be recognized, if any.

In the first step of the review process, the Company compares the estimated fair value of the reporting unit with its carrying value. If the estimated fair value of the reporting unit exceeds its carrying amount, no further analysis is needed. If the estimated fair value of the reporting unit is less than its carrying amount, the Company proceeds to the second step of the review process to calculate the implied fair value of the reporting unit goodwill and intangible assets in order to determine whether any impairment is required. The Company calculates the implied fair value of the reporting unit goodwill and intangible assets by allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. If the carrying value of the reporting unit's goodwill and intangible assets exceeds the implied fair value of the intangible assets, the Company recognizes an impairment loss for that excess amount. In allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit, the Company uses industry and market data, as well as knowledge of the industry and the Company's past experiences.

The Company bases its calculation of the estimated fair value of a reporting unit on the income approach. For the income approach, the Company uses internally developed discounted cash flow models that include, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. The Company bases these assumptions on its historical data and experience, third-party appraisals, industry projections, micro and macro general economic condition projections, and its expectations.

The Company had no goodwill and intangible assets impairment charges for the six months ended June 30, 2016 and 2015, and as of the date of each of the most recent detailed tests, the estimated fair value of each of its reporting units exceeded its' respective carrying amount by more than 100% based on its models and assumptions.

RECOGNITION OF REVENUE

The Company is a provider of telecommunications services to corporate and wholesale clients. The Company will follow the guidance of ASC 605, *Revenue Recognition*. In general, the Company will record revenue when persuasive evidence of an arrangement exists, services have been rendered, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Revenues from services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectability is probable. In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs.

STOCK BASED COMPENSATION

The Company follows FASB ASC 718, *Compensation – Stock Compensation*, which prescribes accounting and reporting standards for all share-based payment transactions in which employee services are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options, and other equity instruments such as employee stock ownership plans and stock appreciation rights. Share-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the unaudited consolidated financial statements based on their fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505-50, *Equity–based Payments to Non-Employees*. Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The fair value of the share-based payment transaction is determined at the earlier of performance commitment date or performance completion date.

For the six months ended June 30, 2016 and 2015, the Company had $0 and $0 in stock based compensation, respectively.

SEGMENT REPORTING

ASC 280-10, *Segment Reporting*, defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief decision maker in deciding how to allocate resources and in assessing performance. The Company reports according to one main segment.

RESEARCH AND DEVELOPMENT

Research and development costs relate to the development of new products, including significant improvements and refinements to existing products, and are expensed as incurred. Research and development expenses for the six months ended June 30, 2016 and 2015 were $2,402 and $14,877, respectively.

ADVERTISING EXPENSE

The Company expenses advertising costs as they are incurred. Advertising expense for the six months ended June 30, 2016 and 2015 were $58,867 and $46,584, respectively.

NOTE 3 – GOING CONCERN

The Company's unaudited consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred net losses of $759,233 and $824,473 during the six months ended June 30, 2016 and 2015, respectively. Cash on hand will not be sufficient to cover debt repayments, operating expenses and capital expenditure requirements for at least twelve months from the unaudited consolidated balance sheet date. As of June 30, 2016 and December 31, 2015, the Company had working capital deficits of $4,201,969 and $3,447,526, respectively. In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to seek equity and/or debt financing. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

There are no assurances that the Company will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placements, public offerings and/or bank financing necessary to support the Company's working capital requirements. To the extent that funds generated from operations, any private placements, public offerings and/or bank financing are insufficient, the Company will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to the Company.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 4 –LOSS PER SHARE

The Company utilizes the guidance per ASC 260, *Earnings Per Share*. Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation, plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented separately as of June 30, 2016 as it is anti-dilutive. Such securities, shown below, presented on a common share equivalent basis and outstanding as of June 30, 2016 and 2015 have been excluded from the per share computations:

	June 30, 2016	June 30, 2015
Convertible notes	77,153,476	73,055,686
Series A preferred stock	6,750,000	6,750,000
Series B preferred stock	360,159,150	360,159,150
Total diluted shares	444,062,626	439,964,836

NOTE 5 – LOANS RECEIVABLE – RELATED PARTIES

Loans receivable – related parties consisted of the following officer loans at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
J. Hollander	$ 121,700	$ 121,700
M. Self	76,555	76,555
R. Penn	85,500	85,500
Total	$ 283,755	$ 283,755

All related party loans bear no interest, are unsecured and are due on demand.

NOTE 6 – FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net consisted of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Computer equipment and software	$ 54,142	$ 51,772
Office furniture and equipment	11,099	11,099
Subtotal	65,241	62,871
Less: accumulated depreciation	(53,596)	(46,436)
Furniture and equipment, net	$ 11,645	$ 16,435

Depreciation expense was $7,160 and $7,662 for the six months ended June 30, 2016 and 2015, respectively.

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS, NET

As of June 30, 2016 and December 31, 2015, the Company had a total of $250,000 in goodwill and intangible assets, which represents the value of the license for the source code which is being used as the foundation of the Location Based Service Offering source code of the Company.

As of June 30, 2016 and December 31, 2015, the Company determined that no impairment of goodwill and intangible assets was deemed necessary.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Accounts payable	$ 516,642	$ 654,574
Credit cards payable	-	11,755
Accrued expenses	116,735	103,710
Accrued compensation	974,768	955,080
Accrued interest	856,455	803,496
Total	$ 2,464,600	$ 2,528,615

NOTE 9 – NOTES PAYABLE

On May 20, 2010, the Company entered into a promissory note for $200,000 from a third party. The note was originally due on May 20, 2012 and bears compounded interest of 10%. Interest on the unpaid balance shall accrue and be paid with the principal upon demand for payment, which shall occur the earlier of: (1) the date the Company closes on a financing of $500,000 or (2) before May 20, 2012. The maturity date of the note has been extended by mutual agreement between the Company and the note holder to May 20, 2016. For the six months ended June 30, 2016 and 2015, interest expense on this note totaled $11,998 and $16,171, respectively. As of June 30, 2016 and December 31, 2015 accrued interest on this note was $160,904 and $149,906, respectively.

On December 3, 2012, the Company entered into a promissory note for $20,000 from a third party. The note was due on June 3, 2014 and bears simple interest of 8%. For the six months ended June 30, 2016 and 2015, interest expense on this note totaled $793 and $793, respectively. As of June 30, 2016 and December 31, 2015 accrued interest on this note was $5,716 and $4,923, respectively.

On March 8, 2013, the Company entered into a promissory note for $20,000 from a third party. The note was due on August 8, 2014 and bears simple interest of 8%. For the six months ended June 30, 2016 and 2015, interest expense on this note totaled $793 and $793, respectively. As of June 30, 2016 and December 31, 2015 accrued interest on this note was $5,300 and $4,506, respectively.

NOTE 10 – CONVERTIBLE NOTES PAYABLE

On April 28, 2009, the Company entered into a convertible promissory note with DK Ventures II, LLC ("DK") for $550,000. The note bears simple interest of 10%. The note and accrued interest is convertible into common stock of the Company at $1.00 per share subject to certain adjustments. On June 1, 2009, the Company and DK entered into a second convertible promissory note in the amount of $235,000 on the same terms and conditions as the April 28, 2009 note.

On July 27, 2010, the Company and DK entered into a forbearance and modification agreement. As part of the terms of the Forbearance Agreement, the interest rate on the Notes were increased effective as of July 1, 2010 to 15%.

On January 26, 2016, the Company and DK entered into a Forbearance Agreement that provided remedies with respect to an Event of Default related to the failure to pay amounts due to DK. The Company paid DK $20,000 as a partial payment of the accrued interest on the outstanding notes.

For the six months ended June 30, 2016 and 2015, interest expense on these notes totaled $58,391 and $58,391, respectively. As of June 30, 2016 and December 31, 2015 accrued interest on these notes was $658,825 and $620,434, respectively.

On January 26, 2010, the Company entered into a convertible promissory note for $50,000 from a third party. The note was due on July 26, 2011 and bears simple interest of 8%. The note and accrued interest is convertible into common stock of the Company at $0.001 per share. For the six months ended June 30, 2016 and 2015, interest expense on this note totaled $1,984 and $1,984, respectively. As of June 30, 2016 and December 31, 2015 accrued interest on this note was $25,710 and $23,726, respectively.

NOTE 11 – DERIVATIVE LIABILITY

Effective July 31, 2009, the Company adopted ASC 815 which defines determining whether an instrument (or embedded feature) is solely indexed to an entity's own stock. The conversion price of the Series B Preferred Stock is variable and subject to the fair value of the Company's common stock on the date of exercise. As a result, the Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment. In accordance with ASC 815, the Company has bifurcated the conversion feature of the instruments to be recorded as a derivative liability.

ASC 815 requires Company management to assess the fair market value of derivatives at each reporting period and recognize any change in the fair market value as items of other income or expense. The Company's only asset or liability measured at fair value on a recurring basis is its derivative liability associated with the Series B Preferred Stock.

At origination and subsequent revaluations, the Company valued the derivative liability using the Black-Scholes options pricing model under the following assumptions:

	June 30, 2016
Risk-free interest rate	0.58% – 1.78%
Expected options life (in years)	2.50 – 4.75
Expected dividend yield	-
Expected price volatility	181% – 385%

During the six months ended June 30, 2016, the Company's derivative liability was $1,375,311 and recognized a loss on derivative liability of $570,656 in conjunction with revaluations of existing derivative liabilities.

During the year ended December 31, 2015, the Company's derivative liability was $804,655 and recognized a loss on derivative liability of $804,655 in conjunction with revaluations of existing derivative liabilities.

NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to the related party loans receivable, the Company occupies approximately 3,200 rentable square feet and pays monthly rent in the amount of $3,851. This amount is the equivalent of approximately $15 per square foot per year which is on par with the real estate market place in the surrounding area for comparable premises. The property is owned by an officer and the term of the lease is for 36 months ending July 31, 2016. Effective July 31, 2016, this lease has been renewed on a year to year basis.

As of June 30, 2016 and December 31, 2015, the Company advanced $119,920 and $113,982, respectively, to two officers and a business that is related to an officer of the Company.

For the six months ended June 30, 2016 and 2015, the Company received $7,152 and $0, respectively, in revenue from businesses that are related to officers of the Company.

For the six months ended June 30, 2016 and 2015, the Company incurred $139,605 and $97,334, respectively, in expenses to businesses that are related to officers of the Company.

NOTE 13 – STOCKHOLDERS' DEFICIT

The Company's authorized capital stock consists of 750,000,000 shares of common stock, $0.001 par value per share, and 15,000,000 shares of preferred stock, par value $0.001 per share. As of June 30, 2016 and December 31, 2015, there were 12,005,330 and 12,005,330 shares of common stock issued and outstanding, respectively, 6,750,000 and 6,750,000 of Series A Convertible Preferred Stock issued and outstanding, respectively, and 30,000 and 30,000 of Series B Convertible Preferred Stock issued and outstanding, respectively.

Preferred Stock

Our board of directors has the authority, without stockholder approval, to issue up to 15,000,000 shares of preferred stock, $0.001 par value, of which 10,000,000 shares are designated as Series A Convertible Preferred Stock and 30,000 shares are designated as Series B Convertible Preferred Stock. The authorized preferred stock may be issued by the Board of Directors in one or more series and with the rights, privileges and limitations of the preferred stock determined by the Board of Directors. The rights, preferences, powers and limitations on different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions, and other matters.

Series A Convertible Preferred Stock

The Company is authorized to issue 10,000,000 shares of Series A Convertible Preferred Stock with a stated value of $1.00 and a par value of $0.001. The terms of the Series A Convertible Preferred Stock are as follows:

(i) Dividends – At issuance, there are no dividends due or payable on the Series A Convertible Preferred Stock. Any future terms with respect to dividends shall be determined by Board, consistent with the Company's certificate of incorporation.

(ii) Liquidation and Redemption Rights – In the event of any liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holder of Series A Convertible Preferred Stock is entitled to receive assets of the Company, before the holders of Series B Preferred Stock or Common Stock. The Series A Convertible Preferred shall have first priority or preference with respect to any distribution of any Company assets.

(iii) Rank – All shares of the Series A Convertible Preferred Stock rank:

a. Senior to the Company's common stock and any other class or series of capital stock of the Company subsequently created,

(iv) Voting – The holder of Series A Convertible Preferred Stock shall not be entitled to vote

(v) Conversion – All shares of Series A Convertible Preferred Stock are convertible into shares of Common Stock at a share price of $1.00 per share.

Series B Convertible Preferred Stock

The Company is authorized to issue 30,000 shares of Series B Convertible Preferred Stock with a stated value of $1.00 and a par value of $0.001. The terms of the Series B Convertible Preferred Stock are as follows:

(i) Dividends – At issuance, there are no dividends due or payable on the Series B Convertible Preferred Stock. Any future terms with respect to dividends shall be determined by Board, consistent with the Company's certificate of incorporation.

(ii) Liquidation and Redemption Rights – In the event of any liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holder of Series B Convertible Preferred Stock shall automatically have their shares converted into Common Stock at the applicable conversion rate.

(iii) Rank – All shares of the Series B Preferred Stock rank:

a. Senior to the Company's common stock and any other class or series of capital stock of the Company subsequently created,

b. Junior to the Series A Preferred Stock

(iv) Voting – The holder of Series B Convertible Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series B Convertible Preferred Stock held by such holder are convertible as of the record date for determining shareholders entitled to vote on such matter.

(v) Conversion – Each share of Series B Convertible Preferred Stock is convertible into shares of Common Stock at a share rate equal to 0.1% of the total number of shares of Common Stock outstanding at the date of conversion.

Common Stock

The Company did not issue any common stock for the six months ended June 30, 2016 and 2015.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Commencing August 1, 2013, The Company leased its office facilities from an officer of the Company under a three year operating lease agreement expiring July 31, 2016. Effective July 31, 2016, this lease has been renewed on a year to year basis.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events according to the requirements of ASC 855, *Subsequent Events*, and has determined that there were no material reportable subsequent events to be disclosed, other than those listed below:

On October 3, 2016, in accordance with a judgement issued, the terms of this note were restructured whereby $119,000 of the outstanding accrued interest was added to the original $200,000 principal balance, along with $3,770 in legal fees bringing the principal balance to $322,770. In accordance with the judgment, the interest rate now follows the Florida judgment interest rates.

On October 31, 2016, the Company and DK entered into a Settlement Agreement that restructured the amounts due to DK. As part of the Settlement Agreement, Fusion assumed 50% of the total debt outstanding, or $800,000, in exchange for Fusion to enter into a licensing agreement for the PhoneFusion Platform. Fusion has agreed to pay DK $7,500 per month in its common stock until such time that DK has realized $400,000 in proceeds from the sale of the common stock received. Once Fusion makes $400,000 in stock payments to DK, and is not in default of the Settlement Agreement, then DK shall forgive the remainder of the debt that is due and owing.

PhoneFusion will be responsible for the payment of the $800,000 due and owing to DK. PhoneFusion paid $75,000 to DK on closing and will pay DK $5,000 per month beginning March 1, 2017. Once PhoneFusion makes $325,000 in additional payments to DK, and is not in default of the Settlement Agreement, then DK shall forgive the remainder of the debt that is due and owing.