Camelot Entertainment Group, Inc.
Form 10-Q
November 16, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from ___________________

Commission file number 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	52-2195605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8001 Irvine Center Drive, Suite 400
Irvine, CA 92618

(Address of principal executive offices) (zip code)

(949) 754 - 3030

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 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 x No o

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 definition 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	Smaller Reporting Company	x

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

As of November 10, 2009, the Registrant had outstanding 1,679,069,503 shares of Common Stock, and 27,295,521 shares of Preferred Stock, series A, B, and C.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Camelot Entertainment Group, Inc.
(A Development Stage Company)
Balance Sheets
ASSETS

	September 30, 2009 Unaudited	December 31, 2008
Current Assets		
Cash	$251,738	$175
Prepaid expenses	31,228	1,733
Total Current Assets	282,966	1,908
Other assets	2,500	-
Total Assets	$285,466	$1,908
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued liabilities	$298,354	$206,847
Accrued expenses to related parties	737,973	722,000
Secured convertible notes payable, net of discount of $168,131 and $394,506, respectively	390,698	92,070
Derivative liability - conversion feature	228,423	147,838
Note payable to stockholder	-	215,598
Stockholder advances	-	22,830
Convertible notes payable	-	15,000
Total Current Liabilities	1,655,448	1,422,183
Long Term Liabilities		
Derivative liability - preferred stock Series A, B, and C	22,944	65,630
Secured convertible notes payable , net of discount $219,104 and $407,246, respectively	301,010	311,897
Derivative liability - conversion feature	268,007	218,500
Derivative liability – warrant	-	3,992
Total Long Term Liabilities	591,961	600,019
Total Liabilities	2,247,409	2,022,202
Series A, B, C Convertible Preferred Stock	56,505	50,905
par value $0.0001 per share, 100,000,000 shares authorized: 10,147,510, 9,996,510 and 7,151,500		
shares issued and outstanding as of September 30, 2009		

par value $0.0001 per share, 50,000,000 shares authorized: 7,347,510, 7,196,510 and 7,151,500 shares issued and outstanding as of December 31, 2008		
Stockholders' Deficit		
Common Stock; Par Value $0.0001 Per Share; Authorized		
19,900,000,000 Shares; 1,639,955,842 Shares		
Issued and 1,539,955,842 Outstanding as of September 30, 2009	153,996	223
Authorized 2,950,000,000 shares; 2,233,804 issued and		
2,233,814 shares outstanding as of December 31, 2008		
Additional paid-in capital	17,825,140	14,633,599
Deficit accumulated during the development stage	(19,997,584)	(16,705,021)
Total Stockholders' Deficit	(2,018,448	(2,071,199)
Total Liabilities and Stockholders' Deficit	$285,466	$1,908

The accompanying notes are an integral part of theses financial statements.

Camelot Entertainment Group, Inc.

(A Development Stage Company)
Statements of Operations
(Unaudited)

	For the Three Months Ended, September30, 2009	For the Three Months Ended, September30, 2008	For the Nine Months Ended, September30, 2009	For the Nine Months Ended, September30, 2008	From Inception on April 21, 1999 Through September30, 2009
Revenue	$ -	$ -	$ -	$ -	$ 58,568
Operating expenses:					
Costs of services	-	-	-	-	95,700
Sales and marketing	-	-	-	-	53,959
Research and development	-	-	-	-	252,550
General and administrative	657,729	472,957	1,130,572	874,769	14,549,139
Impairment of assets	-	-	-	-	2,402,338
Impairment of investments in other companies	-	-	-	-	710,868
Total Expenses	657,729	472,957	1,130,572	874,769	18,064,544
Operating loss	(657,729)	(472,957)	(1,130,572)	(874,769)	(18,005,986)
Other income (expense):					
Gain on sale of interest in CDG	-	-		200,000	200,000
Interest expense	(1,292,432)	(86,348)	(2,181,621)	(245,738)	(4,357,088)
Gain (loss) on derivative liabilities	(166,259)	327,522	19,630	1,222,187	1,909,990
Gain on extinguishment of debt	-	-	-	-	255,500
Total other income (expenses)	(1,458,691)	241,174	(2,161,991)	1,176,449	(1,991,598)
Net income (loss)	$ (2,116,420)	$ (231,783)	$ (3,292,563)	$ 301,680	$ (19,997,584)
	$ (0.01)	$ (21.47)	$ (0.03)	$ 51.25	

Basic income (loss) per common share								
Diluted income (loss) per common share	$	(0.01)	$	(21.47)	$	(0.03)	$	0.42
Weighted average number of shares outstanding:								
Basic		321,354,250		10,794		114,399,848		5,887
Diluted		321,354,250		10,794		114,399,848		714,286

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

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Camelot Entertainment Group, Inc
(A Development Stage Company)
Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008	From Inception on April 21, 1999 Through September 30, 2009
OPERATING ACTIVITIES			
Net income (loss):	$ (3,292,563)	$ 301,680	$ (19,997,584)
Adjustments to reconcile net income (loss) to cash (used) by operating activities:			
Amortization of deferred financing costs and discounts on notes payable	507,621	179,659	1,148,832
Imputed interest on related party advances	-	13,500	38,484
Loss on change of derivative liabilities	(19,630)	(1,222,187)	(1,264,881)
Common stock issued for interest expenses	-	14,000	703,909
Common stock issued per dilution agreement	-	-	368,508
Common stock issued for related party services and wrap-around agreements	1,662,519	-	1,684,519
Value of options expensed	-	-	351,000
Gain on extinguishment of debt	-	-	(255,500)
Depreciation	-	-	3,997
Amortization of deferred compensation	-	-	1,538,927
Common stock issued for services	410,409	287,549	3,964,976
Common stock issued for technology	-	-	19,167
Impairment of investments in other companies	-	-	710,868
Impairment of assets	-	129,700	2,758,060
Prepaid services expensed	-	-	530,000
Expenses paid through notes payable proceeds	-	-	66,439
Loss on disposal of property and equipment	-	-	5,854
Preferred stock issued to shareholder	-	-	3,366,000
Change in assets and liabilities:			
(Increase) decrease in other current assets	(29,495)	6,424	(31,662)
Increase (decrease) in accounts payable and accrued liabilities	91,319	28,706	649,503
Increase (decrease) in due to officers	355,929	224,530	1,339,229
Cash used in operating activities	(313,891)	(36,439)	(2,301,355)
Cash flows from investing activities:			
Purchase of fixed assets	-	-	(6,689)
Purchase of scripts and deposits	(2,500)	-	(132,200)

Cash used in investing activities	(2,500)	-	(138,889)
Cash flows from financing activities:			
Contributed capital	-	-	25,500
Proceeds from convertible notes payable	200,000	150,000	200,000
Proceeds from related party note payable	-	-	1,316,613
Payments on related party notes payable	-	-	(145,652)
Proceeds from notes payable	-	-	1,317,998
Payments on notes payable	-	-	(254,478)
Advances from shareholder	640,937	29,107	916,799
Payments on shareholder advances	(272,983)	(142,664)	(685,938)
Cash provided by (used in) financing activities	567,954	36,443	2,690,842
Increase (decrease) in cash	251,563	4	250,598
Cash at beginning of period	175	122	1,140
Cash at the end of the period	$ 251,738	$ 126	$ 251,738

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Statements of Cash Flows - continued

Camelot Entertainment Group, Inc
(A Development Stage Company)
Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30, 2009 $	For the Nine Months Ended September 30, 2008 $	From Inception on April 21, 1999 Through September 30, 2009 $
Supplemental cash flow information:			
Cash paid for interest	$-	$-	
Cash paid for income taxes	$-	$-	
Non-cash investing and financing transactions:			
Stock issued for related party liabilities	$-	$-	$248,581
Creation of additional debt discount	$-	$-	$920,315
Stock issued for debt and liability conversion	$1,366,457	$30,701	$1,462,215
Derivative liability relieved by conversion	$66,326	$19,722	$134,447
Accrued interest converted into convertible notes payable	$-	$-	$144,143
Accrued salaries relieved with issuance of common stock	$63,000	$-	$324,300
Stock issued per finance agreement	$-	$-	$500,000

The accompanying notes are an integral part of theses financial statements.

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CAMELOT ENTERTAINMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2009
(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Camelot Entertainment Group, Inc. (the "Company" or "Camelot"), a Delaware corporation, is a development stage film, television, digital media and entertainment company. The Company classifies its businesses into the following three major divisions:

Camelot Film Group, consisting principally of feature film, television, home video, and digital media production and distribution;

Camelot Studio Group, consisting principally of site acquisition, design, development and operation of Camelot Studio locations domestically and internationally; and

Camelot Production Services Group, consisting principally of consulting, education, finance, production support and technology services.

At September 30, 2009, the Company had a total of four employees and approximately six consultants, which provide services to the Company on an as-needed basis. The Company also retains independent contractors on a project-by-project basis. The Company has reorganized its operating structure to minimize expenses during the current uncertain economic conditions while maintaining its ongoing and planned activity levels, including planned acquisitions, by outsourcing professional and industry services whenever and wherever possible.

Basis of Presentation

Camelot is considered to be a development stage enterprise in accordance with authoritative guidance issued by the Financial Accounting Standards Board ("FASB"). Consequently, Camelot has presented these financial statements in accordance with that Statement, including losses incurred from April 21, 1999 (Inception) to September 30, 2009. The Company has not presented the statement of stockholders' deficit for the nine months ended September 30, 2009, as the significant transactions relate to the issuance of common stock issued for services and conversions of debt which are described elsewhere in the document.

The accompanying unaudited financial statements as of September 30, 2009 and for the nine months ended September 30, 2009 and 2008, respectively, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, pursuant to the rules of the regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. The notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent calendar year 2008 as reported in the Company's Form 10-K have been omitted. The results of operations for the nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. In the opinion of Camelot's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the financial statements and related notes thereto which are part of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Earnings (Loss) per Share

Basic earnings (loss) per share are based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share also includes the effect of stock options, other common stock equivalents outstanding during the during the period, and assumes the conversion of the Company's Series A, B and C preferred stock and conversion of convertible notes payable for the period of time such stock and notes were outstanding, if such preferred stock and convertible notes are dilutive.

The following table sets forth the computation of the numerator and of basic and diluted loss per share for the three and nine months ended September, 2009 and 2008. There were no adjustments to the denominator.

	Three Months Ended,		Nine Months Ended,	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Weighted average common shares outstanding used in calculating basic earnings (loss) per share	321,354,250	10,794	114,399,848	5,887
Effect of dilutive convertible preferred stock and notes	2,545,357,751	703,492	2,545,357,751	708,399
Weighted average common shares outstanding used in calculating diluted earnings (loss) per share	2,866,712,001	714,286	2,659,757,599	714,286

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1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board ("FASB") issued FASB ASC 855 Subsequent Events (formerly SFAS No. 165, Subsequent Events). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 is effective for interim and annual financial periods ending after June 15, 2009. The Company adopted FASB ASC 855 during the three months ended June 30, 2009. The Company evaluated subsequent events through the issuance date of the financial statements, November 10, 2009, and has disclosed the events identified within this filing.

In June 2009, the FASB issued FASB ASC 105 Generally Accepted Accounting Principles (formerly SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162). FASB ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. FASB ASC 105, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Company adopted FASB ASC 105 during the three months ended September 30, 2009 with no impact to its financial statements, except for the changes related to the referencing of financial standards.

2. GOING CONCERN

The accompanying financial statements have been prepared assuming that Camelot will continue as a going concern. During the nine months ended September 30, 2009, Camelot had no revenue producing operations, a negative working capital of $1,372,482 and an accumulated deficit from inception of $19,997,584. These conditions raise substantial doubt about Camelot's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring its debt, seeking additional financial resources from its existing investors, note holders, debt holders, officers, directors (past and present) and its Chief Executive Officer Robert Atwell. In addition, the Company is planning to close one or more of its anticipated acquisitions during the fourth quarter of 2009. However, especially due to the current worldwide economic conditions, there can be no assurances the Company's efforts will be successful. If these current conditions persist or worsen, the Company may have to delay its planned acquisition and capital raising efforts.

3. CONVERTIBLE NOTES PAYABLE

Prior Year NIR Funding

As of September 30, 2009, the principal balances of the notes were approximately $976,871. In addition, Camelot amortized $504,224 of the discount on the convertible note payable to interest expense during the same period.

Current Year NIR Funding

On September 3, 2009, the Company's board of directors ratified an agreement entered into between the Company and New Millennium Capital Partners II, LLC and entered into a Securities Purchase Agreement. Under the terms of the Securities Purchase Agreement, New Millennium Capital Partners II, LLC, purchased an aggregate of $100,000 in callable convertible secured notes. The Company received the proceeds from the Agreement in September 2009. The proceeds of the notes will be used for operating purposes.

The notes carry an interest rate of 10% and a maturity date of August 30, 2012. The notes are convertible into shares of the Company's common shares at a variable conversion price. The variable conversion price shall be equal to the applicable percentage of 50% multiplied by the average of the lowest three trading prices for shares of the Company's common stock during the 20 trading day period prior to conversion.

At its option, Camelot may prepay the Notes if no default exists and there are a sufficient number of shares available for conversion of the Notes and the common stock is trading below the Initial Market Price as adjusted. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property, excluding Camelot Studio Group and Camelot Film Group, as well as demand registration rights.

The investors have contractually agreed to restrict their ability to convert Notes and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

Camelot evaluated the convertible notes under current FASB standards and determined that the convertible notes contained compound embedded derivative liabilities which required bifurcation from the note instrument and required an estimate of its fair market value. The fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow. As a result, upon issuance the Company recorded an embedded derivative liability of $77,786 with the offset as a discount to the note. The discount is being amortized over the term of the note using the straight line method.

3. CONVERTIBLE NOTES PAYABLE - continued

JMJ Financial Funding Agreement

On September 3, 2009, the Company's board of directors ratified an agreement with JMJ Financial entered into on August 18, 2009. JMJ Financial and the Company entered into a financing agreement in which JMJ Financial would invest $3,000,000 into the Company over a period of two years through six $500,000 convertible promissory notes.

The Company received an initial $100,000 on August 26, 2009 and the next $100,000 investment was made on October 1, 2009. The Company received $100,000 on November 1, 2009, and is scheduled to receive $50,000 on or before December 1, 2009, January 1, 2010, and February 1, 2010. Beginning on March 1, 2010, the Company is scheduled to receive a minimum of $100,000 each month until it has received the entire $3,000,000. The Notes are secured by the Company's common stock in which the notes convert into.

The notes carry an interest rate of 12% and a maturity date of August 17, 2012. The Notes are convertible into our common shares at the conversion price. The conversion price shall be 50% percent of the lowest trading price in the 20 trading days previous to any conversion.

The investors have contractually agreed to restrict their ability to convert the Notes and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

Camelot evaluated the convertible notes under current FASB standards and determined that the Convertible notes contained compound embedded derivative liabilities in which required bifurcation from the note instrument and required an estimate of its fair market value. The fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow. As a result upon issuance the Company recorded an embedded derivative liability of $93,264 with the offset as a discount to the note. The discount is being amortized over the term of the note using the straight line method.

Derivative Liabilities Related to Convertible Instruments

As of September 30, 2009, Camelot estimated the fair value of the embedded conversion feature liabilities to be a total of $496,430 resulting in a loss on derivative liability presented in the statement of operations for the nine months ended September 30, 2009 of $21,468.

At September 30, 2009, the fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow. The valuation was calculated using a lattice model with the following assumptions: the stock price would increase in the short term at the cost of equity with a 250% volatility, there was a 95% probability the Company would not be in default of its registration requirements, assuming an event of default occurring 5% of the time increasing .10% per month, reset events projected to occur 5% of the time and the Company was not in default, the Company would trigger redemption of the note when available, alternative financing would be initially available to redeem the note and start to increase monthly by 10% of the notes to a maximum of 75% and the trading volume would increase at 1% per month.

At September 30, 2009, the fair market value of the Company's warrants was estimated using Black Scholes with the major assumptions of (1) calculated volatility of 200%; (2) expected term of six years; (3) risk free rate of 3.45% and (4) expected dividends of zero.

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3. CONVERTIBLE NOTES PAYABLE - continued

Conversions of Convertible Liabilities

During the nine months ended September 30, 2009, the holders of convertible notes converted $286,317 resulting in the issuance of 466,156,033 shares of common stock. Upon conversion, the Company reclassified approximately $66,326 of the compound derivative to additional paid-in capital.

In the event of full conversion of the aggregate principal amount of the notes of approximately $1,078,943 as of September 30, 2009, the Company would have to issue a total of 2,397,648,889 shares of common stock. However, due to contractual limitations, the most that could be converted in any singular conversion is approximately 82 million shares, or 4.99% of the outstanding. In addition, there are contractual limitations that could be imposed by Camelot that would result in the inability of the note holders to convert during any given 30-day period. There is no limit to the number of shares that Camelot may be required to issue upon conversion of the notes, as it is dependent upon Camelot’s share price, which varies from day to day. This could cause significant downward pressure on the price of Camelot’s common stock.

4. RELATED PARTY TRANSACTIONS

Accrued Salaries

At September 30, 2009, the Company has accrued wages due to its current officers of $737,973. The amount due to officers includes: Robert Atwell, 491,473, and George Jackson, $246,500. Amounts accrued during the nine months ended September 30, 2008 were $435,000 and $139,530 to Robert Atwell and George Jackson, respectively.

Advances from Affiliates

During the nine months ended September 30, 2009, the Company received $640,937 in advances from an affiliate owned by the Chief Executive Officer. During the nine months ended September 30, 2009, the Company paid $272,983 in advances back to the Chief Executive Officer. During the nine months ended September 30, 2009, net liabilities due to the Chief Executive Officer, Chief financial Officer and their affiliates satisfied through debt retirement agreements were $1,034,140. All related party advances are due on demand and currently do not incur interest.

5. PREFERRED STOCK

Preferred Stock Designations

On October 6, 2009, the Company established a Class D Convertible Preferred Stock (“Class D Preferred Stock”). The Class D Preferred Stock has a par value of $0.001, 10,000,000 authorized, is subordinate to all other series of preferred stock and is convertible into one share of common stock once the Company’s common stock achieves a 30 day average closing bid price of $2.50 per share as determined by the Over The Counter Bulletin Board historical daily stock price quote. In addition, holders of Class D Preferred Stock will have the right to convert, as described in the designation, upon a public offering of the common stock by the Company where the offering price is $2.50 or greater. The Company intends to issue the Class D Preferred Stock to common shareholders of record as of July 9, 2009. Stockholders shall be eligible to receive 40 shares of the Class D Convertible Preferred Stock for each one million shares of common stock owned as of the close of trading on July 9, 2009. The Company expects to issue approximately 374,000 shares of Class D Preferred Stock, valued at $37, once the required registration statement is declared effective by the Securities and Exchange Commission.

5. PREFERRED STOCK - continued

Derivative Valuation

At the time of issuance of the Series A, B and C Preferred stock, the Company did not have enough authorized shares on a fully diluted basis due to the conversion feature of the convertible notes, which caused the Series A, B and C Preferred stock to be tainted, and more akin to debt. In addition, management determined that the Series A, B and C Preferred contained compound embedded derivative liabilities under current FASB standards, because of the classification of these securities as liabilities. The Company determined that the compound embedded conversion features required bifurcation from the remaining Series A, B and C Preferred and required an estimate of its fair market value. The fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow.

As of September 30, 2009, there were 9,996,510 shares outstanding of Series B Convertible Preferred Stock. The Series B Preferred converts to ten shares of common stock for every one share of Series B Preferred Stock. Each share of Series B Preferred Stock is entitled to 1,000 votes. Series B Preferred ranks superior to all other classes of stock.

As of September 30, 2009, there were 10,147,511 shares outstanding of Series A Convertible Preferred Stock. The Series A Preferred converts to four shares of common stock for every one share of Series A Preferred Stock. Each share of Series A Preferred Stock is entitled to 50 votes. Series A Preferred ranks superior to common stock and junior to Series B Preferred Stock.

As of September 30, 2009, there were 7,151,500 shares outstanding of Series C Convertible Preferred Stock. The Series C Preferred converts to one share of common stock for every one share of Series C Preferred Stock. Each share of Series C Preferred Stock is entitled to one vote. Series C Preferred ranks superior to common stock and junior to Series A and B Preferred Stock.

As of September 30, 2009, the Company estimated the fair value of the preferred stock derivative liabilities to be a total of $22,944 resulting in a gain on derivative liability presented in the statement of operations of $41,098. At September 30, 2009, the fair market value of the conversion feature derivative related to the Series A, B and C Convertible Preferred stock was estimated using a lattice model incorporating weighted average probability cash flow. The valuation was calculated using a lattice model with the following assumptions: the stock price would increase in the short term at the cost of equity with a 250% volatility and there was a 100% probability the Company would not be in default of its registration requirements as there were none.

Determination of Fair Value

The fair value of the Company’s preferred stock issuances are based upon the market price of the Company’s common stock on the date of issuance assuming no future performance commitments exist. All shares discussed below are valued using these assumptions.

5. PREFERRED STOCK - continued

Issuances During the first Quarter

On March 23, 2009, the Company issued George Jackson 300,000 shares of its $0.0001 par value Class A Convertible Preferred stock at $0.0001 per share for services and other consideration rendered with a value of $30 to the Company.

On March 23, 2009, the Company issued George Jackson 300,000 shares of its $0.0001 par value Class B Convertible Preferred stock at $0.0001 per share for services and other consideration rendered with a value of $30 to the Company.

On March 23, 2009, the Company issued Robert Atwell 2,500,000 shares of its $0.0001 par value Class A Convertible Preferred stock at $0.0001 per share for services and other consideration rendered with a value of $250 to the Company.