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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: December 31, 2013 (Second Quarter)

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-52488

INFRA X SYSTEMS, INC.

(Exact name of Registrant as specified in charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

3637 4th Street N Suite 330, St. Petersburg, FL 33704

(Address of principal executive offices) (ZIP Code)

(727) 498-8514

(Registrant's telephone no., including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 to submit and post such files). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 31, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$510,473 based on the closing sale price as reported on the NASDAQ OTCBB. As of February 12, 2014, there were 108,212,682 shares of common stock outstanding.

Transitional Small Business Disclosure Format (Check one):

Yes No

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Infrac Systems, Inc.

Consolidated Balance Sheets

Assets

Current assets

Cash

Accounts receivable

Inventory

Note receivable

Total current assets

Property & equipment, net of accumulated - net

Intangible property, net of accumulated - net

Deposits

Total Assets

Liabilities and Stockholders' Equity

Current liabilities

Accounts payable

Accrued expenses

Deferred revenue

Notes payable

Total current liabilities

Notes payable to shareholder

Total liabilities

Stockholders' Equity

Preferred stock, 50,000,000 authorized, \$.001 par value:

Series A Convertible: 5,000,000 shares designated;

2,523,624 and 2,523,624 issued and outstanding

Series B Convertible: 10,000,000 shares designated;

13,540 and 13,540 issued and outstanding

Common stock, \$.001 par value, 100,000,000 shares

authorized; 108,212,682 and 103,212,682 shares

issued and outstanding, respectively

Additional paid-in capital

Minority interest in subsidiary

Accumulated deficit

Total stockholders' equity

Total Liabilities and Stockholders' Equity

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

Infrac Systems, Inc.

Consolidated Statements of Operations

(unaudited)

For the Three Months Ended

December 31,

For the Three Months

December 31,

2013

Revenues	26,030
Direct costs	1,040
Gross Profit	24,990
Operating expenses:	
Salaries and benefits	113,532
Stock based compensation	—

Consulting	—
Professional fees	23,000
General and administrative	21,818
Amortization and depreciation	415,295
Total operating expenses	573,645
Other income (expense):	
Interest expenses	(10,958)
Total other (expense)	(10,958)
Loss from operations before income taxes and minority interest	(559,613)
Provision for income taxes	—
Loss from operations before minority interest	(559,613)
Minority Interest	43,388
Net loss	(516,225)
Earnings (loss) per share:	
Basic	(0.01)
Weighted average shares outstanding	
Basic	108,212,682

Infrac Systems, Inc.

Consolidated Statements of Cash Flows

(unaudited)

Cash Flows from Operating Activities:

Net (loss) income

Adjustment to reconcile Net Income to net

cash provided by operations:

Depreciation and amortization

Amortization of deferred revenue

Stock based compensation

Minority interest

Changes in assets and liabilities:

Accounts receivable

Inventory

Due from affiliate

Prepaid and other

Accounts payable

Accrued expenses

Customer deposits and deferred revenue

Net Cash (Used) Provided by Operating Activities

Cash Flows from Investing Activities:

(Purchase) disposal of property and equipment

Net Cash (Used) Provided by Investing Activities

Cash Flows from Financing Activities:

Proceeds from issuance of stock

Proceeds from issuance of note payable

Repayments of notes payable

Prior period

Related party advances

Net Cash (Used) Provided by Financing Activities

Net increase/decrease in Cash

Cash at beginning of period

Cash at end of period

Supplemental cash flow information:

Interest paid

Taxes paid

Supplemental schedule of non-cash financing and investing activities:

None

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

Infrax Systems, Inc.

Notes to Condensed Consolidated Financial Statements

As of December 31, 2013

(Unaudited)

1. History of the Company and Nature of the Business

History of the Company

Infrax Systems, Inc. (formerly OptiCon Systems, Inc.) (“*the Company*”, “*Infrax*”) was formed as a Nevada corporation on October 22, 2004. On July 29, 2005, the stockholders of the Company entered into an agreement to exchange 100% of the outstanding common stock of the Company, for common and preferred stock of FutureWorld Energy, Inc. (formerly Isys Medical, Inc.), a publicly traded company, at which time, the Company became a wholly owned subsidiary of FutureWorld Energy, Inc..

FutureWorld Energy, Inc. (“*FutureWorld*”), Infrax’s parent company, announced its intention to spin off Infrax (formerly OptiCon Systems, Inc.) through the payment of a stock dividend. In connection with the proposed spinoff, Infrax’s board of directors approved a stock dividend of 99,118 shares to FutureWorld, its sole shareholder. On August 31, 2007, FutureWorld paid a stock dividend to its stockholders, consisting of 100% of the outstanding common stock of the Company, at the rate of one share of Infrax’s stock for every two shares they own of FutureWorld. As of August 31, 2007, Infrax ceased being a subsidiary of FutureWorld.

Nature of Business

Since its inception, the Company had been dedicated to selling and/or licensing a fiber optic management software system under the name OptiCon Network Manager, originally developed, and acquired from Corning Cable System, Inc. through a related company, FutureTech Capital, LLC. In October 2009, the Company began developing smart grid energy related products. As of June 29, 2010, the Company acquired the assets and management of Trimax Wireless Systems, Inc. ("Trimax"), in exchange for equity and a note payable. In April 2011, the Company acquired controlling interest in Lockwood Technology Corporation ("Lockwood"), a provider of advanced asset management solutions. The Trimax and Lockwood product lines are expected to provide an operating platform and enhanced operating effectiveness to the Secure Intelligent Energy Platform.

While we continue to support the OptiCon Network Management platform, the Company has shifted its focus and energies towards the "Smart Grid" energy sector. The Company believes our secure integrated platform will hasten the deployment of all Smart Grid technology for resource constrained small and mid-sized utilities. Infracore's advantage comes from our products ability to enable the creation of a secure platform scalable to deliver a broad set of intelligent Smart Grid initiatives across millions of endpoints for Utilities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated balance sheet as of December 31, 2013, the consolidated statements of operations and statements of cash flows for the three and six months then ended, have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, all adjustments necessary to present fairly the financial position at December 31, 2013, and the results of operations and changes in cash flows for the three and six months then ended, have been made. These financial statements should be read in conjunction with our audited financial statements and notes thereto included in our annual report for the year ended June 30, 2013 on Form 10-K filed with the SEC on October 15, 2013.

Certain reclassifications have been made to the Statement of Operations for disclosure purposes and comparability.

Use of Estimates

The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States of America. These principals require management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts and operations of Infrac Systems, Inc., and its wholly owned subsidiary, Infrac Systems SA (Pty) Ltd, an inactive foreign subsidiary and Lockwood Technology Corporation (70% owned by Infrac Systems, Inc. (collectively referred to as the "Company"). Accordingly, the assets and liabilities, and expenses of this company have been included in the accompanying consolidated financial statements, and material intercompany transactions have been eliminated.

The Trimax Wireless, Inc. acquisition was effective June 29, 2010. The Company, per the agreement, acquired all the assets and liabilities of Trimax Wireless, Inc. As an asset purchase the acquired assets and liabilities are included in the accounts of Infrac Systems, Inc.

Variable Interest Entities

The Company considers the consolidation of entities to which the usual condition (ownership of a majority voting interest) of consolidation does not apply, focusing on controlling financial interests that

may be achieved through arrangements that do not involve voting interest. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is generally required to consolidate assets, liabilities and non-controlling interests at fair value (or at historical cost if the entity is a related party) and subsequently account for the variable interest as if it were consolidated based on a majority voting interest. The Company has evaluated all related parties, contracts, agreements and arrangements in which it may hold a variable interest. The Company has determined it is not the primary beneficiary in any of these entities, arrangements or participates in any of the activities.

Financial Instruments

The Company's balance sheets include the following financial instruments: cash, accounts receivable, inventory, accounts payable, accrued expenses, deferred revenue, and notes payable and notes payable to stockholder. The carrying amounts of current assets and current liabilities approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization. The carrying values of the note payable to stockholder approximates fair value based on borrowing rates currently available to the Company for instruments with similar terms and remaining maturities.

In September 2006, the Financial Accounting Standards Board (FASB) introduced a framework for measuring fair value and expanded required disclosure about fair value measurements of assets and liabilities. The Company adopted the standard for those financial assets and liabilities as of the beginning of the 2008 fiscal year and the impact of adoption was not significant. FASB Accounting Standards Codification (ASC) 820 "*Fair Value Measurements and Disclosures*" (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of Nine broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Nine levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active

markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2013. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include accounts receivable, other current assets, accounts payable, accrued compensation and accrued expenses. The fair value of the Company's notes payable is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

The Company applied ASC 820 for all non-financial assets and liabilities measured at fair value on a non-recurring basis. The adoption of ASC 820 for non-financial assets and liabilities did not have a significant impact on the Company's financial statements.

As of December 31, 2013 and June 30, 2013, the fair values of the Company's financial instruments approximate their historical carrying amount.

Cash and Cash Equivalents

The majority of cash is maintained with major financial institutions in the United States. Deposits with these banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed on demand and, therefore, bear minimal risk. The Company considers all highly liquid investments purchased with an original maturity of Nine months or less to be cash equivalents.

Accounts Receivable and Credit

Accounts receivable consist of amounts due for the delivery of sales to customers. Prepayments on account are recorded as customer deferred revenue. Additionally, the Company invoices projects when signed agreement or statements of work are received. Amounts are recorded at the anticipated

collectible amount and recorded as deferred revenue until such time that the work is performed. Contract revenue is recognized as the contract is completed, based on defined milestones (see policy on revenue recognition). An allowance for doubtful accounts is considered to be established for any amounts that may not be recoverable, which is based on an analysis of the Company's customer credit worthiness, and current economic trends. Based on management's review of accounts receivable, no allowance for doubtful accounts was considered necessary. Receivables are determined to be past due, based on payment terms of original invoices. The Company does not typically charge interest on past due receivables.

Inventories

Inventories are stated at the lower of cost or market, which approximates actual cost. Cost is determined using the first-in, first-out method. Inventory is comprised of component parts and accessories available for sale. Parts are generally purchased for projects, as minimal inventory is held to supply customers.

Property & Equipment

Property and equipment are recorded at historical cost or acquisition value. Depreciation is computed on the straight-line method over estimated useful lives of the respective assets, ranging from five to nine years. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or the unamortized balance is warranted. Based upon the Company's most recent analysis, management believes that no impairment of property and equipment exists at December 31, 2013.

Intangible Property

On June 29, 2010 the Company acquired the assets of Trimax Wireless Systems, Inc., including licenses and trademarks. The purchase price was allocated first to the identifiable assets received, allocating the remaining costs to the intellectual property. The valuation considered future cash flows of the operating intangible assets acquired. The valuation of the intellectual property was limited to the acquisition price (valuation of stock consideration and note payable), less the fair market value of identifiable assets. The shares issued in exchange for the acquired property were valued at the fair market value of the equivalent common stock as of the date of closing. The fair market value of consideration issued (stock and note payable) to the sellers was an aggregate amount of \$6,511,364. The value assigned to the

carrying value of the acquired intellectual property was \$6,329,342. Intellectual property has an estimated useful life of 59 months (remaining life of patents).

On May, 2011 the Company completed the acquisition of controlling interest (70%) in Lockwood Technology Corporation, in exchange for stock and certain considerations (cash and warrants). The shares were issued at the fair market value at the date of the transaction (\$1,650,000) and warrants were valued using an option price model (\$477,900). The total purchase price, net of cash, notes receivable, and net assets acquired was \$1,956,158. The Company recognized an immediate impairment in the amount of \$641,008 in consideration of its analysis of future discounted cash flows and industry multiples of the acquired Company, resulting in a net intangible assets of \$1,315,150. Management's allocation of the purchase price was based on our assessment of the fair market value of the assets acquired, in accordance with Accounting Standard Codification, Topic 805. Fixed assets and other tangible assets were evaluated for market value. There were no identifiable assets that had any significant appreciation or impairment; therefore those assets have been brought over at the historical basis, net of depreciation. The analysis of the intangible values purchased were allocated to the Lockwood customer list (30% or \$394,550) and the developed software and licensing technology (70% or \$920,600).

Capitalized Software Development Costs

The Company capitalizes software development costs, under which certain software development costs incurred subsequent to the establishment of technological feasibility have been capitalized and are being amortized over the estimated lives of the related products. Capitalization of computer software costs is discontinued when the computer software product is available to be sold, leased, or otherwise marketed.

Amortization begins when the product is available for release and sold to customers. Software development costs will be amortized based on the estimated economic life of the product, anticipated to be 10 years.

Impairment of Long-Lived Assets

Periodically, the Company assesses the recoverability of the Company's intangible assets, consisting of the Trimax acquired intellectual property, OptiCon Network Manager software and its trademark, and

record an impairment loss to the extent that the carrying amounts of the assets exceed its fair value. Based upon management's most recent analysis, the Company believes that no impairment of the Company's tangible or intangible assets exist at December 31, 2013 and June 30, 2013.

Revenue Recognition

The Company is principally in the business of providing solutions for a secure intelligent energy platform that incorporates our secure wireless technology. Contracts include multiple revenue components, comprised of our software licensing, hardware platforms, installation, training and maintenance. In accordance with ASC 605-25 Multiple-Element Arrangements, revenue from licensing the software will be recognized upon installation and acceptance of the software by customers. When a software sales arrangement includes rights to customer support, the portion of the license fee allocated to such support is recognized ratably over the term of the arrangement, normally one year. Revenue from professional services arrangements will be recognized in the month in which services are rendered over the term of the arrangement.

Revenue associated with software sales to distributors is recognized, net of discounts, when the Company has performed substantially all its obligations under the arrangement. Until such time as substantially all obligations under the arrangement are met, software sales are recognized as deferred revenue. Costs and expenses associated with deferred revenue are also deferred. When a software sales arrangements include a commitment to provide training and/or other services or materials, the Company estimates and records the expected costs of these training and/or other services and/or materials.

Stock Based Compensation

The Company issues restricted stock to consultants for various services. Cost for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The Company recognized consulting expenses and a corresponding increase to additional paid-in-capital related to stock issued for services. Stock compensation for the periods presented were issued to consultants for past services provided, accordingly, all shares issued are fully vested, and there is no unrecognized compensation associated with these transactions.

Shipping Costs

The Company includes shipping costs and freight-in costs in cost of goods sold.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising expenses are included in the Company's operating expenses. Advertising expense was \$0 and \$0 for the three and six month periods ending December 31, 2013 and 2012, respectively.

Research and Development

The Company expenses research and development costs when incurred. Indirect costs related to research and developments are allocated based on percentage usage to the research and development.

Income Taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose, referred to as

temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

Earnings (Loss) Per Share

Basic EPS is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted EPS is similarly calculated, except that the denominator includes common shares that may be issued subject to existing rights with dilutive potential, except when their inclusion would be anti-dilutive.

Based on an estimated current value of the Company's stock being equal to or less than the exercise price of the warrants, none of the shares assumed issued upon conversion of the warrants, nor any of the stock assumed issued under the Company's 2004 Non statutory Stock Option Plan, are included in the computation of fully diluted loss per share, since their inclusion would be anti-dilutive. Convertible preferred shares have been included in the dilutive computation, as if they would have been converted at the end of the period.

Earnings (Loss) per share:

Net Loss

Common shares

Earnings (loss) per share, basic

*Potentially issuable preferred shares, if converted to common, were considered but not included in the calculation of diluted earnings per share for the period ended December 31, 2013 and 2012, respectively, because their inclusion would be anti-dilutive.

Recently Issued Accounting Pronouncements

We have reviewed accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration. Those standards have been addressed in the notes to the unaudited financial statement and in our Annual Report, filed on Form 10-K for the period ended June 30, 2013.

3. Going Concern

As of December 31, 2013, the Company has a working capital deficit and has incurred a loss from operations and recurring losses since its inception resulting in a significant accumulated deficit. As of December 31, 2013, the Company had negative working capital of approximately \$2.2 million and approximately \$300 in cash with which to satisfy any future cash requirements. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's is attaining revenues and management expects profitability in the future; however operations have not yet attained a profit or break-even. Accordingly, the Company depends upon capital to be derived from future financing activities such as loans from its officers and directors, subsequent offerings of its common stock or debt financing in order to operate and grow the business. There can be no assurance that the Company will be successful in raising such capital. The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, acceptance of the Company's business plan, the ability to raise capital in the future, to continue receiving funding from its officers, directors and shareholders, the ability to expand its customer base, and the ability to hire key employees to grow the business. There may be other risks and circumstances that management may be unable to predict.

4. Accounts Receivable

Accounts receivable reflect the amounts that have billed at their anticipated collectible amount. The Company receives contract acceptances on submitted quotes. Due to the advanced planning required, contract modifications occur, therefore, management invoices contracts upon signing, however, may reserve against invoicing until final scope of project negotiations or good faith deposits are made.

5. Property and Equipment

Property and equipment consists of the following:

Office and computer equipment

Furniture and fixtures & improvements

Computer software

Accumulated depreciation

For the six months ended December 31, 2013 and 2012, the total depreciation expense charged to operations totaled \$16,480, and \$17,073 respectively.

6. Intangible Assets

Intangible assets consists of the following:

Opticon fiber optic management software

Trademarks

TriMax intellectual property

TriMax software

Lockwood customer list

Lockwood licensing technology

Accumulated amortization

For the six months ended December 31, 2013 and 2012, the total amortization expense charged to operations totaled \$814,438 and \$814,439, respectively.

Opticon fiber optic management software

The Company purchased all rights, titles and interest in the Opticon fiber optic management software on July 26, 2005, from FutureTech, LLC. in exchange for common stock. The agreement became effective upon FutureTech purchasing the acquired assets from Corning Cable Systems, LLC in exchange for \$100,000 in cash. The Company recorded the common stock at the transferor's historical cost basis determined under generally accepted accounting principles.

On July 26, 2005, the Company purchased the OptiCon Network Manager software system which consisted of version R3 and R4. At the time of the purchase, the software system was out of date and had to be updated and integrated with other current business software systems, before it could be distributed to customers. The development of R3 software system was completed during the quarter ended December 31, 2006, and is available for distribution to customers. In June 2010 a transfer of 50% of the R3 license was returned to FutureTech, LLC at a carrying cost value of \$22,250.

During the six months ended December 31, 2013 and 2012, the Company did not allocate any direct labor costs, and indirect costs and expenses to this effort. The capitalized software costs are amortized when the software is actually sold to customers. Amortization is provided based on the number of software units sold relative to the number of expected to be sold during the software's economic life.

TriMax intellectual property

On June 29, 2010 the Company acquired the assets of Trimax Wireless Systems, Inc., including licenses and trademarks. The purchase price was allocated first to the identifiable assets received, allocating the remaining costs to the intellectual property. The valuation considered future cash flows of the operating intangible assets acquired. The valuation of the intellectual property was limited to the acquisition price (valuation of stock consideration and note payable), less the fair market value of identifiable assets. The shares issued in exchange for the acquired property were valued at the fair market value of the equivalent common stock as of the date of closing. The acquisition carrying value assigned to the intellectual property was \$6,329,342.

TriMax software

Software development costs, in the amount of \$180,020, were acquired in the Trimax acquisition. The proprietary software was an identified asset of the acquisition and valued at the historical carrying value, cost. The capitalized software is available for sale and is to be amortized over a 5 year period.

Lockwood Technology Corporation

On May, 2011 the Company completed the acquisition of controlling interest in Lockwood Technology Corporation, leading RFID software and hardware solutions provider, from Daedalus Capital, LLC. Infrac Systems acquired 70% interest in exchange for stock and certain considerations, including a \$50,000 note receivable (due in 180 days) from the sellers to Infrac and \$112,000 in cash received by Infrac at closing. Additionally, warrants were issued for the purpose of possible future investment capital, to be received by Infrac. Shares were issued at the fair market value at the date of the transaction (\$1,650,000). The agreement included warrants for the purchase of 660,000 (post reverse split) common shares at an exercise price of \$5.00 (split adjusted, for a term of 3 years. The warrants are callable by Infrac at certain fair market values of the common stock. Warrants were valued at \$477,900 using an option price model (assumptions used in calculation: volatility 400%; risk free rate 1.02%; dividend rate 0%). The total purchase price, net of cash, notes receivable, and net assets acquired was \$1,956,158 and was allocated to intangible assets.

The Company recognized an immediate impairment in the amount of \$641,008 in consideration of its analysis of future discounted cash flows and industry multiples of the acquired Company, resulting in a net intangible assets of \$1,315,150. Infrac also plans to utilize their expertise in future smart grid deployment projects. Management's allocation of the purchase price was based on our assessment of the fair market value of the assets acquired, in accordance with Accounting Standard Codification, Topic 805. Fixed assets and other tangible assets were evaluated for market value. There were no identifiable assets that had any significant appreciation or impairment; therefore those assets have been brought over at the historical basis, net of depreciation. The analysis of the intangible values purchased were allocated to the Lockwood customer list (30% or \$394,550) and the developed software and licensing technology (70% or \$920,600).

7. Notes payable

On June 29, 2010 the Company entered into an agreement with the shareholders of Trimax Wireless, Inc. ("Trimax") for the purchase of their business assets and technology for preferred shares of the Company, the assumption of liabilities and a note payable, in the amount of \$712,500. The note is interest bearing at 6% per annum until fully paid with a start period of 90 (September 29, 2010) days for the first payment. The Company shall make interest-only payments on the first day of each month from the date of this Note until the earlier of (a) receipt of Investment Funding as defined; or (b) 180 days from the date hereof ("Maturity Date") (December 29, 2010). Principal plus all accrued and unpaid

interest on such principal shall be due and payable on the Maturity Date. As of the balance sheet date the Company is in default, as it has not made payments on this loan and is currently in negotiations to extend terms. There is no default interest rate.

The Company issued a demand note to an unrelated party, with an unpaid balance in the amount of \$6,000 with an annual interest rate of 18%. There are no repayment terms.

In April of 2011 the Company issued a demand note to an unrelated party in the net amount of \$6,000 for cash infused into the Company at the time of the acquisition of its interest in Lockwood Technology Corporation. The note is non-interest bearing as has no repayment terms.

8. Related Parties Disclosures

Employment Agreements

The following agreements are with Shareholders, Directors and Members of the Board:

Sam Talari

Effective August 1, 2009, the Company entered into a three-year employment agreement with Sam Talari, one of the Company's directors. The agreement was automatically renewed for an additional one-year period, and subsequently renewed by the Board for an additional one-year period through July 31, 2013. The Agreement provides for (a) a base salary of \$15,000 per month, (b) a signing bonus equal to one month salary, (c) four weeks' vacation within one year of the starting date, and (d) all group insurance plans and other benefit plans and programs made available to the Company's management employees.

John Verghese

On October 19, 2010, as amended January 1, 2010, the Company entered into a three-year employment agreement with John Verghese as Director of Product Development, one of the Company's directors. The Agreement provides for (a) a base salary of \$6,500 per month, (b) a signing bonus of \$10,000, (c) three weeks' vacation within one year of the starting date, and (d) all group insurance plans and other benefit plans and programs made available to the Company's management employees. Additionally Mr. Verghese has the option to purchase 360,000 shares of common stock at \$.025 per share, ratably vesting at the employment anniversary date.

Terry Gardner

On April 2nd, 2012, the Company entered into a three-year employment agreement with Terry Gardner as VP of Professional Services. The Agreement provides for (a) a base salary of \$10,000 per month, (b) a signing bonus of \$30,000, (c) three weeks' vacation within one year of the starting date, and (d) all group insurance plans and other benefit plans and programs made available to the Company's management employees. Additionally Mr. Gardner has the option to purchase 300,000 shares of common stock at \$.04 per share, ratably vesting at the employment anniversary date.

Malcolm F. Welch

On October 6, 2009, the Company entered into a one-year employment agreement with Malcolm F. Welch, one of the Company's directors and Co-Chairman of the Board. The agreement is automatically extended for successive one one-year periods, unless previously terminated. The Agreement, as amended effective January 1, 2010 provides for (a) a base salary of \$2,000 per month; (b) eligibility to receive 375,000 shares of the Company's common stock based on the employee's achievement of goals and objectives approved by the Board; (c) an option to purchase 375,000 shares of the Company common stock at \$0.025 per share to be granted over a 3 years based on the achievement of goals and objectives established by the Board; (d) a bonus based on the level of funding the Company achieves through December 31, 2010 ; (e) two week vacation during first year of employment; and (f) all group insurance plans and other benefit plans and programs made available to the Company's management employees.

Other employment agreements exist with employees.

Line of Credit, Master Agreement

On September 1, 2005, Mr. Sam Talari, one of the Company's directors, agreed to make advances to the Company as an interim unsecured loan for operational capital up to a maximum of \$350,000, evidenced by a master promissory note, with interest at the rate of 5% per annum, based on amounts advanced from time to time, payable annually. Mr. Talari has pledged additional funding for operating capital, up to \$500,000, under the same terms as the original Master Note. Mr. Talari, from time to time, has converted advances and accrued interest in exchange for equity shares. Mr. Talari continued making advances to the Company on the loan, of which \$752,213 and \$762,588 remains outstanding at December 31, 2013 and June 30, 2013, respectively. Mr. Talari has pledged additional funding for operating capital, up to \$1 million, under the same terms as the original Master Note.

9. Income Taxes

There is no current or deferred income tax expense or benefit allocated to continuing operations for the period ended December 31, 2013 and 2012. The Company has not recognized an income tax benefit for its operating losses generated through December 31, 2013 based on uncertainties concerning the

Company's ability to generate taxable income in future periods. The tax benefit is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

For income tax purposes the Company has available a net operating loss carry-forward of approximately \$7,500,000 from inception to December 31, 2013, which will expire, unless used to offset future federal taxable income beginning in 2024. The tax years ending June 30, 2010 through June 30, 2013 are open for inspection by both Federal and State Agencies.

10. Capital Equity

The Company has issued convertible preferred shares. Shares are convertible into the Company's common stock, at the option of the holder, at the prescribed conversion rate. Conversions are as follows:

Preferred Series A

Preferred Series A1

Preferred Series A2

Preferred Series A3

Preferred Series B1

Preferred Series B2

On September 24, 2013, the Company issued 5,000,000 shares of its common stock for services.

11. Commitments and Contingencies

Lease/Rental Agreements

Our executive office is now located in an office complex under annual five year lease, beginning June 1, 2012 at a rent of \$3,575 per month. We entered into this 5-year commercial lease agreement in St. Petersburg, Florida with Kalyvas Group II, LLC. Our lease provides us with approximately 4,100 square feet of: reception area, nine offices, a lab/production area, inventory room, server room, kitchenette and one conference rooms. We believe the facilities are adequate for our operational needs. We may require additional offices in the event we obtain funding and acquire additional customers.

Rent expense for the six months ended December 31, 2013 and 2012 amounted to \$22,647 and \$10,641, respectively.

Foreign Currency Translation

The balance sheets of the Company's foreign subsidiaries are translated at period-end rates of exchange, and the statements of earnings are translated at the weighted-average exchange rate for the period. Gains or losses resulting from translating foreign currency financial statements are included in accumulated other comprehensive income (loss) in the consolidated statements of stockholders' equity and comprehensive income. At December 31, 2013 and 2012 no foreign currency translation was conducted due to the immaterial nature of its subsidiary's balance sheet.

Legal Matters

From time to time the Company may be a party to litigation matters involving claims against the Company. Management believes that there are no current matters that would have a material effect on the Company's consolidated financial position or results of operations as of December 31, 2013.

During the quarter ended June 30, 2011, Trimax Wireless filed a complaint relating to the unpaid balance of the Promissory Note executed with the acquisition of Trimax Wireless. The Company has filed a motion to dismiss such action which is set for hearing. The note is unsecured, however, if holders prevail, they may be entitled to legal cost, in addition to payments per the term of the agreement. The Company believes that it has sufficient affirmative defenses to this complaint and does not believe that it will have a material effect on the Company. Currently the company is in the process of requesting dismissal of the suit.

During quarter ended June 30, 2012, The Company filed a Federal lawsuit against Lockwood Worldwide and its owners, current and previous management in the UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF FLORIDA. We are requesting an award of compensatory damages, an award of treble damages pursuant to the provisions of RICO and other applicable federal and state statutes and an award of punitive damages in the full amount by the jury against each of the Defendants. As Plaintiff, we have suffered damages as a result thereof, an amount in excess of \$4,350,000. We are asking for a total damages up to 4 times the amount

of loss or close to \$16M. As of the filing of this 10/Q, we have had success in freezing their operational account and all funds associated with that account. We are also in settlement talks with Sovereign bank.

12. Subsequent Events

None

Item 2. Management's Discussion and Analysis or Plan of Operation

Management's Discussion and Analysis or Plan of Operation

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This filing contains a number of forward-looking statements which reflect management's current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words "believe," "expect," "intend," "anticipate," "estimate," "may," variations of such words, and similar expressions identify forward-

looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on form 10-K and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussions should be read in conjunction with our financial statements and the notes thereto presented in "Item 1 – Financial Statements" and our audited financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our report on Form 10-K for the fiscal year ended June 30, 2011. The information set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to differ materially from those contained in the forward-looking statements.

Our Business

INFRAX is a pioneer designer, developer, systems integrator and manufacturer of turnkey secure solutions for the utility industry. We are a provider of unique secure, cost-efficient solutions that provide everything required to bring the utility's technological platform into the 21st. century. Our SIEP™ platform provides: 1) Network Transport and Management (secure 2 way communications), 2) Secure Smart Devices (Smart Meters), and 3) Asset management, Grid Optimization and Security, all in an integrated state-of-the-art Smart Grid solution that truly provides our customers with end to end grid management capability.

We believe our Secure Integrated Platform will facilitate and hasten the deployment of Smart Grid technology among resource constrained small and mid-sized utilities. INFRAX' advantage comes from our advanced patented technologies, which provide a highly secure, reliable platform that allows two-

way communication with our Secure Intelligent Endpoint Devices for Advanced Metering Infrastructure and Substations applications.

Based on our review of the Smart Grid related products against which the Secure Intelligent Energy Platform now competes, we believe that none of them provide the required encryption and threat detection capabilities required to secure the energy grid.

The Utility industry's aggressive deployment of Advanced Metering Infrastructure (AMI) and data management devices has led to the accelerated reliance on fiber optic communications to many of the key substations. However, the existing utility networks cannot provide the security, reliability and connectivity to extend the reach to the consumer locations.

Today's evolution of Smart Grid design and implementations actually began several years prior to the current initiatives. The same applies to the products designed by most of the major players including Itron, Silver Spring and GridPoint. Although the

current security initiatives and elected officials have good intentions, they have missed the window of opportunity to truly integrate security from the beginning by several years. Similar to the credit card industry, banking, health care, and most other industries that conduct business online, the next electrical infrastructure will need to feature security as an add-on that is applied after the Smart Grid is implemented.

Recently discovered vulnerabilities in smart meters have been identified that could allow an attacker to obtain complete control of the meters. Specifically, an attacker could exploit these vulnerabilities to turn off electricity to hundreds of thousands of homes. Thus, an attacker could execute a wide-scale Denial of Service ("DoS") attack against homes and businesses.

The Advantage of Our Technology

By entering the market without the burden of legacy products and technology, Infracore is able to focus on future technologies and will be poised to provide advanced solutions for companies that are yet to deploy AMI and harden previously installed networks and devices.

While the current use of RF technology is inherently less reliable, Infrax is focused on using highly encrypted data over secure tunnels using a variety of communications medium including WiFi, Cellular or other public communication media. Infrax's secure smart grid platform incorporates a communications transport known as GridMesh™, and a device and data security management tool known as GRiM. Secure management of the "last mile" backhaul is necessary for utilities to implement Smart Grid applications such as AMI, and substation and distribution automation.

We believe that our Secure Intelligent Energy Platform will give us a competitive advantage in the emerging and evolving Smart Grid environment. By utilizing our solution, Utilities can secure their networks and prolong the lifecycle of previously deployed components by eliminating the security concerns that would necessitate replacement.

INFRA X Strategy

We intend to generate revenues from the design, sales, installation, and support of the hardware, software and technology, associated with our integrated solution, Infrax Secure Intelligent Energy Platform (SIEP)™. Additionally, revenues may be generated from licensing our Security, GRiM and, Infrax Networks wireless communications and future products.

Our Product Portfolio

(a) SNIC

Over the last several quarters, Infrax has been developing the company's flagship product - Secure Network Interface Card (SNIC) for electric meters. While the initial focus will be to develop the card for one of the largest meter manufactures in the world, the final objective is to have a universal card that can be used in any meter in the world. The wireless part of the first prototype has been completed and successfully tested. With the development and improvements continuing, we will have a complete working prototype by the end of this summer. Although details of the card cannot be disclosed for obvious reasons, our emphasis has been to address the security of the data to and from a meter as well as to provide a robust communication platform that can be used not only for meter data but also in Distribution Automation projects such as capacitor bank and volt/var controllers. The Company believes that the SNIC along with newly created Professional Services division will hasten the deployment of all Smart Grid technology for resource constrained small and mid-sized utilities.

(b) SPIDer – Secure Perimeter Intrusion Detection

Building on our expertise in network and physical security platforms, the company has introduced the first active and secure intrusion detection network. The SPIDer Network initial offering is directed to the electrical energy company concerns with copper

and material theft and its related impact to safety and homeland security. Infrac Systems is committed to change the present paradigm in the electric utility industry as to how physical and data security processes are deployed to protect electrical substations, remote critical infrastructure facilities, communications networks, advanced distributed controls and intelligent meter networks. Copper theft and its potential threat to safety and homeland security has been estimated by the Department of Energy and other sources as approaching a Billion dollar cost annually in the US alone. Attacks on critical infrastructure such as electric and water resources can cause wide scale economic devastation which would greatly amplify these costs. Most of these assets have little to no security or intrusion detection and what little exists is forensic in nature as it helps to identify what happens but does not detect the threat at the moment it occurs. Infrac Systems' vision is based on a trusted network of intelligent devices which detect intrusion at any level and quickly determines friend or foe thus taking action when necessary to secure critical infrastructure and intelligent property.

Infrac Systems has recently started a marketing campaign for the SPIDer product line. Currently we have demonstrated the basic SPIDer system to three utilities and are scheduled for another two demonstrations. Five additional utilities have expressed interest in the product. Most are for the image based level although one has shown initial interest in the first level coaxial based system. One customer utility has requested a proposal for a complete network linking 12 facilities. Initial projections indicate a strong market and revenue. Revenues are expected to grow logarithmically as utilities finish their pilot stages and budget for next year.

(c) Professional Services

Infrac Systems has introduced a new division which provides engineering and professional services to its energy customers. This division is charged with packaging Infrac Systems products into engineered solutions that are marketed to their customers. Professional services provides engineering, construction and project managements services to the smaller utilities such as local municipalities, Rural Electric Cooperatives and Investor Owned Utilities who may not have the manpower or expertise to accomplish their goals. By leveraging our over 100 years of combined experience in the electric utility and telecommunications industries, Infrac Systems is well placed in an industry which is becoming the newest high tech phenomenon. The Smart Grid vision relies on vast networks of intelligent devices which sources in the Data and Enterprise Network industry indicate will surpass by several orders of magnitude of any know data network of today. Even a relatively small utility will have upwards of a

million devices operating on thousands of individual domains. These networks not only will control instant and real time power flow but will also be the cash register for the Utility industry. Security, scalability and authenticity as well as day to day maintainability are the utmost concerns in providing an intelligent power grid that is safe and secure. Infrac Systems will be a leader in designing, building and securing these networks and solutions.

Initial marketing campaigns have been targeting the municipalities and Electrical Cooperatives. Currently we have responded to one major RFP for Capacitor Bank networks and Smart Grid infrastructure worth in excess of 1.5 million dollars. We are also working on a pilot project for our AMI product with the availability of the SNIC, with a major utility. If the pilot project is accepted and successful, we may be asked to provide AMI to all their customers. The revenue from such project, for only one utility, will be overwhelmingly substantial. We are also in the process of negotiations for a contract to provide customer engineer expertise for a fiber optic construction project and we have installed several radios for one of our initial customers. We have started to communicate with few utilities in Florida to become qualified bidders for the coming projects. We will continue this process with utilities all along the east coast of USA.

(d) Lockwood Technology

The past few months have been eventful for Lockwood Technology. The new development team has made substantial progress in their efforts to map out the new features and improvements to our core software platform "Asset Tracker". The new features, operational improvements, and added functionality has been released as an incremental upgrade as version v11.6.

Our development road map plan is to give the entire platform a structural overhaul and graphical refresh by porting all of the features and functions into a "Browser-Based" user GUI that can be more easily deployed, managed, and updated. This would allow Lockwood's platform to be deployed in a "Cloud-Based" architecture. This upgrade will better position Lockwood's solutions to be sold into the targeted vertical markets. This will also allow us to better manage different licensing options and increase revenues.

Lockwood has also created a new sales and marketing strategy that will reduce the sales cycle timing and increase the profit margin on all deals. This plan is based on a channel strategy that leverages the efforts of numerous established VAR's and integrators that each has their own substantial pipeline of deal within the targeted vertical markets. The plan also incorporates the creation of "Pre-Configured" versions of the platform that are tailored to the specific vertical markets we target. We call these "Vertical Market Applications". These Vertical Market Applications make the systems easier to sell than those of a custom integration based solution. This approach also reduces the man-hours involved in these implementations by pre-configuring the platform with industry specific best practice routines. There is still a significant amount of flexibility within the application to maintain our competitive advantage of the other "Fixed" platforms.

The initial vertical markets we have identified based on our market research are:

- Healthcare

- Education
- Hospitality
- Retail
- Government

This new channel based strategy is beginning to take shape. We have identified the 400-500 individual integrators to partner with, each with their own sales pipelines within the vertical markets listed above. We are working with the RFID and Barcode hardware manufacturers to promote our software as the catalyst that makes their hardware more valuable as part of a total solution. We have developed a web-based sales training system that will enable these VAR's to incorporate our software solutions with the RFID hardware products they sell to solve the problems their customer are experiencing. This approach will no doubt make Lockwood's value proposition obvious to the customers while increasing our profit margins as well as those of our integrator partners.

On the short-term revenue front, we have had success in maintaining our existing customer base. We are experiencing a 99% take rate on our annual software maintenance renewals. This will provide a consistent and predictable stream of recurring revenue. We are also working with our existing customers to learn more about how they operate and are providing them with the ongoing support to maintain this success. We are also identifying the customers that are using older versions of the platform and encouraging them to upgrade to the current revision level. The upgrade process is facilitated by our customer's compliancy policies requiring them to meet certain network security standards that can only be achieved by implementing the newer versions of our software.

We also have a significant sales pipeline of proposals that include not only software sales, but also complete solutions that incorporate hardware, software and professional services as well. This pipeline is made up of deals with our existing channel partners such as Lockheed Martin's IS&GS Group, the US Army, and numerous other municipal, state, and federal government projects and RFP's. We are also working on significant deals with our international partners within the same vertical markets in the Middle East and Europe.

Lockwood Technology has been chosen under a prime bidder to bid on a large state contract for Enterprise Asset Management System (EAMS) for the Government of an East African country. The total bid is under \$20M USD and consists of three lots. We have bid for all three lots and may or may not win all three or in parts. The project if won will be started in late 2012. Lockwood Technology has also been chosen under the same prime bidder to bid on another large state contract for Enterprise Asset Management System (EAMS) for another Government of an East African country. The total bid is unknown at this time. The project if won will be started in 2013.

Our Market

INFRA market opportunity exists in one of the largest industries in the world. Globally, according to the International Energy Agency (IEA), this industry is expected to spend close to \$10 trillion dollars by 2030 to upgrade electrical infrastructure. Technology innovations in power delivery have been fermenting for years, but only now is the confluence of physical need and social expectations creating an environment in which real and sustained monetary commitments are being made to create a “Smart Grid” built on information-based devices, digital communication and advanced analytics. Networking giant Cisco has estimated that the market for smart grid communications will grow into a \$20 billion-a-year opportunity as the infrastructure is built out over the next five years. Researchers at Specialists in Business Information (SBI) forecast the market will grow to \$17 billion-per-year by 2014 from today’s \$6 billion. Globally, SBI expects the market for smart grid technologies to grow to about \$171 billion by 2014 up from approximately \$70 billion in 2009.

Furthering our development towards becoming a leader in the emerging smart-grid industry, on April 8, 2011 we acquired a 70% controlling interest in Lockwood Technology Corporation, to supply RFID and asset tracking, among other technology value to our product lines.

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This filing contains a number of forward-looking statements which reflect management’s current views and expectations with respect to our business, strategies, products, future results and

events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which

management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words “believe,”

“expect,” “intend,” “anticipate,” “estimate,” “may,” variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management’s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on form 10-K and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussions should be read in conjunction with our financial statements and the notes thereto presented in “Item 1 – Financial Statements” and our audited financial statements and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our report on Form 10-K for the fiscal year ended June 30, 2011. The information set forth in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to differ materially from those contained in the forward-looking statements.

Nature of Our Business

While we continue to maintain the OptiCon Network Management platform, the Company has shifted its focus and energies towards the “Smart Grid” energy sector. The Company believes our secure integrated platform will hasten the deployment of all Smart Grid technology for resource constrained small and mid-sized utilities. Infrac’s advantage comes from our products ability to enable the creation of a secure platform scalable to deliver a broad set of intelligent Smart Grid initiatives across millions of endpoints for Utilities.

INFRA market opportunity exists in one of the largest industries in the world. Globally, according to the International Energy Agency (IEA), this industry is expected to spend close to \$10 trillion dollars by 2030 to upgrade electrical infrastructure. Technology innovations in power delivery have been fermenting for years, but only now is the confluence of physical need and social expectations creating an environment in which real and sustained monetary commitments are being made to create a “Smart Grid” built on information-based devices, digital communication and advanced analytics. Networking giant Cisco has estimated that the market for smart grid communications will grow into a \$20 billion-a-year opportunity as the infrastructure is built out over the next five years. Researchers at Specialists in Business Information (SBI) forecast the market will grow to \$17 billion-per-year by 2014 from today’s \$6 billion. Globally, SBI expects the market for smart grid technologies to grow to about \$171 billion by 2014 up from approximately \$70 billion in 2009.

According to a report issued to Congress by the Office of Electricity Delivery and Energy Reliability, as required by Section 1309 of Title XIII of the Energy Independence and Security Act of 2007, the security of any future Smart Grid is dependent on successfully addressing the cyber security issues associated with the nation’s current power grid.

The complexity of the grid implies that vulnerabilities exist that have not yet been identified. It is particularly difficult to estimate risk from cyber-attack because of the size, complexity, and dynamic nature of the power grid and the unpredictability of potential attackers.

Infrac creates a unified solution path to securely manage Advanced Metering Infrastructure (AMI) and other Smart Grid optimization applications such as substation and distribution automation. Our product portfolio provides Network Transport and Management, Secure Intelligent Devices, Threat Detection, and Grid Optimization, all integral components of a state-of-the-art Smart Grid solution.

Through our wireless broadband business unit, Infrac Networks, we provide outdoor mesh-relay based wireless broadband networks used by customers as the metro-scale IP foundation upon which to run one or many applications that help build greener, safer, smarter communities. Our products have been deployed globally to help connect the unconnected. In addition, our networks are used by electric

utilities to build large scale, reliable, and secure networks that deliver the high bandwidth and low latency required for deploying smart grids.

Furthering our development towards becoming a leader in the emerging smart-grid industry, on April 8, 2011 we acquired a 70% controlling interest in Lockwood Technology Corporation, to supply RFID and asset tracking, among other technology value to our product lines.

Name Changes

None.

Changes in Management

None

Sales Activity

The Company's backlog of proposal activity substantially increased in the quarter. Interest in our core products and development projects continues to increase. We are in discussions with several large, nationwide distribution channels to add our products to their portfolios and are in contract discussions with a national sales channel to sell preconfigured versions of select Lockwood and Infrac products. Lockwood has close to \$10M in sales activity in the pipeline so far for the year 2013. Infrac will be starting a pilot project at the end of its third quarter possibility with a local utility. We are currently working on other proposed pilot projects in other countries such as India for 35M customers. We cannot be guaranteed that we get our proposal accepted for these pilot projects but feel very confident on our technology and its need by the major utilities.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 to the financial statements. However, certain accounting policies are particularly important to the portrayal of our financial position

and results of operations and require the application of significant judgment by our management; as a result they are subject to an inherent degree of uncertainty. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on knowledge of our industry, historical operations, terms of existing contracts, our observance of trends in the industry and information available from other outside sources, as appropriate.

Our critical accounting policies include:

- *Principals of Consolidation* -The consolidated financial statements include the accounts and operations of ("Company"). Accordingly, the assets and liabilities, and expenses of this company have been included in

- *Revenue Recognition* - The Company is principally in the business of providing solutions for a secure intelligence components, comprised of our software licensing, hardware platforms, installation, training and maintenance recognized upon installation and acceptance of the software by customers. When a software sales arrangement over the term of the arrangement, normally one year. Revenue from professional services arrangements

Revenue associated with software sales to distributors is recognized, net of discounts, when the Company under the arrangement are met, software sales are recognized as deferred revenue. Costs and expenses provide training and/or other services or materials, the Company estimates and records the expected cost

- *Long-Lived Assets* - We depreciate property and equipment and amortize intangible assets, including useful lives of our assets to ascertain that our estimate is still valid. If we determine a useful life has exhausted its useful life, we write the asset off completely.

- *Capitalized Software Development Costs* - We capitalize software development costs incurred subsequent to products. We discontinue capitalization of software when the software product is available to be sold sale to our customers. We amortize our software development costs over the estimated economic

- *Stock Based Compensation* - We recognize stock-based compensation expense net of an estimated period of the award. Calculating stock-based compensation expense requires the input of subjective

forfeiture rate. We estimate the expected life of options granted based on historical exercise patterns. We estimate the expected volatility rate and only recognize expense for those shares expected to vest or cancelled.

Recent Accounting Pronouncement

We have reviewed accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration. Those standards have been addressed in the notes to the unaudited financial statement and in our Annual Report, filed on Form 10-K for the period ended June 30, 2013.

Off-Balance Sheet Arrangements:

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

Subsequent Events:

None

RESULTS OF OPERATIONS

For the Three Months ended December 31, 2013 and 2012:

During the three month period ended December 31, 2013, we had sales from the delivery of equipment and services in the amount of \$26,030 compared to \$17,201 for the comparable three month period ended December 31, 2012. The Company has increased its marketing efforts with Lockwood and retired product lines that were not profitable.

Our expenses exclusive of amortization, depreciation and stock based compensation decreased by approximately \$12,706 to \$158,350 from \$171,056 for the three month period ended December 31, 2013 and 2012, respectively. Expenses decreased due to the reduction in costs incurred with our acquisition of Lockwood, particularly salaries and consulting expenses.

Amortization and depreciation expense was \$415,295 for the three months ended December 31, 2013 as compared to \$415,756 for the three months ended December 31, 2012.

For the three months ended December 31, 2013, we incurred a net loss of \$516,225 compared to a net loss of \$561,536 for the three months ended December 31, 2012.

For the Six Months ended December 31, 2013 and 2012:

During the six month period ended December 31, 2013, we had sales from the delivery of equipment and services in the amount of \$91,197 compared to \$48,184 for the comparable six month period ended December 31, 2012. The Company has increased its marketing efforts with Lockwood and retired product lines that were not profitable.

Our expenses exclusive of amortization, depreciation and stock based compensation decreased by approximately \$99,202 to \$297,782 from \$396,984 for the six month period ended December 31, 2013 and 2012, respectively. Expenses decreased due to the reduction in costs incurred with our acquisition of Lockwood, particularly salaries and consulting expenses.

Stock based compensation was \$75,000 for the six months ended December 31, 2013 as compared to \$0 for the six months ended December 31, 2012.

Amortization and depreciation expense was \$830,918 for the six months ended December 31, 2013 as compared to \$831,581 for the six months ended December 31, 2012.

For the six months ended December 31, 2013, we incurred a net loss of \$1,075,428 compared to a net loss of \$1,117,616 for the six months ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2013, we had approximately \$300 in cash with which to satisfy our cash requirements for the next twelve months, along with approximately \$248,000 remaining on the line of credit from Mr. Talari to pay normal operating expenses, while we attempt to secure other sources of financing.

Since the inception of our Master Note Agreement, Mr. Talari has continued to advance funds to us as needed. Mr. Talari remains committed to continue funding the Company and has regularly converted amounts outstanding and accrued interest, under the note agreement, to our common stock, in order to have money available. At December 31, 2013, we owe Mr. Talari \$752,213 on the master promissory note plus accrued interest. Mr. Talari has pledged funding for operating capital, up to \$1,000,000, under the same terms as the original Master Note.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Not Applicable

Item 4T. Controls and Procedures

Disclosure controls and procedures: As of December 31, 2013, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, with the participation of our principal executive and principal financial officers. Disclosure controls and procedures are defined in Exchange Act Rule 15d-15(e) as “controls and other procedures of an issuer that are designed to ensure that information

required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure." Based on our evaluation, our President/Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, such disclosure controls and procedures were not effective.

Changes in internal control over financial reporting: Based upon an evaluation by our management of our internal control over financial reporting, with the participation of our principal executive and principal financial officers, there were no changes made in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected or are reasonably likely to materially affect this control.

Limitations on the Effectiveness of Internal Control: Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about risks and the likelihood of future events, and there is no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of ---

changes in circumstances and the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

PART II - OTHER INFORMATION

Item 1 Legal Proceedings.

During the fourth quarter of our year ended June 30, 2011, Trimax Wireless filed a complaint relating to the unpaid balance of the Promissory Note executed with the acquisition of Trimax Wireless. The Company has filed a counter suit and motion to dismiss such action which is set for hearing. The note is unsecured, however, if holders prevail, they may be entitled to legal cost, in addition to payments per the term of the agreement. The Company believes that it has sufficient affirmative defenses to this complaint and does not believe that it will have a material effect on the Company.

We have filed a Federal lawsuit against Lockwood Worldwide and its owners, current and previous management in the UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF FLORIDA. We are requesting an award of compensatory damages, an award of treble damages pursuant to the provisions of RICO and other applicable federal and state statutes and an award of punitive damages in the full amount by the jury against each of the Defendants. As Plaintiff, we have suffered damages as a result thereof, an amount in excess of \$4,350,000.00. We are asking for a total damages up to 4 times the amount of loss or close to \$16M. As of the filing of this Q, We have had success in freezing their operational account and all funds associated with that account.

Item 1A Risk Factors.

There have been no material changes to the risk factors previously disclosed in our Report on Form 10-K for the year ended June 30, 2013 filed on October 15, 2013 with the Securities and Exchange Commission.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3 Defaults Upon Senior Securities.

Not applicable.

Item 4 Removed and Reserved.

Not applicable

Item 5 Other Information.

We are in the process of a LOI for purchase of industry related company. We are also speaking with few funds for investment purposes. Since the completion of our platform product, one of its applications, SNIC, is being tested and we hope to have a pilot project by the second quarter. We are also working on development of new products for Home security and energy management. We are also considering using our technology for Smart Cities, Internet of Everything and bitcoin architecture (Secure Wallet, Merchant and Mining applications).

Item 6 Exhibits

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| 31.A | Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.B | Principal Financial & Accounting Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.A | Principal Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Rule 13a-15 |
| 32.B | Principal Financial & Accounting Officer's Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Rule 13a-15 |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant cause this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 2/18/14

Date: 2/18/14