

Net Element, Inc.  
Form 10-Q  
August 15, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-51108

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

Delaware  
(State or other jurisdiction of incorporation or organization)

20-0715816  
(IRS Employer Identification No.)

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

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

(Former name, former address and former fiscal year, if changed since last report)

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. Yes  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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes  No

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

The number of outstanding shares of common stock, \$.001 par value, of the registrant as of August 12, 2011 was 739,324,911.

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## Defined Terms

Net Element, Inc. is a corporation organized under the laws of the State of Delaware. As used in this Quarterly Report on Form 10-Q (this “Report”), unless the context otherwise requires, the terms “Net Element,” “Company,” “we,” “us” and “our” refer to Net Element, Inc. and, as applicable, its majority-owned and consolidated subsidiaries.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that reflect the current views of our management with respect to future events. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Forward-looking statements generally are identified by the words “expects,” “anticipates,” “believes,” “intends,” “estimates,” “aims,” “plans,” “may,” “will,” “will continue,” “seeks,” “should,” or the negative of such terms 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: our ability (or inability) to continue as a going concern, the willingness of our controlling stockholders, TGR Capital, LLC and Enerfund, LLC, which are controlled by our CEO, Mike Zoi, to continue investing in Net Element to fund our working capital requirements, our ability (or inability) to obtain additional financing in sufficient amounts or on acceptable terms when needed, our ability (or inability) to adequately address the material weaknesses in our internal control over financial reporting, development or acquisition of additional online media businesses, attracting and retaining competent management and other personnel, successful implementation of our business strategy, continued development and market acceptance of our technology, protection of our intellectual property, and successful integration and promotion of any business developed or acquired by us. If these or other risks and uncertainties (including those described in our Transition Report, as amended, on Form 10-KT/A for the transition period from April 1, 2010 to December 31, 2010 filed with the U.S. Securities and Exchange Commission (the “Commission”) and our subsequent filings with the Commission) 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-Q  
For the Quarter Ended June 30, 2011  
INDEX

	Page No.
<b>PART I — FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	4
Unaudited Condensed Consolidated Balance Sheets – as of June 30, 2011 and December 31, 2010	4
Unaudited Condensed Consolidated Statements of Operations – for the Three and Six Months Ended June 30, 2011 and 2010	5
Unaudited Condensed Consolidated Statements of Cash Flows – for the Six Months Ended June 30, 2011 and 2010	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 4. Controls and Procedures	24
<b>PART II — OTHER INFORMATION</b>	
Item 1. Legal Proceedings	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 5. Other Information	25
Item 6. Exhibits	25
Signatures	29

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## NET ELEMENT, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets		
Cash	\$ 351,781	\$ 2,500,253
Deposits	49,274	55,274
Contract receivable, net	44,390	3,477
Prepaid expenses and other assets	108,927	117,257
Total current assets	554,372	2,676,261
Fixed assets		
Furniture and equipment	202,690	125,730
Computers	199,507	110,969
Leasehold improvements	23,698	19,944
Capitalized website development	258,010	-
Less: accumulated depreciation	(137,976 )	(105,227 )
Total fixed assets (net)	545,929	151,416
Other Assets		
Intangible assets (net)	221,053	-
Goodwill	422,223	-
Due from related parties	72	3,300
Total other assets	643,348	3,300
Total assets	\$ 1,743,649	\$ 2,830,977
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable	256,783	61,422
Stock subscription liability	-	880,000
Due to related parties (current portion)	38,449	49,999
Accrued expenses	548,534	425,611
Total current liabilities	843,766	1,417,032
Long term liabilities		
Due to related parties (non-current portion)	3,491,034	1,667,020
Total long term liabilities	3,491,034	1,667,020
Total liabilities	4,334,800	3,084,052
<b>COMMITMENTS AND CONTINGENCIES</b>		

**STOCKHOLDERS' DEFICIT**

Preferred stock (\$.001 par value, 100,000,000 shares authorized and no shares issued and outstanding)	-	-
Common stock (\$.001 par value, 2,500,000,000 shares authorized and 736,324,911 and 642,119,111 shares issued and outstanding)	736,323	642,117
Treasury stock, at cost; 6,250,000 shares	(2,641,640 )	(2,641,640 )
Paid in capital	47,757,406	28,143,518
Deferred compensation	(35,038 )	(13,556 )
Accumulated other comprehensive income	-	9,507
Accumulated deficit	(48,464,243 )	(26,420,933 )
Noncontrolling interest	56,041	27,912
Total stockholders' deficit	(2,591,151 )	(253,075 )
Total liabilities and stockholders' deficit	\$ 1,743,649	\$ 2,830,977

See accompanying notes to condensed consolidated financial statements.

NET ELEMENT, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS