BRAVO FOODS INTERNATIONAL CORP
Form SB-2
December 29, 2006

As filed with the Securities and Exchange Commission on December 29, 2006
An Exhibit List can be found on page II-11.
Registration No. 333-_____

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

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BRAVO! BRANDS INC.
(Name of small business issuer in its charter)

BRAVO! FOODS INTERNATIONAL CORP.
(Former Name of small business issuer)

DELAWARE	2020	62-1681831
(State or other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

11300 US HIGHWAY 1
NORTH PALM BEACH, FLORIDA 33408
(561) 625-1411
(Address and telephone number of principal executive offices and principal place of business)

ROY G. WARREN, CHIEF EXECUTIVE OFFICER
BRAVO! BRANDS INC.
11300 US HIGHWAY 1
NORTH PALM BEACH, FLORIDA 33408
(561) 625-1411
(Name, address and telephone number of agent for service)

Copies to:
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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:
From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest

reinvestment plans, check the following box: |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. _____

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOU REGISTR
Shares of common stock	1,750,000	$0.25(2)	$437,500.00	
Shares of common stock issuable upon conversion of convertible notes	105,468,750	$0.25(2)	$26,367,187.50	
Shares of common stock issuable upon exercise of warrants	151,836,295	$0.25(2)	$37,959,073.75	
Total	259,055,045			

(1) Includes shares of our common stock, par value $0.001 per share, which may be offered pursuant to this registration statement, which shares are currently outstanding or issuable upon the conversion of senior convertible notes or exercise of warrants held by the selling stockholders. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable upon exercise of the warrants as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. Should a decrease in the exercise price for our warrants or conversion price for our senior convertible notes as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that

become necessary.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on December 28, 2006, which was $0.25 per share.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED DECEMBER 29, 2006

BRAVO! BRANDS INC.
259,055,045 SHARES OF
COMMON STOCK

This prospectus relates to the resale by the selling stockholders up to 259,055,045 shares of our common stock, including the following:

- 1,750,000 shares of our common stock;
- up to 105,468,750 shares of common stock issuable upon the conversion of senior convertible notes at a conversion price of $0.32;
- up to 28,295,167 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.34 per share;
- up to 105,468,750 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.34 per share which are exercisable by their respective holders only if we exercise our option to redeem all or part of the outstanding principal of our senior convertible notes. Upon such optional redemption, the holders of these common stock purchase warrants can exercise such common stock purchase warrants up to an amount equal to that number of common shares into which the principal redeemed could have been converted absent such redemption;
- up to 2,205,881 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.34 per share;
- up to 14,866,497 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.32 per share; and
- up to 1,000,000 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.25 per share.

The selling stockholders may sell common stock from time to time in the

principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol "BRVO". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on December 28, 2006, was $0.28.

INVESTING IN THESE SECURITIES INVOLVES SIGNIFICANT RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by Bravo! Brands Inc., with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the notes to the financial statements.

BRAVO! BRANDS INC.

We are involved in the development and marketing of our Slammers(R) and Bravo!(TM) trademarked brands, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters, and the granting of production and marketing rights to processor dairies to produce branded flavored milk and generating revenue through the sale of "kits" to these dairies outside of the United States and through wholesale sales within the United States. The price of the "kits" consists of an invoiced price for a fixed amount of flavor ingredients per kit used to produce the flavored milk and a fee charged to the dairies for the production, promotion and sales rights for the branded flavored milk. In the United States, we also generate revenue from the unit sales of finished branded flavored milks to retail consumer outlets.

Our new product introduction and growth expansion continue to be expensive and we reported a net loss of $79,528,653 for the year ended December 31, 2005 and a net loss of $11,517,620 for the year ended December 31, 2004. In addition, we had a net loss of $16,455,233 for the nine months ended September 30, 2006. We have suffered operating losses and negative cash flows from operations since

inception and, at December 31, 2005, we had an accumulated deficit, a capital deficit, are delinquent on certain debts and have negative working capital. These conditions give rise to substantial doubt about our ability to continue as a going concern.

Our principal offices are located at 11300 US Highway 1, North Palm Beach, Florida 33408, and our telephone number is (561) 625-1411. We are a Delaware corporation.

The Offering

Common stock offered by selling stockholders	Up to 259,055,045 shares, assuming t conversion of secured convertible no herewith including: o 1,750,000 shares of our common o up to 105,468,750 shares of co conversion of senior convertib of $0.32; o up to 28,295,167 shares issuab stock purchase warrants at an share; o up to 105,468,750 shares issua stock purchase warrants at an share which are exercisable by if we exercise our option to r outstanding principal of our s such optional redemption, the purchase warrants can exercise warrants up to an amount equal into which the principal redee absent such redemption; o up to 2,205,881 shares issuabl stock purchase warrants at an share o up to 14,866,497 shares issuab stock purchase warrants at an share; and o up to 1,000,000 shares issuabl stock purchase warrants at an share.

Common stock to be outstanding after the offering	Up to 354,265,823 shares (1)
Use of Proceeds	We will not receive any proceeds fro common stock
Over-The-Counter Bulletin Board Symbol	BRVO

(1) The above information regarding common stock to be outstanding after the offering is based on 202,429,528 shares of common stock outstanding as of December 28, 2006 and assumes the issuance of up to 153,586,295 shares of common stock upon the exercise of common stock purchase warrants and conversion of secured convertible notes being registered herewith. As noted above, 105,468,750 of the shares issuable upon exercise of common stock purchase warrants are only exercisable by their respective holders only if we exercise our option to redeem all or part of the outstanding principal of the secured convertible notes, Upon such optional redemption, the holders of the common stock purchase warrants can exercise such warrants up to an amount equal to that number of common shares into which the principal redeemed could have been converted absent such redemption. As such, the 105,468,750 shares of common stock issuable upon the conversion of senior convertible notes at a conversion price of $0.32 and the 105,468,750 shares issuable upon the exercise of common stock purchase warrants at an exercise price of $0.34 per share will never be outstanding concurrently.

We are registering shares of our common stock on this registration statement that have been issued or are issuable in connection with the following transactions:

July 2006 Financing

On July 26, 2006, we entered into a Securities Purchase Agreement with five accredited institutional investors, for the issuance and sale of $30 million in senior convertible notes that are due in January 2010. Under the terms of the financing, we sold $30 million in senior convertible notes, of which $15 million (the "Initial Notes") were released upon closing and $15 million (the "Additional Notes") were released from escrow in November 2006. The Initial Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share. The Additional Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share and then subsequently to $0.51 per share. In addition, the Additional Notes also provide that, from and after October 10, 2006 through December 15, 2006, the holder may require us to redeem at such holder's option any portion of the holder's Additional Note in cash at a price equal to 125% of the amount redeemed (the "Holder Optional Redemption"). In the event that such holder does not exercise the Holder Optional Redemption, the holder's right to any such optional redemptions shall terminate; provided, however, that once a holder delivers such a request, its right to deliver a subsequent request shall terminate.

We also issued to the investors series A warrants to purchase 13,178,571 shares of common stock initially exercisable at $0.73 per share (the "Series A Warrants") that expire in July 2011 and series B warrants to purchase 43,392,856 shares of common stock initially exercisable at $0.73 per share (the "Series B Warrants") that expire in July 2011. We have the option to redeem the Initial Notes and the Amended Notes at a date earlier than maturity (the "Company Redemption"). If we exercise the Company Redemption, the holders will have the right to exercise the Series B Warrants and receive common shares to which these contingent warrants are indexed. Absent our exercise of the Company Redemption to redeem the Initial Notes and/or the Additional Notes, the holders have no right to exercise the Series B Warrants.

Pursuant to a Registration Rights Agreement between our company and the investors, also dated July 26, 2006, we agreed to prepare and file a registration statement covering the resale of the shares issuable upon the conversion of the senior convertible notes and exercise of the warrants. We agreed to file this resale registration statement by the later to occur of (i) August 26, 2006 and (ii) 15 days following the effectiveness of the Form SB-2 filed by our company on December 21, 2005, but in no event later than October 10, 2006. If, among other things, (a) we fail to file the resale registration statement within the period described above, which we were unable to do, or (b) we fail to cause the resale registration statement to be effective by the SEC within 60 days following the date we file the resale registration statement, or within 90 days, if there is a review of the resale registration statement by the SEC, we will be obligated to pay to each investor, as partial relief, on the date of such failure, an amount in cash equal to .75% of the aggregate purchase price paid by such investor for the notes and the warrants. We will be further obligated to pay, as partial relief, an amount in cash equal to 1.5% of the aggregate purchase price paid by such investor for the notes and the warrants on every thirtieth day that such failure continues (prorated for partial periods).

On August 31, 2006, we entered into Amendment Agreements with respect to the July 26, 2006 $30 million senior convertible notes transaction described above. Pursuant to the Amendment Agreements, the investors each agreed to release us from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of our Form 10-QSB for the quarterly period ended June 30, 2006. We agreed, in consideration for such releases, to exchange the Additional Notes for amended and restated notes (the "Amended and Restated Notes").

The terms of the Amended and Restated Notes differ from the terms of the Additional Notes in certain regards. The conversion price applicable was reduced from $0.70 to $0.51. We also granted the Holder Optional Redemption as discussed above.

On December 29, 2006, we entered into Amendment and Exchange Agreements (the "December Amendment") with these investors. Pursuant to the December Amendment, each of the investors agreed to release our company from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of its Form 10-QSB for the quarterly period ended June 30, 2006. Each of the investors waived any events of default in the Amended and Restated Additional Notes relating to our failure to pay the Holder Optional Redemption. Further, we agreed to capitalize the $3,750,000 redemption premium (which represents a 25% premium on the $15,000,000 principal amount of the Additional Notes) with respect to the investors' right to compel redemption pursuant to the Holder Redemption. Also, in connection with the December Amendment, the investors' right to compel redemption by exercise of the Holder Redemption has been terminated.

In consideration for each of the investors entering into the December Amendment, we agreed to amend and restate the terms of the Initial Notes, the Additional Notes, the Series A Warrants and the Series B Warrants. The conversion price of the Initial Notes and the Additional Notes has been reduced to $0.32. The exercise price of the Series A Warrants and the Series B Warrants was reduced to $0.34.

This prospectus relates to the resale of the shares of common stock to be issued upon conversion of the senior convertible notes and exercise of common stock purchase warrants described above.

November 2005 Financing

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of common stock for a purchase price of $20,250,000. We also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of $0.51 per share to these investors. In addition, in July 2006, we entered into a letter agreement with each of the accredited institutional investors pursuant to which we issued additional five-year warrants to purchase an aggregate of 8,809,276 shares of common stock exercisable at an exercise price of $0.51 per share (the "Additional November 2005 Warrants") as a result of the trigger of certain anti-dilution provisions. In December 2006, as a result of the anti dilution provisions being triggered, the number of shares exercisable upon exercise of the Additional November 2005 Warrants was increased to 14,318,478 and the exercise price was adjusted to $0.32. In addition, we issued common stock purchase warrants to purchase 437,500 shares of common stock, exercisable at a price of $0.32 per share, to two finders (the "Finders Warrants"). This prospectus relates to the resale of the shares of common stock underlying the Additional November 2005 Warrants and the Finders Warrants.

New Century Capital

On March 15, 2005, we entered into a consulting agreement with New Century Capital, Inc. ("New Century") pursuant to which New Century provided us with business and marketing development services. In consideration for providing such services, we issued New Century 2,500,000 shares of common stock and a common stock purchase warrant to purchase 1,000,000 shares of common stock at an exercise price of $0.25 per share. This prospectus relates to the resale of 1,750,000 shares of common stock and 1,000,000 shares of common stock underlying the warrants.

RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

RISKS RELATING TO OUR BUSINESS:

WE HAVE A HISTORY OF LOSSES WHICH MAY CONTINUE, REQUIRING US TO SEEK ADDITIONAL SOURCES OF CAPITAL WHICH MAY NOT BE AVAILABLE, REQUIRING US TO CURTAIL OR CEASE OPERATIONS.

Our new product introduction and growth expansion continue to be expensive, and we reported a net loss of $79,528,653 for the year ended December 31, 2005 and a net loss of $11,517,620 for the year ended December 31, 2004. In addition, we had a net loss of $16,455,233 for the nine months ended September 30, 2006. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will continue to incur losses. We will continue to incur losses until we are able to establish significant sales. Our possible success is dependent upon the successful development and marketing of our services and products, as to which there is no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include

changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations. In addition, we will require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. While we closed on $20,250,000 in new equity financing in November 2005, after the payment of approximately $1.5 million in fees and expenses, we allocated approximately $1.7 million of the net proceeds for the payment of a finders fee in connection with our execution of a Master Distribution Agreement with Coca-Cola Enterprises Inc. and approximately $5.4 million for the redemption of approximately 30.3 million warrants, and have allocated approximately $11.7 million for general working expenses. In addition, in August 2006, we completed a $30.0 million convertible note financing that is expected to fulfill our liquidity requirements through the end of 2006. We have entered into an Amendment Agreement with the holders of the convertible notes to amend the convertible notes in certain respects as consideration for the holders' release of our default resulting from our delay in the filing of our quarterly report for the period ended June 30, 2006. There can be no assurance that these financings will be adequate for the development and marketing of our services and products at a level that provides sufficient profitability for sustained growth. If the present funds prove sufficient and we are unable to generate adequate funds from operations or external sources, we would be required to curtail or cease operations.

IF WE ARE UNABLE TO ACHIEVE AND SUSTAIN PROFITABILITY, OUR BUSINESS OPERATIONS WILL BE HARMED AND IF WE OBTAIN ADDITIONAL FINANCING OUR THEN EXISTING SHAREHOLDERS MAY SUFFER SUBSTANTIAL DILUTION.

Additional capital may be required to effectively support the operations and to otherwise implement our overall business strategy. However, there can be no assurance that financing will be available when needed on terms that are acceptable to us. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

OUR INDEPENDENT AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN, WHICH MAY HINDER OUR ABILITY TO OBTAIN FUTURE FINANCING.

In their report dated February 9, 2006, except for Note 13 as to which the date is September 8, 2006, our independent auditors stated that our financial statements for the year ended December 31, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of a net loss for the year ended December 31, 2005 in the amount of $79,528,653 as well as a significant working capital deficiency as of that date. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals, and there can be no assurances that such methods will prove successful.

SINCE WE DEPEND UPON KEY PERSONNEL HAVING SIGNIFICANT BUSINESS CONTACTS IN THE

US AND INTERNATIONALLY, THE LOSS OF ONE OR MORE OF OUR MANAGEMENT TEAM MAY HAVE A NEGATIVE EFFECT ON OUR BUSINESS.

The unexpected loss of the services of any member of the management team could have a material adverse effect on our ability to conduct and grow both our US and international business. We are and will be dependent on our current management teams for the foreseeable future

- to obtain needed additional financing
- to develop and maintain critical business contacts for the production of our branded milk products
- to develop and maintain third party licensor and brand development contacts for the formulation of new brand development and branded food products

WE FACE INTENSE COMPETITION IN OUR US MARKET THAT COULD NEGATIVELY IMPACT OUR RESULTS OF OPERATIONS

Since we are smaller than our competitors in the US market and since we have limited resources and sell our branded products at premium prices, we have had difficulty in developing and maintaining our market share in the consumer milk market. This difficulty could adversely affect our ability to achieve our business goals to develop and increase the awareness of our branded products in an effort to increase sales, while maintaining a premium price structure.

The ability of our competition to sell dairy and other food products at prices below prices charged by us for our products may represent an obstacle to our ability to secure a market share at revenue levels sufficient to achieve profitability.

In our foreign business, we grant the rights to produce and sell branded milk products to processor dairies under production agreements. Our role in these agreements, in addition to granting the rights to produce the branded milks as part of the sale of flavor ingredient packages to dairies, is limited to marketing and promotion assistance and control over packaging and advertising design issues. Such processor dairies have significant control over sales and distribution of the branded milk products. A reduction in sales effort or discontinuance of sales of our products by our co-producers could lead to reduced sales.

RISKS RELATING TO CONVERTIBLE PREFERRED AND CONVERTIBLE DEBENTURE FINANCING ARRANGEMENT:

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR CONVERTIBLE DEBENTURES AND WARRANTS THAT MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

As of December 28, 2006, we had 202,429,528 shares of common stock issued and outstanding and convertible debentures outstanding that may be converted into an estimated 7,500,000 shares of common stock at below market prices, convertible preferred outstanding that may be converted into an estimated 31,400,000 shares of common stock at below market prices outstanding warrants to purchase an estimated 40,100,000 shares of common stock and options to purchase approximately 8,600,000 shares of common stock. All of the shares, including all of the shares issuable upon conversion of the debentures and upon exercise of our warrants, may be sold pursuant to a currently effective registration statement or pursuant to Rule 144. The sale of these shares may adversely affect the market price of our common stock.

THE ISSUANCE OF SHARES UPON CONVERSION OF THE CONVERTIBLE DEBENTURES AND

EXERCISE OF OUTSTANDING WARRANTS MAY CAUSE IMMEDIATE AND SUBSTANTIAL DILUTION TO OUR EXISTING STOCKHOLDERS.

The issuance of shares upon conversion of the convertible debentures and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the debenture holders may not convert their convertible debentures and/or exercise their warrants if such conversion or exercise would cause them to own more than 9.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings, selling these shares and then converting the rest of their holdings. In this way, the debenture holders could sell more than this limit while never holding more than this limit.

IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING CONVERTIBLE DEBENTURES, WE WOULD BE REQUIRED TO DEPLETE OUR WORKING CAPITAL, IF AVAILABLE, OR RAISE ADDITIONAL FUNDS. OUR FAILURE TO REPAY THE CONVERTIBLE DEBENTURES, IF REQUIRED, COULD RESULT IN LEGAL ACTION AGAINST US, WHICH COULD REQUIRE THE SALE OF SUBSTANTIAL ASSETS.

In November 2003, April 2004, June 2004, October 2004, December 2004, January 2005, April 2005, and July 2006, we entered into financing arrangements for the sale of convertible debentures. Currently, the remaining unpaid principal of the issued notes is $30,350,000, with approximately $131,312 in accrued interest.

Any event of default could require the early repayment of the convertible debentures, including a default interest rate if the default is not cured with the specified grace period. We anticipate that the majority of the convertible debentures, together with accrued interest, will be converted into shares of our common stock, in accordance with the terms of the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our working capital or raise additional funds. If we were unable to repay the debentures when required, the debenture holders could commence legal action against us to recover the amounts due. Any such action may require us to obtain additional financing or curtail operations.

RISKS RELATING TO OUR COMMON STOCK:

IF WE FAIL TO REMAIN CURRENT ON OUR REPORTING REQUIREMENTS, WE COULD BE REMOVED FROM THE OTC BULLETIN BOARD WHICH WOULD LIMIT THE ABILITY OF BROKER-DEALERS TO SELL OUR SECURITIES AND THE ABILITY OF STOCKHOLDERS TO SELL THEIR SECURITIES IN THE SECONDARY MARKET.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The Securities and Exchange Commission has adopted Rule 15g-9 which

establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. In the event that we receive proceeds from the exercise of the Class A, Class B Warrants and other warrants, we will use these funds for working capital.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol "BRVO".

For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High	Low
2004		
First Quarter	.17	.06
Second Quarter	.34	.14
Third Quarter	.27	.13
Fourth Quarter	.22	.09
2005		
First Quarter	.18	.10
Second Quarter	1.21	.14
Third Quarter	1.43	.51
Fourth Quarter	.80	.47
2006		
First Quarter	.74	.54
Second Quarter	.81	.50
Third Quarter	.62	.39
Fourth Quarter*	.52	.25

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* Through December 28, 2006

HOLDERS

EQUITY HOLDERS AT DECEMBER 28, 2006

Common stock	202,429,528 shares	7,200 holders (approximate)
Series B preferred stock	107,440 shares	1 holder
Series H preferred stock	64,500 shares	1 holder
Series J preferred stock	200,000 shares	1 holder
Series K preferred stock	95,000 shares	1 holder

Dividends

We have not paid dividends on our common stock and do not anticipate paying dividends. Management intends to retain future earnings, if any, to finance working capital, to expand our operations and to pursue our acquisition strategy.

The holders of common stock are entitled to receive, pro rata, such dividends and other distributions as and when declared by our board of directors out of the assets and funds legally available therefor. The availability of funds is dependent upon dividends or distribution of profits from our subsidiaries and may be subject to regulatory control and approval by the

appropriate government authorities on either a regional or national level.

We have dividends in arrearage for our convertible preferred stock in the amount of $1,240,682 and $928,379 as of the years ended December 31, 2005 and 2004, respectively.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The equity compensation reported in this section has been and will be issued pursuant to individual compensation contracts and arrangements with employees, directors, consultants, advisors, vendors, suppliers, lenders and service providers. The equity is reported on an aggregate basis as of December 31, 2005. Our security holders have not approved the compensation contracts and arrangements underlying the equity reported.

Compensation Plan Category	Number of securities to be issued upon exercise of options, warrants and rights	Weighted average price of outstanding options, warrants and rights	Number of secur future issuance compensation pl
Directors (former)	325,000	$0.71	0
Employees (former)	650,000	$0.87	60,000
Directors/Management & Employees	8,872,745	$0.245	1,475,000
Consultants	510,714	$0.30	0
Total	10,358,459	$0.77	1,535,000

On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of option to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant options for 8,922,745 shares of common stock`4 to our employees, directors and certain consultants. The ten-year options vest over a period of eighteen months and have exercise prices varying from $0.20 per share to $0.30 per share, with a weighted average exercise price of $0.24 per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this Form SB-2 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

OVERVIEW

Our business model includes the development and marketing of our Company owned Slammers(R) and Bravo!(TM) trademarked brands, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and the production of our branded flavored milk drinks through third party processors. In the United States and the United Kingdom, we generate revenue from the unit sales of finished branded flavored milk drinks to retail consumer outlets. We generate revenue in our Middle East business through the sale of "kits" to these dairies. The price of the "kits" consists of an invoiced price for a fixed amount of flavor ingredients per kit used to produce the flavored milk and a fee charged to the dairy processors for the production, promotion and sales rights for the branded flavored milk.

Our business in the United Kingdom started at the end of the second quarter of 2005. Our UK business has not been profitable owing to the difficulties encountered in initial market penetration with new products introduced in the last half of 2005 through the first half of 2006. In the current period we had a negative gross margin for our UK operations. We are examining other distribution alternatives in the UK and, while we are making this determination, we have curtailed our production of inventory necessary to maintain a normal supply pipeline.

We had a net loss for the nine months ended September 30, 2006 of $16,455,233 compared with a net loss of $63,419,214 for the same period in 2005. The magnitude of both the 2006 and 2005 net loss is the result of our recording changes in derivative expense on the consolidated statement of operations.

RESTATEMENT DISCLOSURE

We have restated our annual report on Form 10-KSB for the year ended December 31, 2005 and our quarterly reports on Form 10-QSB for the quarterly periods ended March 31, 2006 and June 30, 2006. We have also restated the quarterly and year-to-date results for September 30, 2005 in the accompanying financial presentations for comparative purposes.

CORPORATE GOVERNANCE

The Board of Directors

Our board has positions for seven directors that are elected as Class A or Class B directors at alternate annual meetings of our shareholders. Six of the seven current directors of our board are independent. Our chairman and chief executive officer are separate. The board meets regularly either in person or by telephonic conference at least four times a year, and all directors have access to the information necessary to enable them to discharge their duties. The board, as a whole, and the audit committee in particular, review our financial condition and performance on an estimated vs. actual basis and financial projections as a regular agenda item at scheduled periodic board meetings, based upon separate reports submitted by our Chief Executive Officer and Chief Accounting Officer. Our shareholders elect directors after nomination by the board, or the board appoints directors when a vacancy arises prior to an election. This year we have adopted a nomination procedure based upon a rotating

nomination committee made up of those members of the director Class not up for election. The board presently is examining whether this procedure, as well as the make up of the audit and compensation committees, should be the subject of an amendment to the by-laws.

Audit Committee

Our audit committee is composed of three independent directors and functions to assist the board in overseeing our accounting and reporting practices. Our financial information is recorded in house by our Chief Accounting Officer's office, from which we prepare financial reports. Lazar Levine & Felix LLP, independent registered public accountants and auditors, audit or review these financial reports. Our Chief Accounting Officer reviews the preliminary financial and non-financial information prepared in house with our securities counsel and controller. The committee reviews the preparation of our audited and unaudited periodic financial reporting and internal control reports prepared by our Chief Accounting Officer. The committee reviews significant changes in accounting policies and addresses issues and recommendations presented by our internal accountants as well as our auditors.

Compensation Committee

Our compensation committee is composed of three independent directors and reviews the compensation structure and policies concerning executive compensation. The committee develops proposals and recommendations for executive compensation and presents those recommendations to the full board for consideration. The committee periodically reviews the performance of our other members of management and the recommendations of the chief executive officer with respect to the compensation of those individuals. Given the size of our company, the board periodically reviews all such employment contracts. The board must approve all compensation packages that involve the issuance of our stock or stock options.

Nominating Committee

The nominating committee was established in the second quarter 2002 and consists of those members of the director Class not up for election. The committee is charged with determining those individuals who will be presented to the shareholders for election at the next scheduled annual meeting. The full board fills any mid term vacancies by appointment.

CRITICAL ACCOUNTING POLICIES

Estimates

This discussion and analysis of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles for interim reports that are generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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. Among the more significant estimates included in our financial statements are the following:

- Estimating future bad debts on accounts receivable that are

carried at net realizable values.

- Estimating our reserve for unsalable and obsolete inventories that are carried at lower of cost or market.

- Estimating the fair value of our financial instruments that are required to be carried at fair value.

- Estimating the recoverability of our long-lived assets.

We use all available information and appropriate techniques to develop our estimates. However, actual results could differ from our estimates.

Revenue Recognition and Accounts Receivable

Our revenues are derived from the sale of branded milk products to customers in the United States of America, Great Britain and the Middle East. Geographically, our revenues are dispersed 99% and 1% between the United States of America and internationally, respectively. We currently have one customer in the United States that provided 79% and 0% of our revenue during the nine months ended September 30, 2006 and 2005, respectively.

Revenues are recognized pursuant to formal revenue arrangements with our customers, at contracted prices, when our product is delivered to their premises and collectibility is reasonably assured. We extend merchantability warranties to our customers on our products but otherwise do not afford our customers with rights of return. Warranty costs have historically been insignificant.

Our revenue arrangements often provide for industry-standard slotting fees where we make cash payments to the respective customer to obtain rights to place our products on their retail shelves for stipulated period of time. We also engage in other promotional discount programs in order to enhance our sales activities. We believe our participation in these arrangements is essential to ensuring continued volume and revenue growth in the competitive marketplace. These payments, discounts and allowances are recorded as reductions to our reported revenue. Unamortized slotting fees are recorded in prepaid expenses.

Our accounts receivable are exposed to credit risk. During the normal course of business, we extend unsecured credit to our customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. We regularly evaluate and monitor the creditworthiness of each customer. We provide an allowance for doubtful accounts based on our continuing evaluation of our customers' credit risk and our overall collection history. As of September 30, 2006 and December 31, 2005, the allowance of doubtful accounts aggregated $447,634 and $350,000, respectively.

In addition, our accounts receivable are concentrated with one customer who represents 39% of our accounts receivable balances at September 30, 2006. Approximately, 6% of our accounts receivable at September 30, 2006 are due from international customers.

Inventories

Our inventories, which consists primarily of finished goods, are stated at the lower of cost on the first in, first-out method or market. Further, our inventories are perishable. Accordingly, we estimate and record lower-of-cost or market and unsalable-inventory reserves based upon a combination of our historical experience and on a specific identification basis.

Impairment of Long-Lived Assets

Our long-lived assets consist of furniture and equipment and intangible assets. We evaluate the carrying value and recoverability of our long-lived assets when circumstances warrant such evaluation by applying the provisions of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). FAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Financial Instruments

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we frequently enter into certain other financial instruments and contracts, such as debt financing arrangements, redeemable preferred stock arrangements, and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as freestanding warrants, we generally use the Black Scholes option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, we project and discount future cash flows applying probability-weightage to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in our trading market price which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

CONSOLIDATED REVENUES

We had revenue for the nine months ended September 30, 2006 of $12,376,641, with

product costs of $10,440,374, and shipping costs of $1,154,089, resulting in a gross margin of $782,178. Our reported revenues for the nine months ended September 30, 2006 increased by $5,784,948, or 88%, compared to revenues of $6,591,693 for the comparable period in 2005. This increase is the result of an increase in market penetration and distribution, owing to the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises in 2006. Revenues and gross margin are net of slotting fees and promotional discounts for the nine months ended September 30, 2006 in the amount of $491,718 compared to $330,699 for the comparable period in the prior year.

Geographically, our revenues are dispersed 99% and 1% between the United States of America and internationally, respectively. We plan to take measures to increase our international revenues as a percentage of our total revenues. In addition, we currently have one customer in the United States that provided 79% and 0% of our revenue during the nine months ended September 30, 2006 and 2005, respectively. The loss of this customer or curtailment in business with this customer could have a material adverse affect on our business.

CONSOLIDATED PRODUCT COSTS

We incurred product costs and shipping costs of $10,440,374 and $1,154,089, respectively, for the nine months ended September 30, 2006. Product costs in this period increased by $5,721,363, a 121% increase compared to $4,719,011 for the same period in 2005. Shipping costs in this period increased $328,180, a 40% increase compared to $825,909 for the same period in 2005. The increase in product costs reflects an increase in revenues and the concomitant increase in reported product costs and shipping costs associated with that increase.

CONSOLIDATED OPERATING EXPENSES

We incurred selling expenses of $12,874,022 for the nine months ended September 30, 2006. Our selling expenses for this period increased by $9,827,498, a 323% increase compared to our selling expenses of $3,046,524 for the same period in 2005. The increase in selling expenses in the current period was due to the hiring of additional sales staff and promotional charges associated with increased revenues and our development of four new product lines. Selling expenses also increased due to a major nationwide sales and marketing campaign which ran during the quarter ended September 30, 2006. "Operation Milk Attack" was aimed at educating, motivating, and building brand awareness of the Slammers products to the CCE salesforce and to our end customers.

We incurred general and administrative expense for the nine months ended September 30, 2006 of $7,454,344. Our general and administrative expense for this period increased by $4,484,185, a 151% increase compared to $2,970,159 for the same period in 2005. The increase is attributed to the building of a larger company infrastructure, including the hiring of several new employees, which is needed to support our current and future growth initiatives. As a percentage of total revenue, our general and administrative expense increased from 45% in the period ended September 30, 2005, to 60% for the current period in 2006. We plan to reduce this expense as a percentage of revenues through revenue growth, cost cutting efforts and the refinement of business operations.

We incurred product development expense for the nine months ended September 30, 2006 of $509,912 representing a 27% increase over product development expense for the comparable period of the prior year. This increase resulted from the reformulation of existing products and the development of new products under our license agreement with General Mills.

INTEREST EXPENSE

We incurred interest expense for the nine months ended September 30, 2006 of $1,594,860. Our interest expense decreased by $49,031, a 3% decrease compared to $1,643,891 for the same period in 2005. The decrease was due to conversions of debt to common stock in late 2005 that eliminated the accrual of interest associated with that debt.

GAIN (LOSS) ON DEBT EXTINGUISHMENT

We reported a loss on debt extinguishment of $425,869 for the nine months ended September 30, 2006, compared with a gain on debt extinguishments for the nine months ended September 30, 2005 of $7,164. These amounts result from modification of the terms of certain notes.

DERIVATIVE EXPENSE

Derivative expense arises from changes in the fair value of our derivative financial instruments and, in rare instances, day-one losses when the fair value of embedded and freestanding derivative financial instruments issued or included in financing transactions exceed the proceeds or other basis. Derivative financial instruments include freestanding warrants, compound embedded derivative features that have been bifurcated from debt and preferred stock financings. In addition, our derivative financial instruments arise from the reclassification of other non-financing derivative and other contracts from stockholders' equity because share settlement is not within our control while certain variable share price indexed financing instruments are outstanding.

Our derivative income amounted to $10,958,409 for the nine months ended September 30, 2006, compared to derivative expense of $52,518,630 for the corresponding period of the prior year.

Changes in the fair value of compound derivatives indexed to our common stock are significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of warrant derivatives is significantly affected by changes in our trading stock prices. The fair value of derivative financial instruments that are settled solely with cash fluctuate with changes in management's weighted probability estimates following the financing inception and are generally attributable to the increasing probability of default events on debt and preferred stock financings. The fair value of the warrants declined principally due to the decline in our common stock trading price. Since these instruments are measured at fair value, future changes in assumptions, arising from both internal factors and general market conditions, may cause further variation in the fair value of these instruments. Future changes in these underlying internal and external market conditions will have a continuing effect on derivative expense associated with our derivative financial instruments.

LIQUIDATED DAMAGES

During the three and nine months ended September 30, 2006, we recorded liquidated damages expense of $225,938 and $4,784,213; none in the comparable periods of 2005. We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness, and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages penalties as liabilities and charges to our income when the cash penalties are probable and estimable. We

will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their classification.

NET LOSS

We had a net loss for the nine months ended September 30, 2006 of $16,455,233 compared with a net loss of $63,419,214 for the same period in 2005. The magnitude of both the 2006 and 2005 net loss is the result of our recording changes in derivative expense on the consolidated statement of operations.

LOSS APPLICABLE TO COMMON SHAREHOLDERS

Loss applicable to common shareholders represents net loss less preferred stock dividends and accretion of our redeemable preferred stock to redemption value using the effective method. Diluted loss per common share reflects the assumed conversion of all dilutive securities, such as convertible preferred stock, convertible debt, warrants, and employee stock options.

LOSS PER COMMON SHARE

The Company's basic loss per common share for the nine months ended September 30, 2006 was $0.09, compared with a basic loss per common share for the same period in 2005 of $0.79. Because the Company experienced net losses for all periods presented, all potential common share conversions existing in our financial instruments would have an antidilutive impact on earnings per share; therefore, diluted loss per common share equals basic loss per common share for all periods presented.

The weighted average common shares outstanding increased from 82,091,556 for the nine months ended September 30, 2005 to 189,474,500 for the same period in 2006. The increase is attributed primarily to conversions of our convertible debt and preferred instruments into common shares. Potential common stock conversions excluded from the computation of diluted earnings per share amounted to 122,567,616 and 142,611,032 for the nine month periods ending September 30, 2006 and September 30, 2005, respectively.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) differs from net income (loss) for the nine months ended September 30, 2006 and 2005 by $30,494 and ($23,649), respectively, which represents the effects of foreign currency translation on the financial statements of our subsidiaries denominated in foreign currencies. Our foreign operations are currently not significant. Increases in our foreign operations will likely increase the effects of foreign currency translation adjustments on our financial statements.

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2005

CONSOLIDATED REVENUES

The Company had revenues for the three months ended September 30, 2006 of $5,110,200, with product costs of $4,240,277 and shipping costs of $409,453, resulting in a gross margin of $460,470, or 9% of sales. Our revenues for the three months ended September 30, 2006 increased by $1,864,895, a 57% increase compared to revenues of $3,245,305 for the three months ended September 30, 2005. The increase in revenue in the United States for the three months ended September 30, 2006 is the result of the increased distribution of our products through Coca-Cola Enterprises.

CONSOLIDATED PRODUCT COSTS

The Company incurred product costs of $4,240,277 and shipping costs of $409,453 for the three months ended September 30, 2006. Product costs for this period increased by $1,879,393, an 80% increase compared to $2,360,884 for the three months ended September 30, 2005. The increase in product costs and shipping costs in the United States for the three months ended September 30, 2006 is the result of increased revenues.

CONSOLIDATED OPERATING EXPENSES

The Company incurred selling expenses for the three months ended September 30, 2006 of $6,663,113. Selling expenses increased for the three months ended September 30, 2006 by $5,137,169, a 337% increase compared to the selling expenses of $1,525,944 for the three months ended September 30, 2005. The increase in selling expenses is the result of increased sales and the "Operation Milk Attack" campaign.

The Company incurred general and administrative expenses for the three months ended September 30, 2006 of $4,057,823. General and administrative expenses for the three months ended September 30, 2006 increased by $3,682,742, a 982% increase compared to $375,081 for the same period in 2005.

INTEREST EXPENSE

The Company incurred interest expense for the three months ended September 30, 2006 of $1,163,599. Interest expense for the three months ended September 30, 2006 increased by $1,011,598, a 666% increase compared to $152,001, for the same period in 2005. This increase was the result of interest that was accrued for the new July 2006 convertible debt.

LIQUIDATED DAMAGES

During the three months ended September 30, 2006, we recorded liquidated damages expense of $225,938; none in the comparable period of 2005. We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness, and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages penalties as liabilities and charges to our income when the cash penalties are probable and estimable. We will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their classification.

NET LOSS

We had a net loss for the three months ended September 30, 2005 of $1,252,045, compared with a net gain of $17,679,152 for the same period in 2005. The magnitude of the 2006 and 2005 loss is the result of our recording changes in the fair value in our derivatives.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

CONSOLIDATED REVENUES

We reported revenues for the year ended December 31, 2005 of $11,948,921, an increase of $8,604,222, or 257%, compared to revenues of $3,344,699 in 2004. This increase is the result of the acquisition of a significant new customer

("Coca Cola Enterprises" or "CCE") during the third fiscal quarter with sales generation commencing in the fourth fiscal quarter. Our revenues to CCE for the year ended December 31, 2005 comprise 34% of our total revenue. CCE will continue to be a significant customer in the foreseeable future. Since we commenced revenue generation with CCE in the fourth fiscal quarter, in future periods we expect that our revenues from sales to CCE will increase as a percentage of our total revenues.

Our revenues and gross margin are net of industry-standard slotting fees and promotional discounts for the year ended December 31, 2005 in the amount of $487,221 compared to $204,755 in 2004. We record these programs as reductions in our revenues and we may enter into similar programs in future periods to increase our market penetration.

Geographically, during the 2005 fiscal year, our revenues are dispersed 98% and 2% between the United States of America and internationally, respectively. While our current international revenues have not been significant, we are taking measures to further penetrate international markets and increase our international revenues as a percentage of our total revenues.

CONSOLIDATED PRODUCT AND SHIPPING COSTS

We incurred product costs and shipping costs of $8,938,692 and $1,505,035, respectively, for the year ended December 31, 2005. Product costs in 2005 increased by $6,563,887, a 276% increase compared to $2,374,805 in 2004. Shipping costs in 2005 increased $1,006,722, or 202%, compared to $498,313 in 2004. The increase in product costs reflects an increase in revenues and the concomitant increase in reported product and shipping costs associated with that increase. Our overall gross margin for 2005 of 12.6% decreased slightly from our 14.0% gross margin in 2004 due to slightly higher production costs that were not offset with reciprocal pricing increases due to competitive constraint.

CONSOLIDATED OPERATING EXPENSES

SELLING EXPENSE:

We incurred selling expense of $7,464,876 during the year ended December 31, 2005. We expense these costs, consisting largely of advertising and promotion, as they are incurred. Our selling expense for this period increased by $6,164,203, a 474% increase compared to our selling expenses of $1,300,673 for the same period in 2004. The increase in selling expense in the current period was due to higher advertising expenses as we penetrate new markets and, to a lesser degree, the hiring of additional sales staff. In addition, in connection with the acquisition of our new customer, CCE during 2005, we entered into a commitment to spend an aggregate of $5,000,000 for advertising and promotion of our products during the years ended 2005 and 2006. Thereafter, we have agreed to spend an aggregate annual amount of 3% of our total CCE revenue for advertising programs. Generally, since our revenue producing activities with CCE did not commence until November of 2005, we did not incur a significant amount of expense under this commitment. Accordingly, our selling expenses can be expected to increase during 2006 and 2007 as we fulfill our obligations under these important arrangements and we continue to address additional markets.

PRODUCT DEVELOPMENT EXPENSE:

We incurred product development expense for the years ended December 31, 2005 of $636,342, representing a 209% increase over product development expense in 2004. Additional expenditures were incurred in 2005 due to the launching of our Slammers Starburst line of Fruit & Cream Smoothies, and to package redesign

costs associated with several of our product lines including Slim Slammers, Pro Slammers and Breakfast Blenders.

GENERAL AND ADMINISTRATIVE EXPENSE:

Our general and administrative expense for the year ended December 31, 2005 was $7,263,284, an increase of $4,586,223 compared to $2,677,061 in 2004. The increase is the result of additional payroll, increased occupancy costs, office overhead costs and travel necessary to support the increase in revenues. As a percentage of total revenue, our general and administrative expense decreased from 80% in 2004, to 61% for 2005. We anticipate a continued effort to reduce these expenses as a percentage of sales through revenue growth, certain cost cutting efforts and the refinement of business operations.

NON-RECURRING FINDERS' FEE:

We recorded a $3,000,000 one time, non-recurring finder's fee in connection with our execution of the Master Distribution Agreement with CCE in 2005. We do not currently anticipate incurring similar costs during 2006 or in the foreseeable future since our business opportunity with CCE is expected to be further developed over that period.

CONSOLIDATED OTHER INCOME (EXPENSE)

DERIVATIVE EXPENSE

Our derivative expense amounted to $60,823,574 for the year ended December 31 2005, compared to $6,309,933 in 2004. Derivative expense (and in some instances income) arises from changes in the fair value of our derivative financial instruments and, in rare instances, day-one losses when the fair value of embedded and freestanding derivative financial instruments issued or included in financing transactions exceed the proceeds or other basis. Derivative financial instruments include freestanding warrants, compound embedded derivative features that have been bifurcated from debt and preferred stock financings. In addition, our derivative financial instruments arise from the reclassification of other non-financing derivative and other contracts from stockholders' equity because share settlement is not within our control while certain variable share price indexed financing instruments are outstanding.

Our derivative loss during each of the years ended December 31, 2005 and 2004 is significant to our consolidated financial statements. The magnitude of the derivative loss during the year ended December 31, 2005 when compared with the loss for the year ended December 31, 2004 reflects the following:

(a) During the year ended December 31, 2005, and specifically commencing in the second quarter, the trading price of our common stock reached significantly high levels relative to its trend. The trading price of our common stock significantly affects the fair value of our derivative financial instruments. To illustrate, our trading stock price at the end of the first quarter of 2005 was $0.15 and then increased to $0.93 by the end of the second quarter. Our trading stock price then declined to $0.61 and $0.59 at the end of the third and fourth quarters, respectively. However, the higher stock price had the effect of significantly increasing the fair value of our derivative liabilities and, accordingly, we were required to adjust the derivatives to these higher values with charges to our income. Also, due to the higher stock price commencing in the second quarter, we experienced significant exercise and conversion activity related to our derivative warrants and, to a lesser degree, with respect to the embedded conversion options. Accordingly, our year end derivative liability balances reflect, among other elements of our valuation assumptions, the higher

intrinsic values of the arrangements caused by the significant changes in our stock price, which are offset by a smaller number of common shares indexed to outstanding warrants due to the extraordinary level of exercise activity.

(b) During the year ended December 31, 2005, we entered into a $2,300,000 debt and warrant financing arrangement, more fully discussed in Note 6(b). In connection with our accounting for this financing we encountered the unusual circumstance of a day-one loss related to the recognition of derivative instruments arising from the arrangement. That means that the fair value of the bifurcated compound derivative and warrants exceeded the proceeds that we received from the arrangement and we were required to record a loss to record the derivative financial instruments at fair value. The loss that we recorded amounted to $8,663,869. We did not enter into any other financing arrangements during the periods reported that reflected day-one losses.

Because our derivative financial instruments are carried at, and periodically adjusted to, fair value, our income is likely to experience continuing volatility as assumptions underlying our fair value techniques (including internal factors and external market indicators) change. However, we are currently evaluating contracts underlying the origination of these derivative financial instruments to determine whether they may be modified with the investor. There can be no assurance that we can reach an agreement to modify these arrangements and, if we are able to execute such modifications, we would be required to consider whether such modification(s) is significant. In instances where modifications are considered significant, we may be required to extinguish the original financial instrument and reestablish it at fair value. These extinguishments, if any, would likely be accompanied with extinguishment gains or losses that we would be required to reflect in our income.

Finally, we entered into a $30.0 million debt and warrant financing in July 2006 (see "Material Events" below) that will likely require the bifurcation of additional derivative financial instruments. We have not yet calculated the amounts of these derivatives, but their effects on our income, arising from fair value changes, will be afforded the same accounting treatment as those that we currently carry.

LIQUIDATED DAMAGES

During the year ended December 31, 2005, we recorded liquidated damages expense of $303,750 (none in 2004). We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages as liabilities and charges to our income when the cash penalties are probable and estimable. We will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their calculation, pursuant to Financial Accounting Standard No. 5, Accounting for Contingencies.

INTEREST EXPENSE

We incurred interest expense for the year ended December 31, 2005 of $1,667,294. Our interest expense increased by $231,889, a 16% increase compared to $1,435,405 in 2004. The increase was due to the effects of application of the effective interest method where an effective interest amount, as calculated at the inception of the debt is applied to the carrying value at the end of each

period. Under this method, periodic interest charges increases over the debt term as the debt carrying value increases.

OTHER EXPENSE

Other expense consists of debt extinguishment losses and (gains). These amounts arose from certain modifications that we made to our debt arrangements that required our re-measurement of the carrying value to fair value because the modification was significant. We may modify other debt arrangements as discussed under the discussion related to our derivative financial instruments. Each modification will require a determination whether an extinguishment occurred and, if so, an extinguishment gain or loss may require recognition.

Subsequent to our year ended December 31, 2005, we began to incur penalties related to a financing arrangement that required us to, among other things, become effective on a registration statement. On November 8, 2006, we became effective on the registration statement. As of November 8, 2006, we incurred in excess of $2.1 million of penalties under this arrangement, and we paid these amounts beginning in the third fiscal quarter of our year ending December 31, 2006.

CONSOLIDATED NET LOSS

We had a net loss for the year ended December 31 2005 of $79,528,653 compared with a net loss of $11,517,620 in 2004. There were a number of factors that gave rise to our losses in 2005 and 2004. First, we are currently expending funds in developing our administrative and operating infrastructure and our sales channels and, as a result, our current revenue volume has not been sufficient to offset our operating expenses resulting in an operating loss during the years ended December 31, 2005 and 2004. We anticipate that our operating expenses as a percentage of our sales will decrease in future periods as our revenues increase and our costs level. In addition, we incurred a one-time $3,000,000 fee during the year ended December 31, 2005 related to the acquisition of our customer, CCE. We do not currently anticipate incurring similar costs in the foreseeable future. Finally, the overall magnitude of both the 2005 and 2004 net loss can be attributable largely to the fair value adjustments related to our derivative financial instruments of $60,823,574 and $6,309,933 in 2005 and 2004, respectively. See the discussion above, about our derivative income (expense) for additional information. Our earnings will continue to be affected by the fair value adjustments of our derivative financial instruments until they are disposed of through contractual modifications, conversions and exercises of our share indexed instruments, or expiration.

CONSOLIDATED LOSS APPLICABLE TO COMMON SHAREHOLDERS

Loss applicable to common shareholders represents net loss as adjusted for preferred stock dividends and accretion of our redeemable preferred stock and our equity classified preferred stock to redemption values using the effective method. Many of our preferred stock series have cumulative dividend features and we will continue to reflect preferred stock dividends in our loss applicable to common shareholders until the preferred stock is converted, if ever. In addition, many of our redeemable preferred stock series were initially discounted due to the allocation of financing proceeds to detachable warrants and embedded derivative financial instruments. We use the effective method to amortize these discounts. The use of the effective method to accrete our discounted redeemable preferred stock to redemption values causes accretion to increase over the redemption period as the carrying values increase. Accordingly, accretions will increase in future periods until the preferred is fully accreted to redemption values or converted.

CONSOLIDATED LOSS PER COMMON SHARE

The Company's basic loss per common share for the year ended December 31, 2005 was $(0.60) compared with a basic loss per common share for the same period in 2004 of $(0.31). Because the Company experienced net losses in 2005 and 2004, all potential common share conversions existing in our financial instruments would have an antidilutive impact on earnings per share; therefore, diluted loss per common share equals basic loss per common share for both years.

The weighted average common shares outstanding increased from 40,229,738 for the year ended December 31, 2004 to 135,032,836 for the year ended December 31, 2005. The increase is attributed primarily to conversions of our convertible debt and preferred instruments into common shares. Potential common stock conversions excluded from the computation of diluted earnings per share amounted to 108,059,082 and 126,767,057 for the years ending December 31 2005 and 2004, respectively.

CONSOLIDATED COMPREHENSIVE LOSS

Comprehensive loss differs from net loss for the year ended December 2005 and 2004 by ($30,759) and ($689), respectively, which represents the effects of foreign currency translation on the financial statements of our subsidiaries denominated in foreign currencies. Our foreign operations are currently not significant. Increases in our foreign operations will likely increase the effects of foreign currency translation adjustments on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

MANAGEMENT'S PLANS:

As reflected in the accompanying consolidated financial statements, we have incurred operating losses and negative cash flow from operations and have negative working capital of $54,652,550 as of September 30, 2006. This negative figure is largely the effect of our recording of $37,075,023 for derivative liabilities. In addition, we have experienced delays in filing our financial statements and registration statements due to errors in our historical accounting that now have been corrected. Our inability to make these filings resulted in our recognition of penalties payable to the investors. These penalties have ceased with our completed filings and the registration of the common shares into which the investors' financial instruments are convertible. Finally, our revenues are significantly concentrated with one major customer. The loss of this customer or curtailment in business with this customer could have a material adverse affect on our business. These conditions raise substantial doubt about our ability to continue as a going concern.

We have been dependent upon third party financings as we execute on our business model and plans. On July 27, 2006, we completed a $30.0 million convertible note financing that is expected to fulfill our liquidity requirements through the end of 2006. Of that total, $15.0 million of this financing was held in escrow, pending the increase in our authorized shares and the effectiveness of a registration statement filed by us in connection with a November 2005 financing. We have satisfied the escrow release conditions and, on November 14, 2006, the balance of the proceeds from our July 2006 sale of the $30 million of Senior Convertible Notes was released from escrow.

We plan to increase our revenues, improve our gross margins, augment our international business and, if necessary, obtain additional financing. Ultimately, our ability to continue is dependent upon the achievement of

profitable operations. There is no assurance that further funding will be available at acceptable terms, if at all, or that we will be able to achieve profitability.

The accompanying financial statements do not reflect any adjustments that may result from the outcome of this uncertainty.

INFORMATION ABOUT OUR CASH FLOWS

As of September 30, 2006, we reported that net cash used in operating activities was $16,594,704, net cash provided by financing activities was $13,462,392 and net cash used in investing activities was $708,044 during the nine months ended September 30, 2006.

Compared to $3,610,995 of net cash used in operating activities in the nine months ended September 30, 2005, our current period net cash used in operating activities increased by $12,983,709 to $16,594,704.

Changes in accounts receivable during the nine months ended September 30, 2006 resulted in a cash increase of $2,795,948, compared to a cash decrease in receivables of $149,281 for the same period in 2005, having a net result of an increase of $2,945,229. The changes in inventories during the nine months ended September 30, 2006 reflected a cash usage of $456,283, compared to a usage of $241,173 for the same period in 2005. This was the result of our building inventory in connection with the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises. The changes in accounts payable and accrued liabilities in the nine months ended September 30, 2006 contributed to a cash increase of $3,748,743, whereas the changes in accounts payable and accrued liabilities for the period ended September 30, 2005 amounted to an increase of $5,117,240. Cash flows generated through our operating activities was inadequate to cover all of our cash disbursement needs in the period ended September 30, 2006, and we had to rely on prior equity and new convertible debt financing to cover operating expenses.

Cash used in the period ended September 30, 2006 in our investing activities was $708,044 for license and trademark costs, and equipment purchases, compared to $879,754 for the same period in 2005.

Net cash provided by our financing activities for the nine months ended September 30, 2006 was $13,462,392, mainly as a result of proceeds received from a convertible note financing amounting to $30,000,000. Net cash provided by financing activities for the same period in 2005 was $4,954,367, for a net increase of $8,508,025.

Going forward, our primary requirements for cash consist of the following:

- the continued development of our business model in the United States and on an international basis;
- promotional and logistic production support for the capacity demands presented by our Master Distribution Agreement with Coca-Cola Enterprises;
- general overhead expenses for personnel to support the new business activities;
- development, launch and marketing costs for our line of new branded flavored milk products; and
- the payment of guaranteed license royalties.

We estimate that our need for financing to meet cash requirements for operations will continue through the first quarter of 2007, when we expect that cash supplied by operating activities will approach the anticipated cash requirements for operating expenses. We anticipated the need for additional financing in 2006 to reduce our liabilities, assist in marketing and to improve stockholders' equity status, and we secured $30 million in senior convertible note financing in July 2006.

We currently have monthly working capital needs of approximately $650,000. We will continue to incur significant selling and other expenses in order to derive more revenue in retail markets, through the introduction and ongoing support of our new products and the implementation of the Master Distribution Agreement with Coca-Cola Enterprises. Certain of these expenses, such as slotting fees and freight charges, will be reduced as a function of unit sales costs as we expand our sales markets and increase our revenues within established markets. Freight charges will be reduced as we are able to ship more full truckloads of product given the reduced per unit cost associated with full truckloads versus less than full truckloads. Similarly, slotting fees, which are paid to warehouses or chain stores as initial set up or shelf space fees, are essentially one-time charges per new customer. We believe that along with the increase in our unit sales volume, the average unit selling expenses and associated costs will decrease, resulting in gross margins sufficient to mitigate cash needs. In addition, we are actively seeking additional financing to support our operational needs and to develop an expanded promotional program for our products.

External Sources of Liquidity

On July 27, 2006, we entered into definitive agreements to sell $30 million senior convertible notes (the "Notes") that are due in 2010 to several institutional and accredited investors in a private placement exempt from registration under the Securities Act of 1933. The notes initially carry a 9% coupon, payable quarterly, and are convertible into shares of common stock at $0.70 per share. In 2007, the coupon may decline to LIBOR upon the Company achieving certain financial milestones. The Notes will begin to amortize in equal, bi-monthly payments beginning in mid-2007. We issued warrants to purchase 12,857,143 shares of common stock at $0.73 per share that expire in July 2011 to the investors in the private placement. We will utilize this financing for, among other things, our working capital needs. On August 31, 2006, the Company entered into Amendment Agreements in which the investors agreed to release the Company from events of default that occurred under the terms of the original July 27, 2006 financing. In exchange, Amended and Restated Notes were issued in which the conversion price on the $15,000,000 financing, which was held in escrow, was reduced from $0.70 to $0.51. In addition, the holder could require the Company to redeem any portion of the Amended and Restated Note in cash or common stock at 125% from October 10, 2006 through December 31, 2006.

EFFECTS OF INFLATION

We believe that inflation has not had any material effect on our net sales and results of operations.

BUSINESS

OUR COMPANY

Our company is a Delaware corporation, which was formed on April 27, 1996. We formerly owned the majority interest in two Sino-American joint ventures in China, known as Green Food Peregrine Children's Food Co. Ltd. and Hangzhou Meilijian Dairy Products Co., Ltd. These two joint ventures processed milk products for local consumption in the areas of Shanghai and Hangzhou, China, respectively. We closed Green Food Peregrine in December 1999 and sold our interest in Hangzhou Meilijian Dairy in December 2000.

In December 1999, we obtained Chinese government approval for the registration of a new wholly owned subsidiary in the Wai Gao Qiao "free trade zone" in Shanghai, China. We formed this import-export company to import, export and distribute food products on a wholesale level in China. In addition, China Premium (Shanghai) was our legal presence in China with respect to contractual arrangements for the development, marketing and distribution of branded food products. We ceased all activities of this Chinese subsidiary in April 2004, owing to low sales volume and insufficient financial or logistic resources to market our products profitably in mainland China.

In December 1999, we formed Bravo! Foods, Inc., a wholly owned Delaware subsidiary, which we utilized to advance the promotion and distribution of branded Looney Tunes(TM) products in the United States, through production agreements with local dairy processors. At the end of 2001, we assumed this business, and our U.S. subsidiary ceased functioning as an operating company at that time.

On February 1, 2000, we changed our name from China Peregrine Food Corporation to China Premium Food Corporation. . On March 16, 2001 we changed our name to Bravo! Foods International Corp. On October 24, 2006 we changed our name to Bravo! Brands Inc., pursuant to a resolution of our Board of Directors and the affirmative vote of our shareholders at a special meeting of our shareholders called for that purpose, in accordance with Delaware General Corporation Law.

In January 2005, we formed Bravo! Brands (UK) Ltd., a United Kingdom registered company that is wholly owned by Bravo! Brands International Ltd. We will utilize Bravo! Brands (UK) Ltd. to advance the production, promotion and distribution of licensed branded products in the United Kingdom through production and sales agent agreements with local entities. Currently, we are evaluating our distribution and product mix in the UK in order to develop and implement a more effective business plan going forward. During this period of re-evaluation, we have ceased production of our products in the United Kingdom.

In March 2005, we formed Bravo! Brands International Ltd., a Delaware subsidiary that may hold license rights for our branded products on an international basis. We may utilize Bravo! Brands International Ltd. to hold and exploit certain license rights for branded products developed by us in international markets through local second-tier subsidiaries such as Bravo! Brands (UK) Ltd.

THE BUSINESS

Our business involves the development and marketing of our own Slammers(R) and Bravo!(TM) trademarked brands, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and, in certain international markets, the granting of production and marketing rights to processor dairies to produce branded flavored milk utilizing our intellectual property. In addition, we anticipate the commencement of exporting our products to Mexico and Canada in the first quarter 2007.

In the United States and the UK, we generate revenue from the sales of finished branded flavored milks to retail consumer outlets or distributors for resale to retail consumer outlets. Currently, we use a single third-party

processor in the United Sates and another in the UK to produce all of our single serve milk based beverages. We anticipate the expanded production of our products with the addition of HP Hood, LLC as a second processor in the United States, with production commencing in the fourth quarter 2006. We recognize revenue in the United States at the gross amount of our invoices for the sale of finished product to wholesale buyers or distributors. We take title to our branded flavored milks when they are shipped by our third party processors and recognize as revenue the gross wholesale price charged to our wholesale customers or distributors. Our gross margin is determined by the reported wholesale price less (i) the cost charged by our third party processor, to produce our branded milk products and (ii) shipping costs.

Internationally, we generate revenue primarily through our sale to processors of flavor ingredients utilized for our products, which are developed and refined by us, and the grant of production rights to processors to produce our flavored milks. The consideration paid to us under these production contracts consists of fees charged for our grant of production rights for our branded flavored milks plus a charge for flavor ingredients.

All of our third party licensing agreements recognize that we will use third party production agreements for the processing of flavored milk products and that the milk products will be produced and may be sold directly by those processors. Our responsibilities under our third party production agreements are to design and provide approved packaging artwork, to help determine the best tasting flavors for the particular market and to assist in the administration, promotion and expansion of the respective branded milk programs. Ingredients for the flavored milks are formulated to our specifications and supplied on an exclusive basis by either Givaudan Flavors Group or Mastertaste, both of which are flavor development and production companies. In the United States, we are the vendor of record for our direct wholesale business and assume the responsibility for sales and marketing of our flavored milks.

Master Distribution Agreement - Coca-Cola Enterprises

On August 31, 2005, we entered into a ten-year Master Distribution Agreement with Coca-Cola Enterprises Inc that we believe will significantly expand the distribution and sales of our products. The agreement provides for the distribution of our products in Coca-Cola Enterprises in the United States, all U.S. possessions, Canada, Belgium, continental France, Great Britain, Luxembourg, Monaco and the Netherlands, as well as any other geographic territory to which, during the term of the agreement, Coca-Cola Enterprises obtains the license to distribute beverages of The Coca-Cola Company. The appointment of Coca-Cola Enterprises as the exclusive distributor for our products was effective August 30, 2005, has an effective distribution date of October 31, 2005 and an expiration date of August 15, 2015. Coca-Cola Enterprises has the option to renew the Master Agreement for two subsequent periods of ten additional years. Attendant to the execution of the agreements we issued three-year warrants to Coca-Cola Enterprises for the right to purchase 30 million shares of our common stock at an exercise price of $0.36 per share.

Under the terms of the agreement, Coca-Cola Enterprises is obligated to use all commercially reasonable efforts to solicit, procure and obtain orders for our products and merchandise and actively promote the sale of such products in the Territory, as defined in the agreement. The agreement establishes a comprehensive process for the phased transition from our existing system of distributors to Coca-Cola Enterprises, dependent upon distribution territory, product and sales channels. Under the agreement, Coca-Cola Enterprises implemented its distribution on a ramp-up basis, commencing , October 31, 2005. Coca-Cola Enterprises' distribution in other Territory areas will be dependent

upon, among other things, third-party licensing considerations and compliance with the regulatory requirements for the products in foreign countries.

We have agreed to provide the following:

- strategic direction of our products;
- maintain sales force education and support;
- actively market and advertise our products and design and develop point of sale materials and advertising.

We are also responsible for handling:

- consumer inquiries;
- product development; and
- the manufacture and adequate supply of our products for distribution by Coca-Cola Enterprises.

The terms of the agreement require our company to maintain the intellectual property rights necessary for our company to produce, market and/or distribute and for Coca-Cola Enterprises to sell our products in the Territory. We are obligated to spend a fixed dollar amount through 2006 on national and local advertising, including actively marketing the Slammers trademark, based on a plan as mutually agreed each year. Beginning in 2007, the Company shall allocate an amount per year for such activities in each country in the defined Territory equal or greater than an agreed upon percentage of our total revenue in such country.

Under the agreement, Coca-Cola Enterprises has the right of first refusal to distribute any new products developed by our company, and the agreement establishes a process for the potential expansion of Coca-Cola Enterprises' distribution of the Company's products to new territories. Either party may terminate the agreement for a material breach, insolvency or bankruptcy. Coca-Cola Enterprises may terminate (i) for change of control by our company, (ii) upon a material governmental regulatory enforcement action or threatened governmental action having a material adverse consumer or sales impact on our products and (iii) upon twelve months notice after August 15, 2006.

Third Party Intellectual Property Licenses

Marvel Enterprises, Inc. (Super Heroes(R) and Marvel Heroes(R))

On February 4, 2005, we entered into a two-year license agreement for the utilization of Marvel Heroes characters on our flavored milks in the United Kingdom and Ireland. We agreed to a royalty rate of 4% of net wholesale sales in the territory against the prepayment of a guaranteed minimum royalty amount. We have adopted the unit sales model currently used in the United States. We have outsourced the infrastructure required for the production, promotion, marketing, distribution and sale of our products through a production agreement with Waterfront Corporation in the UK and through an exclusive sales agency agreement with Drinks Brokers, Ltd. a UK registered company responsible for the launch and growth of several major beverage brands in the licensed territory. Currently, we are evaluating our distribution and product mix in the UK in order to develop and implement a more effective business plan going forward. During this period of re-evaluation, we have ceased production of our Marvel co-branded products in the United Kingdom.

In March 2005, we entered into a new one-year license agreement with Marvel Enterprises, Inc. to use its Super Heroes(R) properties to promote our branded milk products in the United States, Canada and Mexico. Under the terms of the license agreement, we agreed to a royalty rate of 5% of net wholesale sales in the United States, 4% for school lunch channels and 2.5% for school hot lunch programs. We also agreed to a 11% royalty on the amount invoiced to dairy processors for production in Canada and Mexico. We have not renewed this license agreement owing to the failure of our Marvel co-branded products to achieve expected market penetration.

On February 4, 2005, we entered into an eighteen month license agreement for the utilization of Marvel Heroes characters on our flavored milks in the Middle East in conjunction with our execution of third party production agreements the manufacture and sale of our products Saudi Arabia and Oman. We agreed to a 11% royalty on the amount invoiced to third party dairy processors for "kits" in the territory against the prepayment of a guaranteed minimum royalty amount. We have not renewed this license agreement owing to the failure of our Marvel co-branded products to achieve expected market penetration.

Chattanooga Bakery, Inc.(Moon Pie(R))

In October 2003, we commenced a two-year license agreement with MD Enterprises, Inc. on behalf of Chattanooga Bakery. Under the terms of the license agreement, we have the exclusive right to manufacture, distribute, market and sell Moon Pie(R) flavored milk products in the United States. We agreed to a variable royalty rate of 3% to 2% of net wholesale sales, depending upon volume. This license has been extended verbally.

Masterfoods USA (Starburst(R), Milky Way(R), 3 Musketeers(R))

On September 21, 2004, we entered into a licensing agreement with Masterfoods USA, a division of Mars, Incorporated, for the use of Masterfood's Milky Way(R), Starburst(R) and 3 Musketeers(R) trademarks in connection with the manufacture, marketing and sale of single serve flavored milk drinks in the United States, its Possessions and Territories, and US Military installations worldwide. The license limits the relationship of the parties to separate independent entities. The initial term of the license agreement expires December 31, 2007. We have agreed to pay a royalty based upon the total net sales value of the licensed products sold and advance payments of certain agreed upon guaranteed royalties. Ownership of the licensed marks and the specific milk flavors to be utilized with the marks remains with Masterfoods. We have a right of first refusal for other milk beverage products utilizing the Masterfoods marks within the licensed territory. This license has amended to include additional Masterfoods brands and to extend the term to December 31, 2012.

In March 2006, we signed two new seven year licensing agreements for Canada and Mexico with Masterfoods, effective January 1, 2006. The licensing agreement for Canada covers single servings of the Mars(R) Brand flavored milk drink, Starburst(R) brand flavored milk drink and the 3 Musketeers(R) brand flavored milk. In Mexico the licensing agreement is for single serve Milky Way(R) brand flavored milk, Starburst(R) brand flavored milk Drink and the 3 Musketeers(R) Brand Flavored Milk. These licensing agreements cover most trade channels including grocery, food service, Club Stores as well as schools with children over the age of 13, colleges and universities, vending machines, amusement parks and movie theaters.

Diabetes Research Institute

In June 2005, we extended our licensing agreement with Diabetes Research Institute to June 30, 2007. We agreed to a variable royalty rate of 0.25% of net sales. We use this intellectual property, which consists of a logo plus design on the labels of our Slim Slammers(TM) product line.

In House Intellectual Property

In addition to our third-party licenses, we have developed and sell flavored milks bearing trademarks developed by us, including "Slammers(R)" "Pro Slammers(TM)", "Slim Slammers(R)" and "Breakfast Blenders(TM)"..

Production Contracts/Administration

Our operations in the United States, the Middle East, Mexico and Canada are run directly by Bravo!Brands Inc. Our United Kingdom business is managed through our wholly owned subsidiary Bravo! Brands International Ltd., which is a UK registered company.

United States

Since 2003, our milk products have been produced by Jasper Products, located in Joplin, Missouri. In addition to the production of our products, Jasper has provided the infra-structure necessary for our invoicing, shipping and collection activities. We anticipate that we will assume direct responsibility for these activities in house in the fourth quarter 2006. We will expand production of our products with the addition of HP Hood, LLC as a second processor, with production commencing in the fourth quarter 2006

United Kingdom

In February 2005, we executed an exclusive sales agency agreement with Drinks Brokers, Ltd., a division of Tactical Sales Resources Limited for sales of our product lines in the United Kingdom. Pursuant to terms of the agreement, Bravo! appointed Drinks Brokers as its Sales Agent in the United Kingdom for the marketing, promotion, distribution and sale of Bravo!'s Slammers(R) Marvel Heroes line of flavored milk, as well as other product lines that Bravo! may introduce to the UK in the near future.

Drinks Brokers utilizes its established networks to manage all matters relating to the sale and effective distribution of Bravo!'s products within the United Kingdom, including the solicitation of sales from customers in applicable market segments, marketing, advertising and promotion of Bravo!'s products, distribution, and merchandising.

Our products are processed in the United Kingdom by Waterfront Corporation Limited, on a third party co-pack basis. We generate revenue in the United Kingdom from the unit sales of finished branded flavored milks to retail consumer outlets. Currently, we use a single third-party processor in the United Kingdom to produce all of our single serve milk based beverages. We recognize revenue in the United Kingdom at the gross amount of our invoices for the sale of finished product to wholesale buyers. We take title to our branded flavored milks when they are shipped by our third party processor and recognize as revenue the gross wholesale price charged to our wholesale customers. Our gross margin is determined by the reported wholesale price less the cost charged by Waterfront Corporation Limited.

Middle East

In September 2005, we entered into a third party production agreement with

Oman National Dairy Products Co. Ltd., a Middle East dairy processor, headquartered in Ruwi, Oman. Oman Dairy produces Slammers (R) branded flavored milks, including the Marvel line, for distribution in Oman and Saudi Arabia. We generate revenue in the Middle East by the sale of flavor ingredients and production rights for our branded products. We are not responsible for production, marketing, promotion or distribution of the product in the Middle East.

Products

In September of 2000, we commenced our United States business using third party dairy processors for the production and sale of fresh branded flavored milk in single serve plastic bottles. Our flavored milk products had a limited shelf life of, generally, 21 days.

In early 2002, we developed branded extended shelf life and aseptic, bacteria free, long life flavored milk products. The extended shelf life product was sold in 11.5oz single serve plastic bottles and had to be refrigerated. The shelf life of this product is 90 days. In addition, we developed a line of aseptic packaged milks that do not require refrigeration and have a shelf life of 8 months. This product was packaged in an 11.2oz Tetra Pak Prisma(TM) sterile paper container. Both of these products were introduced to the public in the second and third quarters of 2002.

Commencing in May 2002, we developed a new branded fortified flavored milk product under the "Slammers(R) Fortified Reduced Fat Milk" brand name. We use our Slammers(R) brand in conjunction with our licensed third party trademarks. Slammers(R) is made from reduced fat milk and is fortified with essential vitamins. The introduction of this new product and the phase out of our "regular" branded milks occurred in the fourth quarter of 2002. Our Slammers(R) flavored milks were sold in the United States in single serve extended shelf life plastic bottles, as well as the long life aseptic Tetra Pak Prisma(TM) package.

In November 2002, we introduced Slim Slammers(R) Fortified Milk, a low calorie version of our Slammers (R)Fortified Reduced Fat Milk. Slim Slammers(R) Fortified Milk has no added sugar and is sweetened with sucralose, a natural sweetener made from sugar. Slim Slammers(R) Fortified Milk is made from 1 percent fat milk, is fortified with 11 essential vitamins and is available in the same flavors as our Slammers(R) brand. We reintroduced this product in the United States with a new package and formulation during 2004.

In 2004, we announced our product development and brand strategy for seven new, separate and distinct single serve product lines: Ultimate Slammers(TM), Slim Slammers(R), Moon Pie Slammers(R), Pro-Slammers(TM), Starburst(R) Slammers(R), 3 Musketeers(R) Slammers(R) and Milky Way(R) Slammers(R). These product lines are all fortified and positioned to appeal directly to profiled demographic segments, including teens and pre teens for Ultimate Slammers(TM), Starburst(R) Slammers(R) and Milky Way(R) Slammers(R), teens and sports enthusiasts for Pro-Slammers(TM), young to old for Moon Pie(R) Slammers(R) and health conscious adults for Slim Slammers(R) and 3 Musketeers(R) Slammers(R).

We launched four brands in 2004, beginning with Ultimate Slammers(R) in April and achieved national distribution of Ultimate Slammers(R) through both retail grocers and convenience stores by mid- summer. Roughly 10,000 retail supermarket stores carried this brand nationwide in 2004. This was followed by our June launch of Slim Slammers(R) and Moon Pie (R)Slammers(R) and the July release of our Pro-Slammers(TM) line.

In January 2005, we launched our Slammers(R) Starburst line of Fruit & Cream Smoothies utilizing a "shelf stable" re-sealable plastic bottle for milk products that does not require refrigeration. Until that launch, all single

serve flavored milk in plastic bottles required refrigeration for storage, distribution and shelf placement. The tactical advantage of distributing milk products ambient enables us to side-step a major entry barrier in our immediate consumption strategy. Refrigerated milk is relegated to dairy direct-store-delivery systems that are controlled by either regional dairy processors or larger national dairy holding companies. Shelf stable re-sealable plastic bottles allow us to use a more traditional distribution network that accommodates the non-refrigerated beverages. Also, milk products packaged in shelf stable re-sealable plastic bottles have significantly longer shelf life for storage, allowing us to ship in full truckloads resulting in decreased freight costs. We currently are converting all of our products to "shelf stable" re-sealable plastic bottles.

In the first quarter 2005, we launched our Slammers(R) MilkyWay and 3 Musketeers lines utilizing a "shelf stable" re-sealable plastic bottle for milk products that does not require refrigeration, under the Masterfoods License. During this period, we also introduced Breakfasts Blenders(TM), which is a meal replacement milk beverage developed for the "on the go" consumer.

Industry Trends

The flavored milk industry has grown from approximately $750 million in 1995 to $2.5 billion in 2004. The single serve portion of this category is difficult to measure, since approximately 2/3 of the sales in the single serve milk industry are sold in immediate consumption channels or other channels that do not report scan-data. For example, Wal-Mart has become the largest retailer in the USA for milk, selling an estimated 15% of total milk sales. Wal-Mart does not report sales for the industry data resources embodied in A.C. Neilson or IRI analyses. Similarly, most convenience stores and "up-and-down-the-street" retailers in the immediate consumption sales channels do not report either, and neither do vending and schools.

We have analyzed the industry using reports available from milk and beverage industry sources. These include the total, segmented and rate of growth sales that are reported, the immediate consumption sales rates for all consumables compared to retail grocery buying patterns and opinions of experts in the milk industry as to the relative size of reported versus non-reported sales. Based upon these reports and analysis, we believe the current size of the single serve flavored milk industry (packaging 16 oz. or smaller) is approximately $1.5 billion domestically. The industry grew at annual rates of between 5 and 15 percent during the last five years but was virtually flat in the last two years while it digested the remarkable 10-year growth rates. We believe that this space is positioned for growth now and will continue to be in the immediate consumption channels such as vending, convenience stores and food service market segments.

Market Analysis

The flavored milk business is a relatively new category in the dairy field. The flavored "refreshment" segment is both the fastest growing and most profitable category in the industry and is receiving the most attention in the industry today. Pioneered by Nestle with the NesQuik line and Dean Foods with its Chug brand, this "good for you" segment is in demand both in the U.S. and internationally.

The International Dairy Foods Association reports that, although flavored milk currently amounts to only 5 to 6 percent of milk sales, it represents over 59% of the growth in milk sales. With the total milk category exceeding $9.3 billion in 2004, the flavored milk segment was approximately $2.5 billion in

2004, with single serve flavored milk growing to approximately $1.5 billion for the same period. Statistically, as the flavored segment grows, the entire category grows as well. In the past ten years, selling more flavored milks has resulted in more sales of white milk as well.

In addition, the International Dairy Foods Association and Dairy Management Inc. have reported on studies suggesting that dairy products may help in weight loss efforts when coupled with a reduced calorie diet, based on data associating adequate calcium intake with lower body weight and reduced body fat. We continue to develop a niche in the single serve flavored milk business by utilizing strong, national branding as part of the promotion of our Slammers(R), Pro Slammers(TM) and Slim Slammers(R) products. This niche has as its focus the increased demand for single serve, healthy and refreshing drinks.

Market Segment Strategy

The Bravo! product model addresses a very clear and concise target market. We know from experience that the largest retailers of milk products are demanding new and more diverse refreshment drinks, specifically in the dairy area, in response to consumer interest and demand. To that end, we have and will continue to differentiate our products from those of our competitors through innovative product formulations and packaging designs, such as those implemented in our Slammers(R) and Pro Slammers(TM) fortified milk product lines and our Slim Slammers(R) low calorie, no sugar added products.

Our Slammers(R) milk products have had promising results penetrating this arena as consumers continue to look for healthy alternatives to carbonated beverages. The positioning of our products as a healthy, fun and great tasting alternative refreshment drink at competitive prices to more traditional beverages creates value for the producer and the retailer alike. This "profit orientation" for the trade puts old-fashioned milk products in a whole new light. The consumer is happy, the retailer is happy and the producer is able to take advantage of the value added by the brand and the resulting overall increase in milk sales.

We currently are implementing a very important "first-to-market" strategy that we feel will dramatically reposition our brands and company. Until now, all single served flavored milk in plastic bottles required refrigeration for storage, distribution, and shelf placement. Our strategic partner, Jasper Products, became America's first processor with FDA approval to offer a "shelf stable" re-sealable plastic bottle for ambient milk products that do not require refrigeration.

The tactical advantage of distributing our milk products at ambient temperatures enables us to side-step a major entry barrier in our immediate consumption strategy. Most beverages are distributed ambient either through beverage distribution channels or warehouse "candy and tobacco" distributors. Refrigerated milk was relegated to dairy direct-store-delivery systems that are controlled by either regional dairy processors or larger national dairy holding companies such as Dean Foods or H.P. Hood. We avoid the roadblock of being reliant upon our competition for chilled distribution since we are now in the unique position to use the more traditional distribution network that accommodates non-refrigerated beverages. We currently are converting all of our products into ambient "shelf stable" re-sealable plastic bottles.

We have been and continue to pursue a strategic goal of placing Slammers(R) milks in elementary, middle and high schools through ala carte lunch programs and vending facilities in school cafeterias, and we are promoting our Slim Slammers(R) milks as low calorie, non-sugar added alternatives to

traditional soft drinks. Penetration of this market segment has been limited by logistic and economic concerns of school administrators in the push to remove traditional carbonated soft drinks from schools in favor of milk and milk based products.

Competition

Nestle pioneered the single serve plastic re-sealable bottle which has become the standard for this industry, and they currently enjoy a dominant market share. Dean Foods owns a number of regional single serve brands that are sold in this format, and they also have an exclusive license to produce Hershey brand flavored milk nationwide. Our analysis indicates that the Nestle's Nesquik brand accounts for approximately 30-35 percent of the U.S. single serve milk category, while Hershey's market share is approximately half that, at around 15%. The other competition comes from private label and regional dairy brands. Our Slammers(R) milks are the only other single serve brand distributed nationally in America in plastic re-sealable containers.

Our resources for promotions have been limited, and we run significantly less promotional activities in comparison to our competitors. Where we are in direct competition with Nestle and Hershey, however, we have been able to maintain competitive sales levels.

Employees

We have thirty three full time employees, twenty one of which work at our North Palm Beach corporate offices.

DESCRIPTION OF PROPERTY

Neither our company nor our subsidiaries currently own any real property. As of February 1, 1999, we moved our corporate offices from West Palm Beach to 11300 US Highway 1, Suite 202, North Palm Beach, Florida, pursuant to a lease with HCF Realty, Inc., having an initial term of five years. The current aggregate monthly rent amounts to approximately $7,468, which includes an expansion of our office space from 2,485 square feet to 3,490 square feet. The term of this lease has been extended for six years to October 30, 2010.

We have executed a lease for an expansion of our office space in North Palm Beach, Florida to include an additional 2,190 square feet at $18.50 per square foot.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The directors, executive officers and significant employees/advisors are as of December 28, 2006, as follows. Our directors serve for staggered terms of two years or until their successors are elected. On March 6, 2003, the Board voted to reduce the board positions by one to nine.

Name of Officer and Age	Position with the Company	Year Appoi

Bravo! Brands Inc.			
Stanley A. Hirschman	60	Chairman and Director	2000
Roy G. Warren	51	Director, Chief Executive Officer	1997/1999
Jeffrey J. Kaplan	58	Chief Financial Officer	2005
Tommy E. Kee	57	Chief Accounting Officer	2003
Roy D. Toulan, Jr.	61	Vice President, Corporate Secretary, General Counsel	2003
Michael Edwards	47	Chief Revenue Officer	2000
Benjamin Patipa	51	Chief Operating Officer	2002
Arthur W. Blanding	77	Director	1999
Robert Cummings	63	Director	1997
John McCormack	47	Director	1997
Phillip Pearce	78	Director	1997
Gerald L. Bos	67	Director	2006

The experience and background of the Company's executive officers follow:

Mr. Stanley A. Hirschman - Chairman and Director since September 2000

Mr. Hirschman is president of CPointe Associates, Inc., an executive management and consulting firm specializing in solutions for emerging companies with technology-based products. CPointe was formed in 1996. In addition, he is chairman of Oxford Media, Inc., GoldSpring, Inc., Axion Power International and Dalrada Financial Corporation. Prior to establishing CPointe Associates, Mr. Hirschman was vice president of operations of Software, Etc., Inc., a retail software chain, and has held executive positions with retailers T.J. Maxx, Gap Stores and Banana Republic. Mr. Hirschman currently serves on the Compensation and Audit Committees of the Company's board of directors.

Mr. Roy G. Warren - Chief Executive Officer since May 1999; Director since 1997

Mr. Warren serves as our Chief Executive Officer and as a director. As Chief Executive Officer, Mr. Warren continues to develop strategy for our growth and external financial matters.

For 15 years from 1981 through 1996, Mr. Warren was in the securities brokerage industry. During those years, Mr. Warren acted as executive officer, principal, securities broker and partner with brokerage firms in Florida, most notably Kemper Financial Companies, Alex Brown & Sons and Laffer Warren & Company. Mr. Warren currently serves on the Executive Committee of the Company's board of directors.

Mr. Warren also serves as a director of our wholly owned U.K. subsidiary, Bravo! Brands (UK) Ltd.

Mr. Tommy E. Kee -Chief Financial Officer 2003 - 2005; Chief Accounting Officer since 2005

Tommy Kee joined our company in March 2003 as Chief Financial Officer. Mr. Kee currently serves as our Chief Accounting Officer for our company. He graduated with an MBA from the University of Memphis and a BS degree in accounting from the University of Tennessee. Before joining us, he served for several years as CFO for Allied Interstate, Inc. in the West Palm Beach area. Prior to that, Mr. Kee served as CFO and Treasurer for Hearx Ltd. a West Palm Beach, Florida public company. He also served 18 years as International Controller and Financial Director with the Holiday Inns Inc. organization in Memphis and Orlando. Mr. Kee handles all financial management and reporting for

our company and works closely with our external auditors and general counsel for financial reporting and SEC compliance.

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Mr. Jeffrey Kaplan - Chief Financial Officer since 2005

Mr. Kaplan joined Bravo! in October 2005 as Chief Financial Officer. Mr. Kaplan served as Executive Vice President and Chief Financial Officer of BIB Holdings, Ltd. and then its private company spin-off, Elk Canyon Ltd., designers of jeanswear and loungewear, from October 2003 to September 2005. He served as Executive Vice President of Business Affairs of Viewpoint Corporation, a graphics software company, from November 2001 to September 2003 and its Executive Vice President and Chief Financial Officer from February 2001 to October 2001. Mr. Kaplan served as Executive Vice President and Chief Financial Officer of Rare Medium Group Inc., an IT professional services company, from October 1999 to February 2001. Mr. Kaplan received his Bachelor of Arts degree in political science from Brown University in 1970 and his Masters of Business Administration in finance from New York University in 1972.

Mr. Roy D. Toulan, Jr. - Vice President, Corporate Secretary, General Counsel since 2003

Roy Toulan began with the original founders as outside corporate counsel in 1997 and has been responsible for all of our corporate and business legal work, including securities matters. Mr. Toulan became Corporate Counsel in October 2002, when he left his private legal practice in Boston, and Vice President in January 2003. He received his law degree from Catholic University in Washington D.C., and for the first 15 years of his career practiced corporate and securities litigation with large law firms in New York and Boston. Before joining our company full time, he spent the last 18 years of his private practice in Boston, Massachusetts, engaged in general corporate and securities law helping companies with corporate structure and funding, both domestically and internationally. Mr. Toulan also serves as a director of our wholly owned U.K. subsidiary, Bravo! Brands (UK) Ltd.

Mr. Michael Edwards - Vice President Sales since 2003

Mr. Edwards has been with our company in a sales and marketing capacity since 2000. Prior to that time, he worked for 5 years in beverage marketing research for Message Factors, Inc., a Memphis, Tennessee marketing research firm. Mr. Edwards has a BS degree from Florida State University in Management and Marketing and spent 13 years in the banking industry, leaving CitiBank to join Message Factors in 1995.

Dr. Benjamin Patipa - Director of School/Vending 2002 - 2004; Vice President, Chief Operating Officer since 2004

Dr. Patipa is a pediatrician with over fifteen years of experience in directing operations, marketing, sales and facilitating growth in both public and private companies. In 1987, Dr. Patipa founded and served as the chairman and CEO of Weight For Me, Inc., a company that developed a proprietary program which pioneered the delivery of weight control and nutrition services to the over 12 million obese children and adolescents in America. Weight For Me earned national and international recognition as the premier program for the control of obesity in children and adolescents. Dr. Patipa also served at HEARx Ltd. as a member of the Executive Operating Committee and Sonus USA, Inc., where he lead the company's franchise licensing and buying group business in the Southeast United States. Most recently, Dr. Patipa served as Senior Vice President and Operational Head of eHDL/HealthNet Data Link, Inc., a national electronic healthcare information company.

Mr. Arthur W. Blanding - Director Since November 1999

Mr. Blanding is president of The Omega Company, an international dairy industry consulting company. Mr. Blanding has over 50 years experience in management of dairy processing, sales and strategic planning consulting. He graduated from Michigan State University in 1956, with a degree in food science, and in 1964 from Oregon State University with a degree in Food Microbiology and attended Harvard Business School. Mr. Blanding currently serves on the Compensation Committee of the Company's board of directors.

As President of The Omega Company for the past 20 years, Mr. Blanding has completed over 200 projects successfully, both in the U.S. and abroad. Clients of The Omega Company include Abbott International, Cumberland Farms, Dairy Gold, Farm Fresh, Inc., Haagen Dazs, Labatt, Ross Laboratories and Stop & Shop Company, among others. Mr. Blanding was a consultant for the design and construction of the dairy processing facility built in Shanghai by Green Food Peregrine. The Omega Company is a party to a consulting contract with the Company concerning technical and production issues.

Mr. Robert J. Cummings - Director Since 1997

Mr. Cummings' work experience includes ten years in purchasing at Ford Motor Company. In 1975, he founded and currently operates J & J Production Service, Inc., a manufacturing representative business, which is currently responsible for over $300 million in annual sales. Mr. Cummings currently serves on the Compensation Committee of the Company's board of directors.

Mr. Phillip Pearce - Director Since 1997

Mr. Pearce is a "retired" member of the securities industry. Mr. Pearce served as Chairman of the NASD during which time he was instrumental in the founding of NASDAQ. Additionally, Mr. Pearce was a former Director of E.F. Hutton and has served as Governor of the New York Stock Exchange. Since his retirement in 1988, Mr. Pearce has remained active in the securities industry as a corporate financial consultant. Mr. Pearce serves on the compensation committee of our board of directors. Mr. Pearce also serves on our audit committee. Mr. Pearce serves on our Audit Committee.

Mr. Gerald L. Bos - Director Since 2006

Mr. Bos became a Director in April 2006. From 1998 to his retirement on December 31, 2005, Mr. Bos was Chief Financial Officer of Dairy Farmers of America, Inc. (DFA), a cooperative owned and operated by approximately 20,600 dairy farmers. DFA is a diversified US manufacturer of dairy products, food components and ingredients. The cooperative is considered a leader in formulating and packaging shelf-stable dairy products in cans and glass. Mr. Bos will continue to serve DFA in a consulting capacity. Mr. Bos serves as our financial expert on the Company's Audit Committee.

Based upon a review of the appropriate Forms 3, 4 and 5 and any amendments to such forms filed pursuant to Section 16(a), we report the following: during 2005, our directors and executive officers did not file Form 4s for options that were authorized pursuant to an incentive stock option compensation plan until issued.

EXECUTIVE COMPENSATION

Compensation of directors

We compensated Directors for their travel expenses to and from board of directors' meetings in 2002, 2003, 2004 and, in 2005, an additional $1,000 per personal attendance and $500 for a telephonic attendance. In 2004, there were three in person meetings and four telephonic board meetings. In 2005, there were three in person meetings and four telephonic board meetings. Directors received options for 35,000 shares of common stock for each year as a director through 2001. Each member of the executive committee has received options for an additional 40,000 shares of common stock for their services from 1998 through 2001. Directors received additional options for 25,000 shares for 2002 and 2003. Mr. Hirschman, our Chairman, received total compensation of $48,000 for the year ended December 31, 2005 for his services as Chairman of both our Board of Directors and Audit Committee. On January 13, 2004, the Directors unanimously voted to convert the options to common stock on a one for one basis. The common shares so converted were issued pursuant to a Form S-8 registration statement filed December 23, 2004.

On January 13, 2004, the Board of Directors adopted a plan to convert on a one for one basis the options granted to our present employees and the directors currently serving on the Board into a like number of our restricted shares of common stock at the discounted value of $0.05 per share. The conversion of the options to common stock for any individual director or employee was conditioned upon a "lockup" agreement by such director or employee, pursuant to which the recipients of such common stock could not sell, transfer, pledge or hypothecate such common stock for a six-month period.

On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of options to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant 3,572,744 of the authorized options to our directors.

Compensation of executive officers

The following table sets forth the compensation paid during the last three fiscal years to our Chief Executive Officer and the other executive officers of our company:

Summary Compensation

		Annual Compensation			Long-Term
Name & Position	Year	Base Salary	Bonus	Other	Restricted Stock Awards and Options
Roy G. Warren President & CEO Director	2003	$220,000			2005 Ten Year Options for 2,500,000 common valued at $300,000; vested over 18 months
	2004	220,000	$137,750 (1) $8,462 bonus (3)		
	2005	240,000	156,538 bonus (4)	$42,000 (5)	
Roy D. Toulan, Jr.	2003	$180,000	$28,000 (2)	$15,919	2005 Ten Year

Vice President Secretary Corporate Counsel	2004	180,000	15,000(1) 6,923 (bonus (3)	Life & disability & health insurance	Options for 600,000 common valued at $72,000; vested over 18 months
	2005	182,231	7,308 bonus (3)	$38,552 (5)	
Jeffrey Kaplan	2005	$180,000	$40,000 annual performance based bonus paid quarterly	$14,000 insurance	200,000 ten year options at $0.60 vested over 18 months; 1,000,000 options to be issued at market
Michael Edwards Chief Revenue Officer	2005	$162,923	$6,923 bonus (3)	$34,161 (5)	2005 Ten Year Options for 600,000 common valued at $72,000; vested over 18 months

		Annual Compensation			Long-Term
Name & Position	Year	Base Salary	Bonus	Other	Restricted Stock Awards and Options
Benjamin Patipa Chief Operating Officer	2005	$142,615	$6,923 bonus (3) 11,000 bonus (4)	$32,107 (3)	2005 Ten Year Options for 600,000 common valued at $72,000; vested over 18 months
Tommy E. Kee Chief Accounting; Officer	2003	$120,000			2005 Ten Year Options for 600,000 common valued at $72,000; vested over 18 months
	2004	120,000	$15,000(1) 4,615 bonus (3)		
	2005	140,923	6,154 bonus (3) 10,000 bonus (4)	$31,415 (3)	

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(1) The reported values of options converted in 2004 are pursuant to a January 13, 2004 vote of Directors authorizing conversion, and are valued $0.05 per share.

(2) 100,000 shares of common stock in 2003 as a signing bonus, valued at $28,000.

(3) Year end bonus

(4) Special performance based bonus

(5) SEP/IRA Bonus, 2005

(6) Amount paid for termination of employment owing to change of control, based on base salary for 2006

OPTION GRANTS

On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of options to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant 3,572,744 of the authorized options to our directors and 4,900,000 to our senior management.

AGGREGATED OPTIONS EXERCISED IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

None.

COMPENSATION PLANS

SENIOR MANAGEMENT

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On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of options to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant 4,900,000 of the authorized option to our senior management.

Employment contracts

Roy G. Warren Chief Executive Officer

On September 14, 2005, the Compensation Committee of the Board of Directors recommended a new compensation package for Mr. Warren in recognition of his work to expand our business and in light of the then recent execution of a ten-year Master distribution Agreement with Coca-Cola Enterprises Inc. The basic compensation package adopted by the Company for Mr. Warren provides, as follows:

- Annual base salary of $300,000 paid in accordance with established Company payment procedures.
- Quarterly bonus of one-quarter of one percent (.0025) of top-line net sales revenue.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- A "Special Circumstances" bonus of $500,000 to be awarded upon the signing of a Master Distribution Agreement with CCE. Bonus to be paid in the following manner: One-half paid as a cash award or, at the awardees option, in Company stock. One-half paid in Company stock, with the issuance of such being in the form of S-8 or other method as determined by counsel.
- Effective October 1, 2005, and for a period of not less than 24 months

Roy D. Toulan, Jr., Vice President, General Counsel and Corporate Secretary

A new compensation package became effective for Mr. Toulan on January 1, 2006. The basic compensation package adopted by the Company for Mr. Toulan provides, as follows:

- Annual base salary of $190,000 paid in accordance with established Company payment procedures.
- Quarterly bonus at discretion of management based upon meeting performance goals.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- Effective January 1, 2006, and for a period of not less than 24 months

Jeffrey J. Kaplan, Chief Financial Officer

Mr. Kaplan's employment contract provides, as follows:

- Annual base salary of $180,000 in year one paid in accordance with established Company payment procedures; $200,000 in year two and $220,000 in year three.
- Quarterly bonus at discretion of management based upon meeting performance goals.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- Options for 200,000 common shares at market on November 1, 2005 as signing bonus
- Effective November 1, 2005, and for a period of not less than 36 months

Benjamin Patipa, Chief Operating Officer

A new compensation package became effective for Dr. Patipa on January 1, 2006. The basic compensation package adopted by the Company for Dr. Patipa provides, as follows:

- Annual base salary of $180,000 paid in accordance with established Company payment procedures.
- Quarterly bonus at discretion of management based upon meeting performance goals.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- Effective January 1, 2006, and for a period of not less than 24 months

Michael Edwards, Chief Revenue Officer

A new compensation package became effective for Mr. Edwards on January 1, 2006. The basic compensation package adopted by the Company for Mr. Edwards provides, as follows:

- Annual base salary of $180,000 paid in accordance with established Company payment procedures.
- Quarterly bonus at discretion of management based upon meeting

performance goals.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- Effective January 1, 2006, and for a period of not less than 24 months

Tommy E. Kee, Chief Accounting Officer

A new compensation package became effective for Mr. Kee on January 1, 2006. The basic compensation package adopted by the Company for Mr. Kee provides, as follows:

- Annual base salary of $160,000 paid in accordance with established Company payment procedures.
- Quarterly bonus at discretion of management based upon meeting performance goals.
- Company benefits as customarily awarded to executive members of management.
- Participation in Employee and Director Stock Option programs.
- Effective January 1, 2006, and for a period of not less than 24 months

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The equity compensation reported in this section has been a issued pursuant to individual compensation contracts and arrangements with employees, directors, consultants, advisors, vendors, suppliers, lenders and service providers. The equity is reported on an aggregate basis as of December 31, 2005. Our security holders have not approved the compensation contracts and arrangements underlying the equity reported.

Compensation Plan Category	Number of securities to be issued upon exercise of options, warrants and rights	Weighted average price of outstanding options, warrants and rights	Number of secur future issuance compensation pl
Directors (former)	325,000	$0.71	0
Employees (former)	650,000	$0.87	60,000
Directors/Management & Employees	8,872,745	$0.245	1,475,000
Consultants	510,714	$0.30	0
Total	10,358,459	$0.77	1,535,000

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On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of option to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant 8,922,745 of the authorized option to our employees, directors and certain consultants. The ten-year options vest over a period of eighteen months

and have exercise prices varying from $0.20 per share to $0.30 per share, with a weighted average exercise price of $0.24 per share.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our company's common stock as of December 28, 2006, as to

- each person known to beneficially own more than 5% of the Company's common stock
- each of our directors
- each executive officer
- all directors and officers as a group

The following conditions apply to all of the following tables:

- except as otherwise noted, the named beneficial owners have direct ownership of the stock and have sole voting and investment power with respect to the shares shown
- the class listed as "common" includes the shares of common stock underlying the Company's issued convertible preferred stock, options and warrants

Beneficial Owners

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class (2)
Common	Coca-Cola Enterprises Inc. 2500 Windy Ridge Parkway Atlanta, GA 30339	30,000,000	14.97%
Common	Mid-Am Capital, L.L.C. (3) Northpointe Tower 10220 North Ambassador Drive Kansas City, MO 64190	19,970,723	9.97%
Common	Lombard Odier Darier Hentsch & Cie (4) Rue de la Corraterie 11 1204 Geneva	16,500,000	8. 23%
Common	Magnetar Capital Master Fund, Ltd (4) 1603 Orrington Avenue 13th Floor Evanston, IL 60201	13,750,000	6.86%

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(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of October 30, 2006 are deemed outstanding for computing the percentage of the

person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(2) Percentage calculated from base of 202,429,528 shares of common stock issued and outstanding.

(3) This owner is contractually limited to a beneficial ownership of our equity not to exceed 9.99%. Equity listed consists of convertible preferred, convertible debentures and/or warrants.

(4) Equity listed consists of common stock and warrants to purchase common stock

MANAGEMENT OWNERS

Title of Class	Name and Address of Management Owner	Amount and Nature of Ownership (1)	Percent of Class (2)
Common	Roy G. Warren 11300 US Highway No.1 N. Palm Beach, FL	5,810,765(3)	2.89%
Common	Robert Cummings 2829 N.E. 44th Street Lighthouse Point, FL	1,130,038(4)	Less than 1%
Common	John McCormack 8750 South Grant Burridge, IL 60521	1,312,538 (4)	Less than 1%
Common	Mr. Arthur W. Blanding Janesville, WI 53545	947,297 (5)	Less than 1%
Common	Phillip Pearce 6624 Glenleaf Court Charlotte, NC 28270	962,297 (6)	Less than 1%
Common	Stanley Hirschman 2600 Rutgers Court Plano, Texas 75093	1,040,652 (7)	Less than 1%
Common	Roy D. Toulan, Jr. VP, General Counsel 6 Wheelers Pt. Rd Gloucester, MA 01930	1,615,121 (8)	Less than 1%
Common	Tommy Kee Chief Accounting Officer 11300 US Highway 1 N. Palm Beach, FL 33408	1,042,385 (8)	Less than 1%
Common	Benjamin Patipa Chief Operating Officer 6139 Indian Forest Circle	1,358,700(8)	Less than 1%

	Lake Worth, FL 33463		
Common	Michael Edwards Vice President Sales 4140 S.E. Old St. Lucie Blvd. Stuart, FL 34996	2,000,000(8)	Less than 1%

Common	Executive officers and directors as a group	17219,793	8.59%

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(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of October 30, 2006 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(2) Percentage calculated from base of 202,429,528 shares of common stock issued and outstanding.

(3) Includes options to purchase 2,500,00 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

(4) Includes options to purchase 565,038 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

(5) Includes options to purchase 494,408 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

(6) Includes options to purchase 706,297 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

(7) Includes options to purchase 670,982 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

(8) Includes options to purchase 600,000 shares of our common stock pursuant to a 2005 Incentive Stock Option Plan adopted by the Board of Directors on May 12, 2005.

There currently are no arrangements that may result in a change of ownership or control.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

John Mc McCormack has been a director of the Company since 1997 and was our Chief Operating Officer from December 200 to March 2003. Since December 2005, Mr. McCormack has been employed by Coca-Cola Enterprises Inc. as a Regional Sales Manager for the supermarket channel, in Wisconsin, Minnesota and Northern Illinois.

DESCRIPTION OF SECURITIES TO BE REGISTERED

COMMON STOCK

We are authorized to issue up to 500,000,000 shares of Common Stock, par value $.001. As of December 28, 2006, there were 202,429,528 shares of common stock outstanding. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor. Upon the liquidation, dissolution, or winding up of our company, the holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are validly issued, fully paid and nonassessable.

We have engaged American Stock Transfer & Trust Company located at 59 Maiden Lane, Plaza Level, New York, NY 10038, as independent transfer agent or registrar.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Articles of Incorporation, as amended, provide to the fullest extent permitted by Delaware law, our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Articles of Incorporation, as amended, is to eliminate our rights and our shareholders (through shareholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Articles of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act" or "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

PLAN OF DISTRIBUTION

We are registering the shares of Common Stock issuable upon conversion of the convertible notes and upon exercise of the warrants to permit the resale of these shares of Common Stock by the holders of the convertible notes and warrants from time to time after the date of this prospectus. We will not

receive any of the proceeds from the sale by the selling stockholders of the shares of Common Stock. We will bear all fees and expenses incident to our obligation to register the shares of Common Stock.

The selling stockholders may sell all or a portion of the shares of Common Stock beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of Common Stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of Common Stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;

- sales pursuant to Rule 144;
- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

If the selling stockholders effect such transactions by selling shares of Common Stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of Common Stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in

excess of those customary in the types of transactions involved). In connection with sales of the shares of Common Stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of Common Stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of Common Stock short and deliver shares of Common Stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of Common Stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the convertible notes or warrants or shares of Common Stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of Common Stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of Common Stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealer participating in the distribution of the shares of Common Stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of Common Stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of Common Stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers.

Under the securities laws of some states, the shares of Common Stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of Common Stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of Common Stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of Common Stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of Common Stock to engage in market-making activities with respect to the shares of Common Stock. All of the foregoing may affect the marketability of the shares of Common Stock and the ability of any person or entity to engage in market-making activities with respect to the shares of Common Stock.

We will pay all expenses of the registration of the shares of Common Stock

pursuant to the registration rights agreement, estimated to be approximately $55,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, that a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreements, or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreements, or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of Common Stock will be freely tradable in the hands of persons other than our affiliates.

PENNY STOCK

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

SELLING STOCKHOLDERS

The table below sets forth information concerning the resale of the shares of common stock by the selling stockholders. We will not receive any proceeds from the resale of the common stock by the selling stockholders. We will receive proceeds from the exercise of the warrants. Assuming the selling stockholders sell all the shares registered below, none of the selling stockholders will continue to own any shares of our common stock.

The following table also sets forth the name of each person who is offering the resale of shares of common stock by this prospectus, the number of shares of common stock beneficially owned by each person, the number of shares of common stock that may be sold in this offering and the number of shares of common stock each person will own after the offering, assuming they sell all of the shares offered.

Name(2)	Total Shares of Common Stock outstanding and issuable Upon exercise of Warrants and/or Conversion of Debentures	Total Percentage of Common Stock, Assuming Full Conversion*	Shares of Common Stock Included in Prospectus (1)	Beneficial Ownership Included in Prospectus **	Percenta of Commo Stock Owned Before Offering
JULY 2006 FINANCING					
Kings Road Investments Ltd.	58,343,094	17.13%	Up to 73,483,719 shares of common stock(4)	22,242,534	9.
Evolution Master Fund Ltd.	39,922,138	16.47%	Up to 71,562,763 shares of common stock(5)	22,242,534	9.
Steelhead Investments Ltd.	26,614,757	11.62%	Up to 47,708,500 shares of common stock(6)	22,242,534	9.
Capital Ventures International	24,248,083	10.75%	Up to 40,176,208 shares of common stock(7)	22,242,534	9.
Alpha Capital Aktiengesellschaft	6,260,424	3.02%	Up to 8,126,049 shares of common stock(8)	4,610,424	2.
SG Cowen & Co., LLC	3,867,286	1.88%	Up to 3,179,786 shares of common stock(9)	3,179,786	1.
NOVEMBER 2005 FINANCING					

Lombard Odier Darier Hentsch & Cie	20,691,175	9.80%	Up to 4,191,175 shares of common stock(10)	4,191,175	9.
Magnetar Capital Master Fund, Ltd	17,242,646	8.22%	Up to 3,492,646 shares of common stock(11)	3,492,646	8.

Radcliffe SPC, Ltd for and on behalf of the Class A Convertible Crossover Segregated Portfolio	9,483,456	4.59%	Up to 1,920,956 shares of common stock(12)	1,920,956	4.
Lagunitas Partners LP	2,163,222	1.06%	Up to 438,787 shares of common stock(13)	438,787	1.
Gruber & McBaine International	613,602	***	Up to 120,036 shares of common stock(14)	120,036	*
Jon D and Linda W Gruber Trust	689,706	***	Up to 139,706 shares of common stock(15)	139,706	*
JMG Triton Offshore Fund, Ltd.	1,379,412	***	Up to 279,412 shares of common stock(16)	279,412	*
JMG Capital Partners, LP	1,379,412	***	Up to 279,412 shares of common stock(17)	279,412	*
UBS O'Connor LLC FBO O'Connor PIPES Corporate Strategies Master Limited	2,069,118	1.02%	Up to 419,118 shares of common stock(18)	419,118	1.
Whalehaven Capital Fund Limited	1,724,265	***	Up to 349,265 shares of common stock(19)	349,265	*
Brian Corbmen	375,000	***	Up to 349,265 shares of common stock(21)	375,000	*

Oliver Colombo	62,500	***	Up to 62,500 shares of common stock(22)	62,500	*
NEW CENTURY ISSUANCE					
New Century Capital, Inc.	2,750,000	1.35%	Up to 2,750,000 shares of common stock(20)	***	1.

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* Based upon 202,429,528 shares of common stock issued and outstanding on December 28, 2006.

** The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholders has sole or shared voting power or investment power and also any shares, which the selling stockholders has the right to acquire within 60 days.

*** Less than one percent.

(1) The actual number of shares of common stock offered in this prospectus, and included in the registration statement of which this prospectus is a part, includes such additional number of shares of common stock as may be issued or issuable upon the exercise of the related warrants by reason of any stock split, stock dividend or similar transaction involving the common stock, in accordance with Rule 416 under the Securities Act of 1933.

(2) Kings Road Investments Ltd. ("Kings Road") is a wholly-owned subsidiary of Polygon Global Opportunities Master Fund ("Master Fund"). Polygon Investment Partners LLP and Polygon Investment Partners LP (the "Investment Managers"), Polygon Investments Ltd. (the "Manager"), the Master Fund, Alexander Jackson, Reade Griffith and Paddy Dear share voting and dispositive power of the securities held by Kings Road. The Investment Managers, the Manager, Alexander Jackson, Reade Griffith and Paddy Dear disclaim beneficial ownership of the securities held by Kings Road.

Capital Ventures International. Heights Capital Management, Inc., the authorized agent of Capital Ventures International ("CVI"), has discretionary authority to vote and dispose of the shares held by CVI and may be deemed to be the beneficial owners of these shares. CVI is affiliated with one or more registered broker-dealers. CVI purchased the shares being registered hereunder in the ordinary course of business and at the time of purchase, had no agreements or understandings, directly or indirectly, with any other person to distribute such shares.

Evolution Capital Management, LLC, is the investment advisor to Evolution Master Fund Ltd. SPC, Segregated Portfolio M. Mr. Michael Lerch, as Chief Investment Officer of Evolution Capital Management, LLC, holds voting and investment discretion of the securities being offered. Mr. Lerch disclaims beneficial ownership of such securities."

Steelhead Investments Ltd HBK Investments L.P. may be deemed to have sole voting and sole dispositive power over the securities pursuant to an Investment Management Agreement between HBK Investments L.P. and Steelhead Investments Ltd. Additionally, the following individuals may be deemed to have control over HBK Investments L.P.: Kenneth M. Hirsh, Laurence H. Lebowitz, William E. Rose, David C. Haley and Jamiel A. Akhtar. Steelhead Investments Ltd. is an affiliate of a registered broker-dealer and has represented to us that it acquired the securities in the ordinary course of business and, at the time of the purchase of the securities, had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

Alpha Capital Aktiengesellschaft is a private investment fund that is owned by all its investors and managed by Mr. Konrad Ackerman. Mr. Konrad Ackerman may be deemed the control person of the shares owned by such entity, with final voting power and investment control over such shares.

Lombard Odier Darier Hentsch Fund Manager, by the joint action of Messrs. Hanspeter Blaser, Assistant Vice President, and Janik Bard Assistant Manager, has the voting and dispositive power over the securities herein held for resale by Lombard Odier Darier Hentsch & Cie.

Magnetar Financial LLC is the investment advisor of Magnetar Capital Master Fund, Ltd ("Magnetar Master Fund") and consequently has voting control and investment discretion over securities held by Magnetar Master Fund. Magnetar Financial LLC disclaims beneficial ownership of the securities held by Magnetar Master Fund. Alec Litowitz is the manager of Magnetar Capital Partners LLC, which is the sole member of Magnetar Financial LLC. As a result, Mr. Litowitz may be considered the beneficial owner of any shares deemed to be beneficially owned by Magnetar Financial LLC. Mr. Litowitz disclaims beneficial ownership of these shares.

Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio. Pursuant to an investment management agreement, RG Capital Management, L.P. ("RG Capital") serves as the investment manager of Radcliffe SPC. Ltd's Class A Convertible Crossover Segregated Portfolio. RGC Management Company, LLC ("Management") is the general partner of RG Capital. Steve Katznelson and Gerald Stahlecker serve as the managing members of Management. Each of RG Capital. Management and Messrs. Katznelson and Stahlecker disclaims beneficial ownership of the securities owned by Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio

Lagunitas Partners. Gruber & McBaine Cap Mgmt is the general partner for Lagunitas Partners LP and the Investment advisor for Gruber & MCBaine International having full power to vote and invest on their behalf. Gruber & McBaine Cap Mgmt mangers Jon D Gruber & J Patterson McBaine oversee the voting activity

Gruber & McBaine International. Gruber & McBaine Cap Mgmt is the general partner for Lagunitas Partners LP and the Investment advisor for Gruber & MCBaine International having full power to vote and invest on their behalf. Gruber & McBaine Cap Mgmt mangers Jon D Gruber & J Patterson McBaine oversee the voting activity.

Jon D and Linda W Gruber Trust. The Jon D and Linda W Gruber Trust is a private investment trust. Jon Gruber and Linda Gruber are the Trustees and have full power to vote and invest on behalf of the Trust

JMG Triton Offshore Fund, Ltd. (the "Fund") is an international business company organized under the laws of the British Virgin Islands. The Fund's investment manager is Pacific Assets Management LLC, a Delaware limited liability company (the "Manager") that has voting and dispositive power over the Fund's investments, including the Registrable Securities. The equity interests of the

Manager are owned by Pacific Capital Management, Inc., a California corporation ("Pacific") and Asset Alliance Holding Corp., a Delaware corporation. The equity interests of Pacific are owned by Messrs. Roger Richter, Jonathan M. Glaser and Daniel A. David. Messrs. Glaser and Richter have sole investment discretion over the Fund's portfolio holdings.

JMG Capital Partners, L.P. ("JMG Partners") is a California limited partnership. Its general partner is JMG Capital Management, LLC (the "Manager"), a Delaware limited liability company and an investment adviser that has voting and dispositive power over JMG Partners' investments, including the Registrable Securities. The equity interests of the Manager are owned by JMG Capital Management, Inc., ("JMG Capital") a California corporation, and Asset Alliance Holding Corp., a Delaware corporation. Jonathan M. Glaser is the Executive Officer and Director of JMG Capital and has sole investment discretion over JMG Partners' portfolio holdings.

The selling security holder (O'Connor PIPES Corporate Strategies Master Limited) of this security is a fund which cedes investment control to UBS O'Connor LLC (the Investment Manager). The Investment Manager makes all of the investment / voting decisions. UBS O'Connor LLC is a wholly owned subsidiary of UBS AG which is listed on the NYSE.

UBS O'Connor LLC is a wholly owned subsidiary of UBS AG which is listed and traded on the NYSE. The Investment Manager (UBS O'Connor LLC) makes all of the investment / voting decisions

Whalehaven Funds Limited is a professional hedge fund incorporated in Bermuda. The control persons are Evan Schemenauer, Arthur Jones, and Jennifer Kelly, directors.

SG Cowen & Co., LLC. William Buchanan is the Head of Equity Capital Markets and a Managing Director at SG Cowen & Co., LLC and is responsible for investment decisions at SG Cowen. SG Cowen is a registered broker-dealer. SG Cowen received these shares in consideration for providing investment banking services provided to our company.

(3) Assumes that all securities registered will be sold.

(4) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 14,062,500 shares of common stock issuable upon conversion of the Initial Notes; (ii) 17,578,125 shares of common stock issuable upon conversion of the Additional Notes; (iii) 8,281,513 shares of common stock issuable upon exercise of the Series A Warrants; and (iv) 31,640,625 shares of common stock issuable upon exercise of the Series B Warrants, which such exercise is contingent upon our exercise of the Company Redemption. In addition, the total shares being registered represents 1,920,952 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(5) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 14,062,500 shares of common stock issuable upon conversion of the Initial Notes; (ii) 17,528,125 shares of common stock issuable upon conversion of the Additional Notes; (iii) 8,281,513 shares of common stock issuable upon exercise of the Series A Warrants; and (iv) 31,640,625 shares of common stock issuable upon exercise of the Series B Warrants, which such exercise is contingent upon our exercise of the Company Redemption.

(6) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 9,375,000 shares of common stock issuable upon conversion of the Initial Notes; (ii) 11,718,750 shares of common stock issuable upon conversion of the Additional Notes; (iii) 5,521,007 shares of common stock issuable upon exercise of the Series A Warrants; and (iv) 21,093,750 shares of common stock issuable upon exercise of the Series B Warrants, which such exercise is contingent upon our exercise of the Company Redemption.

(7) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 7,812,500 shares of common stock issuable upon conversion of the Initial Notes; (ii) 9,765,625 shares of common stock issuable upon conversion of the Additional Notes; (iii) 4,600,840 shares of common stock issuable upon exercise of the Series A Warrants; and (iv) 17,578,125 shares of common stock issuable upon exercise of the Series B Warrants, which such exercise is contingent upon our exercise of the Company Redemption. In addition, the total shares being registered represents 419,118 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(8) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 1,562,500 shares of common stock issuable upon conversion of the Initial Notes; (ii) 1,953,125 shares of common stock issuable upon conversion of the Additional Notes; (iii) 920,167 shares of common stock issuable upon exercise of the Series A Warrants; and (iv) 3,515,625 shares of common stock issuable upon exercise of the Series B Warrants, which such exercise is contingent upon our exercise of the Company Redemption. In addition, the total shares being registered represents 174,632 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(9) Total shares being registered represents shares issued or issuable in connection with the July 2006 financing including (i) 620,127 shares of common stock issuable upon exercise of the Series A Warrants; and (ii) 2,205,881 shares of common stock issuable upon exercise of the Series B Warrants. In addition, the total shares being registered represents 283,778 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(10) The total shares being registered represents 4,191,175 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(11) The total shares being registered represents 3,492,646 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(12) The total shares being registered represents 1,920,956 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(13) The total shares being registered represents 438,787 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(14) The total shares being registered represents 120,036 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in

connection with the November 2005 Financing.

(15) The total shares being registered represents 139,706 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(16) The total shares being registered represents 279,412 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(17) The total shares being registered represents 279,412 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(18) The total shares being registered represents 419,118 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(19) The total shares being registered represents 349,265 shares of common stock issuable upon exercise of the Additional November 2005 Warrants issued in connection with the November 2005 Financing.

(20) Represents 1,750,000 shares of common stock and 1,000,000 shares issuable upon exercise of common stock purchase warrants.

(21) Represents 375,000 shares issuable upon exercise of common stock purchase warrants exercisable at $0.32 per share.

(22) Represents 62,500 shares issuable upon exercise of common stock purchase warrants exercisable at $0.32 per share.

July 2006 Financing

On July 26, 2006, we entered into a Securities Purchase Agreement with five accredited institutional investors, for the issuance and sale of $30 million in senior convertible notes that are due in January 2010. Under the terms of the financing, we sold $30 million in senior convertible notes, of which $15 million (the "Initial Notes") were released upon closing and $15 million (the "Additional Notes") were released from escrow in November 2006. The Initial Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share. The Additional Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share and then subsequently to $0.51 per share. In addition, the Additional Notes also provide that, from and after October 10, 2006 through December 15, 2006, the holder may require us to redeem at such holder's option any portion of the holder's Additional Note in cash at a price equal to 125% of the amount redeemed (the "Holder Optional Redemption"). In the event that such holder does not exercise the Holder Optional Redemption, the holder's right to any such optional redemptions shall terminate; provided, however, that once a holder delivers such a request, its right to deliver a subsequent request shall terminate.

We also issued to the investors series A warrants to purchase 13,178,571 shares of common stock initially exercisable at $0.73 per share (the "Series A Warrants") that expire in July 2011 and series B warrants to purchase 43,392,856 shares of common stock initially exercisable at $0.73 per share (the "Series B Warrants") that expire in July 2011. We have the option to redeem the Initial Notes and the Amended Notes at a date earlier than maturity (the "Company

Redemption"). If we exercise the Company Redemption, the holders will have the right to exercise the Series B Warrants and receive common shares to which these contingent warrants are indexed. Absent our exercise of the Company Redemption to redeem the Initial Notes and/or the Additional Notes, the holders have no right to exercise the Series B Warrants.

Pursuant to a Registration Rights Agreement between our company and the investors, also dated July 26, 2006, we agreed to prepare and file a registration statement covering the resale of the shares issuable upon the conversion of the senior convertible notes and exercise of the warrants. We agreed to file this resale registration statement by the later to occur of (i) August 26, 2006 and (ii) 15 days following the effectiveness of the Form SB-2 filed by our company on December 21, 2005, but in no event later than October 10, 2006. If, among other things, (a) we fail to file the resale registration statement within the period described above, which we were unable to do, or (b) we fail to cause the resale registration statement to be effective by the SEC within 60 days following the date we file the resale registration statement, or within 90 days, if there is a review of the resale registration statement by the SEC, we will be obligated to pay to each investor, as partial relief, on the date of such failure, an amount in cash equal to .75% of the aggregate purchase price paid by such investor for the notes and the warrants. We will be further obligated to pay, as partial relief, an amount in cash equal to 1.5% of the aggregate purchase price paid by such investor for the notes and the warrants on every thirtieth day that such failure continues (prorated for partial periods).

On August 31, 2006, we entered into Amendment Agreements with respect to the July 26, 2006 $30 million senior convertible notes transaction described above. Pursuant to the Amendment Agreements, the investors each agreed to release us from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of our Form 10-QSB for the quarterly period ended June 30, 2006. We agreed, in consideration for such releases, to exchange the Additional Notes for amended and restated notes (the "Amended and Restated Notes").

The terms of the Amended and Restated Notes differ from the terms of the Additional Notes in certain regards. The conversion price applicable was reduced from $0.70 to $0.51. We also granted the Holder Optional Redemption as discussed above.

On December 29, 2006, we entered into Amendment and Exchange Agreements (the "December Amendment") with these investors. Pursuant to the December Amendment, each of the investors agreed to release our company from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of its Form 10-QSB for the quarterly period ended June 30, 2006. Each of the investors waived any events of default in the Amended and Restated Additional Notes relating to our failure to pay the Holder Optional Redemption. Further, we agreed to capitalize the $3,750,000 redemption premium (which represents a 25% premium on the $15,000,000 principal amount of the Additional Notes) with respect to the investors' right to compel redemption pursuant to the Holder Redemption. Also, in connection with the December Amendment, the investors' right to compel redemption by exercise of the Holder Redemption has been terminated.

In consideration for each of the investors entering into the December Amendment, we agreed to amend and restate the terms of the Initial Notes, the Additional Notes, the Series A Warrants and the Series B Warrants. The conversion price of the Initial Notes and the Additional Notes has been reduced to $0.32. The exercise price of the Series A Warrants and the Series B Warrants was reduced to $0.34.

This prospectus relates to the resale of the shares of common stock to be issued upon conversion of the senior convertible notes and exercise of common

stock purchase warrants described above.

November 2005 Financing

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of common stock for a purchase price of $20,250,000. We also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of $0.51 per share to these investors. In addition, in July 2006, we entered into a letter agreement with each of the accredited institutional investors pursuant to which we issued additional five-year warrants to purchase an aggregate of 8,809,276 shares of common stock exercisable at an exercise price of $0.51 per share (the "Additional November 2005 Warrants") as a result of the trigger of certain anti-dilution provisions. In December 2006, as a result of the anti dilution provisions being triggered, the number of shares exercisable upon exercise of the Additional November 2005 Warrants was increased to 14,318,478 and the exercise price was adjusted to $0.32. In addition, we issued common stock purchase warrants to purchase 437,500 shares of common stock, exercisable at a price of $0.32 per share, to two finders (the "Finders Warrants"). This prospectus relates to the resale of the shares of common stock underlying the Additional November 2005 Warrants and the Finders Warrants.

New Century Capital

On March 15, 2005, we entered into a consulting agreement with New Century Capital, Inc. ("New Century") pursuant to which New Century provided us with business and marketing development services. In consideration for providing such services, we issued New Century 2,500,000 shares of common stock and a common stock purchase warrant to purchase 1,000,000 shares of common stock at an exercise price of $0.25 per share. This prospectus relates to the resale of 1,750,000 shares of common stock and 1,000,000 shares of common stock underlying the warrants.

LEGAL MATTERS

Sichenzia Ross Friedman Ference LLP, New York, New York will issue an opinion with respect to the validity of the shares of common stock being offered hereby.

EXPERTS

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Lazar Levine & Felix LLP , Certified Public Accountants, have audited, as set forth in their report thereon appearing elsewhere herein, our financial statements at December 31, 2005 and 2004 and for the year then ended that appears in the prospectus.

AVAILABLE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of Bravo! Brands Inc., filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission.

We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file reports, proxy statements and

other information with the Securities and Exchange Commission. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at 100 F Street N.E., Washington D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 100 F. Street N.E., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at http://www.sec.gov.

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BRAVO! BRANDS INC. AND SUBSIDIARY

FINANCIAL STATEMENTS

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BRAVO! BRANDS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	September 30, 2006
	(Unaudited)
Assets	
Current assets:	
Cash and cash equivalents	$ 1,138,124
Restricted cash	14,500,000
Accounts receivable, net of allowances for doubtful accounts of $447,634 and $350,000 for 2006 and 2005, respectively	255,259
Inventories	847,428
Prepaid expenses	1,320,554
Total current assets	18,061,365

Furniture and equipment, net	723,813
Intangible assets, net	19,002,956
Other assets	1,988,145
Total assets	$ 39,776,279
Liabilities, Redeemable Preferred Stock and Stockholders' Equity (Deficit)	
Current liabilities:	
Accounts payable	$ 4,563,807
Accrued liabilities	9,984,851
Current maturities of notes payable	243,627
Convertible debt	20,846,607
Derivative liabilities	37,075,023
Total current liabilities	72,713,915
Notes payable, less current maturities	81,685
Total liabilities	72,795,600

BRAVO! BRANDS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	September 30, 2006 (Unaudited)
Commitments and contingencies (Note 9)	-
Redeemable preferred stock:	
Series F convertible, par value $0.001 per share, 200,000 shares designated, Convertible Preferred Stock, stated value $10.00 per share, 5,248 shares issued and outstanding	-
Series H convertible, par value $0.001 per share, 350,000 shares designated, 7% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 52,500 and 64,500 shares issued and outstanding	502,507
Series J, par value $0.001 per share, 500,000 shares designated, 8% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 200,000 shares issued and outstanding	1,349,614
Series K, par value $0.001 per share, 500,000 shares designated, 8% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 95,000 shares issued and outstanding	826,233
Total redeemable preferred stock	2,678,354

Stockholders' equity (deficit):	
Preferred stock, 5,000,000 shares authorized	
Series B Preferred, par value $0.001 per share, 1,260,000 shares designated, 9% Convertible Preferred Stock, stated value $1.00 per share, 107,440 shares issued and outstanding	107,440
Common stock, par value $0.001 per share, 300,000,000 shares authorized, 200,179,528 and 184,253,753 shares issued and outstanding	200,180
Additional paid-in capital	100,484,804
Common stock subscription receivable	(10,000)
Accumulated deficit	(136,479,834)
Cumulative translation adjustment	(265)
Total stockholders' equity (deficit)	(35,697,675)
Total liabilities, Redeemable Preferred Stock and Stockholders' Equity (Deficit)	$ 39,776,279

See accompanying notes.

BRAVO! BRANDS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended September 30,		Nine Mon Septem
	2006	2005	2006
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)
Revenues	$ 5,110,200	$ 3,245,305	$ 12,376,641
Product costs	(4,240,277)	(2,360,884)	(10,440,374)
Shipping costs	(409,453)	(395,073)	(1,154,089)
Gross margin	460,470	489,348	782,178
Operating expenses:			
Selling expense	6,663,113	1,525,944	12,874,022
General and administrative expense	4,057,823	375,081	7,454,344
Product development	232,593	185,042	509,912
Loss from operations	(10,493,059)	(1,596,719)	(20,056,100)
Other income (expense)			
Derivative income (expense), net	11,056,420	23,321,020	10,958,409
Interest income (expense), net	(1,163,599)	(152,001)	(1,594,860)
Liquidated damages	(225,938)	-	(4,784,213)
Non-recurring finders' fee	-	(3,000,000)	-
Legal settlement	-	-	(552,600)
Loss from extinguishment of debt	(425,869)	-	(425,869)

Other income (expense)	-	(893,148)	-
Income (loss) before income taxes	(1,252,045)	17,679,152	(16,455,233)
Provision for income taxes	-	-	-
Net income (loss)	(1,252,045)	17,679,152	(16,455,233)
Preferred stock dividends and accretion	(411,719)	(215,689)	(952,979)
Income (loss) applicable to common stockholders	$ (1,663,764)	$ 17,463,463	$ (17,408,212)
Loss per common share:			
Basic income (loss) per common share	$ (0.01)	$ 0.15	$ (0.09)
Diluted income (loss) per common share	$ (0.01)	$ 0.00	$ (0.09)
Weighted average common shares outstanding	194,492,040	113,680,645	189,474,500
Comprehensive income (loss):			
Net income (loss)	$ (1,252,045)	$ 17,679,152	$ (16,455,233)
Foreign currency translation	9,055	(18,322)	30,494
Comprehensive income (loss)	$ (1,242,990)	$ 17,660,830	$ (16,424,739)

See accompanying notes.

BRAVO! BRANDS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30 2006	2005
	(Unaudited)	(Unaudited) (Restated)
Cash Flow from Operating Activities:		
Net loss	$(16,455,233)	$(63,419,214)
Adjustments to net loss		
Depreciation and amortization	2,504,512	1,241,959
Allowance for doubtful accounts	97,634	-
Legal settlement for Marvel warrants	552,600	-
Stock issuance for consulting expense	317,566	346,438
Derivative (gain) expense, net	(10,958,409)	52,518,630
(Gain)/loss on debt extinguishment	425,869	(7,164)
Amortization of debt discount	850,000	1,335,678
Stock compensation expense	333,868	654,592
Gain/Loss on disposal of fixed assets	1,998	-
Changes in operating assets & liabilities:		
Accounts receivable	2,795,948	(149,281)

Inventories	(456,283)	(241,173)
Prepaid expenses and other assets	(353,518)	(1,008,700)
Accounts payable and accrued expenses	3,748,744	5,117,240
Net cash used in operating activities	(16,594,704)	(3,610,995)
Cash Flows from Investing Activities:		
Licenses and trademark costs	(187,878)	(789,171)
Purchases of equipment	(520,166)	(90,583)
Net cash used in investing activities	(708,044)	(879,754)
Cash Flows provided by financing activities:		
Proceeds from exercise of warrants	700,000	2,958,509
Proceeds from convertible notes payable	31,669,323	2,350,000
Restricted cash	(14,500,000)	
Proceeds from sale of stock and warrants	151,951	450,000
Payments of dividends	(33,771)	-
Payment of notes payable	(2,281,754)	-
Redeem warrants	-	(100,000)
Registration and deferred financing costs	(2,243,357)	(704,142)
Net cash provided by financing activities	13,462,392	4,954,367
Effect of changes in exchange rates on cash	30,494	(23,649)
Net (decrease) increase in cash and cash equivalents	(3,809,862)	439,969
Cash and cash equivalent, beginning of period	4,947,986	113,888
Cash and cash equivalent, ending of period	$ 1,138,124	$ 553,857

See accompanying notes.

BRAVO! BRANDS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(UNAUDITED)

Note 1 - Nature of Business, Basis of Presentation and Liquidity and Management's Plans

Nature of Business:

We are engaged in the sale of flavored and organic milk products and flavor ingredients in the United States, the United Kingdom and the Middle East, and we are establishing an infrastructure to conduct business in Canada.

Basis of Presentation:

The accompanying unaudited consolidated financial statements have been

prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10QSB, Item 310(b) of Regulation S-B and Article 10 (01)(c) of Regulation S-X. Accordingly, the accompanying financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included in the accompanying financial statements. Operating results for the three and nine-month periods ending September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

Liquidity and Management's Plans:

As reflected in the accompanying consolidated financial statements, we have incurred operating losses and negative cash flow from operations and have a working capital deficiency of $54,652,550 as of September 30, 2006. In addition, we experienced delays in filing our financial statements and registration statements due to errors in our historical accounting that have now been corrected. Our inability to make these filings has resulted in our recognition of significant penalties to the investors during the quarter ended September 30, 2006. However, these penalties ceased on November 7, 2006 when the Securities and Exchange Commission declared effective our Amended Form SB-2 registration statement filed in November 2006. Finally, our revenues are significantly concentrated with one major customer. The loss of this customer or curtailment in business with this customer could have a material adverse effect on our business. These conditions raise substantial doubt about our ability to continue as a going concern.

We have been dependent upon third party financings as we execute our business model and plans. In July 2006, we completed a $30.0 million convertible note financing that is expected to fulfill our liquidity requirements through the end of 2006. As of September 30, 2006, $14.5 million of the proceeds from this financing arrangement were restricted and held in escrow, pending effectiveness of our Amended Forms SB-2 registration statement. However, such proceeds were released to us on November 14, 2006.

We plan to increase our sales, improve our gross profit margins, augment our international business and, if necessary, obtain additional financing. Ultimately, our ability to continue is dependent upon the achievement of profitable operations. There is no assurance that further funding will be available at acceptable terms, if at all, or that we will be able to achieve profitability.

The accompanying financial statements do not reflect any adjustments that may result from the outcome of this uncertainty.

Note 2 - Summary of Significant Accounting Policies:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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. Among the more significant estimates included in our financial statements are the following:

- Estimating future bad debts on accounts receivable that are carried at net realizable values.
- Estimating our reserve for unsalable and obsolete inventories that are carried at lower of cost or market.
- Estimating the fair value of our financial instruments that are required to be carried at fair value.
- Estimating the recoverability of our long-lived assets.

We use all available information and appropriate techniques to develop our estimates. However, actual results could differ from our estimates.

Business Segment and Geographic Information

We operate in one dominant industry segment that we have defined as the single serve flavored milk industry. While our international business is expected to grow in the future, it currently contributes less than 10% of our revenues, and we have no physical assets outside of the United States.

Revenue Recognition

Our revenues are derived from the sale of branded milk products to customers in the United States of America, Great Britain and the Middle East. Geographically, our revenues are dispersed 99% and 1% between the United States of America and internationally, respectively. We currently have one customer in the United States that provided 79% and 0% of our revenue during the nine months ended September 30, 2006 and 2005, respectively.

Revenues are recognized pursuant to formal revenue arrangements with our customers, at contracted prices, when our product is delivered to their premises and collectibility is reasonably assured. We extend merchantability warranties to our customers on our products, but otherwise do not afford our customers with rights of return. Warranty costs have historically been insignificant.

Our revenue arrangements often provide for industry-standard slotting fees where we make cash payments to the respective customer to obtain rights to place our products on their retail shelves for a stipulated period of time. We also engage in other promotional discount programs in order to enhance our sales activities. We believe our participation in these arrangements is essential to ensuring continued volume and revenue growth in the competitive marketplace. These payments, discounts and allowances are recorded as reductions to our reported revenue. Unamortized slotting fees are recorded in prepaid expenses.

Principles of Consolidation

Our consolidated financial statements include the accounts of Bravo! Brands Inc (the "Company"), and its wholly-owned subsidiary Bravo! Brands (UK) Ltd. All material intercompany balances and transactions have been eliminated.

Recent Accounting Pronouncements:

SEC Staff Accounting Bulletin 108 ("SAB 108"), Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement-including the reversing effect of prior year misstatements-but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron curtain and the roll-over methods.

SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

We will adopt the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending December 31, 2006. We are in the process of evaluating the impact, if any, on our financial statements of initially applying the provisions of SAB 108.

Statement of Financial Accounting Standard 158, Fair Value Measurements ("SFAS 158")

On September 15, 2006, the Financial Accounting Standard Board issued a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company will adopt this pronouncement effective January 1, 2007. We are currently evaluating the impact of adopting this pronouncement on our financial statements.

FSP FAS 123(R)-5, Amendment of FASB Staff Position FAS 123(R)-1

FSP FAS 123(R)-5 was issued on October 10, 2006. The FSP provides that instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments will result if both of the following conditions are met: (a). There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b). All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. The provisions in this FSP shall be applied in the first reporting period beginning after the date the FSP is posted to the FASB website. We will adopt this FSP from its effective date. We currently do not believe that its adoption will have any impact on our financial statements.

Shipping and Handling Costs

Shipping and handling costs incurred to deliver products to our customers are included as a component of cost of sales. These costs amounted to $409,453 and $395,073 for the three months ended September 30, 2006 and 2005, respectively; $1,154,089 and $825,909 for the nine months ended September 30, 2006 and 2005, respectively.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Accounts Receivable

Our accounts receivable are exposed to credit risk. During the normal course of business, we extend unsecured credit to our customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. We regularly evaluate and monitor the creditworthiness of each customer. We provide an allowance for doubtful accounts based on our continuing evaluation of our customers' credit risk and our overall collection history. As of September 30, 2006 and December 31, 2005, the allowance of doubtful accounts aggregated $447,634 and $350,000, respectively.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost on the first in, first-out method or market. Our inventories at September 30, 2006 have substantially increased from levels at December 31, 2005 in order to support our contractual arrangement with a significant customer. Further, our inventories are perishable. Accordingly, we estimate and record lower-of-cost or market and unsalable-inventory reserves based upon a combination of our historical experience and on a specific identification basis. During the nine months ended September 30, 2006, we provided reserves for unsalable inventories amounting to $44,601.

In November 2004, the FASB issued Financial Accounting Standard No. 151,

Inventory Costs, an amendment of ARB No. 43 Chapter 4 (FAS 151), which clarifies that inventory costs that are "abnormal" are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. FAS 151 provides examples of "abnormal" costs to include costs of idle facilities, excess freight and handling costs and spoilage. FAS 151 became effective for our fiscal year beginning January 1, 2006.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over a period of seven years for furniture and five years for equipment. Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Additions and betterments to property and equipment are capitalized. When assets are disposed of, the related cost and accumulated depreciation thereon are removed from the accounts, and any resulting gain or loss is included in the statement of operations.

Intangible Assets

Our intangible assets as of September 30, 2006 and December 31, 2005 consist of our distribution agreement with Coca-Cola Enterprises ("CCE"), our manufacturing agreements with Jasper Products, Inc. and HP Hood, LLC, and license and trademark costs. Estimated useful lives range from one to ten years. The following table illustrates information about our intangible assets:

	September 30, 2006	December 31, 2005
Distribution agreement	$15,960,531	$15,960,531
Manufacturing agreements	5,084,055	2,700,000
Licenses and trademarks	450,825	1,315,958
Less accumulated amortization	(2,492,455)	(1,382,929)
	$19,002,956	$18,593,560

Amortization expense amounted to $618,251 and $2,167,540 for the three and nine months ended September 30, 2006 and $402,812 and $729,775 for the three and nine months ended September 30, 2005.

Estimated future amortization of our intangible assets is as follows as of September 30, 2006:

Three months ended December 31, 2006	$ 660,026
Year ended:	
December 31, 2007	$2,600,290
December 31, 2008	$2,583,684
December 31, 2009	$2,583,187

December 31, 2010	$2,430,632
December 31, 2011	$1,994,934

Impairment of Long-Lived Assets

We evaluate the carrying value and recoverability of our long-lived assets when circumstances warrant such evaluation by applying the provisions of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). FAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Financial Instruments

Financial instruments, as defined in Financial Accounting Standard No. 107 Disclosures about Fair Value of Financial Instruments (FAS 107), consist of cash, evidence of ownership in an entity and contracts that both (i) impose on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right (a) to receive cash or another financial instrument from the first entity, or (b) to exchange other financial instruments on potentially favorable terms with the first entity. Accordingly, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, notes payable, derivative financial instruments, convertible debt and redeemable preferred stock that we have concluded is more akin to debt than equity.

We carry cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities at historical costs; their respective estimated fair values approximate carrying values due to their current nature. We also carry notes payable, convertible debt and redeemable preferred stock at historical cost; however, fair values of debt instruments and redeemable preferred stock are estimated for disclosure purposes (below) based upon the present value of the estimated cash flows at market interest rates applicable to similar instruments.

As of September 30, 2006, estimated fair values and respective carrying values of our notes payable, convertible debt and redeemable preferred stock are as follows:

Instrument	Note	Fair Value	Carrying Value
$600,000 Convertible Note Payable	5(c)	$ 501,000	$ 450,000
$168,000 Convertible Note Payable	5(g)	172,000	168,000
$30,000,000 Convertible Note Payable	5(i)	20,142,000	20,228,608

Series H Preferred Stock	6(a)	570,000	502,507
Series J Preferred Stock	6(b)	1,811,000	1,349,614
Series K Preferred Stock	6(c)	713,000	826,233

As of December 31, 2005, estimated fair values and respective carrying values of our notes payable, convertible debt and redeemable preferred stock were as follows:

Instrument	Fair Value	Carrying Value
$200,000 Convertible Note Payable	$ 190,000	$187,934
$15,000 Convertible Note Payable	13,300	1,620
$600,000 Convertible Notes Payable	668,000	600,000
$6,250 Convertible Note Payable	6,375	5,188
$25,000 Convertible Note Payable	25,500	30,278
$187,760 Convertible Note Payable	187,760	187,760
Series F Preferred Stock	46,000	52,480
Series H Preferred Stock	525,000	388,305
Series J Preferred Stock	1,731,000	871,043
Series K Preferred Stock	881,000	792,672

Derivative financial instruments, as defined in Financial Accounting Standard No. 133, Accounting for Derivative Financial Instruments and Hedging Activities (FAS 133), consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial

instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements, redeemable preferred stock arrangements, and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

The following table summarizes the components of derivative liabilities as of September 30, 2006 and December 31, 2005:

	Note	2006	2005
Compound derivative financial instruments that have been bifurcated from the following financing arrangements:			
$2,500,000 Note Financing	4(a)	$ --	$
$400,000 Convertible Note Financing	5(a)	--	(1,311,0
$2,300,000 Convertible Note Financing	5(b)	--	(4,8
$600,000 Convertible Note Financing	5(c)	(620,100)	(153,7
$693,000 Convertible Note Financing	5(e)	--	(42,8
$660,000 Convertible Note Financing	5(f)	--	(159,2
$1,080,000 Convertible Note Financing	5(g)	(580,986)	(564,7
$30,000,000 Convertible Note Financing	5(i)	(4,705,317)	
Series H Preferred Stock Financing	6(a)	(549,576)	(381,3
Series J Preferred Stock Financing	6(b)	(4,452,000)	(5,628,0
Series K Preferred Stock Financing	6(c)	(276,864)	(206,2
Series F Preferred Stock Financing	6(d)	--	(25,6
Freestanding derivative contracts arising from financing and other business arrangements:			
Warrants issued with $2,500,000 Note Financing	4(a)	(119,466)	
Warrants issued with $693,000 Convertible Notes	5(e)	--	(924,1
Warrants issued with $30,000,000 Convertible Notes	5(i)	(5,853,857)	
Warrants issued with Series D Preferred Stock	7(d)	--	(400,2
Warrants issued with Series H Preferred Stock	6(a)	(359,907)	(1,264,1
Warrants issued with Series F Preferred Stock	6(d)	--	(563,0
Other warrants	8(b)	(19,556,950)	(24,310,0
Total derivative liabilities		$(37,075,023)	$(35,939,2

See the notes referenced in the table for details of the origination and accounting for these derivative financial instruments. We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, we project and discount future cash flows applying probability-weightage to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and

subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

The following table summarizes the effects on our income (loss) associated with changes in the fair values of our derivative financial instruments by type of financing for the three and nine months ended September 30, 2006 and 2005.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006
Derivative income (expense):			
Convertible note and warrant financings	$ 338,406	$14,161,562	$ (622,453)
Preferred stock and warrant financings	2,471,296	10,485,803	2,332,192
Other warrants and derivative contracts	8,246,718	(1,326,345)	9,248,670
	$11,056,420	$23,321,020	$10,958,409

Additional information related to individual financings can be found in notes 5, 6 and 8.

Our derivative liabilities as of September 30, 2006 and December 31, 2005, and our derivative losses during the three and nine months ended September 30, 2006 and 2005 are significant to our consolidated financial statements. The magnitude of the derivative income (expense) amounts for each of the periods reflect the following:

(a) During the quarters ended September 30, 2006 and September 30, 2005, the trading price of our common stock, which significantly affects the fair value of our derivative financial instruments, experienced material price declines. To illustrate, the closing price of our common stock decreased from $0.61 to $0.51 during the quarter ended September 30, 2006 and from $0.93 to $0.61 during the quarter ended September 30, 2005. The lower stock prices had the effect of significantly decreasing the fair value of our derivative liabilities and, accordingly, we were required to adjust the derivatives to these lower values with credits to our income. The price of the common stock also declined during the nine months ended September 30, 2006, from $0.58 to $0.51, thereby contributing to the derivative income impact for this period. In contrast, during the nine months ended September 30, 2005, the price of our common stock increased significantly, from $0.17 at January 3, 2005 to $0.61 at September 30, 2005. As a result, a significant charge was recorded to our income.

(b) During the nine months ended September 30, 2005, we entered into a

$2,300,000 debt and warrant financing arrangement, more fully discussed in Note 5(b). In connection with our accounting for this financing we encountered the unusual circumstance of a day-one loss related to the recognition of derivative instruments arising from the arrangement. That means that the fair value of the bifurcated compound derivative and warrants exceeded the proceeds that we received from the arrangement and we were required to record a loss to record the derivative financial instruments at fair value. The loss that we recorded amounted to $8,663,869. We did not enter into any other financing arrangements during the periods reported that reflected day-one losses.

The following table summarizes the number of common shares indexed to the derivative financial instruments as of September 30, 2006:

Financing or other contractual arrangement:	Note	Conversion Features	Warrants	Tot
$2,500,000 Note Financing	4(a)	--	300,000	30
$600,000 Convertible Note Financing	5(c)	3,075,000	--	3,07
$1,080,000 Convertible Note Financing	5(g)	1,722,000	--	1,72
$30,000,000 Convertible Note Financing	5(i)	50,840,336	12,857,143	63,69
Series H Convertible Preferred Stock (a)	6(a)	--	3,137,500	3,13
Series J Convertible Preferred Stock	6(b)	20,000,000	--	20,00
Other warrants and contracts	8(b)	--	54,574,688	54,57
		75,637,336	70,869,331	146,50

During October 2006, the Financial Accounting Standards Board exposed for public comment FASB Staff Position 00-19(b), Accounting for Registration Payment Arrangements, which, if promulgated in its current form would amend Financial Accounting Standard No. 133 Accounting for Derivative Financial Instruments and Hedging Activities. Generally, the proposed amendment will provide for the exclusion of registration payments, such as the liquidated damages that we have incurred, from the consideration of classification of financial instruments. Rather, such registration payments would be accounted for pursuant to Financial Accounting Standard No. 5 Accounting for Contingencies, which is our current accounting practice. That is, all registration payments will require recognition when they are both probable and reasonably estimable. Our current financial arrangements result in liability classification because of registration payments and variable-priced instruments that cause share settlement of all of our derivative instruments to be beyond our control. Until we can amend or redeem the variable-indexed instruments, we will not receive the benefit of equity reclassification. Upon amendment or redemption, substantially all of our derivative financial instruments will be reclassified to stockholders' equity at their adjusted fair value and we will no longer be required to reflect fair value changes in our earnings.

Advertising and Promotion Costs

Advertising and promotion costs, which are included in selling expenses, are expensed as incurred and aggregated $3,190,312 and $626,843 for the three months ended September 30, 2006 and 2005, respectively. Advertising and Promotion costs were $5,377,445 and $1,138,397 for the nine months ended September 30, 2006 and 2005, respectively.

Share-based payments

Effective January 1, 2005, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123 Accounting for Stock-Based compensation. Effective January 1, 2006 we adopted

Financial Accounting Standards No. 123(R), Share-Based Payments (FAS123R). Under the fair value method, we recognize compensation expense for all share-based payments granted after January 1, 2005, as well as all share-based payments granted prior to, but not yet vested, as of January 1, 2005, in accordance with SFAS No. 123. Under the fair value recognition provisions of FAS 123(R), we recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. Prior to the adoption of FAS 123 and FAS 123(R), the Company accounted for share-based payments under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees and the disclosure provisions of SFAS No. 123. For further information regarding the adoption of SFAS No. 123(R), see Note 7 to the consolidated financial statements.

Income Taxes

We account for income taxes using the liability method, which requires an entity to recognize deferred tax liabilities and assets. Deferred income taxes are recognized based on the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expense or benefit in the period that covers the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

Income (Loss) Per Common Share

Our basic income (loss) per common share is computed by dividing income (loss) applicable to common stockholders by the weighted average number of common share outstanding during the reporting period. Diluted income (loss) per common share is computed similar to basic income (loss) per common share except that diluted income (loss) per common share includes dilutive common stock equivalents, using the treasury stock method, and assumes that the convertible debt instruments were converted into common stock upon issuance, if dilutive. For the three and nine months ended September 30, 2006 potential common shares arising from our stock options, stock warrants, convertible debt and convertible preferred stock amounting to 115,339,001 and 122,567,616 shares, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive. For the three and nine months ended September 30, 2005 potential common shares arising from our stock options, stock warrants,

convertible debt and convertible preferred stock amounting to 139,575,171 and142,611,032 shares, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

Note 3 - Accrued liabilities

Accrued liabilities consist of the following as of September 30, 2006 and December 31, 2005:

	2006	2005
Liquidated damages due to late registration (a)	$3,143,331	$ 303,750
Investor relations liability (b)	1,372,000	1,545,565
Production processor liability (c)	1,183,557	182,814
Accrued payroll and related taxes	351,527	636,757
Accrued interest	559,358	376,198
Marketing and promotion accrual (d)	2,099,495	--
Accrued finance fees for July 2006 financing	975,000	--
Discontinued products (e)	--	1,710,734
Other	300,583	116,459
	$9,984,851	$4,872,277

(a) Certain of our financing arrangements provide for penalties in the event of non-registration of securities underlying the financial instruments. Generally, these penalties are calculated as a percentage of the financing proceeds, usually between 1.0% and 3.0% each month. We record these liquidated damages when they are probable and estimable pursuant to FAS 5.

(b) We entered into a contract with an investor relations firm during 2005 that required payment in our equity securities. This liability represents the cost of the shares, which have not yet been issued.

(c) Represents amounts owed to our 3rd party production processor. Approximately $1.1 million of this balance relates to penalties incurred as a result of not meeting minimum monthly production requirements (idle capacity costs).

(d) Represents liability associated with nationwide sales and marketing program that was launched during the quarter ended September 30, 2006.

(e) During our year ended December 31, 2005, we discontinued certain product lines and, as a result, incurred certain penalties under purchase commitments with our manufacturing vendors. We accrued these penalties upon our decision to discontinue the products.

Note 4 - Notes Payable

Notes payable consist of the following as of September 30, 2006 and December 31, 2005:

2006 2005

$2,500,000 face value note payable, due November 12, 2006 (a)	$ --	$ --
$ 750,000 face value note payable, due September 3, 2004 (b)	--	750,000
$ 187,743 face value note payable, due December 31, 2005 (c)	187,743	187,743
Other notes payable	137,569	--
Total notes payable	325,312	937,743
Less current maturities	(243,627)	(937,743)
Long-term notes payable	$ 81,685	$ --

(a) $2,500,000 Note Payable, due November 12, 2006:

On May 12, 2006, we issued $2,500,000 of six-month, 10% notes payable plus detachable warrants to purchase 1,500,000 shares of our common stock with a strike price of $0.80 for a period of five-years. Net proceeds from this financing transaction amounted to $2,235,000. The holder has the option to redeem the notes for cash in the event of default and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We evaluated the terms and conditions of the notes and warrants and determined that (i) the Default Put required bifurcation because it did not meet the "clearly and closely related" criteria of FAS 133 and (ii) the warrants did not meet all of the requisite conditions for equity classification under FAS 133. As a result, the net proceeds from the arrangement were first allocated to the Default Put ($87,146) and the warrants ($901,665) based upon their fair values, because these instruments are required to be initially and subsequently carried at fair values.

On July 26, 2006, $1,000,000 of the outstanding note balance and 1,200,000 of the warrants were included in a debt exchange with a new convertible debt financing which occurred on July 26, 2006 (See Note 5(i)). The terms of the exchange resulted in the treatment of the transaction as a debt

extinguishment, resulting in a loss of $357,054. The remaining balance of $1,500,000 was repaid on July 31, 2006 resulting in an extinguishment gain of approximately $485,000.

At September 30, 2006, there was a warrant liability for the remaining 300,000 warrants which will continue to be recorded at fair value until the warrants are either exercised or expire.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $2,500,000 Note Payable.

	Three months ended	Three months ended	Nine months Ended	Nine months ended

	September 30, 2006	September 30, 2005	September 30, 2006	September 30 2005
Derivative income (expense):				
Default Put	$180,905	--	$(35,831)	--
Warrant derivative	$135,804	--	$298,239	--

We estimated the fair value of the put on the inception date using a cash flow technique that involves probability weighting multiple outcomes. We estimated the warrant value using the Black Scholes-Merton valuation technique. Significant assumptions included in our valuation models are as follows:

	Inception	September 30, 2006
Trading value of common stock	$0.75	$0.51
Warrant strike price	$0.80	$0.80
Volatility	133.00%	133.00%
Risk free rate	5.08%	5.04%
Expected term	Stated term	Remaining term
Discount rate used for cash flows	13.75%	14.00%

The fair value of the warrants declined principally due to the decline in our common stock trading price. Since these instruments are measured at fair value, future changes in assumptions, arising from both internal factors and general market conditions, may cause further variation in the fair value of these instruments. Changes in fair values of derivative financial instruments are reflected as charges and credits to income.

The above allocations resulted in a discount to the carrying value of the notes amounting to approximately $1,246,000. This discount, along with related deferred finance costs and future interest payments were amortized through periodic charges to interest expense using the effective method until the date of the repayment and the debt exchange. Interest expense during the nine months ended September 30, 2006 amounted to approximately $351,000.

(b) On May 9, 2004 we received the proceeds of a $750,000 loan from Mid-Am Capital, payable September 3, 2004, with an interest rate of 8%. This loan was secured by a general security interest in all of our assets. The loan was repaid in full during the quarter ended September 30, 2006.

(c) In 1999, we issued a promissory note to assume existing debt owed by our then Chinese joint venture subsidiary to a supplier, International Paper. The face value of that unsecured note was $282,637 at an annual interest rate of 10.5%. The note originally required 23 monthly payments of $7,250 and a balloon payment of $159,862 due on July 15, 2000. During 2000, we negotiated an extension of this note to July 1, 2001. International Paper imposed a charge of $57,000 to renegotiate the note, which amount represents interest due through the extension date. The balance due on this note is $187,743 at September 30, 2006 and December 31, 2005, all of which is delinquent.

Note 5 - Convertible Debt

Convertible debt carrying values consist of the following as of September 30, 2006 and December 31, 2005:

	2006	2005
$ 200,000 Convertible Note Payable, due November 2006 (a)	$ --	$ 187,934
$ 15,000 Convertible Note Payable, due May 2007 (b)	--	1,620
$ 600,000 Convertible Note Payable, due December 2005 (c)	450,000	600,000
$ 6,250 Convertible Note Payable, due April 30, 2006 (e)	--	5,188
$ 25,000 Convertible Note Payable, due October 1, 2006 (f)	--	30,278
$ 168,000 Convertible Note Payable, due December 1, 2005(g)	168,000	187,760
$30,000,000 Convertible Note Payable, due July 31, 2010 (i)	20,228,607	--
	$20,846,607	$1,012,780

(a) $400,000 Convertible Note Financing

On November 20, 2003, we issued $400,000 of 8.0% convertible notes payable, due November 20, 2005 plus warrants to purchase 14,000,000 shares of our common stock with a strike prices ranging from $0.05 to $1.00 for a period of three years. In November 2005, the underlying note agreement was modified to extend the maturity date to November 2006. As of December 31, 2005, this note had an outstanding face value of $200,000, which was fully converted by September 30, 2006. The convertible notes were convertible into a variable number of our common shares based upon a variable conversion price of the lower of $0.05 or 75% of the closing market price near the conversion date. The holder had the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument was convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we would be required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to variable conversion feature; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because, as noted above, share settlement and maintenance of an effective registration statement are not within our control. Therefore, the warrants are also required to be carried as a derivative liability, at

fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all

of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $-0- and $1,311,000 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet. Warrants related to the financing were fully converted prior to December 31, 2005.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $400,000 convertible note financing.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ (196,200)	$864,000	$ (551,400)	$(1,878,000)
Warrant derivative	$ --	$ --	$ --	$(5,733,700)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes to zero. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $22,000 and $74,000, respectively.

As noted in the introductory paragraph of this section, the holders extended the notes one additional year to November 2006. This modification was accounted for as an extinguishment because the present value of the

amended debt was significantly different than the present value immediately preceding the modification. As a result of the extinguishment, the existing debt carrying value was adjusted to fair value using projected cash flows at market rates for similar instruments. This extinguishment resulted in our recognition of a gain on extinguishment of $22,733 in the fourth fiscal quarter of our year ended December 31, 2005.

(b) $2,300,000 Convertible Note Financing:

On January 28, 2005, May 23, 2005 and August 18, 2005, we issued $1,150,000, $500,000 and $650,000, respectively of 8.0% convertible notes payable, due January 28, 2007 plus warrants to purchase 9,200,000, 4,000,000 and 5,200,000, respectively, shares of our common stock with a strike price of $0.129 for a period of five years. At December 31, 2005, this note had an outstanding face value of $15,000, which was fully converted by August 30, 2006. The reduction in face value resulted from conversions to common stock. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.125 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder had the option to redeem the convertible notes payable for cash at 120% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument was convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification was not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants were also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $-0- and $4,867 as of September 30, 2006 and December 31, 2005, respectively.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $2,300,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ (24,278)	$4,167,234	$(24,868)	$(6,791,319)
Warrant derivative	$ --	$ --	$ --	$(8,189,280)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $38,500 and $244,800, respectively.

(c) $600,000 Convertible Note Financing:

On June 29, 2004, we issued $600,000 of 10.0% convertible notes payable, due December 31, 2005, plus warrants to purchase 2,000,000 and 5,000,000 shares of our common stock with strike prices of $0.25 and $1.00, respectively, for a periods of five and two years, respectively. Net proceeds from this financing arrangement amounted to $500,000. As of September 30, 2006 and December 31, 2005, the outstanding principal balance on this note was $450,000 and $600,000, respectively. The reduction in principal was due to note conversions. As of September 30, 2006, this debt is past due and the outstanding carrying

value of $450,000 does not include $51,000 of capitalized interest, which is being reflected in accrued liabilities. The convertible note is convertible into a fixed number of our common shares based upon a conversion price of $0.15 with anti-dilution protection for sales of securities below the fixed conversion price. We have the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our

common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $620,100 and $153,700 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet.

As of December 31, 2005, all warrants related to the financing had been converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $600,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$5,300	$110,100	$(466,400)	$(1,472,067)
Warrant derivative	$ --	$ --	$ --	$(5,478,300)

Changes in the fair value of the compound derivative and, therefore,

derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $-0- and $350,000, respectively.

(d) $240,000 Convertible Note Financing:

On December 22, 2004, we issued $240,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 800,000 shares of our common stock at $0.15 for five years. Net proceeds from this financing arrangement amounted to $196,500. As of June 30, 2005, this debt had been fully converted. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder had the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument was convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we were required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection and it did not otherwise meet the conditions for equity classification. Since equity classification was not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put was indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants were also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. These amounts are

included in Derivative Liabilities on our balance sheet. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As of September 30, 2005 all warrant liabilities related to the financing had been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $240,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ --	$ --	$ --	$(55,604)
Warrant derivative	$ --	$265,740	$ --	$ 55,540

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $-0- and $90,000, respectively.

(e) $693,000 Convertible Note Financing:

On October 29, 2004, we issued $693,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 2,200,000 shares of our common stock at $0.15 for five years. Net proceeds from this financing arrangement amounted to $550,000. As of December 31, 2005, this debt had face value $6,250 outstanding which amount had been fully converted by April 30, 2006. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder had the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common

stock into which the instrument was convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we were required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification was not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants were also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances of $-0- and $42,878 as of September 30, 2006 and December 31, 2005, respectively. Our valuation model resulted in warrant derivative balances associated arising from the convertible note

financing of $-0- and $924,120 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $693,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ --	$ 22,625	$(6,143)	$(2,611,650)

Warrant derivative	$ --	$538,220	$ --	$ (707,880)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $3,711 and $253,000, respectively.

(f) $660,000 Convertible Note Financing:

On April 2, 2004, we issued $660,000 of 10.0% convertible notes payable, due October 1, 2005, plus warrants to purchase 3,000,000 shares of our common stock at $0.15 for five years. Net proceeds from this financing arrangement amounted to $493,000. As of December 31, 2005, this debt had a face value $25,000 outstanding which amount had been fully converted by June 30, 2006. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder had the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we were required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection, and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances of $-0- and $159,250 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet. As of September 30, 2005, all warrants related to the financing had been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $660,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ --	$(435,861)	$(3,250)	$(2,793,746)
Warrant derivative	$ --	$ --	$ --	$ 61,800

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $-0- and $111,465, respectively.

(g) $1,008,000 Convertible Note Financing:

On June 29, 2004, we issued $1,008,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 3,200,000 and 8,000,000 shares of our common stock at $0.25 and $2.00, respectively, for a periods of five years. Net proceeds from this financing arrangement amounted to $679,000. We had an outstanding balance of $168,000 and $187,760 as of September 30, 2006 and December 31, 2005, respectively on this note. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.15 with anti-dilution protection for

sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. These amounts are included in Derivative Liabilities on our balance sheet. As of December 31, 2005, all warrants related to the financing had been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $1,008,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$53,424	$ 644,804	$(16,251)	$(2,531,373)

Warrant derivative	$ --	$ 7,361,600	--	$ 220,800

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 and 2005 amounted to approximately $0 and $485,000, respectively.

(h) $360,000 Convertible Note Financing:

On April 21, 2005, we issued $360,000, nine-month-term, 10% convertible notes payable, due October 31, 2005. Net proceeds for this financing transaction amounted to $277,488. The notes were convertible into shares of common stock at a fixed conversion rate of $0.20, with anti-dilution protection for sales of securities below the fixed conversion price. The holder converted the notes on September 30, 2005. We had the option to redeem the notes payable for cash at 120% of the face value. The holder had the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and

certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection afforded the holder and it did not otherwise meet the conditions for equity classification. Therefore, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that was carried as a component of derivative liabilities through the date of conversion.

We allocated the initial proceeds from the financing first to the compound derivative instrument in the amount of $113,925 and the balance to the debt host instrument. We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and

conversion estimates) that are necessary to fair value complex derivative instruments.

The following table illustrates fair value adjustments that we have recorded related to the compound derivative arising from the $360,000 convertible notes payable.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$ --	$623,100	$ --	$(841,650)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. Since the instrument was converted on September 30, 2005, there will be no future charges or credits to derivative income (expense) associated with this instrument.

The above allocations resulted in a discount to the carrying value of the notes amounting to approximately $173,925. This discount, along with related deferred finance costs and future interest payments, are being amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2005 amounted to approximately $163,000.

(i) $30,000,000 Convertible Note Financing:

On July 26, 2006, we issued $30,000,000 of 9.0% convertible notes payable, due January 27, 2010, plus warrants to purchase 12,857,143 shares of our common stock at $0.73, for a period of five years. Net proceeds from this financing arrangement amounted to approximately $15,000,000 (net of approximately $1,090,000 in financing costs) and $15,000,000 to be held in escrow for future release, pending the occurrence of certain defined events. There was a $1,000,000 note balance related to the May 2006 financing that was exchanged for an equal amount of convertible notes from this financing (See Note 4(a) for our accounting for that exchange). We had a carrying value on this note of $20,229,000 as of September 30, 2006. The convertible notes are

convertible into a fixed number of our common shares based upon a conversion price of $0.70 with anti-dilution protection for sales of securities below the fixed conversion price. We have the option to redeem the convertible notes for cash at an amount equal to the note balance plus accrued interest including the amount of unpaid interest that would have been paid through the third anniversary of the note. The holder has the option to redeem the convertible notes payable for cash at 125% of the face

value in the event of default and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We have the option to redeem the notes payable at a date earlier than maturity (the "call option"). If we exercise the call option, the holders will have the right to exercise an additional 42,857,142 warrants and receive common shares to which the contingent warrants are indexed to. Absent the Company's exercise of its call option to redeem the convertible notes, the holders have no rights to exercise the warrants and receive common shares to which the contingent warrants are indexed. The Company currently has no plans in the foreseeable future to exercise its call option. If the Company does exercise its call option, however, the number of our common shares that are issuable upon the exercise of the contingent warrants is limited to the number of our common shares underlying the convertible notes that have been redeemed. In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 3.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. These amounts are included in Derivative Liabilities on our balance sheet.

On August 31, 2006, the Company entered into Amendment Agreements in which the investors agreed to release the Company from events of default that occurred under the terms of the original July 26, 2006 financing. In exchange, Amended and Restated Notes were issued in which the conversion price on the $15,000,000 financing, which was held in escrow, was reduced from $0.70 to $0.51. In addition, the holder could require the Company to redeem any portion of the Amended and Restated Note in cash or common stock at 125% from October 10, 2006 through December 31, 2006. This debt modification was deemed to be a modification rather than a debt extinguishment since it did not rise to the requirements of EITF 96-19 to be deemed a debt extinguishment. The change in the conversion price caused an additional embedded conversion feature liability of approximately $646,000 which was also recorded as a reduction in the carrying amount of the debt.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $30,000,000 convertible note financing:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$(478,692)	$ --	$(478,692)	$ --
Warrant derivative	$ 662,143	$ --	$ 662,143	$ --

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the nine months ended September 30, 2006 amounted to approximately $97,000.

Derivative warrant fair values are calculated using the Black-Scholes-Merton valuation technique. Significant assumptions as of September 30, 2006, corresponding to each of the series of warrants are as follows:

	Series A
Trading market price	$0.51
Strike price	$0.73
Volatility	94.25%
Risk-free rate	5.02%
Remaining term/life (years)	4.75

Our stock prices have been highly volatile. Future fair value changes are significantly influenced by our trading common stock prices. As previously discussed herein, changes in fair value of derivative financial instruments are reflected in earnings.

Note 6 - Preferred Stock

Our articles of incorporation authorize the issuance of 5,000,000 shares of preferred stock. We have designated this authorized preferred stock, as follows:

(a) Series H Preferred Stock:

We have designated 350,000 shares of our preferred stock as Series H Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series H Preferred Stock has cumulative dividend rights at 7.0% of the stated amount, ranks senior to common stock and is non-voting. As of September 30, 2006 and December 31, 2005, the preferred stock liability was $502,507 and $388,305, respectively. The Series H preferred stock is convertible into our common stock at a fixed conversion price of $0.40 per common share. The Series H Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series H Preferred Stock for cash at 135% of the stated value. The holder has the option to redeem the Series H Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, listing of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series H Preferred Stock, we concluded that it was more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are based upon those related to a traditional debt security, and that it should afforded the conventional convertible exemption regarding the embedded conversion feature because the conversion

price is fixed. Therefore, we are not required to bifurcate the embedded conversion feature and carry it as a liability. However, we concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt-type instruments. In addition, due to the default and contingent redemption features of the Series H Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

Between December 2001 and March 2002, we issued 175,500 shares of Series H Preferred Stock for cash of $1,755,000, plus warrants to purchase an aggregate of 4,387,500 shares of common stock at $0.50 for five years. As of September 30, 2006 and December 31, 2005, shares of preferred stock outstanding were 52,500 and 64,500, respectively, and warrants outstanding were 3,379,435 and 4,387,500, respectively. We initially allocated $1,596,228 of the proceeds from the Series H Preferred financings to the warrants at their fair values because the warrants did not meet all of the conditions necessary for equity classification and, accordingly, are carried as derivative liabilities, at fair value. We also allocated $134,228 to the Default Puts which, as described above are carried as derivative liabilities, at fair value. Finally, we recorded derivative expense of $9,666 because one of the financings did not result in sufficient proceeds to record the derivative financial instruments at fair values on the inception date.

We estimated the fair value of the derivative warrants on the inception

dates, and subsequently, using the Black-Scholes-Merton valuation technique. As a result of applying this technique, our valuation of the derivative warrants amounted to $359,907 and $1,264,109 as of September 30, 2006 and December 31, 2005, respectively. We estimated the fair value of the Default Puts on the inception dates, and subsequently, using a cash flow technique that involves probability-weighting multiple outcomes at net present values. Significant assumptions underlying the probability-weighted outcomes included both our history of similar default events, all available information about our business plans that could give rise to or risk defaults and the imminence of impending or current defaults. As a result of these subjective estimates, our valuation model resulted in Default Put balances associated with the Series H Preferred Stock of $549,576 and $381,377 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet. The following table illustrates fair value adjustments that we have recorded related to the Default Puts on the Series H Preferred Stock.

Derivative income (expense)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Default Put	$(47,124)	$ (2,064)	$(168,198)	$ (6,191)
Derivative Warrants	$480,363	$1,346,635	$ 904,202	$(1,361,786)

Derivative income (expense) related to the Default Put includes changes to the fair value arising from changes in our estimates about the probability of default events and amortization of the time-value element embedded in our calculations. Higher derivative expense in the three and nine months ended September 30, 2006, when compared to the same periods of 2005, reflected the increased probability that the Default Put would become exercisable because we would not timely file certain reports with the Securities and Exchange Commission. While the Default Put became exercisable at that time, the holders of the Series H Preferred Stock did not exercise their right prior to curing the event. There can be no assurances that the holders of the Series H Preferred Stock would not exercise their rights should further defaults arise.

The discounts to the Series H Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to paid-in capital using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30,	Three months ended September 30,	Nine months Ended September 30,	Nine months ended September 30,

	2006	2005	2006	2005
Cumulative dividends at 7%	$ 35,100	$35,100	$105,300	$105,300
Accretions	144,640	16,298	224,202	518,915
	$179,740	$51,398	$329,502	$624,215

As of September 30, 2006, $421,200 of cumulative dividends are in arrears on Series H Preferred Stock.

(b) Series J Preferred Stock:

We have designated 500,000 shares of our preferred stock as Series J Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series J Preferred Stock has cumulative dividend rights at 8.0% of the stated amount, ranks senior to common stock and is non-voting. It is also convertible into our common stock at a conversion price of $0.20 per common share. The Series J Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series J Preferred Stock for cash at 135% of the stated value. The holder has the option to redeem the Series J Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series J Preferred Stock, we concluded that its features were more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are generally based upon standards related to a traditional debt security. Our evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument due to certain variability in the conversion price, and it further did not meet the conditions for equity classification. Therefore, we are required to bifurcate the embedded conversion feature and carry it as a liability. We also concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. In addition, due to the default and contingent redemption features of the Series J Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

In September 2002, February 2003 and May 2003 we issued 100,000 shares, 50,000 shares and 50,000 shares, respectively, of Series J Preferred Stock for cash of $2,000,000. We also issued warrants for an aggregate of 14,000,000 shares of our common stock in connection with the financing arrangement. The warrants have terms of five years and an exercise price of $0.25. We initially allocated proceeds of $658,000 and $1,190,867 from the financing arrangements to the compound derivative discussed above and to the warrants, respectively. Since these instruments did not meet the criteria for classification, they are required to be carried as derivative liabilities, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and

subsequently, using the Black-Scholes-Merton valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with the Series J Preferred Stock of $4,452,000 and $5,628,000 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the Series J Preferred Stock.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)				
Compound derivative	$1,652,000	$3,584,000	$1,176,000	$(4,452,000)
Warrant derivative	$ --	$2,515,200	$ --	$(3,136,000)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The discounts to the Series J Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to paid-in capital using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30,	Three months ended September 30,	Nine months Ended September 30,	Nine months ended September 30,

	2006	2005	2006	2005
Cumulative dividends at 8%	$ 40,000	$ 40,000	$120,000	$120,000
Accretions	183,289	102,229	478,570	266,923
	$223,289	$142,229	$598,570	$386,923

As of September 30, 2006, $600,000 of cumulative dividends are in arrears on Series J Preferred Stock.

(c) Series K Preferred Stock:

We have designated 500,000 shares of our preferred stock as Series K Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series K Preferred Stock has cumulative dividend rights at 8.0% of the stated amount, ranks senior to common stock and is non-voting. It is also convertible into our common stock at a fixed conversion price of $0.10 per common share. The Series K Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series K Preferred Stock for cash at 120% of the stated value. The holder has the option to redeem the Series K Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, listing of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series K Preferred Stock, we concluded that it was more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are based upon those related to a traditional debt security, and that it should afforded the conventional convertible exemption regarding the embedded conversion feature because the conversion price is fixed. Therefore, we are not required to bifurcate the embedded conversion feature and carry it as a liability. However, we concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments. In addition, due to the default and contingent redemption features of the Series K Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

In March 2004, we issued 80,000 shares of Series K Preferred Stock for cash of $800,000. In April 2004, we issued 15,000 shares of Series K Preferred Stock to extinguish debt with a carrying value of $150,000. At the time of these issuances, the trading market price of our common stock exceeded the fixed conversion price and, as a result, we allocated $160,000 and $60,000 from the March and April issuances, respectively, to stockholders' equity which amount represented a beneficial conversion feature. In addition, we recorded a debt extinguishment loss of $60,000 in connection with the April exchange of Series K Preferred Stock for debt because we estimated that it had a fair value that exceeded the carrying value of the extinguished debt by that amount. Finally, we allocated approximately $59,000 and $11,000 to

the Default Puts, representing fair values, in connection with the March and April issuances, respectively.

We estimated the fair value of the Default Puts on the inception dates, and subsequently, using a cash flow technique that involves probability-weighting multiple outcomes at net present values. Significant assumptions underlying the probability-weighted outcomes included both our history of similar default events, all available information about our business plans that could give rise to or risk defaults, and the imminence of impending or current defaults. As a result of these subjective estimates, our valuation model resulted in Default Put balances associated with the Series K Preferred Stock of $276,864 and $206,200 as of September 30, 2006 and December 31, 2005, respectively. These amounts are included in Derivative Liabilities on our balance sheet. The following table illustrates fair value adjustments that we have recorded related to the Default Puts on the Series K Preferred Stock.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Derivative income (expense)	$(4,614)	$(1,256)	$(70,664)	$(3,769)

Derivative income (expense) related to the Default Put includes changes to the fair value arising from changes in our estimates about the probability of default events and amortization of the time-value element embedded in our calculations. Higher derivative expense in the three and nine months ended September 30, 2006, when compared to the same periods of 2005, reflected the increased probability that the Default Put would become exercisable because we would not timely file certain reports with the Securities and Exchange Commission. While the Default Put became exercisable at that time, the holders of the Series K Preferred Stock did not exercise their right prior to curing the event. There can be no assurances that the holders of the Series K Preferred Stock would not exercise their rights should further defaults arise.

The discounts to the Series K Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to paid-in capital using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005

Cumulative dividends at 8%	$19,000	$19,000	$57,000	$57,000
Accretions	11,360	10,682	33,561	31,560
	$30,360	$29,682	$90,561	$88,560

As of September 30, 2006, $190,000 of cumulative dividends are in arrears on Series K Preferred Stock.

(d) Other Preferred Stock Designations and Financings:

Series A Preferred: We have designated 500,000 shares of our preferred stock as Series A Convertible Preferred Stock. There were no Series A Preferred Stock outstanding during the periods presented.

Series B Preferred: We have designated 1,260,000 shares of our preferred stock as Series B Convertible Preferred Stock with a stated and liquidation value of $1.00 per share. Series B Preferred has cumulative dividend rights of 9.0%, ranks senior to common stock and has voting rights equal to the number of common shares into which it may be converted. Series B Preferred is convertible into common on a share for share basis. Based upon our evaluation of the terms and conditions of the Series B Preferred Stock, we have concluded that it meets all of the requirements for equity classification. We have 107,440 shares of Series B Preferred outstanding as of September 30, 2006 and December 31, 2005.

Series D Preferred: We have designated 165,000 shares of our preferred stock as Series D Cumulative Convertible Preferred Stock with a stated and liquidation value of $10 per share. Series D Preferred has cumulative dividend rights of 6.0%, ranks senior to common stock and is non-voting. There are no shares of Series D Preferred Stock outstanding during any of the periods reported in this quarterly report.

Series F Preferred: We have designated 200,000 shares of our preferred stock as Series F Convertible Preferred Stock with a stated and liquidation value of $10 per share. There were 5,248 shares of Series F Preferred Stock outstanding as of December 31, 2005. The shares were fully converted by September 30, 2006. Series F Preferred is non-voting and convertible into common stock at a variable conversion price equal to the lower of $0.60 or 75% of the trading prices near the conversion date. In addition, the holder had the option to redeem the convertible notes payable for cash at 125% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to variable conversion feature and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments. These two derivative features were combined into one compound derivative instrument. In addition, due to the default and contingent redemption features of the Series F Preferred Stock, we classified this instrument as redeemable

preferred stock, outside of stockholders' equity.

Series I Preferred: We have designated 200,000 shares of our preferred stock as Series I Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series I Preferred has cumulative dividend rights at 8.0% of the stated value, ranks senior to common stock and is non-voting. Series I Preferred is convertible into a variable number of common shares at the lower conversion price of $0.40 or 75% of the trading market price. There were no Series I Preferred Stock outstanding as of September 30, 2006 and December 31, 2005. We accounted for Series I Preferred Stock while it was outstanding as an instrument that was more akin to a debt instrument. We also bifurcated the embedded conversion feature and freestanding warrants issued with the financing and carried these amounts as derivative liabilities, at fair value. The table below reflects derivative income and (expense) associated with changes in the fair value of this derivative financial instrument.

The following table summarizes derivative income (expense) related to compound derivatives and freestanding warrant derivatives that arose in connection with the preferred stock transactions discussed above.

Derivative income (expense)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Series D Preferred:				
Warrant derivative	$337,714	$ 823,734	$ 331,509	$ (153,788)
Series F Preferred:				
Compound derivative	31,819	(1,198,083)	(403,753)	(1,269,520)
Warrant derivative	21,138	3,417,637	563,096	65,780
Series I Preferred:				
Compound derivative	--	--	--	(69,620)
Warrant derivative	--	--	--	(250,482)
	$390,671	$ 3,043,288	$ 490,852	$(1,677,630)

Note 7 - Share Based Payments

We have adopted certain incentive share-based plans that provide for the grant of up to 10,397,745 stock options to our directors, officers and key employees. As of September 30, 2006, there were 660,655 shares of common stock reserved for issuance under our stock plans. Options granted under plans prior to May, 2005 are fully vested. Subsequent options granted are under plans which become exercisable over two years in equal annual installments with the first third exercisable on grant date, provided that the individual is continuously employed by us. We did not grant options during the nine months ended September 30, 2006.

On January 1, 2006, we adopted Financial Accounting Standard 123 (revised 2004), Share-Based Payments ("FAS 123(R)") which is a revision of FAS No.

123, using the modified prospective method. Under this method, compensation cost recognized for the nine months ended September 30, 2006 includes compensation cost for all share-based payments modified or granted prior to but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS No. 123. Compensation cost is being recognized on a straight-line basis over the requisite service period for the entire award in accordance with the provisions of SFAS 123R.

As we had previously adopted the fair-value provisions of FAS No. 123, effective January 1, 2005, the adoption of FAS 123(R) had a negligible impact on our earnings. We recorded compensation costs of $110,911 and $333,868 for the three and nine months ended September 30, 2006, respectively, and $102,782 and $654,592 for the three and nine months ended September 30, 2005. We recognized no tax benefit for share-based compensation arrangements due to the fact that we are in a cumulative loss position and recognize no tax benefits in our Consolidated Statement of Operations.

As required by FAS 123(R), we estimate forfeitures of employee stock options and recognize compensation cost only for those awards expected to vest. Forfeiture rates are determined for two groups of employees - directors / officers and key employees based on historical experience. We adjust estimated forfeitures to actual forfeiture experience as needed. The cumulative effect of adopting FAS 123(R) of $17,000, which represents estimated forfeitures for options outstanding at the date of adoption, was not material and therefore has been recorded as a reduction of our stock-based compensation costs in Selling and General and Administrative expenses expense rather than displayed separately as a cumulative change in accounting principle in the Consolidated Statement of Operations. The adoption of SFAS No. 123(R) had no effect on cash flow from operating activities or cash flow from financing activities for the nine months ended September 30, 2006.

We estimate the fair value of each stock option on the date of grant using a Black-Scholes-Merton (BSM) option-pricing formula, applying the following assumptions and amortize that value to expense over the option's vesting period using the straight-line attribution approach:

	Third Quarter 2006 *	Nine months ended 2006 *	Third Quarter 2005 *	Nine months ended 2005
Expected Term (in years)	n/a	n/a	n/a	6
Risk-free rate	n/a	n/a	n/a	5.01%
Expected volatility	n/a	n/a	n/a	141%
Expected dividends	n/a	n/a	n/a	0%

* No options were granted for the respective periods.

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding. It has been determined as the midpoint between the vesting date and the end of the contractual term.

Risk-Free Interest Rate: We based the risk-free interest rate used in our assumptions on the implied yield currently available on U.S. Treasury zero-

coupon issues with a remaining term equivalent to the stock option award's expected term.

Expected Volatility: The volatility factor used in our assumptions is based on the historical price of our stock over the most recent period commensurate with the expected term of the stock option award.

Expected Dividend Yield: We do not intend to pay dividends on our common stock for the foreseeable future. Accordingly, we use a dividend yield of zero in our assumptions.

A summary of option activity under the stock incentive plans for the nine months ended September 30, 2006 is presented below:

Options	Shares	Average Weighted-Average Exercise Price	Remaining Contractual Term (in years)	Agg Int V
Outstanding at December 31, 2005	9,600,422	$0.32		
Granted	-	-		
Exercised	-	-		
Forfeited	(41,667)	$0.25		
Expired	(155,000)	$0.75		
Outstanding at September 30, 2006	9,403,755	$0.31	8.61	$2,2
Vested or expected to vest at September 30, 2006	9,114,991	$0.31	8.61	$2,1
Exercisable at September 30 , 2006	6,470,283	$0.33	8.61	$1,4

No options were granted during the nine months ended September 30, 2006. There were no options granted during the third quarter of 2005. The weighted-average fair value of options granted during the nine months ended September 30, 2005 was $0.15. There were no exercises of options during the nine months ended September 30, 2006 and the same period in 2005.

At September 30, 2006, the Company had $311,904 of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of one year.

Note 8 - Other Stockholders' Equity

(a) Issuances of Common Stock During the Three Month Period Ended September 30, 2006

On July, 6, 2006, we issued 83,121 shares of our common stock in a private

placement, pursuant to Section 4(2) of the Securities Act of 1933, to an accredited investor.

On July, 14, 2006, we issued 436,388 shares of common stock upon the cashless exercise of a warrant associated with our Series D convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On July 14, August 14 and August 31, 2006, we issued, in the aggregate, 275,000 shares of common stock pursuant to a conversion of our Series H preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On July, 19, 2006, we issued 1,008,065 shares of common stock upon the cashless exercise of a warrant associated with our Series H convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On August 24, 2006, we issued 168,937 shares of common stock pursuant to a conversion of our May 2005 convertible note. The shares of common stock underlying the convertible note were

issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On September 13, 2006, we issued, in the aggregate, 161,527 shares of common stock pursuant to a conversion of our Series F preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On September 28, 2006, we issued 4,000,000 shares of common stock pursuant to a conversion of our November 2003 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 3, 2004.

On September 28, 2006, we issued 1,000,000 shares of common stock pursuant to a conversion of our June 2004 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

(b) Outstanding Warrants

As of September 30, 2006, we had the following outstanding warrants:

Warrants	Grant date	Expiration date	Warrants/ Options Granted	Exercis Price
Series H Preferred Stock Financing	12/5/2001	12/4/2006	2,637,500	0.500
Series H Preferred Stock Financing	1/30/2002	1/30/2007	375,000	0.500
Series H Preferred Stock Financing	2/15/2002	2/14/2007	125,000	0.500

Warrant to Licensor	6/20/2005	6/19/2007	1,000,000	0.050
Warrant to Consultant	4/8/2005	4/7/2007	1,000,000	0.250
Warrant to Distributor	8/30/2005	8/29/2008	30,000,000	0.360
November 2005 Common Stock Financing	11/28/2005	11/27/2010	15,667,188	0.800
November 2005 Common Stock Financing	11/28/2005	11/27/2010	1,012,500	0.500
Warrant to Distributor	9/19/2006	9/19/2012	5,870,000	0.730
May 2006 Debt Financing	5/12/2006	5/11/2011	300,000	0.800
Other Financings	12/27/2001	2/28/2007	25,000	0.400
July 2006 Senior Convertible Notes Financing	7/27/2006	7/26/2012	12,857,143	0.730
Total Warrants			70,869,331	

The table above excludes contingent warrants to purchase 42,857,142 shares of the Company's common stock. These contingent warrants were issued in connection with the convertible debt and warrant arrangement discussed in Note 5(i). The warrant holders' ability to exercise these warrants is contingent upon the Company's exercise of its call option to redeem the specified convertible notes payable at a date earlier than maturity. Absent the Company's exercise of its call option to redeem the convertible notes, the holders have no rights to exercise the warrants and receive common shares to which the contingent warrants are indexed. The Company currently has no plans in the foreseeable future to exercise its call option. If the Company does exercise its call option, however, the number of our common shares that are issuable upon the exercise of the contingent warrants is limited to the number of our common shares underlying the convertible notes that have been redeemed.

Derivative income (expense) associated with these other warrants are summarized in the table below.

Derivative income (expense)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months Ended September 30, 2006	Nine months ended September 30, 2005
Warrant derivative	$8,246,718	$(1,326,345)	$9,248,670	$(3,134,825)

Note 9 - Commitments and Contingencies

Lease of Office

We lease office space, used for our corporate offices in Florida, under an operating lease that expires October 31, 2015. Future non-cancelable minimum rental payments required under the operating lease as of September 30, 2006 are as follows:

	Amount

Three months ending December 31, 2006	$23,217
Years ending December 31,	
2007	92,868
2008	92,868
2009	92,868
2010	92,868

Total rent expense, including expenses related to common area maintenance and parking, for the three and nine months ended September 30, 2006 amounted to $44,116 and $113,877; rent expense for the three and nine months ended September 30, 2005 amounted to $22,662 and $67,366.

Royalties:

We license trademarks and trade dress from certain Licensors for use on our products. Royalty advances are payable against earned royalties on a negotiated basis for these licensed intellectual property rights. The table below identifies each Licensor to which our licenses require advance payments and, in addition, reflects the term of the respective licenses as well as the advance royalties remaining to be paid on such negotiated advance royalty payments, as of September 30, 2006. We currently are in default of our guaranteed royalty payments to Marvel Enterprises on our license for the United Kingdom by the aggregate advance remaining listed below for Marvel (UK).

Licensor:	Term	Aggregate Advance Remaining
Marvel (UK)	Two years	$ 120,960
Masterfoods	Six years	2,430,000
Diabetes Research Institute	One year	7,500

Employment Contacts

Our Chief Executive Officer, Mr. Warren, has a two-year employment contract, expiring October 2007, that provides a base salary of $300,000, plus a bonus of one quarter percent (0.25%) of net revenue and normal corporate benefits. This contract has a minimum two-year term plus a severance package upon change of control based on base salary.

Officers Toulan, Patipa, Edwards and Kee have employment contracts with base salaries aggregating $710,000 annually, plus discretionary bonuses and normal corporate benefits. These contracts have minimum two-year terms plus severance packages upon change of control based on base salary.

Our Chief Financial Officer, Mr. Kaplan, has an employment contract, expiring November 2008, that provides a base salary of $180,000 for year one, $200,000 for year two and $220,000 for year three, plus discretionary bonuses and normal corporate benefits. This contract has a minimum three-year term plus a severance package upon change of control based on base salary

Marketing Commitments

Coca-Cola Enterprises ("CCE"). In August 2005, we executed a Master Distribution Agreement with CCE. Pursuant to this agreement, we are contractually obligated to spend an aggregate of $5,000,000 on marketing activities in 2005 and 2006 for our products that are distributed by CCE. Beginning in 2007, we are further obligated to spend an amount annually in each country within a defined territory equal or greater than 3% of our total CCE revenues in such territory (on a country by country basis). Such national and local advertising for our products includes actively marketing the Slammers mark, based on a plan to be mutually agreed each year. We are required to maintain our intellectual property rights necessary for the production, marketing and distribution of our products by CCE.

During the period commencing at the inception of the CCE agreement through the period ended September 30, 2006, we have spent approximately $4.2 million on marketing activities pursuant to our agreement with CCE.

Production Agreements

Jasper Products LLC

On December 27, 2005, we executed a multi-year non-exclusive production agreement with Jasper Products, L.L.C. of Joplin Missouri for the production of our products through 2011. Under the terms of the agreement, the parties have agreed to annual volume commitments for the ordering and production of our various lines of shelf stable single serve flavored milk beverages. To secure the production commitments, as well as the right of first refusal for Jasper's additional production capacity going forward, we paid a one time equipment mobilization payment of $2.7 million to Jasper. The agreement incorporates per unit (single bottle) monetary penalties for both unused capacity by us and any production shortfall by Jasper.

HP Hood LLC

On September 19, 2006, we executed a six-year non-exclusive production agreement with HP Hood LLC of Chelsea, Massachusetts, for the production of our products through 2012. Under the terms of the agreement, the parties have agreed to annual volume commitments for the ordering and production of our various lines of shelf-stable, single-serve flavored milk beverages. The agreement incorporates per unit monetary penalties for unused capacity by us. The penalty shall be adjusted annually based upon a formula indexed to a defined series of the Producer Price Index for Total Manufacturing Industries. In connection with the agreement, we issued a six year warrant to HP Hood for the purchase of 5,870,000 shares of our common stock at an exercise price of $0.73 per share. We have a conditional right to call the exercise of the warrant.

Note 10 - Restatements

Our statements of operations for the three and nine months ended September 30, 2005 and our balance sheet as of December 31, 2005 have been restated as illustrated in the following tables:

Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2005

	Three months	Three months	Nine months	Nine months

	ended Sept. 30, 2005 (As Restated)	ended Sept. 30, 2005 (As Reported)	ended Sept. 30, 2005 (As Restated)	ended Sept. 30, 2005 (As Reported)
Revenues	$ 3,245,305	$ 3,245,305	$ 6,591,693	$ 6,591,693
Product and shipping costs	(2,755,957)	(2,360,884)	(5,544,920)	(4,719,011)
Operating expenses	(2,086,067)	(2,717,708)	(6,417,482)	(6,064,998)
Other income (expense)	19,275,871	(3,073,169)	(58,048,505)	(3,293,415)
Net (loss)	17,679,152	(4,906,456)	(63,419,214)	(7,485,731)
Loss applicable to common	17,463,463	(4,994,496)	(64,499,613)	(7,748,732)
Loss per common share	0.15	(0.04)	(0.79)	(0.09)
Comprehensive loss	$17,660,830	$(4,912,126)	$(63,442,863)	$(7,509,380)

The following tables reflect the individual components of our restatements and a description of the nature of the adjustment:

	Quarter ended Sept. 30, 2005
Net income (loss), as reported	$(4,906,456)
Share-based payments	(102,782)
Deferred development costs	(128,711)
Derivative income (expense)	23,321,020
Amortization of debt discount	(73,864)
Investor relations charges	(634,541)
Other	204,486
Net income (loss), as restated	$17,679,152

Share-based payments: We improperly measured and deferred share-based payment expense related to employee stock options that were issued commencing in the second quarter of the year ended quarter ended September 20, 2005. These adjustments, which are reflected in operating expenses, reflect the effects of re-measurement of the stock options and the elimination of previously deferred compensation amounts.

Deferred development costs: We improperly capitalized development costs on our balance sheet. These adjustments reflect our revised policy that requires development costs to be expensed as they are incurred. We record development costs as a component of operating expenses.

Derivative income (expense): Derivative income (expense) arises from adjustments to our derivative liabilities to carry these instruments at fair value at the end of each reporting period. Our derivative financial instruments consist of compound and freestanding instruments. These derivative financial instruments arose from (i) our notes payable, convertible notes payable and preferred stock financing transactions and (ii) the reclassification of non-exempt warrants from stockholders' equity

to derivative liabilities because share settlement is presumed not to be within our control. We previously did not properly allocate proceeds from our financing transactions to derivative liabilities where applicable; nor did we reclassify our other warrants to derivative liabilities when we presumably lost our ability to share settle such instruments.

Amortization of debt discounts and other charges: We have adjusted our notes payable and convertible notes payable to reflect the allocation of proceeds to derivative liabilities. These allocations have resulted in discounts to the face value of the debt, and we are required to amortize these discounts through periodic charges to interest expense using the effective method. The adjustments reflect the difference between our previous method of recognizing interest expense based upon the stated interest rate and amounts derived from the application of the effective interest method. Other charges include gains and losses on extinguishments of our debt instruments that have arisen when modifications to such instruments were considered to be significant.

Investor relations charges: We entered into a contract with an investor relations firm during 2005 that required payment in our equity securities. We incorrectly did not recognize the value of these services until the securities were issued. This adjustment reflects the proper recognition of the consulting cost in general and administrative expenses and a reciprocal amount in accrued liabilities.

	Quarter ended Sept. 30, 2005
Loss applicable to common stockholders, as reported	$(4,994,496)
Adjustments to net loss	22,585,608
Preferred stock accretion	(127,649)
Loss applicable to common stockholders, as restated	$17,463,463

Preferred stock accretions: We did not allocate proceeds from certain of our preferred stock financings to derivative financial instruments (warrants and compound derivatives) and stockholders' equity (beneficial conversion features). These adjustments reflect the accretion of discounts to the preferred stock carrying values, which are reductions to net income (loss) to arrive at income (loss) applicable to common shareholders. We have accreted these discounts in our restated financial statements through periodic charges to retained earnings using the effective method.

	Quarter ended Sept. 30, 2005
Loss per common share, as reported	$(0.04)
Share-based payments	(0.00)
Deferred development costs	(0.00)
Derivative income (expense)	0.20
Amortization of debt discount	(0.00)
Liquidated damages expense	--
Investor relations charges	(0.01)
Preferred stock accretions/dividends	(0.00)

Net income (loss) per common share, as restated	$ 0.15
Diluted income per common share, as restated	$ 0.00

See descriptions that we have provided under the tables for net income (loss) and income (loss) applicable to common stockholders. Our restated income (loss) per common share reflects the application of the treasury stock method and the if-converted methods where those methods are appropriate.

	Quarter ended Sept. 30, 2005
Comprehensive loss, as reported	$(4,912,126)
Comprehensive loss, as restated	$17,660,830

Our restated comprehensive income (loss) reflects the adjustments attributable to net income (loss), above.

Note 11 - Subsequent Events

On October 11, 2006, a Special Meeting of Stockholders of the Company was convened pursuant to written notice in accordance with the Company's By-laws. At that meeting, the stockholders by proxy and in person voted (i) to amend Article IV of the Company's Articles of Incorporation to increase the

Company's capital stock from 300,000,000 to 500,000,000 shares of common stock and (ii) to amend Article I of the Company's Articles of Incorporation to change the name of the Company to Bravo! Brands Inc.

The votes received by the Company in favor of the increase in its capital stock represented 95.55% of the Company's shares of common stock issued and outstanding on the record date for the vote. The votes received by the Company in favor of the name change represented 98.75% of the Company's shares of common stock issued and outstanding on the record date for the vote.

On November 7, 2006, the Securities and Exchange Commission declared effective the Form SB - 2 registration statement filed by the company in December 2005. The registration statement included amended and restated financial statements for the fiscal year ended December 31, 2005 and for the quarterly period ending June 30, 2006. The restated financial statements reflect the reclassification of certain of the company's financial instruments and the implementation of a new valuation methodology for derivatives associated with certain of its past and current financial instruments. The restatements resulted in non-cash adjustments to the financial statements and did not impact the operating results of the company.

In July 2006, the Company sold $30 million of Senior Convertible Notes due 2010. Of the $30 million raised by the company, $15 million was released to the Company upon closing the transaction in July and the remaining $15 million was held in escrow, pending effectiveness of the Form SB-2. The

Company had previously satisfied the other escrow release condition by having shareholders approve an increase in authorized shares at a shareholder meeting on October 11, 2006. On November 10, 2006, the balance of the proceeds from the Company's July 2006 sale of the $30 million of Senior Convertible Notes was released to the Company from escrow.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Bravo! Brands Inc.
North Palm Beach, Florida

We have audited the accompanying consolidated balance sheets of Bravo! Brands Inc. (formerly Bravo! Foods International Corp.) as of December 31, 2005 and 2004 and the related consolidated statements of operations and comprehensive loss, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bravo! Brands Inc. as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company incurred a net loss of $79,528,653 for the year ended December 31, 2005 and as of that date had a working capital deficiency of $39,287,983. The Company is also delinquent in payment of certain debts. These conditions raise substantial doubt about their ability to continue as a going concern. Management's actions in regard to these matters are more fully described in Note 1. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

As more fully described in Note 13 to the consolidated financial statements, the accompanying consolidated balance sheets as of December 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss,

stockholders' deficit and cash flows for the years then ended, have been restated to reflect the proper accounting for certain transactions.

/s/ Lazar Levine & Felix LLP

New York, New York
February 9, 2006, except for Note 13
as to which the date is September 8, 2006

BRAVO! BRANDS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	Decem
	2005 (Restated)
Assets	
Current assets:	
Cash and cash equivalents	$ 4,947,986
Accounts receivable, net of allowance for doubtful accounts of $350,000 and $90,396 for 2005 and 2004, respectively	3,148,841
Inventories	391,145
Prepaid expenses	973,299
Total current assets	9,461,271
Fixed assets	288,058
Intangible assets, net	18,593,560
Other assets	15,231
Total assets	$ 28,358,120

See accompanying notes

BRAVO! BRANDS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

Liabilities, Redeemable Preferred Stock and Stockholders' Deficit	
Current liabilities:	
Accounts payable	$ 5,987,219
Accrued liabilities	4,872,277
Notes payable	937,743
Convertible notes payable	1,012,780
Derivative liabilities	35,939,235
Current and total liabilities	48,749,254

Commitments and contingencies (Note 11)	-
Redeemable preferred stock:	
Series F convertible, par value $0.001 per share, 200,000 shares designated Convertible Preferred Stock, stated value $10.00 per share, 5,248 and 55,515 shares issued and outstanding	52,480
Series H convertible, par value $0.001 per share, 350,000 shares designated, 7% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 64,500 and 165,500 shares issued and outstanding	388,305
Series I convertible, par value $0.001 per share, 200,000 shares designated, 8% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 0 and 30,000 shares issued and outstanding	-
Series J, par value $0 001 per share, 500,000 shares designated, 8% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 200,000 shares issued and outstanding	871,043
Series K, par value $0 001 per share, 500,000 shares designated, 8% Cumulative Convertible Preferred Stock, stated value $10.00 per share, 95,000 shares issued and outstanding	792,672
Total redeemable preferred stock	2,104,500
Stockholders' Deficit:	
Preferred stock, 5,000,000 shares authorized	
Series B convertible, par value $0.001 per share, 1,260,000 shares designated, 9% Convertible Preferred Stock, stated value $1.00 per share, 107,440 shares issued and outstanding	107,440
Common stock, par value $0.001 per share, 300,000,000 shares authorized, 184,253,753 and 184,254, 501 shares issued and outstanding	184,254
Additional paid-in capital	96,507,932
Common stock subscription receivable	(10,000)
Accumulated deficit	(119,254,501)
Translation adjustment	(30,759)
Total stockholders' deficit	(22,495,634)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 28,358,120

See accompanying notes

BRAVO! BRANDS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

	Years ended De
	2005

	(Restated)
Revenues	$ 11,948,921
Product costs	(8,938,692)
Shipping costs	(1,505,035)
Gross margin	1,505,194
Operating expenses:	
Selling	7,464,876
General and administrative	7,263,284
Product development	636,342
Non-recurring finder's fee	3,000,000
Loss from operations	(16,859,308)
Other income (expenses), net:	
Derivative income (expense)	(60,823,574)
Interest	(1,667,294)
Other	125,273
Liquidated damages	(303,750)
Loss before income taxes	(79,528,653)
Provision for income taxes	-
Net loss	(79,528,653)
Adjustments to net loss to arrive at loss applicable to common stockholders:	
Preferred stock dividends	(336,300)
Accretion of preferred stock	(985,717)
Loss applicable to common stockholders	$ (80,850,670)
Basic and diluted loss per common share	$ (0.60)
Weighted average number of common shares outstanding	135,032,836
Comprehensive loss and its components consist of the following:	
Net loss	$ (79,528,653)
Foreign currency translation adjustment	(30,759)
Comprehensive loss	$ (79,559,412)

See accompanying notes

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BRAVO! BRANDS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Years ended De
	2005 (Restated)

Cash flows from operating activities:	
Net loss	$(79,528,653)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	2,251,646
Stock issuances for compensation	346,438
Equity instruments to be issued for consulting expenses	1,472,261
Options issued for compensation	798,869
Bad debt expense	259,604
(Gain) loss on debt extinguishment	(125,273)
Derivative expense	60,823,574
Amortization of debt discount	1,428,638
Loss on disposal of fixed assets	-
Increase (decrease) in cash from changes in:	
Accounts receivable	(3,356,477)
Other receivable	-
Inventories	(379,489)
Prepaid expenses and other assets	(586,764)
Accounts payable and accrued expenses	7,294,548
Net cash used in operating activities	(9,301,078)
Cash flows from investing activities:	
Licenses and trademark costs	(3,823,521)
Purchase of equipment	(220,144)
Net cash used in investing activities	(4,043,665)
Cash flows from financing activities:	
Proceeds from sale of preferred stock	-
Exercise of warrants	3,208,509
Proceeds from convertible notes payable	2,850,000
Proceeds from sale of common stock and warrants	20,690,000
Payments for redemption of warrants	(5,900,000)
Payment of note payable	(500,000)
Registration costs of financing	(2,138,909)
Net cash provided by financing activities	18,209,600
Effect of changes in exchange rate on cash	(30,759)
Net increase in cash and cash equivalents	4,834,098
Cash and cash equivalents, beginning of period	113,888
Cash and cash equivalents, end of period	$ 4,947,986

See accompanying notes

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BRAVO! BRANDS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

2005

Supplemental Cash Flow Information	(Restated)
Cash paid during the year for interest	$ 10,741
Cash paid for taxes	$ -
Non-cash investing and financing activities:	
Purchase of intangible assets with derivative warrants	$ 15,960,531
Conversion of notes payable and accrued interest	$ 20,343,934
Conversion of redeemable preferred stock and related dividends	$ 2,644,326
Exercise of derivative warrants	$ 35,230,018
Beneficial Conversion Feature	$ -

See accompanying notes

BRAVO! BRANDS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Deficit	Common Subscr Recei
Balance, January 1, 2004 (Restated)	107,440	$107,440	28,047,542	$ 28,045	$18,430,875	$ (26,556,046)	$
Issuance of common stock for services	-	-	9,332,300	9,332	666,300	-	
Conversion redeemable preferred stock and dividends	-	-	15,897,701	15,898	1,553,713	(642,465)	
Conversion notes payable	-	-	4,265,958	4,266	527,228	-	
Private Placement financing	-	-	250,000	250	29,750	-	
Beneficial conversion feature	-	-	-	-	220,000	-	
Financing Costs	-	-	-	-	(40,656)	-	
Net loss for 2004	-	-	-	-	-	(11,517,620)	
Translation adjustment	-	-	-	-	-	-	
Balance, December 31, 2004 (Restated)	107,440	107,440	57,793,501	57,791	21,387,210	(38,716,131)	
Conversion redeemable preferred stock and dividends	-	-	9,245,352	9,247	2,659,079	(24,000)	
Exercise of warrants	-	-	32,474,792	32,475	38,406,052	-	

Conversion notes payable	-	-	41,248,858	41,249	20,302,685	-	
Private placement financing	-	-	40,950,000	40,950	20,649,050	-	
Common stock subscribed but not paid	-	-	-	-	-	-	(10
Stock issued for compensation	-	-	2,541,250	2,542	343,896	-	
Financing costs	-	-	-	-	(2,138,909)	-	
Stock option expense	-	-	-	-	798,869	-	
Redemption of warrants	-	-	-	-	(5,900,000)	-	
Accretion of preferred stock	-	-	-	-	-	(985,717)	
Net loss for 2005	-	-	-	-	-	(79,528,653)	
Translation adjustment	-	-	-	-	-	-	
Balance, December 31, 2005 (Restated)	107,440	$107,440	184,253,753	$184,254	$96,507,932	$(119,254,501)	$(10

See accompanying notes

BRAVO! BRANDS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31 2005 AND 2004

Note 1 - Nature of Business, Liquidity and Management's Plans and Significant Accounting Policies

Nature of Business:

We are engaged in the sale of flavored milk products and flavor ingredients in the United States, the United Kingdom, Central America and the Middle East, and we are establishing an infrastructure to conduct business in Canada.

Liquidity and Management's Plans:

As reflected in the accompanying consolidated financial statements, we have incurred operating losses and negative cash flows from operations and have a working capital deficiency of $39,287,983 as of December 31, 2005. In addition, we are delinquent on certain of our debt agreements at December 31, 2005, and we have experienced delays in filing our financial statements and registration statements due to errors in our historical accounting that have been corrected (See Note 13). Our inability to make these filings is resulting in our recognition of penalties to the investors, and these penalties will continue until we can complete our filings and register the common shares into which the investors' financial instruments are convertible. Finally, our revenues are significantly concentrated with one major customer. The loss of this customer or curtailment in business with this customer could have a material adverse affect on our business. These conditions raise substantial doubt about our ability to continue as a going concern.

We have been dependent upon third party financings as we execute our business model and plans. We completed a $30.0 million convertible note financing in August 2006 that is expected to fulfill our liquidity requirements through the end of 2006. However, $15.0 million of this financing is held in escrow, pending approval by our shareholders of an increase in our authorized shares of common stock. We were in default on this instrument due to the delay in filing our quarterly financial report for the quarterly period ended June 30, 2006. As a

result, an event of default has occurred under the terms of the Notes and the interest rate on the Notes, payable quarterly, was increased from 9% to 14% per annum. Pursuant to the terms of the Notes, upon the occurrence of an event of default, holders of the Notes may, upon written notice to the Company, each require the Company to redeem all or any portion of their Notes, at a default redemption price calculated pursuant to the terms of the Notes. During September 2006, we entered into an Amendment Agreement with the holders of the Notes to amend the Notes in certain respects as consideration for the holders' release of the Company's default resulting from its delay in the filing of our Form 10-QSB for the quarter ended June 30, 2006.

We plan to increase our sales, improve our gross profit margins, augment our international business and, if necessary, obtain additional financing. Ultimately, our ability to continue is dependent upon the achievement of profitable operations. There is no assurance that further funding will be available at acceptable terms, if at all, or that we will be able to achieve profitability.

The accompanying financial statements do not reflect any adjustments that may result from the outcome of this uncertainty.

Significant Accounting Policies:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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. The most significant estimates included in our financial statements are the following:

- Estimating future bad debts on accounts receivable that are carried at net realizable values.

- Estimating our reserve for unsalable and obsolete inventories that are carried at lower of cost or market.

- Estimating the fair value of our financial instruments that are required to be carried at fair value.

- Estimating the recoverability of our long-lived assets.

We use all available information and appropriate techniques to develop our estimates. However, actual results could differ from our estimates.

Business Segment and Geographic Information

We operate in one dominant industry segment that we have defined as the single serve flavored milk industry. While our international business is expected to grow in the future, it currently contributes less than 10% of our revenues, and we have no physical assets outside of the United States.

Revenue Recognition

Our revenues are derived from the sale of branded milk products to customers in the United States of America, Great Britain and the Middle East. Geographically, our revenues are dispersed 98% and 2% between the United States of America and internationally, respectively. We currently have one customer in the United States that provided 34% and 0% of our revenue during the years ended December 31, 2005 and 2004, respectively. Since we commenced business with this customer during our fourth fiscal quarter of 2005, we expect that our revenue from this customer will increase as a percentage of total sales in the near future.

Revenues are recognized pursuant to formal revenue arrangements with our customers, at contracted prices, when our product is delivered to their premises and collectibility is reasonably assured. We extend merchantability warranties to our customers on our products but otherwise do not afford our customers with rights of return. Warranty costs have historically been insignificant.

Our revenue arrangements often provide for industry-standard slotting fees where we make cash payments to the respective customer to obtain rights to place our products on their retail shelves for a stipulated period of time. We also engage in other promotional discount programs in order to enhance our sales activities. We believe our participation in these arrangements is essential to ensuring continued volume and revenue growth in the competitive marketplace. These payments, discounts and allowances are recorded as reductions to our reported revenue. Unamortized slotting fees are recorded in prepaid expenses.

Principles of Consolidation

Our consolidated financial statements include the accounts of Bravo! Brands Inc. (the "Company"), and its wholly-owned subsidiary Bravo! Brands (UK) Ltd. All material intercompany balances and transactions have been eliminated. Cumulative translation adjustments that we make to reflect the accounts of Bravo! Brands (UK) Ltd. in United States Dollars are recorded as a component of other comprehensive income (loss) and stockholder's equity. Foreign currency transaction gains and losses are reported as a component of other income (expense).

Shipping and Handling Costs

Shipping and handling costs incurred to deliver products to our customers are included as a component of cost of sales. These costs amounted to approximately $1,505,035 and $498,313 for the years ended December 31, 2005 and 2004, respectively.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Accounts Receivable

Our accounts receivable are exposed to credit risk. During the normal course of business, we extend unsecured credit to our customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. We regularly evaluate and monitor the creditworthiness of each customer. We provide an allowance for doubtful accounts

based on our continuing evaluation of our customers' credit risk and our overall collection history. As of December 31, 2005 and 2004, the allowance of doubtful accounts aggregated $350,000 and $90,396, respectively.

In addition, our accounts receivable are concentrated with one customer that represents 70% and 0% of our gross accounts receivable balances at December 31, 2005 and 2004, respectively. Approximately 2% of our gross accounts receivable at December 31, 2005 are due from international customers.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost on the first in, first-out method or market. Further, our inventories are perishable. Accordingly, we estimate and record lower-of-cost or market and unsalable-inventory reserves based upon a combination of our historical experience and on a specific identification basis. During the years ended December 31, 2005 and 2004, we did not provide for unsaleable inventories.

In November 2004, the FASB issued Financial Accounting Standard No. 151, Inventory Costs, an amendment of ARB No. 43 Chapter 4 (FAS 151), which clarifies that inventory costs that are "abnormal" are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. FAS 151 provides examples of "abnormal" costs to include costs of idle facilities, excess freight and handling costs and spoilage. FAS 151 will become effective for our fiscal year beginning January 1, 2006. The adoption of FAS No. 151 is not expected to have a material effect on our consolidated financial statements.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over a period of seven years for furniture and five years for equipment. Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Additions and betterments to property and equipment are capitalized. When assets are disposed of, the related cost and accumulated depreciation thereon are removed from the accounts, and any resulting gain or loss is included in the statement of operations.

Intangible Assets

Our intangible assets, which we record at cost, consist of our distribution agreement with Coca-Cola Enterprises ("CCE") that we entered into during the third fiscal quarter of 2005, our manufacturing agreement with Jasper Products, Inc. and licenses and trademark costs with estimated lives of ten years, five years and one-to-five years, respectively.

Impairment of Long-Lived Assets

We evaluate the carrying value and recoverability of our long-lived assets when circumstances warrant such evaluation by applying the provisions of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). FAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual

disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Financial Instruments

Financial instruments, as defined in Financial Accounting Standard No. 107 Disclosures about Fair Value of Financial Instruments (FAS 107), consist of cash, evidence of ownership in an entity and contracts that both (i) impose on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right (a) to receive cash or another financial instrument from the first entity or (b) to exchange other financial instruments on potentially favorable terms with the first entity. Accordingly, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, notes payable, derivative financial instruments, convertible debt and redeemable preferred stock that we have concluded is more akin to debt than equity.

We carry cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities at historical costs; their respective estimated fair values approximate carrying values due to their current nature. We also carry notes payable, convertible debt and redeemable preferred stock at historical cost; however, fair values of debt instruments and redeemable preferred stock are estimated for disclosure purposes (below) based upon the present value of the estimated cash flows at market interest rates applicable to similar instruments.

As of December 31, 2005, estimated fair values and respective carrying values of our notes payable, convertible debt and redeemable preferred stock are as follows:

Instrument	Note	Fair Value	Carrying Value
$750,000 Notes Payable	5(a)	$ 750,000	$ 750,000
$187,843 Notes Payable	5(b)	187,743	187,743
Other Notes Payable	5(c)	0	0
$200,000 Convertible Note Payable	6(a)	190,000	187,934
$ 15,000 Convertible Note Payable	6(b)	13,300	1,620
$600,000 Convertible Note Payable	6(c)	668,000	600,000
$ 6,250 Convertible Note Payable	6(e)	6,375	5,188
$ 25,000 Convertible Note Payable	6(f)	25,500	30,278
$187,760 Convertible Note Payable	6(g)	187,760	187,760
Series F Preferred Stock	7(d)	46,000	52,480
Series H Preferred Stock	7(a)	525,000	388,305
Series I Preferred Stock	7(d)	0	0
Series J Preferred Stock	7(b)	1,731,000	871,043
Series K Preferred Stock	7(c)	881,000	792,672

As of December 31, 2004, estimated fair values and respective carrying values of our notes payable, convertible debt and redeemable preferred stock are as follows:

Instrument	Fair Value	Carrying Value
$750,000 face value note payable	$ 750,000	$ 750,000
$187,743 face value note payable	187,743	187,743

$275,000 note payable, due 11.30.06	246,621	175,055
$600,000 convertible note payable, due 12.31.05	568,421	240,088
$1,008,000 convertible note payable, due 11.30.05	1,679,832	402,607
$577,500 convertible note payable, due 4.30.06	547,377	73,057
$375,000 convertible note payable, due 10.1.06	339,901	208,424
Other notes payable	247,115	247,115
Series F Preferred Stock	555,150	555,150
Series H Preferred Stock	1,459,846	840,215
Series I Preferred Stock	260,778	300,000
Series J Preferred Stock	1,701,772	485,825
Series K Preferred Stock	729,429	750,265

Derivative financial instruments, as defined in Financial Accounting Standard No. 133, Accounting for Derivative Financial Instruments and Hedging Activities (FAS 133), consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements, redeemable preferred stock arrangements, and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

The following table summarizes the components of derivative liabilities as of December 31, 2005 and 2004:

	Note	2005	200
Compound derivative financial instruments that have been bifurcated from the following financing arrangements:			
$ 400,000 Convertible Note Financing	6(a)	$ (1,311,000)	$ (20

$2,300,000 Convertible Note Financing	6(b)	(4,867)	
$ 600,000 Convertible Note Financing	6(c)	(153,700)	(2
$ 693,000 Convertible Note Financing	6(e)	(42,878)	(79
$ 660,000 Convertible Note Financing	6(f)	(159,250)	(44
$1,008,000 Convertible Note Financing	6(g)	-	(37
$ 240,000 Convertible Note Financing	6(d)	-	(25
Series F Preferred Stock Financing	7(d)	(25,632)	(24
Series H Preferred Stock Financing	7(a)	(381,377)	(15
Series I Preferred Stock Financing	7(b)	-	(1
Series J Preferred Stock Financing	7(b)	(5,628,000)	(72
Series K Preferred Stock Financing	7(c)	(206,200)	(7
Freestanding derivative contracts arising from financing and other business arrangements:			
Warrants issued with $693,000 Convertible Notes	6(e)	(924,120)	(33
Warrants issued with $400,000 Convertible Notes	6(a)	-	(1,26
Warrants issued with $600,000 Convertible Notes	6(c)	-	(90
Warrants issued with $660,000 Convertible Notes	6(f)	-	(44
Warrants issued with $1,008,000 Convertible Notes	6(g)	(564,735)	(1,44
Warrants issued with $240,000 Convertible Notes	6(d)	-	(12
Warrants issued with Series H Preferred Stock	7(a)	(1,264,109)	(37
Warrants issued with Series I Preferred Stock	7(i)	-	(17
Warrants issued with Series F Preferred Stock	7(d)	(563,096)	(64
Warrants issued with Series D Preferred Stock	7(d)	(400,214)	(18
Warrants issued with Series J Preferred Stock	7(b)	-	(1,08
Other warrants, including warrants issued with common stock financing	9(b)	(24,310,057)	(52
Total derivative liabilities		$(35,939,235)	$(10,83

See the notes referenced in the table for details of the origination and accounting for these derivative financial instruments. We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as freestanding warrants, we generally use the Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, we project and discount future cash flows applying probability-weightage to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal factors and external market indicators. In addition, option-based techniques are highly volatile and sensitive to changes in our trading market price which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

The following table summarizes the effects on our income (loss) associated with

changes in the fair values of our derivative financial instruments by type of financing for the years ended December 31, 2005 and 2004:

Derivative income (expense):	2005	2004
Convertible note and warrant financings	$(42,172,053)	$(3,432,061)
Preferred stock and warrant financings	(11,314,733)	(2,561,043)
Other warrants and derivative contracts	(7,336,788)	(316,829)
	$(60,823,574)	$(6,309,933)

Additional information related to individual financings can be found in notes 6, 7 & 9.

Our derivative liabilities as of December 31, 2005 and 2004, and our derivative loss during each of the years ended December 31, 2005 and 2004 is significant to our consolidated financial statements. The magnitude of the derivative loss during the year ended December 31, 2005 when compared with the loss for the year ended December 31, 2004 reflects the following:

(a) During the year ended December 31, 2005, and specifically commencing in the second quarter, the trading price of our common stock reached significantly high levels relative to its trend. The trading price of our common stock significantly affects the fair value of our derivative financial instruments. To illustrate, our trading stock price at the end of the first quarter of 2005 was $0.15 and then increased to $0.93 by the end of the second quarter. Our trading stock price then declined to $0.61 and $0.59 at the end of the third and fourth quarters, respectively. However, the higher stock price had the effect of significantly increasing the fair value of our derivative liabilities and, accordingly, we were required to adjust the derivatives to these higher values with charges to our income. Also, due to the higher stock price commencing in the second quarter, we experienced significant exercise and conversion activity related to our derivative warrants and, to a lesser degree, with respect to the embedded conversion options. Accordingly, our year end derivative liability balances reflect, among other elements of our valuation assumptions, the higher intrinsic values of the arrangements caused by the significant changes

in our stock price, which are offset by a smaller number of common shares indexed to outstanding warrants due to the extraordinary level of exercise activity.

(b) During the year ended December 31, 2005, we entered into a $2,300,000 debt and warrant financing arrangement, more fully discussed in Note 6(b). In connection with our accounting for this financing we encountered the unusual circumstance of a day-one loss related to the recognition of derivative instruments arising from the arrangement. That means that the fair value of the bifurcated compound derivative and warrants exceeded the proceeds that we received from the arrangement and we were required to record a loss to record the derivative financial instruments at fair value. The loss that we recorded amounted to $8,663,869. We did not enter into any other financing arrangements during the periods reported that reflected day-one losses.

The following table summarizes the number of common shares indexed to the derivative financial instruments as of December 31, 2005:

Conversion

Financing or other contractual arrangement:	Note	Features	Warrants	Total
$ 400,000 Convertible Note Financing	6(a)	4,320,000	-	4,320,000
$2,300,000 Convertible Note Financing	6(b)	120,000	2,000,000	2,120,000
$ 600,000 Convertible Note Financing	6(c)	4,100,000	-	4,100,000
$ 693,000 Convertible Note Financing	6(e)	65,104	1,700,000	1,765,104
$ 660,000 Convertible Note Financing	6(f)	250,000	1,500,000	1,750,000
$1,080,000 Convertible Note Financing	6(g)	1,924,540	-	1,924,540
Series D Convertible Preferred Stock	7(d)	-	611,250	611,250
Series F Convertible Preferred Stock	7(d)	220,969	1,038,259	1,259,228
Series H Convertible Preferred Stock(a)	7(a)	-	4,387,500	4,387,500
Series J Convertible Preferred Stock	7(b)	20,000,000	-	20,000,000
Series K Convertible Preferred Stock(a)	7(c)	-	-	-
Other warrants and contracts	9(b)	-	49,504,688	49,504,688
		31,000,613	60,741,697	91,742,310

(a) As more fully described in Notes 7(a) and 7(c) these instruments were afforded the conventional convertible exemption, which means we did not have to bifurcate the embedded conversion feature. However, we were required to bifurcate certain other embedded derivatives as discussed in the notes. Although the conversion features did not require derivative accounting, we are required to also consider the 953,443 and 9,500,000 common shares, respectively, into which these instruments are indexed in determining whether we have sufficient authorized and unissued common shares for all of our share-settled obligations.

We have entered into registration rights agreements with certain investors that require us to file a registration statement covering shares underlying a financing arrangement, become effective on the registration statement, maintain effectiveness and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of liquidating damages to the investors in the event we do not achieve the requirements. We record estimated liquidated damages as liabilities and charges to our income when the liquidated damages are probable and estimable under Financial Accounting Standard No. 5 Accounting for Contingencies. During the years ended December 31, 2005 and 2004, we recorded liquidated damages expense of $303,750 and $0, respectively.

Advertising and Promotion Costs

Advertising and promotion costs, which are included in selling expenses, are expensed as incurred and aggregated $2,515,062 and $656,614 for the years ended December 31, 2005 and 2004, respectively.

Share-Based Payments

Prior to 2005, we accounted for our stock options under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Effective January 1, 2005, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock Based Compensation ("FAS 123"). Under the modified prospective method of adoption selected by the Company under the provisions of FASB Statement No. 148, Accounting for Stock Based

Compensation - Transition and Disclosure ,("FAS 148") compensation costs recognized in 2005 were the same as that which would have been recognized had the recognition provisions of FAS 123 been applied from the options' grant dates. This is because all outstanding options at December 31, 2004 were fully vested on that date. Consistent with the requirements of this method of adoption, results for prior years have not been restated. We recognized no tax benefit for share-based compensation arrangements due to the fact that we are in a cumulative loss position and recognize no tax benefits in our Consolidated Statements of Operations. For further information regarding the adoption of SFAS No. 123, see Note 8 to the consolidated financial statements.

Income Taxes

We account for income taxes using the liability method, which requires an entity to recognize deferred tax liabilities and assets. Deferred income taxes are recognized based on the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expense or benefit in the period that covers the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

Loss Per Common Share

Our basic loss per common share is computed by dividing loss applicable to common stockholders by the weighted average number of common share outstanding during the reporting period. Diluted loss per common share is computed similar to basic loss per common share except that diluted loss per common share includes dilutive common stock equivalents, using the treasury stock method, and assumes that the convertible debt instruments were converted into common stock upon issuance, if dilutive. For the years ended December 31, 2005 and 2004 potential common shares arising from our stock options, stock warrants, convertible debt and convertible preferred stock amounting to 108,059,082 and 126,767,057 shares, respectively, were not included in the computation of diluted loss per share because their effect was antidilutive.

Note 2 - Fixed Assets

Our fixed assets are comprised of the following as of December 31, 2005 and 2004:

	2005	2004
Office equipment	$ 209,085	$ 151,577
Furniture and fixtures	189,068	150,871
Automobiles	29,295	-
Leasehold improvements	23,714	23,714
Purchased software	3,223	3,223
	454,385	329,385
Less: accumulated depreciation and amortization	(166,327)	(218,179)
	$ 288,058	$ 111,206

Depreciation and amortization expense of fixed assets aggregated $43,292 and

$30,153 for 2005 and 2004, respectively.

Note 3 - Intangible Assets

Our intangible assets consist of our distribution agreement with Coca-Cola Enterprises ("CCE"), our manufacturing agreement with Jasper Products, Inc. and licenses and trademark costs, with estimated lives of ten years, five years and one-to-five years, respectively. The following table summarizes the components of our intangible assets as of December 31, 2005 and 2004:

	2005	2004
Distribution agreement	$15,960,531	$ -
Manufacturing agreement	2,700,000	-
Licenses and trademarks	1,370,958	365,431
Less accumulated amortization	(1,437,929)	(288,393)
	$18,593,560	$ 77,038

Amortization expense amounted to $1,411,004 and $269,242 for the years ended December 31, 2005 and 2004, respectively.

Estimated future amortization of our intangible assets for each of the next five years is as follows as of December 31, 2005:

December 31, 2006	$2,685,671
December 31, 2007	$2,367,947
December 31, 2008	$2,356,342
December 31, 2009	$2,355,844
December 31, 2010	$2,203,289

Note 4 - Accrued Liabilities

Accrued liabilities consist of the following as of December 31, 2005 and December 31, 2004:

	2005	2004
Investor relations liability	$1,545,565	$ -
Production processor liability	182,814	-
Accrued payroll and related	636,757	15,000
Accrued interest	376,198	255,173
Discontinued products (a)	1,710,733	-
Liquidated damages due to late registraton (b)	303,750	-
Other	116,460	174,813
	$4,872,277	$444,986

(a) During the year ended December 31, 2005, we discontinued certain product lines and, as a result, incurred certain penalties under purchase

commitments with our manufacturing vendors. We accrued these penalties upon our decision to discontinue the products.

(b) Certain of our financings provide for penalties in the event of non-registration of securities underlying the financial instruments. Generally, these penalties are calculated as a percentage of the financing proceeds, usually between 1.0% and 3.0% monthly. We record these liquidated damages when they are probable and estimable pursuant to FAS 5.

Note 5 -- Notes Payable

Notes payable consist of the following as of December 31, 2005 and 2004:

	2005	2004
$750,000 face value note payable, due September 3, 2004 (a)	$750,000	$ 750,000
$187,743 face value note payable, due December 31, 2005 (b)	187,743	187,743
$100,000 face value note payable due February 1, 2002 (c)	-	100,000

Other		147,115
Total notes payable	937,743	1,184,858
Less current maturities	937,743	1,184,858
Long-term notes payable	$ -	$ -

(a) On May 9, 2004 we received the proceeds of a $750,000 loan from Mid-Am Capital, payable September 3, 2004, with an interest rate of 8%. This loan is secured by a general security interest in all of our assets. Mid-Am has agreed to extend the note on a demand basis.

(b) In 1999, we issued a promissory note to assume existing debt owed by our then Chinese joint venture subsidiary to a supplier, International Paper. The face value of that unsecured note was $282,637 at an annual interest rate of 10.5%. The note originally required 23 monthly payments of $7,250 and a balloon payment of $159,862 due on July 15, 2000. During 2000, we negotiated an extension of this note to July 1, 2001. International Paper imposed a charge of $57,000 to renegotiate the note, which amount represents interest due through the extension date. The balance due on this note is $187,743 at December 31, 2005, all of which is delinquent. Although International Paper has not pursued collection of the note, it is possible that they could do so in the future and, if they do, such collection effort may have a significant adverse impact on the liquidity of the Company.

(c) On November 6 and 7, 2001 respectively, the Company received proceeds of two loans aggregating $100,000 from two offshore lenders. The two promissory notes, one for $34,000 and the other for $66,000, were payable on February 1, 2002 with interest at an annual rate of 8%. These loans were secured by a general security interest on all of the assets of the Company. These lenders had agreed to extend the notes without default on a demand basis. Interest accrued and unpaid at December 31, 2004 aggregated $25,380.

Note 6. Convertible Notes Payable

Convertible debt carrying values consist of the following as of December 31, 2005 and 2004:

	2005	2004
$200,000 Convertible Note Payable, due November 2006 (a)	$ 187,934	$ 175,055
$15,000 Convertible Note Payable, due May 2007 (b)	1,620	-
$600,000 Convertible Note Payable, due December 2006 (c)	600,000	240,088
$6,250 Convertible Note Payable, due April 30, 2006 (e)	5,188	73,057
$25,000 Convertible Note Payable, due October 1, 2006 (f)	30,278	208,424
$187,760 Convertible Note Payable, due December 2006 (g)	187,760	402,607
	$1,012,780	$1,099,231

(a) $400,000 Convertible Note Financing

On November 20, 2003, we issued $400,000 of 8.0% convertible notes payable, due November 20, 2005 plus warrants to purchase 14,000,000 shares of our common stock with strike prices ranging from $0.05 to $1.00 for a period of three years. The convertible notes had a face value outstanding of $200,000 and $275,000 on December 31, 2005 and 2004, respectively following the modification of the underlying note agreement, extending the maturity date of the remaining balance to November 20, 2006. The convertible notes are convertible into a variable number of our common shares based upon a variable conversion price of the lower of $0.05 or 75% of the closing market price near the conversion date. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the

instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we would be required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to a variable conversion feature, and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because, as noted above, share settlement

and maintenance of an effective registration statement are not within our control. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $1,311,000 and $201,000 as of December 31, 2005 and 2004, respectively. This amount is included in Derivative Liabilities on our balance sheet. Warrants related to the financing were fully converted prior to December 31, 2005.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $400,000 convertible note financing.

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$(1,110,000)	$ 23,000
Warrant derivative	$(5,842,900)	$(1,031,800)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with the remaining compound derivatives.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes to zero. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $88,000 and $204,000, respectively.

As noted in the introductory paragraph of this section, the holders extended the notes one additional year to November 2006. This modification was accounted for as an extinguishment because the present value of the amended debt was significantly different than the present value immediately preceding the modification. As a result of the extinguishment, the existing debt carrying value was adjusted to fair value using projected cash flows at market rates for similar instruments. This extinguishment resulted in our recognition of a gain on extinguishment of $22,733 in the fourth fiscal quarter of our year ended December 31, 2005.

(b) $2,300,000 Convertible Note Financing:

On January 28, 2005, May 23, 2005 and August 18, 2005, we issued $1,150,000, $500,000 and $650,000, respectively of 8.0% convertible notes payable, due January 28, 2007, May 23, 2007 and August 18, 2007, plus, warrants to purchase 9,200,000, 4,000,000 and 5,200,000 shares, respectively, of our common stock with a strike price of $0.129 for a period of five years. The convertible notes had a face value outstanding of $15,000 on December 31, 2005, resulting from conversions of all other notes associated with this financing to common stock. The remaining portion of the May 23, 2005 convertible notes are convertible into a fixed number of our common shares based upon a conversion price of $0.125 with anti-dilution protection for sales of securities below the fixed conversion price. We have the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 120% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $4,867 as of December 31, 2005.

As of December 31, 2005 2,000,000 warrants related to the financing remain unconverted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $2,300,000 convertible note financing:

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$ (3,779,033)	$-

Warrant derivative	$(17,141,306)	$-

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

In connection with our accounting for this financing arrangement we encountered the unusual circumstance of a day-one loss related to the recognition of derivative instruments arising from the arrangement. That means that the fair value of the bifurcated compound derivative and warrants exceeded the proceeds that we received from the arrangement and we were required to record a loss to record the derivative financial instruments at fair value. The loss that we recorded amounted to $8,663,869.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the year ended December 31, 2005 amounted to approximately $462,000.

(c) $600,000 Convertible Note Financing:

On June 29, 2004, we issued $600,000 of 10.0% convertible notes payable, due December 31, 2005, plus warrants to purchase 2,000,000 and 5,000,000 shares of our common stock with strike prices of $0.25 and $2.00, respectively, for a periods of five and two years, respectively. Net proceeds from this financing arrangement amounted to $500,000. As of December 31, 2005, this debt is past due and, accordingly, the outstanding carrying value of $600,000 does not include the $68,000 of capitalized interest, which is being reflected as accrued liabilities. The convertible notes are convertible into a fixed number of our common shares based upon a conversion price of $0.15 with anti-dilution protection for sales of securities below the fixed conversion price. We have the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision. The maturity dates for these notes have been extended to December 31, 2006.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component

of derivative liabilities. We also determined that the warrants did not meet the conditions for

equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in compound derivative balances associated with this financing arrangement of $153,700 and $27,833 as of December 31, 2005 and 2004, respectively. These amounts are included in Derivative Liabilities on our balance sheet.

As of December 31, 2005 all warrants related to the financing had been converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $600,000 convertible note financing:

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$ (125,867)	$ 47,134
Warrant derivative	$(5,478,300)	$(479,067)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, are amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $428,000 and $240,000, respectively.

(d) $240,000 Convertible Note Financing:

On December 22, 2004, we issued $240,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 800,000 shares of common stock at $0.15 for five years. Net proceeds from this financing arrangement amounted to $200,000. As of December 31, 2005, this debt had been fully converted. As of

December 31, 2004, this debt had a face value of $210,000. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to

the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. These amounts are included in Derivative Liabilities on our balance sheet. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants.

As of December 31, 2005 all warrant liabilities related to the financing had been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $240,000 convertible note financing:

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$(55,604)	$ 64,600
Warrant derivative	$ 55,540	$(220,515)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with the remaining compound derivative.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $66,781 and $-0-, respectively.

(e) $693,000 Convertible Note Financing:

On October 29, 2004, we issued $693,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 2,200,000 at $0.15 for five years. Net proceeds from this financing arrangement amounted to $550,000. As of December 31, 2005, this debt had face value $6,250 outstanding. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision. The maturity dates for these notes were extended to October 1, 2006.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of

the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in a compound derivative balance of $42,878 as of December 31, 2005. Our valuation model resulted in a warrant derivative balance, arising from the convertible note financing, of $924,120 and $330,220 as of December 31, 2005 and 2004, respectively. These amounts are included in Derivative Liabilities on our balance sheet.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $693,000 convertible note financing:

Derivative income (expense)	Year ended December 31, 2005	Year ended December 31, 2004
Compound derivative	$(2,610,699)	$(133,492)
Warrant derivative	$ (668,950)	$(373,967)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit

risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with the remaining compound instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $199,000 and $73,000, respectively.

(f) $660,000 Convertible Note Financing:

On April 2, 2004, we issued $660,000 of 10.0% convertible notes payable, due October 1, 2005, plus warrants to purchase 3,000,000 at $0.15 for five years. Net proceeds from this financing arrangement amounted to $500,000. As of December 31, 2005, this debt had a face value of $25,000 outstanding. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.10 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision.

In our evaluation of this instrument, we concluded that the conversion feature

was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inceptions dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in a compound derivative balance of $159,250 and $440,648 as of December 31, 2005 and 2004, respectively. This amount is included in Derivative Liabilities on our balance sheet.

As of June 30, 2006, all warrants related to the financing have been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $660,000 convertible note financing:

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$(2,787,246)	$(194,962)
Warrant derivative	$ 61,800	$(276,188)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with the remaining compound instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $74,000 and $256,000, respectively.

(g) $1,008,000 Convertible Note Financing:

On June 29, 2004, we issued $1,008,000 of 10.0% convertible notes payable, due April 30, 2006, plus warrants to purchase 3,200,000 and 8,000,000 shares of our common stock at $0.25 and $2.00, respectively, for periods of five and two years, respectively. Net proceeds from this financing arrangement amounted to $800,000. As of December 31, 2005, this debt had a face value of $187,760 outstanding. The convertible notes were convertible into a fixed number of our common shares based upon a conversion price of $0.15 with anti-dilution protection for sales of securities below the fixed conversion price. We had the option to redeem the convertible notes for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). In addition, we extended registration rights to the holder that required registration and continuing effectiveness thereof; we are required to pay monthly liquidating damages of 2.0% for defaults under this provision. The maturity dates for these notes have been extended to December 31, 2006.

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. We also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification. Therefore, the warrants are also required to be carried as a derivative liability, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inceptions dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in a compound derivative balance of $564,735 and $1,446,560 as of December 31, 2005 and 2004, respectively. This amount is included in Derivative Liabilities on our balance sheet.

As of December 31, 2005, all warrants related to the financing had been fully converted.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the $1,008,000 convertible note financing:

	Year ended	Year ended

	December 31, 2005	December 31, 2004
Derivative income (expense)		
Compound derivative	$ (185,979)	$ (29,988)
Warrant derivative	$(1,661,859)	$(826,816)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the notes. This discount, along with related deferred finance costs and future interest payments, were amortized through periodic charges to interest expense using the effective method. Interest expense during the years ended December 31, 2005 and 2004 amounted to approximately $383,000 and $403,000, respectively.

(h) $360,000 Convertible Note Financing:

On April 21, 2005, we issued $360,000, six-month-term, 10% convertible notes payable, due October 31, 2005. Net proceeds for this financing transaction amounted to $277,488. The notes were convertible into shares of common stock at a fixed conversion rate of $0.20, with anti-dilution protection for sales of securities below the fixed conversion price. The holder converted the notes on September 30, 2005. We had the option to redeem the notes payable for cash at 120% of the face value. The holder has the option to redeem the convertible notes payable for cash at 130% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

In our evaluation of this instrument, we concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to the anti-dilution protection afforded the holder; and it did not otherwise meet the conditions for equity classification. Therefore, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability. We also concluded that

the Default Put required bifurcation because, while puts on debt instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt instruments. We combined all embedded features that required bifurcation into one compound instrument that was carried as a component of derivative liabilities through the date of conversion.

We allocated the initial proceeds from the financing first to the compound derivative instrument in the amount of $113,925 and the balance to the debt host instrument. We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are

necessary to fair value complex derivative instruments.

The following table illustrates fair value adjustments that we have recorded related to the compound derivative arising from the $360,000 convertible notes payable.

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$(841,650)	$-
Warrant derivative	$ -	$-

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. Since the instrument was converted on September 30, 2005, there will be no future charges or credits to derivative income (expense) associated with this instrument.

The above allocations resulted in a discount to the carrying value of the notes amounting to approximately $173,925. This discount, along with related deferred finance costs and future interest payments, was amortized through periodic charges to interest expense using the effective method. Interest expense during the year ended December 31, 2005 amounted to approximately $163,000.

Derivative warrant fair values are calculated using the Black-Scholes-Merton Valuation technique. Significant assumptions as of December 31, 2005, corresponding to each of the above financings (by paragraph reference) are as follows:

	6(a)	6(b)	6(c)	6(d)	6(e)	6(f)
Trading market price	$0.59	$0.59	$0.59	$0.59	$0.59	$0.59
Strike price	$.05-$1.00	$.129	$.10	$.15	$.15	$.15
Volatility	148%	133%	136%	136%	136%	142%
Risk-free rate	3.25%	3.71%	3.30%	3.57%	3.30%	3.45%
Remaining term/life (years)	.92	4.63	3.5	4.0	3.83	3.25

Our stock prices have been highly volatile. Future fair value changes are significantly influenced by our trading common stock prices. As previously discussed herein, changes in fair value of derivative financial instruments are reflected in earnings.

Note 7. Preferred Stock

Our articles of incorporation authorize the issuance of 5,000,000 shares of preferred stock. We have designated this authorized preferred stock, as follows:

(a) Series H Preferred Stock:

We have designated 350,000 shares of our preferred stock as Series H Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series H Preferred Stock has cumulative dividend rights at 7.0% of the stated amount, ranks senior to common stock and is non-voting. It is also convertible into our common stock at a fixed conversion price of $0.40 per common share. The Series H Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series H Preferred Stock for cash at 135% of the stated value. The holder has the option to redeem the Series H Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, listing of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series H Preferred Stock, we concluded that it was more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are based upon those related to a traditional debt security, and that it should be afforded the conventional convertible exemption regarding the embedded conversion feature because the conversion price is fixed. Therefore, we are not required to bifurcate the embedded conversion feature and carry it as a liability. However, we concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments. In addition, due to the default and contingent redemption features of the Series H Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

Between December 2001 and March 2002, we issued 175,500 shares of Series H Preferred Stock for cash of $1,755,000, plus warrants to purchase an aggregate of 4,387,500 shares of common stock at $0.50 for five years. As of December 31, 2005, 64,500 shares of preferred stock remain outstanding; all of the warrants remain outstanding. We allocated $1,596,228 of the proceeds from the Series H Preferred financings to the warrants at their fair values because the warrants did not meet all of the conditions necessary for equity classification and, accordingly, are carried as derivative liabilities, at fair value. We also allocated $134,228 to the Default Puts which, as described above are carried as derivative liabilities, at fair value. We also allocated proceeds of $34,210 to paid-in capital because the aforementioned allocations resulted in an effective beneficial conversion feature, which is recorded in equity. Finally, we recorded derivative expense of $9,666 because one of the financings did not result in sufficient proceeds to record the derivative financial instruments at fair values on the inception date.

We estimated the fair value of the derivative warrants on the inception dates, and subsequently, using the Black-Scholes-Merton valuation technique. As a result of applying this technique, our valuation of the derivative warrants amounted to $1,264,109 and $376,212 as of December 31, 2005 and 2004, respectively. We estimated the fair value of the Default Puts on the inception dates, and subsequently, using a cash flow technique that involves probability-weighting multiple outcomes at net present values. Significant assumptions underlying the probability-weighted outcomes included both our history of similar default events, all available information about our business plans that could give rise to or risk defaults, and the imminence of impending or current defaults. As a result of these subjective estimates, our valuation model resulted in Default Put balances associated with the Series H Preferred Stock of

$381,377 and $156,927 as of December 31, 2005 and 2004, respectively. These

amounts are included in Derivative Liabilities on our balance sheet. The following table illustrates fair value adjustments that we have recorded related to the Default Puts on the Series H Preferred Stock.

Derivative income (expense)	Year ended December 31, 2005	Year ended December 31, 2004
Compound derivative	$(224,451)	$ (22,701)
Warrant derivative	$(887,896)	$(253,571)

Derivative income (expense) related to the Default Put includes changes to the fair value arising from changes in our estimates about the probability of default events and amortization of the time-value element embedded in our calculations. Higher derivative expense in the year ended December 31, 2005 when compared to the same period of 2004, reflected the increased probability that the Default Put would become exercisable because we would not timely file certain reports with the Securities and Exchange Commission. In fact, we ultimately did not file our Quarterly Report on Form 10-QSB for the June 2006 reporting period on a timely basis. While the Default Put became exercisable at that time, the holders of the Series H Preferred Stock did not exercise their right prior to curing the event. There can be no assurances that the holders of the Series H Preferred Stock would not exercise their rights should further defaults arise.

The discounts to the Series H Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to retained earnings using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the years ended December 31, 2005 and 204:

	Year ended December 31, 2005	Year ended December 31, 2004
Preferred stock dividends	$140,400	$140,400
Accretions	$558,089	$357,392

As of December 31, 2005, $315,900 of cumulative dividends are in arrears on Series H Preferred Stock.

(b) Series J Preferred Stock:

We have designated 500,000 shares of our preferred stock as Series J Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series J Preferred Stock has cumulative dividend rights at 8.0% of the stated amount, ranks senior to common stock and is non-voting. It is also convertible into our common stock at a conversion price of $0.20 per common share. The Series J Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series J Preferred Stock for cash at 135% of the stated value. The holder has the option to redeem the Series J Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and

filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series J Preferred Stock, we concluded that its features were more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are generally based upon standards related to a traditional debt security. Our

evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument, since it did not meet the conditions for equity classification. Therefore, we are required to bifurcate the embedded conversion feature and carry it as a liability. We also concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments. We combined all embedded features that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. In addition, due to the default and contingent redemption features of the Series J Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

In September 2002, February 2003 and May 2003 we issued 100,000 shares, 50,000 shares and 50,000 shares, respectively, of Series J Preferred Stock for cash of $2,000,000. We also issued warrants for an aggregate of 14,000,000 shares of our common stock in connection with the financing arrangement. The warrants have terms of five years and an exercise price of $0.25. We initially allocated proceeds of $658,000 and $1,190,867 from the financing arrangements to the compound derivative discussed above and to the warrants, respectively. Since these instruments did not meet the criteria for classification, they are required to be carried as derivative liabilities, at fair value.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Monte Carlo Valuation technique, because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion estimates) that are necessary to fair value complex derivative instruments. We estimated the fair value of the warrants on the inception dates, and subsequently, using the Black-Scholes-Merton Valuation technique, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value freestanding warrants. As a result of these estimates, our valuation model resulted in a compound derivative balance associated with the Series J Preferred Stock of $5,628,000 and $728,000 as of December 31, 2005 and December 31,2004, respectively. This amount is included in Derivative Liabilities on our balance sheet.

The following table illustrates fair value adjustments that we have recorded related to the derivative financial instruments associated with the Series J Preferred Stock.

Derivative income (expense)	Year ended December 31, 2005	Year ended December 31, 2004
Compound derivative	$(4,900,000)	$(644,000)
Warrant derivative	$(3,136,000)	$(713,600)

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of the warrant derivative is significantly affected by changes in our trading stock prices. Future changes in these underlying market conditions will have a continuing effect on derivative income (expense) associated with these instruments.

The discounts to the Series J Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to paid-in capital using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the years ended December 31, 2005 and 2004:

	Year ended December 31, 2005	Year ended December 31, 2004
Preferred stock dividends	$160,000	$160,000
Accretions	$385,218	$214,856

As of December 31, 2005 $480,000 of cumulative dividends are in arrears on Series J Preferred Stock.

(c) Series K Preferred Stock:

We have designated 500,000 shares of our preferred stock as Series K Cumulative Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series K Preferred Stock has cumulative dividend rights at 8.0% of the stated amount, ranks senior to common stock and is non-voting. It is also convertible into our common stock at a fixed conversion price of $0.10 per common share. The Series K Preferred Stock is mandatorily redeemable for common stock on the fifth anniversary of its issuance. We have the option to redeem the Series K Preferred Stock for cash at 120% of the stated value. The holder has the option to redeem the Series K Preferred Stock for cash at 140% of the stated value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, listing of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put").

Based upon our evaluation of the terms and conditions of the Series K Preferred Stock, we concluded that it was more akin to a debt instrument than an equity instrument, which means that our accounting conclusions are based upon those related to a traditional debt security, and that it should afforded the conventional convertible exemption regarding the embedded conversion feature because the conversion price is fixed. Therefore, we are not required to bifurcate the embedded conversion feature and carry it as a liability. However, we concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated debt-type instruments.. In addition, due to the default and contingent redemption features of the Series K Preferred Stock, we classified this instrument as redeemable preferred stock, outside of stockholders' equity.

In March 2004, we issued 80,000 shares of Series K Preferred Stock for cash of

$800,000. In April 2004, we issued 15,000 shares of Series K Preferred Stock to extinguish debt with a carrying value of $150,000. At the time of these issuances, the trading market price of our common stock exceeded the fixed conversion price and, as a result, we allocated $160,000 and $60,000 from the March and April issuances, respectively, to stockholders' equity which amount represented a beneficial conversion feature. In addition, we recorded a debt extinguishment loss of $60,000 in connection with the April exchange of Series K Preferred Stock for debt because we estimated that it had a fair value that exceeded the carrying value of the extinguished debt by that amount. Finally, we allocated approximately $59,000 and $11,000 to the Default Puts, representing fair values, in connection with the March and April issuances, respectively.

We estimated the fair value of the Default Puts on the inception dates, and subsequently, using a cash flow technique that involves probability-weighting multiple outcomes at net present values. Significant assumptions underlying the probability-weighted outcomes included both our history of similar default events, all available information about our business plans that could give rise to or risk defaults, and the imminence of impending or current defaults. As a result of these subjective estimates, our valuation model resulted in Default Put balances associated with the Series K Preferred Stock of $206,200 and $73,644 as of December 31, 2005 and 2004, respectively. These amounts are included in Derivative

Liabilities on our balance sheet. The following table illustrates fair value adjustments that we have recorded related to the Default Puts on the Series K Preferred Stock.

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$(132,556)	$(3,768)
Warrant derivative	$ -	$ -

Derivative income (expense) related to the Default Put includes changes to the fair value arising from changes in our estimates about the probability of default events and amortization of the time-value element embedded in our calculations. Higher derivative expense in the year ended December 31, 2005, when compared to the same period of 2004, reflected the increased probability that the Default Put would become exercisable because we would not timely file certain reports with the Securities and Exchange Commission. In fact, we ultimately did not file our Quarterly Report on Form 10-QSB for the June 2006 reporting period in a timely basis. While the Default Put became exercisable at that time, the holders of the Series K Preferred Stock did not exercise their right prior to curing the event. There can be no assurances that the holders of the Series K Preferred Stock would not exercise their rights should further defaults arise.

The discounts to the Series K Preferred Stock that resulted from the aforementioned allocations are being accreted through periodic charges to paid-in capital using the effective method. The following table illustrates the components of preferred stock dividends and accretions for the years ended December 31, 2005 and 2004:

	Year ended December 31, 2005	Year ended December 31, 2004

Preferred stock dividends	$76,000	$57,000
Accretions	$40,407	$30,140

As of December 31, 2005, $133,000 of cumulative dividends are in arrears on Series K Preferred Stock.

(d) Other Preferred Stock Designations and Financings:

Series A Preferred: We have designated 500,000 shares of our preferred stock as Series A Convertible Preferred Stock. There were no Series A Preferred Stock outstanding during the periods presented.

Series B Preferred: We have designated 1,260,000 shares of our preferred stock as Series B Convertible Preferred Stock with a stated and liquidation value of $1.00 per share. Series B Preferred has cumulative dividend rights of 9.0%, ranks senior to common stock and has voting rights equal to the number of common shares into which it may be converted. Series B Preferred is convertible into common on a share for share basis. Based upon our evaluation of the terms and conditions of the Series B Preferred Stock, we have concluded that it meets all of the requirements for equity classification. We have 107,440 shares of Series B Preferred outstanding as of December 31, 2005.

Series D Preferred: We have designated 165,000 shares of our preferred stock as Series D Cumulative Convertible Preferred Stock with a stated and liquidation value of $10 per share. Series D Preferred has cumulative dividend rights of 6.0%, ranks senior to common stock and is non-voting. There are no shares of Series D Preferred Stock outstanding during any of the periods presented. However, we continue to

have 611,250 warrants outstanding that were issued in connection with the original Series D Preferred Stock Financing arrangement.

Series F Preferred: We have designated 200,000 shares of our preferred stock as Series F Convertible Preferred Stock with a stated and liquidation value of $10 per share. There were 5,248 and 55,515 shares of Series F Preferred Stock outstanding as of December 31, 2005 and 2004, respectively. Series F Preferred is non-voting and convertible into common stock at a variable conversion price equal to the lower of $0.60 or 75% of the trading prices near the conversion date. In addition, the holder has the option to redeem the convertible notes payable for cash at 125% of the face value in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We concluded that the conversion feature was not afforded the exemption as a conventional convertible instrument due to a variable conversion feature; and it did not otherwise meet the conditions for equity classification. Since equity classification is not available for the conversion feature, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. We also concluded that the Default Put required bifurcation because, while puts on debt-type instruments are generally considered clearly and closely related to the host, the Default Put is indexed to certain events, noted above, that are not associated with debt-type instruments. These two derivative features were combined into one compound derivative instrument. In addition, due to the default and contingent redemption features of the Series F Preferred Stock, we classified this instrument as redeemable preferred stock, outside of

stockholders' equity.

Series I Preferred: We have designated 200,000 shares of our preferred stock as Series I Convertible Preferred Stock with a stated and liquidation value of $10.00 per share. Series I Preferred has cumulative dividend rights at 8.0% of the stated value, ranks senior to common stock and is non-voting. Series I Preferred is convertible into a variable number of common shares at the lower conversion price of $0.40 or 75% of the average trading market price. There were no Series I Preferred Stock outstanding as of December 31, 2005. However, we had 30,000 shares outstanding during the year ended December 31, 2004. We accounted for Series I Preferred Stock, while it was outstanding as an instrument that was more akin to a debt instrument. We also bifurcated the embedded conversion feature and freestanding warrants issued with the financing and carried these amounts as derivative liabilities, at fair value. The table below reflects derivative income and (expense) associated with changes in the fair value of this derivative financial instrument.

The following table summarizes derivative income (expense) related to compound derivatives and freestanding warrant derivatives that arose in connection with the preferred stock transactions discussed above.

	Year ended December 31, 2005	Year ended December 31, 2004
Derivative income (expense)		
Compound derivative	$ 152,310	$ (22,535)
Warrant derivative	$(2,186,140)	$(900,868)

The following table summarizes preferred stock dividends related to the convertible preferred stock discussed above:

	Year ended December 31, 2005	Year ended December 31, 2004
Preferred stock dividends	$5,600	$31,200
Accretions	$ -	$ -

Note 8. - Share Based Payments

On April 6, 2005, our Board of Directors adopted an incentive share-based plan (the "2005 Stock Incentive Plan") that provides for the grant of stock options for up to 10,397,745 shares of our common stock to our directors, officers, key employees, and consultants. On May 10, 2005, our Board of Directors adopted the recommendation of our Compensation Committee to grant options for 8,922,745 shares to our directors and key employees. As of December 31, 2005, there were 1,475,000 shares of common stock reserved for issuance under our stock plan. Options granted under 2005 Stock Incentive Plan have a contractual life of 10 years and vest over two years in equal annual installments with the first third exercisable on the grant date, provided that the individual is continuously employed by us.

In years prior to 2005, we granted options for 650,000 shares to now former employees and options for 220,000 shares to now former directors, all which are fully vested and exercisable, under individual plans. Currently, there are no

shares reserved for future issuance under these individual plans.

We adopted the fair-value provisions of FAS No. 123, effective January 1, 2005, and we recorded compensation costs aggregating $798,870 for the twelve months ended December 31, 2005. We recognized no tax benefit for share-based compensation arrangements due to the fact that we are in a cumulative loss position and recognize no tax benefits in our Consolidated Statements of Operations.

We estimate the fair value of each stock option on the date of grant using a Black-Scholes-Merton (BSM) option-pricing formula, applying the following assumptions and amortize that value to expense over the options' vesting periods using the straight-line attribution approach. In addition to the issuance of the outstanding options discussed above, we granted options for 750,000 shares in 2004, which were part of the options for 5,395,000 shares that were exchanged into an equivalent number of common shares in 2004, as discussed further below.

	2005
Expected Term (in years)	6
Risk-free rate	5%
Expected volatility	141%
Expected dividends	0%

Expected Term: The expected term represents the period over which the share-based awards are expected to be outstanding. It has been determined as the midpoint between the vesting date and the end of the contractual term.

Risk-Free Interest Rate: We based the risk-free interest rate used in our assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the stock option award's expected term.

Expected Volatility: The volatility factor used in our assumptions is based on the historical price of our stock over the most recent period commensurate with the expected term of the stock option award.

Expected Dividend Yield: We do not intend to pay dividends on our common stock for the foreseeable future. Accordingly, we use a dividend yield of zero in our assumptions.

A summary of option activity under the stock incentive plan for the years ended December 31, 2005 and 2004 are presented below:

	2005		2004	
Options	Number of Options	Average Exercise Price	Weighted-Number of Options	Weighted-Average Exercise Price
Outstanding Balance at beginning of year	1,025,000	$0.46	7,903,705	$ 0.43
Granted	9,122,743	$0.28	750,000	$ 0.29

Exercised	-	-	-	-
Forfeited	(547,321)	$0.28	-	-
Expired	-	-	(2,233,705)	$(0.76)
Cancelled	-	-	(5,395,000)	$(0.27)
Outstanding at the end of the year	9,600,422	$0.30	1,025,000	$ 0.46
Exercisable at the end of the year	3,816,806	$0.33	1,025,000	$ 0.46

The following table summarized the status of the stock options outstanding and exercisable at December 31, 2005:

	2005 Options Outstanding			2005 Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$.20 to $.35	9,200,422	9.18	$0.28	3,416,806	$0.16
$.60 to $1.00	400,000	4.94	$0.78	400,000	$0.78
	9,600,422	9.00	$0.30	3,816,806	$0.22

The weighted-average exercise prices and weighted-average fair values of options granted during 2005 for which the exercise prices exceeded the market prices of the stock was $0.23 and $0.15, respectively. The weighted-average exercise price and weighted-average fair value of options granted during 2005 for which

the exercise price equaled the market price of the stock was $0.61 and $0.56, respectively. There were no exercises of options during the years ended December 31, 2005 and 2004.

During 2004 we granted options for 750,000 shares which were cancelled and converted into common shares. These options were part of options for 5,395,000 shares that were exchanged into an equivalent number of unregistered common shares in 2004. In connection with such cancellation, we recorded $269,750 of compensation expenses at the value of $.05 per each common share. This valuation was discounted from the quoted market price of $.08 due to restrictions imposed by insider trading and short swing profits rules on the transferability of such shares that were issued to our directors and senior management.

In May 2005, we extended the contractual life of fully vested options for 770,000 shares held by two directors. As a result of that modification, we have

recognized, on a restated basis, additional compensation expense of $104,000 for the second quarter of 2005

Note 9 - Stockholders' Deficit

(a) Convertible Preferred Stock

We have designated 1,260,000 shares of our preferred stock as Series B Convertible Preferred Stock. Series B Preferred accumulates dividends at the rate of 9% per annum, payable only upon liquidation or redemption, as a percentage of the stated value, out of the assets and available funds. Voting rights of the Series B Convertible Preferred stock are the same as our common stock. Series B Convertible Preferred stock is convertible anytime after December 31, 1997 to our common stock at the fixed ratio of one share of common stock for one share of Series B Convertible Preferred stock surrendered for conversion. We account for Series B Preferred Stock as perpetual preferred equity.

(b) Common Stock Warrants

As of December 31, 2005, we had the following outstanding warrants:

Warrants	Grant date	Expiration date	Warrants/ Options Granted	Exercis Price
Series D Preferred Stock Financing	3/9/1999	11/17/2008	17,500	0.100
Series D Preferred Stock Financing	4/23/1999	11/17/2008	8,750	0.100
Series D Preferred Stock Financing	2/1/2000	11/17/2008	130,000	0.100
Series D Preferred Stock Financing	2/1/2000	11/17/2008	455,000	0.100
Series F Preferred Stock Financing	10/13/2000	11/17/2008	1,038,259	0.100
Series H Preferred Stock Financing	12/5/2001	12/4/2006	2,637,500	0.500
Series H Preferred Stock Financing	1/30/2002	1/30/2007	375,000	0.500
Series H Preferred Stock Financing	2/15/2002	2/14/2007	125,000	0.500
Series H Preferred Stock Financing	3/18/2002	3/17/2007	1,250,000	0.500
January 2005 Convertible Debt Financing	11/20/2003	11/20/2008	2,000,000	0.050
Warrant to Licensor	6/20/2005	6/19/2007	1,000,000	0.050
Warrant Consultant	4/8/2005	4/7/2007	1,000,000	0.250
Warrant to Distributor	8/30/2005	8/29/2008	30,000,000	0.360
April 2004 Financing	4/20/2004	4/19/09	1,500,000	0.100
October 2004 Financing	10/29/2004	10/28/2009	500,000	0.100

January 2005 Financing	1/31/05	1/30/2010	2,000,000	0.100
November 2005 Common Stock Financing	11/28/2005	11/27/2010	15,667,188	0.800
November 2005 Common Stock Financing	11/28/2005	11/27/2010	1,012,500	0.500
Other Financings	12/27/2001	2/28/2007	25,000	0.400
Total Warrants			60,741,697	

Certain conversion features in our debt and preferred stock are indexed to a variable number of common shares based upon our trading stock price. Accordingly, in the event of stock price declines, we may have insufficient

shares to share-settle all of our contracts that are convertible into or exercisable for common stock. As a result, current accounting standards require us to assume that we would not have sufficient authorized shares to settle these other warrants and, therefore, reclassify other warrants and contracts that were otherwise carried in stockholders' equity to derivative liabilities. Such warrants and contracts that required reclassification were indexed to 49,504,688 and 47,679,688 shares of our common stock as of December 31, 2005 and 2004, respectively. We are not required to reclassify certain exempt contracts and employee stock options, so those items are not included in this caption. Derivative income (expense) associated with these other warrants for the years ended December 31, 2005 and 2004 are as follows:

Derivative income (expense)	2005	2004
Warrant derivative	$(7,336,788)	$(316,829)

Activity for our common stock warrants is presented below:

	Shares	Weighted Average Price
Total warrants outstanding at December 31, 2003	34,700,277	$ 0.33
Warrants granted	27,950,000	1.03
Warrants exercised	-	-
Warrants expired	(33,000)	(2.75)
Total warrants outstanding at December 31, 2004	62,617,277	$ 0.64
Warrants granted	66,329,688	0.39
Warrants exercised	(32,873,601)	(0.15)
Warrants expired	(3,331,667)	(1.62)
Warrants redeemed	(32,000,000)	(0.18)
Total warrants outstanding at December 31, 2005	60,741,697	$ 0.44

(c) Other Stockholders' Equity Transactions

Year ended December 31, 2005

Quarter Ended March 31, 2005

New Financing: January 2005 Convertible Notes. On January 31, 2005, we closed a funding transaction with Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited, five institutional accredited investors, for the issuance and sale to the Subscribers of up to $2,300,000 of principal amount of promissory notes convertible into shares of our common stock, and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. One Million One Hundred Fifty Thousand Dollars ($1,150,000) of the

purchase price was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars ($1,150,000) of the purchase price will be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement as defined in the Subscription Agreement. The initial closing notes were at prime plus 4% interest in the aggregate amount of $1,150,000, plus five-year Warrants for the purchase of, in the aggregate, 9,200,000 shares of common stock, at the lesser of (i) $0.16, or (ii) 101% of the closing bid price of the Common Stock as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding the Closing Date. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 460,000 shares plus the aggregate cash amount of $57,500 for due diligence fees to the investors in this transaction. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective August 2, 2005.

November 2003 Convertible Notes. We converted $25,000 of our November 2003 Convertible Promissory Notes into 549,340 shares of common stock pursuant to a notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion included $2,467 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

April 2004 Convertible Notes. We converted $99,999 of our April 2004 Convertible Promissory Notes into 1,141,387 shares of common stock pursuant to notices of conversion from Longview Fund LP, at a fixed conversion price of $0.10. The conversions included $14,138 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

June 2004 Convertible Notes. We converted $41,666 of our June 2004 Convertible Promissory Notes into 430,327 shares of restricted common stock pursuant to a notice of conversion from Longview Fund LP, at a fixed conversion price of $0.15. The conversion included $22,822 of accrued and unpaid interest. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective April 18, 2005.

Quarter Ended June 30, 2005

New Financing: April 2005 Convertible Note. On April 21, 2005, we closed a funding transaction with Alpha Capital Aktiengesellschaft for the issuance of a convertible 10% note in the aggregate amount of $300,000. The promissory note is convertible into shares of common stock of the Company at $0.20 per common share. Conversions are limited to a maximum ownership of 9.99% of the Company's

common stock at any one time. The note has an October 31, 2005 maturity and is payable in five equal monthly installments, commencing June 1, 2005. The installment payments consist of principal (equal to 1/5th of the initial principal amount) plus accrued interest. Installments can be paid in cash or common stock valued at the average closing price of the Company's common stock during the

five trading days immediately preceding the relevant installment due date. The Company has repriced Class B Warrants issued on June 30, 2004 from $2.00 per share to $0.125 per share and issued restricted common stock in the aggregate amount of 93,750 shares for finder's fees to a third-party to facilitate this transaction. The Company has the right to prepay the promissory note by paying to the holder cash equal to 120% of the principal to be prepaid plus accrued interest. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors or a change in the present CEO of the Company. The common stock underlying the note and the finder's fee common stock have "piggy back" registration rights. We issued the convertible note and finder's fee common stock to accredited investors, pursuant to a Regulation D offering.

New Financing: May 2005 Convertible Notes On May 23, 2005, we closed a funding transaction (the "May '05 Transaction") with Longview Fund, LP, Whalehaven Funds Limited, Ellis International Ltd., and Osher Capital Corp., four institutional accredited investors, for the issuance and sale to the Subscribers of Five Hundred Thousand Dollars ($500,000) of principal amount of promissory notes convertible into shares of our common stock and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. This May '05 Transaction was a part of a January 23, 2005 funding transaction for an aggregate of Two Million Three Hundred Thousand Dollars ($2,300,000), One Million One Hundred Fifty Thousand Dollars ($1,150,000) of which was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars ($1,150,000) of which (the "Second Tranche") was to be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement covering the aggregate transaction, as defined in the Subscription Agreement. The May '05 Transaction for Five Hundred Thousand Dollars ($500,000) is a partial interim closing of the Second Tranche, which occurred prior to the anticipated effectiveness of the SB-2 Registration Statement covering the aggregate transaction. Contemporaneous with the May '05 Transaction, we agreed to a modification of the January 23, 2005 aggregate transaction for the substitution of Ellis International Ltd. and Osher Capital Corp. in the place of Alpha Capital Aktiengesellschaft, one of the original investors. The May '05 Transaction convertible notes are at prime plus 4% interest in the aggregate amount of $500,000, plus five-year Warrants for the purchase of, in the aggregate, 4,000,000 shares of common stock, at an exercise price of $0.129. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 200,000 shares plus the aggregate cash amount of $25,000 for due diligence fees to Longview Fund, LP, Gem Funding LLC, Ellis International Ltd., and Osher Capital Corp. in this transaction. The Second Tranche of the January 23, 2005 aggregate transaction,

now in the amount of $650,000, remains outstanding and will be triggered by the effectiveness of the pending SB-2 registration statement.

Conversions: November 2003 Convertible Notes. We converted $50,000 of our November 2003 Convertible Promissory Note into 1,106,740 shares of common stock pursuant to a notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion included $5,337 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

Warrant Exercise: November 2003 Warrant. We issued 1,000,000 shares of common stock to Gamma Opportunity Capital Partners LP pursuant to the exercise of a Warrant issued in connection with the November 2003 financing transaction, and received $50,000 in warrant exercise payments. The shares of common stock underlying the warrant were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 3, 2004.

Warrant Exercise: April 2004 Warrant. We issued 1,500,000 shares of common stock to Longview Fund LP pursuant to the exercise of a Warrant issued in connection with the April 2004 financing transaction, and received $225,000 in warrant exercise payments. The shares of common stock underlying the warrant were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 3, 2004.

Conversions: June 2004 Convertible Notes. We converted $528,573 of our June 2004 Convertible Promissory Notes into 5,633,039 shares of common stock pursuant to notices of conversion from Longview Fund LP, Gem Funding LLC, Whalehaven Capital Fund Limited, Stonestreet Limited Partnership and Bi-Coastal Consulting Corp. at a fixed conversion price of $0.10. The conversion included $33,689 of accrued and unpaid interest. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Warrant Exercise: June 2004 Warrant. We issued 2,200,000 shares of common stock to Longview Fund LP, Whalehaven Capital Fund Limited and Stonestreet Limited Partnership pursuant to the exercise of Warrants issued in connection with the June 2004 financing transaction, and received $309,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: October 2004 Convertible Notes. We converted $446,250 of our October 2004 Convertible Promissory Notes into 4,718,514 shares of common stock pursuant to notices of conversion from Longview Fund LP, Gem Funding LLC, Whalehaven Capital Fund Limited, Stonestreet Limited Partnership and Bi-Coastal Consulting Corp. at a fixed conversion price of $0.10. The conversion included $25,602 of accrued and unpaid interest. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Warrant Exercise: October 2004 Warrant. We issued 1,700,000 shares of common stock to Longview Fund LP, Whalehaven Capital Fund Limited and Stonestreet Limited Partnership pursuant to the exercise of Warrants issued in connection with the October 2004 financing transaction, and received $248,700 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: December 2004 Convertible Notes. We converted $210,000 of our December 2004 Convertible Promissory Notes into 2,176,706 shares of common stock pursuant to notices of conversion, to Momona Capital Corp. and Ellis International Ltd Inc., at a fixed conversion price of $0.10 per share. The conversion included $7,450 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

Warrant Exercise: December 2004 Warrant. We issued 500,000 shares of common stock to Momona Capital Corp. and Ellis International Ltd Inc., pursuant to the exercise of Warrants issued in

connection with the December 2004 financing transaction, and received $72,500 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: January 2005 Convertible Notes. We converted $534,304 of our January 2005 Convertible Promissory Notes into 4,461,685 shares of restricted common stock pursuant to notices of conversion, to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP at a fixed conversion price of $0.125 per share. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective August 2, 2005.

Conversions: Series F Convertible Preferred. We converted 31,134 shares of our Series F Convertible Preferred, having a stated value of $311,340 into 2,903,839 shares of common stock pursuant to notices of conversion, to Austinvest Anstalt Balzers and Esquire Trade & Finance Inc. We issued the Series F Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series H Convertible Preferred. We converted 100,000 shares of our Series H Convertible Preferred, having a stated value of $1,000,000 into 2,500,000 shares of common stock pursuant to notices of conversion, to four individual and two institutional investors. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series I Convertible Preferred. We converted 20,000 shares of our Series I Convertible Preferred, having a stated value of $200,000 into 2,354,808 shares of common stock pursuant to a notice of conversion, to Alpha Capital AG. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Warrant Exercise: Series I Warrant. We issued 1,333,333 shares of restricted common stock to Alpha Capital AG, pursuant to the exercise of Warrants issued in connection with the Series I financing transaction, and received $133,333 in warrant exercise payments. The shares of common stock underlying the warrants are now registered pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Private Placements. On May 17, 2005 we issued the aggregate of 27,500 restricted shares of the Company's common stock, with a recorded value of $4,950, to eleven product sales brokers as a bonus for the performance of services for the Company. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the

registration requirements of the Act for transactions not involving a public offering.

S-8 Registration. On April 14, 2005 and April 18, 2005, we issued 750,000 and 250,000 shares, respectively, of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. These shares were part of 1,500,000 shares of the Company's common stock registered under a Form S-8 registration statement filed December 23, 2004.

Warrant Issue. On June 20, 2005, we issued one year Warrant to Marvel Enterprises Inc. to purchase 1,000,000 shares of our common stock a $0.05 per share. This Warrant was issued in connection with the execution of a License Agreement with Marvel for the United States, Canada and

Mexico. We issued the Warrant pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

Quarter Ended September 30, 2005

Warrant Exercise: Series D Warrant. We issued 696,042 shares of common stock to Longview Fund LP, Longview Equity Fund LP, Longview International Equity Fund LP and Esquire Trade & Finance Inc., pursuant to the cashless exercises of warrants for 763,750 shares of common stock. We issued the Warrants and the underlying common stock upon exercise to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series F Convertible Preferred. We converted 19,133 shares of our Series F Convertible Preferred, having a stated value of $191,330 into 804,752 shares of common stock pursuant to notices of conversion to Amro International, SA. We issued the Series F Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Warrant Exercise: Series F Warrant. We issued 3,345,417 shares of common stock to Austinvest Anstalt Balzers and Esquire Trade & Finance Inc. and Libra Finance, SA., pursuant to the cashless exercise of warrants for 3,676,518 shares of common stock. We issued the Warrants and the underlying common stock upon exercise to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series H Convertible Preferred. We converted 1,000 shares of our Series H Convertible Preferred, having a stated value of $10,000 into 25,000 shares of common stock pursuant to notices of conversion, to one individual investor. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series I Convertible Preferred. We converted 10,000 shares of our Series I Convertible Preferred, having a stated value of $100,000 into 656,953 shares of common stock pursuant to a notice of conversion, to Tradersbloom Limited. The conversion included $24,000 of accrued and unpaid interest. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: April 2004 Convertible Notes. We converted $250,000 of our April 2004 Convertible Promissory Notes into 2,808,219 shares of common stock

pursuant to notices of conversion from Osher Capital Inc., Ellis International Ltd Inc. and Alpha Capital AG. The conversion included $3,082 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 4, 2004.

Conversions: June 2004 Convertible Notes. We converted $250,000 of our June 2004 Convertible Promissory Notes into 2,796,575 shares of common stock pursuant to notices of conversion from Alpha Capital AG at a fixed conversion price of $0.10. The conversion included $29,657 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Conversions: October 2004 Convertible Notes. We converted $125,000 of our October 2004 Convertible Promissory Notes into 1,342,808 shares of common stock pursuant to notices of conversion

from Alpha Capital AG at a fixed conversion price of $0.10. The conversion included $9,280 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Warrant Exercise: December 2004 Warrant. We issued 300,000 shares of common stock to Momona Capital Corp. pursuant to the exercise of Warrants issued in connection with the December 2004 financing transaction, and received $30,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: January 2005 Convertible Notes. We converted $500,071 of our January 2005 Convertible Promissory Notes into 4,186,644 shares of restricted common stock pursuant to notices of conversion, to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP at a fixed conversion price of $0.125 per share. The conversion included $23,260 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: January 2005 Warrant. We issued 7,200,000 shares of common stock to Whalehaven Capital Fund Limited, Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP pursuant to the exercise of Warrants issued in connection with the January 2005 financing transaction, and received $720,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Conversions: April 2005 Convertible Notes. We converted $300,000 of our April 2005 Convertible Promissory Note into 1,556,438 shares of restricted common stock pursuant to notices of conversion, to Alpha Capital AG at a fixed conversion price of $0.20 per share. The conversion included $11,288 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Conversions: May 2005 Convertible Notes. We converted $475,000 of our May 2005 Convertible Promissory Notes into 4,141,270 shares of restricted common stock pursuant to notices of conversion, to Whalehaven Capital Fund Limited,

Ellis International Ltd, Longview Fund LP and Osher Capital Corp. The conversion included $9,317 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: May 2005 Warrant. We issued 4,000,000 shares of common stock to Whalehaven Capital Fund Limited, Ellis International Ltd, Longview Fund LP and Osher Capital Corp. pursuant to the exercise of Warrants issued in connection with the January 2005 financing transaction, and received $400,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

New Financing: August 2005 Convertible Notes On August 18, 2005, we closed a funding transaction (the "August '05 Transaction") with Longview Fund, LP, Longview Equity Fund, LP and Longview International Equity Fund, LP, three institutional accredited investors, for the issuance and sale

to the Subscribers of Six Hundred Fifty Thousand Dollars ($650,000) of principal amount of promissory notes convertible into shares of our common stock and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. This August'05 Transaction was a part of a January 23, 2005 funding transaction for an aggregate of Two Million Three Hundred Thousand Dollars ($2,300,000). The August '05 Transaction is the Second Tranche of the January '05 transaction, which occurred upon the effectiveness of the SB-2 Registration Statement covering the aggregate transaction. The August'05 Transaction convertible notes are at prime plus 4% interest in the aggregate amount of $650,000, plus five-year Warrants for the purchase of, in the aggregate, 5,200,000 shares of common stock, at an exercise price of $0.129. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 260,000 shares plus the aggregate cash amount of $32,500 for due diligence fees to Longview Fund companies. We issued the equity equivalents, the underlying common stock upon conversion and the finders' fee common stock pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On September 30, 2005, we prepaid $250,000 of the aggregate $650,000 of the August '05 Transaction notes, as follows: $57,692 to Longview Fund, LP, $144,231 to Longview Equity Fund, LP and $ $48,077 to Longview International Equity Fund, LP. The holders of these notes waived the prepayment premium in lieu of their retention of warrants attached to August '05 Transaction.

Conversions: August 2005 Convertible Notes. We converted $91,217 of our August 2005 Convertible Promissory Notes into 743,750 shares of restricted common stock pursuant to a notice of conversion, to Longview Fund LP, at a fixed conversion price of $0.125 per share. The conversion included $1,752 of accrued and unpaid interest on the converted amount. We issued the common stock upon

conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: August 2005 Warrant. We issued 5,200,000 shares of common stock to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP pursuant to the exercise of Warrants issued in connection with the August 2005 financing transaction, and received $520,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Private Placements. On August 3, 2005 we issued 500,000 restricted shares of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

On August 29 and September 19, 2005 we issued the aggregate of 1,000,000 restricted shares of our common stock to National Financial Communications Corp. pursuant to the exercise of Warrants issued in connection with a consulting agreement for services rendered for strategic business planning. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which

provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

On September 19, 2005, we issued 450,000 restricted shares of our common stock to Alpha Capital AG, an accredited investor, in a sale not involving a public offering at a price of $1.00 per share. We issued the common stock pursuant to a Regulation D offering.

Warrant Issue. On August 31, 2005, we issued a three year Warrant to Coca-Cola Enterprises Inc. to purchase 30,000,000 shares of our common stock a $0.36 per share. During the first 18 months of the exercise period, the Company has the option to "call" the exercise of up to 10,000,000 shares of common stock issuable upon exercise of the Warrant, upon the Company's satisfaction of certain conditions, including a trading price of not less than $1.08 per share for 20 consecutive trading days. This Warrant was issued in connection with the execution of a Master Distribution Agreement on August 31, 2005. We issued the Warrant pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering. The Company will record an $11,900,000 net charge in deferred distribution costs for the issuance of a three year warrant to Coca-Cola Enterprises to purchase of 30,000,000 shares of our common stock in connection with the Master Distribution Agreement. The Company will recognize that cost as a selling expense over the 10-year term of the agreement.

Quarter Ended December 31, 2005

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of 40,500,000 shares of our common stock for a purchase price of $20,250,000. In addition, we also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of $0.80 per share. The securities are restricted and have been issued pursuant to an exemption to the registration requirements of Section 5 of the Securities Act of 1933 for "transactions of the issuer not

involving any public offering" provided in Section 4(2) of the Act and pursuant to a Regulation D offering. In connection with this financing, we issued common stock purchase warrants to purchase 1,012,500 shares of common stock at an exercise price of $.50 per share and 304,688 shares of common stock at an exercise price of $.80 per share to SG Cowen & Co., LLC, who acted as placement agent for this financing.

The shares of common stock and the shares of common stock underlying the warrants carry registration rights that obligate us to file a registration statement within 45 days from closing and have the registration statement declared effective within 120 days from closing.

All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, or business associates of Bravo! Brands Inc., and transfer was restricted by Bravo! Brands Inc. in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Warrant Exercise: June 2004 Warrant. In December 2005, we issued 2,500,000 shares of common stock to Alpha Capital AG pursuant to the exercise of a "B" Warrant issued in connection with

the June 2004 financing transaction and received $250,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Year ended December 31, 2004

On February 1, 2004, we agreed to issue 750,000 shares of our common stock and warrants to purchase an additional 750,000 shares of common stock to Marvel Enterprises, Inc. We issued this equity in connection with the grant of an intellectual property license by Marvel on January 17, 2004, giving us the right to use certain Marvel Comics characters on our Slammers(R) line of flavored milks. The warrants have an exercise price of $0.10 per share for the first year and, upon the occurrence of certain conditions tied to the royalty performance under the license, can be extended for an additional year with an exercise price of $0.14 per share. We made this private offering to Marvel Enterprises, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On February 12, 2004, we held a special meeting of shareholders at which the shareholders approved an increase of our authorized common stock from 50,000,000 shares to 300,000,000 shares.

On February 17, 2004, we converted 875 shares of Series G Convertible Preferred Stock into 215,164 shares of common stock pursuant to a January 12, 2004 notice of conversion from Nesher, LP, at a conversion price of $0.0407. The conversion included accrued and unpaid dividends on the converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this

conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Nesher, LP.

On February 17, 2004, we converted 1,400 shares of Series G Convertible Preferred Stock into 343,980 shares of common stock pursuant to a January 12, 2004 notice of conversion from Talbiya Investments, Ltd., at a conversion price of $0.0407. The conversion included accrued and unpaid dividends on the converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Talbiya Investments, Ltd.

On February 17, 2004, we converted 700 shares of Series G Convertible Preferred Stock into 172,162 shares of common stock pursuant to a January 12, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of $0.0407. The conversion included accrued and unpaid dividends on the converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of The Keshet Fund, LP.

On February 17, 2004, we converted 2,025 shares of Series G Convertible Preferred Stock into 497,951 shares of common stock pursuant to a January 12, 2004 notice of conversion from Keshet LP, at a conversion price of $0.0407. The conversion included accrued and unpaid dividends on the converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Keshet, LP.

On March 1,2004, we issued 80,000 shares of non-voting Series K 8% Convertible Preferred stock, to Mid-Am Capital, LLC, having a stated value of $10.00 per Preferred K share, for the aggregate purchase price of $800,000. Each preferred share is convertible to 100 shares of our common stock at a conversion price of $0.10, representing 8,000,000 shares of common stock underlying the preferred. In addition, we made the following adjustments to prior issued warrants for the purpose of facilitating future fund raising by us arising out of the exercise of the warrants by Holder. The purchase price, as defined in the Warrant No. 2003-B-002, has been reduced to $0.10, subject to further adjustment as described in the warrant. The expiration date, as defined in the warrant, remains as stated. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On March 9, 2004, we converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 8, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of $0.038. The conversion did not include accrued and unpaid dividends on the converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties on that date in accordance with the instructions of Esquire Trade & Finance Inc.

On April 1 2004, we converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of $0.038. The conversion did not include accrued and unpaid dividends on the

converted preferred. We delayed processing this notice in light of our special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties on that date in accordance with the instructions of Austinvest Anstalt Balzers. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 2, 2004, the Company and Mid-Am Capital, LLC entered into Supplement No.1 to the Series K Convertible Preferred Subscription Agreement, by which we sold an additional 15,000 shares of our Series K Convertible Preferred Stock utilizing the proceeds from a certain promissory note issued by us to Mid-Am in the face amount of $150,000. With the consummation of this sale, the $150,000 promissory note was deemed paid by us in full. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, we converted 4,862 shares of Series G Convertible Preferred Stock into 700,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Nesher, LP, at a conversion price of $0.0853. The conversion included accrued and unpaid dividends of $11,089 on the preferred converted. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, we converted 4,478 shares of Series G Convertible Preferred Stock into 650,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Talbiya B. Investments, Ltd., at a conversion price of $0.0853. The conversion included accrued and unpaid dividends of $10,662 on the preferred converted. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, we converted 1,919 shares of Series G Convertible Preferred Stock into 275,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of $0.0853. The conversion included accrued and unpaid dividends of

$4,265 on the preferred converted. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, we converted 7,677 shares of Series G Convertible Preferred Stock into 1,100,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Keshet, LP, at a conversion price of $0.0853. The conversion included accrued and unpaid dividends of $17,060 on the preferred converted. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 20, 2004, we entered into a Subscription Agreement with Longview Fund, LP and Alpha Capital Aktiengesellschaft for the issuance of two convertible 10% notes in the amount of $250,000 each and five-year warrants for the purchase of, in the aggregate, 3,000,000 shares of common stock, at $0.15 per share. The notes are convertible into shares of our common stock at $0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes are payable in twelve equal monthly installments, commencing November 1, 2004. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on October 1, 2005, if our common stock trades above $0.20 for the five trading days prior to the due date of an installment payment. In connection with this transaction, we issued two additional notes in the aggregate amount of

$50,000, upon identical terms as the principal notes, as a finder's fee, and paid $20,000 in legal fees. The common stock underlying all notes and warrants carry registration rights. We issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

On April 30, 2004, we converted 20,000 shares of Series F Convertible Preferred Stock into 1,945,525 shares of common stock pursuant to an April 27, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of $0.1028. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, we converted 20,000 shares of Series F Convertible Preferred Stock into 1,945,525 shares of common stock pursuant to an April 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of $0.1028. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, we converted 2,500 shares of Series F Convertible Preferred Stock into 243,191 shares of common stock pursuant to an April 27, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of $0.1028. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, we converted 2,500 shares of Series F Convertible Preferred Stock into 243,191 shares of common stock pursuant to an April 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of $0.1028. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On May 20, 2004, we converted 9,226 shares of Series G Convertible Preferred Stock into 620,578 shares of common stock pursuant to a May 19, 2004 notice of conversion from Nesher, LP, at a conversion price of $0.148. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On May 20, 2004, we converted 13,972 shares of Series G Convertible Preferred Stock into 939,782 shares of common stock pursuant to a May 19, 2004 notice of conversion from Keshet, LP, at a conversion price of $0.148. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On June 17, 2004, we issued 87,195 of our common stock to Stephen Nollau, a former consultant, for services rendered. We issued the common stock pursuant to a Form S-8 registration statement, filed by us on June 16, 2004.

On June 29, 2004, we converted 234 shares of Series G Convertible Preferred Stock into 13,604 shares of common stock pursuant to a June 15, 2004 notice of conversion from Nesher, LP, at a conversion price of $0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred held by this investor.

On June 29, 2004, we converted 1,850 shares of Series G Convertible Preferred Stock into 107,558 shares of common stock pursuant to a June 15, 2004 notice of conversion from Keshet, LP, at a conversion price of $0.172. The

conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred held by this investor.

On June 29, 2004, we converted 3,472 shares of Series G Convertible Preferred Stock into 201,860 shares of common stock pursuant to a June 15, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of $0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred held by this investor.

On June 29, 2004, we converted 8,091 shares of Series G Convertible Preferred Stock into 470,406 shares of common stock pursuant to a June 15, 2004 notice of conversion from Talbiya B. Investments, Ltd, at a conversion price of $0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred held by this investor.

On June 30, 2004, we entered into Subscription Agreements with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited, Stonestreet Limited Partnership and Mid-Am Capital L.L.C for the issuance of convertible 10% notes in the aggregate amount of $1,300,000 and five-year "A" warrants for the purchase of, in the aggregate, 5,200,000 shares of common stock, at $0.25 per share, and five-year "B" warrants for the purchase of, in the aggregate, 13,000,000 shares of common stock, at $2.00 per share. The notes are convertible into shares of our common stock at $0.15 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes are payable in twelve equal monthly installments, commencing January 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on December 1, 2005, if our common stock trades above $0.20 for the five trading days prior to the due date of an installment payment. In connection with this transaction, we issued additional notes in the aggregate

amount of $40,000 to Gem Funding, LLC, Bi-Coastal Consulting Corp., Stonestreet Limited Partnership and Libra Finance, S.A upon identical terms as the principal notes, as a finder's fee, and paid $12,500 in legal fees. The common stock underlying all notes and warrants carry registration rights. We issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

On August 9, 2004, we converted $50,000 of our November 2003 Convertible Promissory Note into 1,000,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On August 23, 2004, we converted $50,000 of our April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of

$0.10. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On September 27, 2004, we converted $50,000 of our April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 21, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of $0.10. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On October 6, 2004, we converted $25,000 of our November 2003 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 23, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On October 6, 2004, we issued 500,000 shares of our common stock to Knightsbridge Holdings, LLC, pursuant to a consulting agreement dated November 10, 2003. We issued the common stock pursuant to our SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in our Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

On October 13, 2004, we issued 250,000 restricted shares of our common stock in a private placement to Arthur Blanding, at the market price of $0.12 per share, pursuant to Section 4(2) of the Securities Act of 1934. Mr. Blanding, who solicited the purchase, is an accredited investor and has been a director of the Company since 1999.

On October 15, 2004, we issued 750,000 shares of our common stock to Marvel Enterprises, Inc., as partial compensation under a license agreement dated February 1, 2004. We issued the common stock pursuant to our SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in our Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

On October 29, 2004, we entered into Subscription Agreements with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited and Stonestreet Limited Partnership for the issuance of convertible 10% notes in the aggregate amount of $550,000 and five-year "C" warrants for the purchase of, in the aggregate, 2,200,000 shares of common stock, at $0.15 per share, and the repricing

of five-year "A" warrants, issued June 30, 2004 for the purchase of, in the aggregate, 3,200,000 shares of common stock, from $0.25 to $0.15 per share. The notes are convertible into shares of our common stock at $0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes are payable in twelve equal monthly installments, commencing May 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above $0.15 for the five trading days prior to the due date of an installment payment and the underlying common stock is registered. In connection with this transaction, we issued additional notes, without attached warrants, in the aggregate amount of $27,500 to Gem Funding, LLC, Bi-Coastal Consulting Corp., Stonestreet Limited Partnership and Libra

Finance, S.A upon identical terms as the principal notes, as a finder's fee, and paid $12,500 in legal fees. The common stock underlying all notes and warrants carry registration rights. We issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

On December 17, 2004, we converted $50,000 of our April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a December 8, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of $0.10. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On December 20, 2004, we converted $25,000 of our April 2004 Convertible Promissory Note into 265,958 shares of common stock pursuant to a December 9, 2004 notice of conversion from Bi Coastal Consulting Corp., at a fixed conversion price of $0.10. The conversion included $1,595.89 accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On December 20, 2004, we converted $50,000 of our November 2003 Convertible Promissory Note into 1,000,000 shares of common stock pursuant to a December 8, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion did not include accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On December 27, 2004, we converted 10,000 shares of Series F Convertible Preferred Stock into 1,290,323 shares of common stock pursuant to a December 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of $0.0775. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering and Rule 144.

On December 27, 2004, we converted 10,000 shares of Series F Convertible Preferred Stock into 1,290,323 shares of common stock pursuant to a December 27, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of $0.0775. The conversion did not include accrued and unpaid dividends on the converted preferred. We issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering and Rule 144.

On December 29, 2004, we closed a funding transaction with Momona Capital Corp. and Ellis International Ltd. for the issuance of convertible 10% notes in the aggregate amount of $200,000 and five-year "C" warrants for the purchase of, in the aggregate, 800,000 shares of common stock, at $0.15 per share. The notes are convertible into shares of our common stock at $0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes are payable in twelve equal monthly installments, commencing May 1, 2005. The

installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above $0.15 for the five trading days prior to the due date of an installment payment, and the underlying common stock is registered. In connection with this transaction, we issued additional notes, without attached warrants, in the

aggregate amount of $10,000 to the investors upon identical terms as the principal notes, as a finder's fee, and paid $3,500 in legal fees. The common stock underlying all notes and warrants carry registration rights. We issued the convertible notes and warrants to accredited investors, pursuant to an amendment to an October 29, 2004 Regulation D offering.

On December 31, 2004, we issued 8,095,105 shares of our common stock and options for 150,000 shares at an exercise price of $0.25 per share to our employees and consultants for services rendered, pursuant to a Form S-8 registration statement filed December 23, 2004.

Note 10 - Income Taxes

We have recorded no income tax benefit for our taxable losses during the years ended December 31, 2005 and 2004 because there is no certainty that we will realize those benefits. The components of our deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004
Tax effect of net operating loss carryforwards	$ 14,875,732	$ 9,100,463
Accrued expenses that are deductible in future periods	1,479,268	57,304
Bad debt reserves that are deductible in future periods	130,550	33,718
Debt discounts that affect the timing of our interest	25,477	405,805
Depreciation and amortization method differences	1,645	(37,102)
Net deferred tax assets	$ 16,512,672	$ 9,560,188
Valuation allowances	$(16,512,672)	$(9,560,188)

Our valuation allowances increased by $6,952,484 and $1,934,561 during the years ended December 31, 2005 and 2004, respectively.

As of December 31, 2005, we have a net tax operating loss of $39,881,318 that will be available to offset future taxable income, if any. The use of net operating loss carryforwards to reduce future income tax liabilities is subject to limitation and these amounts will begin to expire in 2022.

The following table illustrates the reconciliation of the tax benefit at the federal statutory rate to our effective rate for each year ended December 31, 2005 and 2004:

	2005	2004
Benefit at federal statutory rate	(34.00)%	(34.00)%
Benefit at state rate, net of federal benefit	(3.30)%	(3.30)%
Non-deductible derivative fair value losses	28.64%	20.43%
Effect of changes in our valuation allowances	8.63%	16.80%
Non-deductible travel expenses and charitable donations	0.03%	0.07%
Benefit at our effective rate	(0.00)%	(0.00)%

We operate in certain foreign jurisdictions that are not reflected in the above rate reconciliation because these operations are insignificant. However, we plan to increase our foreign operations and, as a result, we may generate tax liabilities in these foreign operations in future periods.

Note 11 - Commitments and Contingencies

Lease of Office

We lease office space at our corporate office in Florida under an original operating lease that expired March 8, 2004. We have renewed the operating lease for an additional six-year period that will expire October 30, 2015.

Future minimum rental payments required under the operating lease as of December 31, 2005 are as follows:

Years ending December 31,	Amount
2006	$92,868
2007	$92,868
2008	$92,868
2009	$92,868
2010	$81,140

Rental expense for the years ended December 31, 2005 and 2004 are $90,000 and $68,784, respectively.

Licenses

Royalty advances are payable against earned royalties on a negotiated basis. The table below identifies each Licensor to which our licenses require advance payments and, in addition, reflects the term of the respective licenses as well as the advance royalties remaining to be paid on such negotiated advance royalty payments, as of September 25, 2006. We currently are in default of our guaranteed royalty payments to Marvel Enterprises on our license for the United Kingdom by the aggregate advance remaining listed below for Marvel (UK) .

Licensor	Term	Aggregate Advance Remaining
Marvel (UK)	Two years	$120,960
Masterfoods	Three years	$2,430,000
Diabetes Research Institute	One year	$2,500

Marvel Enterprises, Inc. (Super Heroes(R) and Marvel Heroes(R))

On February 4, 2005, we entered into a two-year license agreement for the utilization of Marvel Heroes characters on our flavored milks in the United Kingdom and Ireland. We agreed to a royalty rate of 4% of net wholesale sales in the territory as the cost of the license. We have adopted the unit sales model currently used in the United States. We have outsourced the infrastructure required for the production, promotion, marketing, distribution and sale of our products through a production agreement with Waterfront Corporation in the UK

and through an exclusive sales agency agreement with Drinks Brokers, Ltd., a UK registered company responsible for the launch and growth of several major beverage brands in the licensed territory.

In March 2005, we entered into a new one-year license agreement with Marvel Enterprises, Inc. to use its Super Heroes(R) properties to promote our branded milk products in the United States, Canada and

Mexico. Under the terms of the license agreement, we agreed to a royalty rate of 5% of net wholesale sales in the United States, 4% for school lunch channels and 2.5% for school hot lunch programs. We also agreed to a 11% royalty on the amount invoiced to dairy processors for "kits" in Canada and Mexico.

On February 4, 2005, we entered into an eighteen month license agreement for the utilization of Marvel Heroes characters on our flavored milks in nine Middle East Countries. We agreed to a 11% royalty on the amount invoiced to third party dairy processors for "kits" in the territory against the prepayment of a guaranteed minimum royalty amount of $75,600.

Chattanooga Bakery, Inc.(Moon Pie(R))

In October 2003, we executed a two-year license agreement with MD Enterprises, Inc. on behalf of Chattanooga Bakery. Under the terms of the license agreement, we have the exclusive right to manufacture, distribute, market and sell Moon Pie(R) flavored milk products in the United States. We agreed to a variable royalty rate of 2% to 3% of net wholesale sales, depending upon volume, as the cost of the license. This license has been extended verbally.

Masterfoods USA (Starburst(R), Milky Way(R), 3 Musketeers(R))

On September 21, 2004, we entered into a licensing agreement with Masterfoods USA, a division of Mars, Incorporated, for the use of Masterfood's Milky Way(R), Starburst(R) and 3 Musketeers(R) trademarks in connection with the manufacture, marketing and sale of single serve flavored milk drinks in the United States, its Possessions and Territories and US Military installations worldwide. The license limits the relationship of the parties to separate independent entities. The amended term of the license agreement expires December 31, 2012. We have agreed to pay a 5% to 7% royalty based upon the total net sales value of the licensed products sold as the cost of the license. Ownership of the licensed marks and the specific milk flavors to be utilized with the marks remains with Masterfoods. We have a right of first refusal for other milk beverage products utilizing the Masterfoods marks within the licensed territory.

Diabetes Research Institute

In June 2005, we agreed to extend our licensing agreement with Diabetes Research Institute for a term beyond the original June 30, 2006 termination date.. We agreed to a variable royalty rate of 0.25% of net sales as the cost of the license . We use this intellectual property, which consists of a logo plus design on the labels of our Slim Slammers(TM) product line.

Employment Contracts

Mr. Warren has an employment contract effective October 1, 2005, having an annual base salary of $300,000, plus a bonus of .25% of top line net sales revenue and normal corporate benefits. This contract has minimum two-year terms plus a severance package upon change of control based on base salary.

Messrs. Toulan, Patipa, Edwards and Kee have employment contracts effective January 1, 2006, having annual base salaries aggregating $710,000, plus discretionary bonuses and normal corporate benefits. These contracts have minimum two-year terms plus severance packages upon change of control based on base salary.

Mr. Kaplan has an employment contract effective November 1, 2005, having an annual base salary of $180,000 for year one, $200,000 for year two and $220,000 for year three, plus discretionary

bonuses and normal corporate benefits. This contract has a minimum three-year terms plus a severance package upon change of control based on base salary

Marketing Commitments

Coca-Cola Enterprises. We are obligated to spend an aggregate of $5,000,000 on marketing activities in 2005 and 2006 and thereafter, beginning in 2007, an amount per year in each country in the defined territory equal or greater than 3% of our total revenue in such defined territory (on a country by country basis). Such national and local advertising for our defined products includes actively marketing the Slammers mark, based on a plan to be mutually agreed each year. We are required to maintain our intellectual property rights necessary for the production, marketing and distribution of our products by CCE.

Marvel UK. We are obligated to contribute to a discretionary marketing fund at the rate of 3% of royalties payable to Marvel for our sales in the UK, if requested by Marvel. We satisfied this obligation with a lump-sum payment of $1,000 at the inception of the license.

Note 12 - Master Distribution Agreement

On August 31, 2005, we entered into a Master Distribution Agreement with Coca-Cola Enterprises, Inc., which included the attendant grant of three year warrants to CCE for the right to purchase 30 million shares of the Company's common stock at an exercise price of $0.36 per share. The fair value of the warrants has been recorded as deferred distribution costs and is being amortized over the life of the distribution agreement.

Under the terms of the agreement, Coca-Cola Enterprises is obligated to use all commercially reasonable efforts to solicit, procure and obtain orders for our products and merchandise and actively promote the sale of such products in the Territory, as defined in the agreement. The agreement establishes a comprehensive process for the phased transition from our existing system of distributors to Coca-Cola Enterprises, dependent upon distribution territory, product and sales channels. The parties have agreed that Coca-Cola Enterprises will implement its distribution on a ramp-up basis, with the initial distribution commencing in the United States on or about the October 31, 2005 effective distribution date. Coca-Cola Enterprises' distribution in other Territory areas will be dependent upon, among other things, third-party licensing considerations and compliance with the regulatory requirements for the products in foreign countries.

Note 13 - Restatements of Prior Financial Statements

We have restated our prior financial statements. This footnote is organized to reflect (i) our annual and quarterly statements of operations as reported and as restated, (ii) a tabular summary of the amounts of adjustments and descriptions

of matters that gave rise to the restatements of our statements of operations and (iii) a tabular summary of the amounts of adjustments and the descriptions of matters that gave rise to the restatements of our balance sheets. See also Notes 1, 5, 6, 7, 8, 9 and 10 for additional disclosures.

Condensed Consolidated Statements of Operations
Years Ended December 31, 2005 and 2004

	Year ended December 31, 2005 (As Restated)	Year ended December 31, 2005 (As Reported)
Revenues	$ 11,948,921	$ 11,948,921
Product costs	(10,443,727)	(8,938,692)
Operating expenses	(18,364,502)	(17,209,180)
Other income (expense)	(62,669,345)	(307,679)
Net (loss)	(79,528,653)	(14,506,630)
Loss applicable to common	(80,850,670)	(14,842,933)
Loss per common share	(0.60)	(0.11)
Comprehensive loss	$(79,559,412)	$(14,537,389)

	Year ended December 31, 2004 (As Restated)	Year ended December 31, 2004 (As Reported)
Revenues	$ 3,344,699	$ 3,344,699
Product costs	(2,873,118)	(2,374,805)
Operating expenses	(4,183,863)	(4,529,373)
Other income (expense)	(7,805,338)	(240,447)
Net (loss)	(11,517,620)	(3,799,926)
Loss applicable to common	(12,505,640)	(4,188,558)
Loss per common share	(0.31)	(0.10)
Comprehensive loss	$(11,518,309)	$ (3,800,615)

Condensed Consolidated Statements of Operations
Three Months Ended March 31, 2005 and 2004

	Three months ended March 31, 2005 (As Restated)	Three months ended March 31, 2005 (As Reported)
Revenues	$ 897,770	$ 897,770
Product costs	(816,113)	(677,663)
Operating expenses	(1,282,309)	(1,340,290)
Other income (expense)	547,582	(117,065)
Net (loss)	(653,070)	(1,237,248)
Loss applicable to common	(924,185)	(1,332,308)

Loss per common share	(0.02)	(0.02)
Comprehensive loss	$ (661,093)	$ (1,245,464)

	Three months ended March 31, 2004 (As Restated)	Three months ended March 31, 2004 (As Reported)
Revenues	$ 438,206	$ 438,206
Product costs	(409,835)	(330,121)
Operating expenses	(976,424)	(957,649)
Other income (expense)	(3,524,664)	(31,685)
Net (loss)	(4,472,717)	(881,249)
Loss applicable to common	(4,698,116)	(974,717)
Loss per common share	(0.15)	(0.03)
Comprehensive loss	$ (4,472,717)	$ (881,249)

Condensed Consolidated Statements of Operations
Three and Six Months Ended June 30, 2005 and 2004

	Three months ended June 30, 2005 (As Restated)	Three months ended June 30, 2005 (As Reported)	Six months Ended June 30, 2005 (As Restated)	Six months ended June 30, 2005 (As Reported)
Revenues	$ 2,448,618	$ 2,448,618	$ 3,346,388	$ 3,346,388
Product costs	(1,972,850)	(1,680,464)	(2,788,963)	(2,358,127)
Operating expenses	(2,696,152)	(2,007,000)	(3,978,461)	(3,347,290)
Other income (expense)	(78,224,912)	(103,181)	(77,677,330)	(220,246)
Net (loss)	(80,445,296)	(1,342,027)	(81,098,366)	(2,579,275)
Loss applicable to common	(81,038,891)	(1,421,928)	(81,963,076)	(2,754,236)
Loss per common share	(1.12)	(0.02)	(1.24)	(0.04)
Comprehensive loss	$(80,442,600)	$ (1,351,790)	$(81,103,693)	$ (2,597,254)

	Three months ended June 30, 2004 (As Restated)	Three months ended June 30, 2004 (As Reported)	Six months Ended June 30, 2004 (As Restated)	Six months ended June 30, 2004 (As Reported)

Revenues	$ 1,441,356	$ 1,441,356	$ 1,879,562	$ 1,879,562
Product costs	(1,051,120)	(934,966)	(1,460,955)	(1,265,087)
Operating expenses	(1,198,967)	(1,342,970)	(2,175,391)	(2,300,619)
Other income (expense)	(9,376,541)	(43,310)	(12,901,205)	(74,995)
Net (loss)	(10,185,272)	(879,890)	(14,657,989)	(1,761,139)
Loss applicable to common	(10,431,608)	(980,710)	(15,129,724)	(1,955,427)
Loss per common share	(0.26)	(0.02)	(0.43)	(0.06)
Comprehensive loss	$(10,185,272)	$ (879,890)	$(14,657,989)	$ (1,761,139)

Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2005 and 2004

	Three months ended Sept. 30, 2005 (As Restated)	Three months ended Sept. 30, 2005 (As Reported)	Nine months Ended Sept. 30, 2005 (As Restated)	Nine months ended Sept. 30, 2005 (As Reported)
Revenues	$ 3,245,305	$ 3,245,305	$ 6,591,693	$ 6,591,693
Product costs	(2,755,957)	(2,360,884)	(5,544,920)	(4,719,011)
Operating expenses	(2,439,020)	(2,717,708)	(6,417,482)	(6,064,998)
Other income (expense)	19,628,825	(3,073,169)	(58,048,505)	(3,293,415)
Net (loss)	17,679,153	(4,906,456)	(63,419,214)	(7,485,371)
Loss applicable to common	17,463,463	(4,994,496)	(64,499,613)	(7,748,732)
Loss per common share	0.15	(0.04)	(0.79)	(0.09)
Comprehensive loss	$ 17,660,830	$ (4,912,126)	$(63,442,863)	$ (7,509,380)

	Three months ended Sept. 30, 2004 (As Restated)	Three months ended Sept. 30, 2004 (As Reported)	Nine months Ended Sept. 30, 2004 (As Restated)	Nine months ended Sept. 30, 2004 (As Reported)
Revenues	$ 825,430	$ 825,430	$ 2,704,992	$ 2,704,992
Product costs	(781,856)	(628,747)	(2,242,811)	(1,893,834)
Operating expenses	(1,182,112)	(1,237,853)	(3,357,503)	(3,538,472)
Other income (expense)	7,436,020	(79,822)	(5,465,185)	(154,817)
Net (loss)	6,297,482	(1,120,992)	(8,360,507)	(2,882,131)
Loss applicable to common	6,043,897	(1,218,164)	(9,085,827)	(3,173,591)
Loss per common share	0.14	(0.03)	(0.24)	(0.08)

Comprehensive loss	$ 6,297,482	$ (1,120,992)	$ (8,360,507)	$ (2,882,131)

The following tables reflect the individual components of our restatements and a description of the nature of the adjustment:

	Quarter ended March 31, 2005	Quarter ended June 30, 2005	Quarter ended Sept. 30, 2005	Quarter e Dec. 31,
Net income (loss), as reported	$ (1,237,248)	$ (1,342,027)	$ (4,906,456)	$ (7,02
Share-based payments	--	(551,810)	(102,782)	56
Deferred development costs	(12,586)	(94,768)	(128,711)	
Derivative income (expense)	1,471,743	(77,311,393)	23,321,020	(8,30
Amortization of debt discount	(772,181)	(489,633)	(73,864)	(9
Liquidated damages expense	--	--	--	(30
Investor relations charges	(30,000)	(332,954)	(634,541)	(48
Other	(72,798)	(322,711)	204,487	(47
Net income (loss), as restated	$ (653,070)	$ (80,445,296)	$ 17,679,153	$ (16,10

Share-based payments: We improperly measured and deferred share-based payment expense related to employee stock options that were issued commencing in the second quarter of the year ended December 31, 2005. These adjustments, which are reflected in operating expenses, reflect the effects of re-measurement of the stock options and the elimination of previously deferred compensation amounts.

Deferred development costs: We improperly capitalized development costs on our balance sheet. These adjustments reflect our revised policy that requires development costs to be expensed as they are incurred. We record development costs as a component of operating expenses.

Derivative income (expense): Derivative income (expense) arises from adjustments to our derivative liabilities to carry these instruments at fair value at the end of each reporting period. Our derivative financial instruments consist of compound and freestanding instruments. These derivative financial instruments arose from (i) our notes payable, convertible notes payable and preferred stock financing transactions and (ii) the reclassification of non-exempt warrants from stockholders' equity to derivative liabilities because share settlement is presumed not to be within our control. We previously did not properly allocate proceeds from our financing transactions to derivative liabilities where applicable; nor did we reclassify our other warrants to derivative liabilities when we presumably lost our ability to share settle such instruments.

Amortization of debt discounts and other charges: We have adjusted our notes payable and convertible notes payable to reflect the allocation of proceeds to derivative liabilities. These allocations have resulted in discounts to the face value of the debt, and we are required to amortize these discounts through periodic charges to interest expense using the effective method. The adjustments reflect the difference between our previous method of recognizing interest expense based upon the stated interest rate and amounts derived from the application of the effective interest method. Other charges include gains and losses on extinguishments of our debt instruments that have arisen when modifications to such instruments were considered to be significant.

Liquidated Damages

Liquidated damages: We have restated our consolidated financial statements to record estimated liquidated damages that arose in connection with a registration rights agreement, pursuant to financial accounting standard No. 5, Accounting for Contingencies. In our previous filing, we recorded these amounts as incurred. During the years ended December 31, 2005 and December 31, 2004, we recorded liquidated damages expense of $303,750 and $0, respectively.

Investor relations charges: We entered into a contract with an investor relations firm during 2005 that required payment in our equity securities. We incorrectly did not recognize the value of these services until the securities were issued. This adjustment reflects the proper recognition of the consulting cost in general and administrative expenses and a reciprocal amount in accrued liabilities.

	Quarter ended March 31, 2005	Quarter ended June 30, 2005	Quarter ended Sept. 30, 2005	Quarter Dec. 31,
Loss applicable to common stockholders, as reported	$ (1,332,308)	$ (1,421,928)	$ (4,994,496)	$ (7,0
Adjustments to net loss	584,178	(79,103,269)	22,585,608	(9,0
Preferred stock accretion	(176,055)	(513,694)	(127,649)	(1
Loss applicable to common stockholders, as restated	$ (924,185)	$ (81,038,891)	$ 17,463,463	$ (16,3

Preferred stock accretions: We did not allocate proceeds from certain of our preferred stock financings to derivative financial instruments (warrants and compound derivatives) and stockholders' equity (beneficial conversion features). These adjustments reflect the accretion of discounts to the preferred stock carrying values, which are reductions to net income (loss) to arrive at income (loss) applicable to common shareholders. We have accreted these discounts in our restated financial statements through periodic charges to retained earnings using the effective method.

	Quarter ended March 31, 2005	Quarter ended June 30, 2005	Quarter ended Sept. 30, 2005	
Loss per common share, as reported	$ (0.02)	$ (0.02)	$ (0.04)	$
Share-based payments	--	(0.01)	(0.00)	
Deferred development costs	(0.00)	(0.00)	(0.00)	
Derivative income (expense)	0.02	(1.07)	0.21	
Amortization of debt discount	(0.01)	(0.01)	(0.00)	
Liquidated damages expense	--	--	--	
Investor relations charges	(0.00)	(0.00)	(0.01)	
Preferred stock accretions/dividends	(0.00)	(0.01)	(0.00)	
Net income (loss) per common share, as restated	$ (0.02)	$ (1.12)	$ 0.15	$

Diluted income per common share, as restated	$ (0.02)	$ (1.12)	$ 0.01	$

See descriptions that we have provided under the tables for net income (loss) and income (loss) applicable to common stockholders. Our restated income (loss) per common share reflects the application of the treasury stock method and the if-converted methods where those methods are appropriate.

	Quarter ended March 31, 2005	Quarter ended June 30, 2005	Quarter ended Sept. 30, 2005	Quarter ended Dec. 31, 2005
Comprehensive loss, as reported	$ (1,245,464)	$ (1,351,790)	$ (4,912,126)	$ (7,028,009)
Comprehensive loss, as restated	$ (661,093)	$ (80,442,600)	$ 17,660,830	$ (16,116,549)

Our restated comprehensive income (loss) reflects the adjustments attributable to net income (loss), above.

	Quarter ended March 31, 2004	Quarter ended June 30, 2004	Quarter ended Sept. 30, 2004	Quart Dec.
Net income (loss), as reported	$ (881,249)	$ (879,890)	$ (1,120,992)	$
Deferred development costs	(102,951)	(28,790)	(1,089)	
Derivative income (expense)	(3,430,564)	(9,105,816)	8,005,711	(
Amortization of debt discount	(57,500)	(162,500)	(484,901)	
Other	(453)	(8,276)	(101,247)	
Net income (loss), as restated	$ (4,472,717)	$ (10,185,272)	$ 6,297,482	$ (

Deferred development costs: We improperly capitalized development costs on our balance sheet. These adjustments reflect our revised policy that requires development costs to be expensed as they are incurred. We record development costs as a component of operating expenses.

Derivative income (expense): Derivative income (expense) arises from adjustments to our derivative liabilities to carry these instruments at fair value at the end of each reporting period. Our derivative financial instruments consist of compound and freestanding instruments. These derivative financial instruments arose from (i) our notes payable, convertible notes payable and preferred stock financing

transactions and (ii) the reclassification of non-exempt warrants from stockholders' equity to derivative liabilities because share settlement is presumed not to be within our control. We previously did not properly allocate proceeds from our financing transactions to derivative liabilities where applicable; nor did we reclassify our other warrants to derivative liabilities when we presumably lost our ability to share settle such instruments.

Amortization of debt discounts and other charges: We have adjusted our notes payable and convertible notes payable to reflect the allocation of proceeds to derivative liabilities. These allocations have resulted in discounts to the face value of the debt, and we are required to amortize these discounts through periodic charges to interest expense using the effective method. The adjustments reflect the difference between our previous method of recognizing interest expense based upon the stated interest rate and amounts derived from the application of the effective interest method. Other charges include gains and losses on extinguishments of our debt instruments that have arisen when modifications to such instruments were considered to be significant.

Investor relations charges: We entered into a contract with an investor relations firm during 2005 that required payment in our equity securities. We incorrectly did not recognize the value of these services until the securities were issued. This adjustment reflects the proper recognition of the consulting cost in general and administrative expenses and a reciprocal amount in accrued liabilities.

See descriptions that we have provided under the tables for net income (loss) and income (loss) applicable to common stockholders. Our restated income (loss) per common share reflects the application of the treasury stock method and the if-converted methods where those methods are appropriate.

	Quarter ended March 31, 2004	Quarter ended June 30, 2004	Quarter ended Sept. 30, 2004	Quarter Dec. 31,
Loss applicable to common stockholders, as reported	$ (974,717)	$ (980,710)	$ (1,218,164)	$ (1,0
Adjustments to net loss	(3,591,468)	(9,305,352)	7,418,444	(2,2
Preferred stock accretion	(131,931)	(145,546)	(156,383)	(1
Loss applicable to common stockholders, as restated	$ (4,698,116)	$ (10,431,608)	$ 6,043,897	$ (3,4

Preferred stock accretions: We did not allocate proceeds from certain of our preferred stock financings to derivative financial instruments (warrants and compound derivatives) and stockholders' equity (beneficial conversion features). These adjustments reflect the accretion of discounts to the preferred stock carrying values, which are reductions to net income (loss) to arrive at income (loss) applicable to common shareholders. We have accreted these discounts in our restated financial statements through periodic charges to retained earnings using the effective method.

	Quarter ended March 31, 2004	Quarter ended June 30, 2004	Quarter ended Sept. 30, 2004
Loss per common share,	$ (0.03)	$ (0.02)	$ (0.03)

as reported			
Deferred development costs	(0.00)	(0.00)	(0.00)
Derivative income (expense)	(0.12)	(0.24)	0.18
Amortization of debt discount	(0.00)	(0.00)	(0.01)
Investor relations charges	(0.00)	(0.00)	(0.00)
Preferred stock accretions/dividends	(0.01)	(0.01)	(0.01)
Net income (loss) per common share, as restated	$ (0.15)	$ (0.26)	$ 0.14
Diluted income per common share, as restated	$ (0.15)	$ (0.26)	$ 0.01

See descriptions that we have provided under the tables for net income (loss) and income (loss) applicable to common stockholders. Our restated income (loss) per common share reflects the application of the treasury stock method and the if-converted methods where those methods are appropriate.

	Quarter ended March 31, 2004	Quarter ended June 30, 2004	Quarter ended Sept. 30, 2004	Quarter ended Dec. 31, 2004
Comprehensive loss, as reported	$ (881,249)	$ (879,890)	$ (1,120,992)	$ (918,494)
Comprehensive loss, as restated	$ (4,472,717)	$ (10,185,272)	$ 6,297,482	$ (3,157,802)

Our consolidated balance sheets as of December 31, 2005 and 2004 have been restated as illustrated in the following table:

	Total Assets	Total Liabilities	Redeemable Preferred Stock	Stockhol Equit (Defic
As reported (December 31, 2005)	$ 24,284,806	$(10,793,837)	$ (3,153,316)	$ 10,337
Adjustments:				
Intangible assets	4,073,314	--	--	
Accrued liabilities	--	(1,656,988)	--	
Dividends payable	--	1,240,682	--	
Derivative liabilities	--	(35,939,235)	--	
Notes payable and convertible notes	--	(1,599,876)	--	
Paid in capital	--	--	--	37,365
Preferred stock adjustments	--	--	1,048,816	
Accumulated Deficit	--	--	--	(70,674
Deferred compensation		--	--	475
As restated (December 31, 2005)	$ 28,358,120	$(48,749,254)	$ (2,104,500)	$(22,495

	Total Assets	Total Liabilities	Redeemable Preferred Stock	Stockhol Equity (Defici
As reported (December 31, 2004)	$ 1,093,847	$ (4,123,541)	$ (4,284,802)	$ (7,314
Adjustments:				
Prepaid Expenses	(163,644)	--	--	
Intangible assets	165,605	--	--	
Accrued liabilities	--	(69,024)	--	
Dividends payable	--	928,379	--	
Derivative liabilities	--	(10,835,629)	--	
Notes payable and convertible notes	--	(1,228,228)	--	
Common Stock	--	--	--	
Paid in Capital	--	--	--	(4,870
Preferred stock adjustments	--	--	1,353,347	
Accumulated Deficit	--	--	--	(4,979
As restated (December 31, 2004)	$ 1,095,808	$(15,328,043)	$ (2,931,455)	$(17,163

The components off our restated consolidated accumulated deficit as of December 31, 2005 and 2004 are set forth in the following tables:

	Accumulated Deficit
As reported (December 31, 2005)	$ (48,579,962)
Adjustments:	
Cumulative Derivative Expense	(59,476,877)
Amortization of Licenses and Distribution Agreements	(584,243)
Cumulative Amortization of Debt Expense	(2,627,050)
Cumulative Accretion of Preferred Stock	(6,774,620)
Cumulative Reversal of Accrued Dividends	1,240,682
Share based payments - 2005	(84,972)
Liquidated damages expense - 2005	(303,750)
Investor relations charges - 2005	(1,482,261)
Cumulative Other	(581,448)
As restated (December 31, 2005)	$ (119,254,501)

	Accumulated Deficit
As reported (December 31, 2004)	$ (33,737,029)
Adjustments:	
Cumulative Derivative Income	1,346,697
Cumulative Product Development Expenses	(162,169)
Cumulative Amortization of Debt Discount Expense	(1,198,412)
Cumulative Accretion of Preferred Stock	(5,788,903)
Cumulative Reversal of Accrued Dividends	928,379
Cumulative Other	(104,694)
As restated (December 31, 2004)	$ (38,716,131)

Intangible assets: We entered into a Master Distribution Agreement with Coca Cola Enterprises on August 31, 2005 that provided for the issuance of 30,000,000

warrants to purchase our common stock. We originally did not value these warrants using a proper valuation method. We have restated the intangible asset to reflect its proper valuation. In addition, the warrants did not meet all of the criteria for equity classification and are carried as derivative liabilities at fair value in the amount of $14,220,657 as of December 31, 2005. Stockholders' equity (deficit) reflects the reclassification of the original value, the adjustments to fair value and adjusted amortization for the revised intangible asset carrying value.

Accrued liabilities: We entered into a contract with an investor relations firm during 2005 that required payment in our equity securities. We incorrectly did not recognize the value of these services until the securities were issued. This adjustment reflects the proper recognition of the consulting cost in general and administrative expenses and a reciprocal amount in accrued liabilities.

Dividends payable: We originally reported dividends payable of $1,240,682 on certain series of our preferred stock; it was the only non-current liability at December 31, 2005. These dividends were not declared and, therefore, they have been reversed against the related charges in retained earnings. In the future we will accrue preferred stock dividends when they have been declared.

Derivative liabilities: We issued certain debt and preferred stock that embody variable conversion rates having the effect of extending share settlement of our share obligations beyond our control. As a result, we reclassified our other warrants to derivative liabilities and carry them at fair value in our revised balance sheet. Derivative financial instruments are initially and subsequently measured at fair values using techniques consistent with the risks associated with the derivative financial instruments. Stockholders' equity (deficit) reflects the reclassification of the original equity related to these warrants and fair value adjustments.

Notes payable and convertible notes payable: We have allocated proceeds from our note payable, convertible note payable and preferred stock financing transactions, where applicable, to compound and freestanding derivative financial instruments in our restated financial statements. As noted above, we

have also re-classed certain non-exempt warrants from stockholders' equity to derivative liabilities because share settlement is presumed not to be within our control. In addition to the adjustments to notes payable described under derivative financial instruments above, we have restated other notes payable to properly reflect discounts and their carrying amounts. These adjustments generally were made through charges to interest expense using the effective interest method over the periods such notes were outstanding.

Preferred Stock Adjustments: We previously reported the aggregate carrying value of $3,153,316 related to our Series F, H, J and K Preferred Stock in stockholders' equity. We are required to carry these instruments outside of stockholders' equity, under the caption redeemable preferred stock, because these instruments have features where the investors' could require us to redeem them for cash. As of December 31, 2005 the carrying value of these series of preferred stock amounted to $2,104,500. See also Note 7.

The financial instruments issued in the original preferred stock financing transactions included both freestanding derivatives (principally warrants) and compound embedded derivatives (principally conversion and default put features) that we are required to carry as derivative liabilities, and at fair values. As of December 31, 2005, these derivative liabilities had a fair value of $36,868,468.

The allocation of proceeds from our preferred stock financing transactions resulted in discounts to the carrying values of the preferred stock. The restated financial statements reflect periodic accretions of these discounts, through charges to retained earnings, using the effective method. We also incorrectly accrued undeclared dividends and have reversed those provisions.

The aggregate of our adjustments to preferred stock, including the periodic (charges) and credits to derivative income (expense), resulted in a decrease in our stockholders' equity of $1,048,816. The effects on income (loss) attributable to these adjustments are reflected in the tables, above.

Deferred Compensation: We previously reported deferred compensation as a component of stockholders' equity of $475,933. We have restated our balance sheet to revalue the underlying options and properly recognize the compensation expense amounting to $560,904 and paid in capital of $84,972.

Note 14 - Subsequent Events (UNAUDITED)

On April 13, 2006, we issued 457,125 shares of common stock pursuant to a notice of conversion of interest and premium associated with our June 2004 convertible note. The common stock underlying this note was registered pursuant to a registration statement declared effective on April 18, 2005.

On April 17, 2006, we issued 807,692 shares of common stock underlying our Series F Warrant for 1,000,000 shares to an accredited investor. The shares of common stock underlying the Warrant were issued pursuant Regulation D.

On April 21, 2006, we issued 437,500 shares of common stock to an accredited investor pursuant to notices of conversion of our April, June and October 2004 convertible notes. The common stock underlying these notes was registered pursuant to a registration statement declared effective on August 3, 2004 and April 18, 2005, respectively.

On April 21, 2006, we issued 196,078 shares of our common stock in a private placement, pursuant to Section 4(2) of the Securities Act of 1933, to an accredited investor.

On April 28, 2006 we issued 1,500,000 shares of common stock underlying our April 2004 Warrant. The shares of common stock underlying the Warrant were registered pursuant to a registration statement declared effective on August 3, 2004.

On May 12, 2006, we issued $2,500,000, six-month-term, 10% notes payable plus detachable warrants to purchase 1,500,000 shares of our common stock with a strike price of $0.80 for a period of five-years. Net proceeds from this financing transaction amounted to $2,235,000. The holder has the option to redeem the notes for cash in the event of defaults and certain other contingent events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We evaluated the terms and conditions of the notes and warrants and determined that (i) the Default Put required bifurcation because it did not meet the "clearly and closely related" criteria of FAS 133 and (ii) the warrants did not meet all of the requisite conditions for equity classification under FAS 133. As a result, the net proceeds from the arrangement were first allocated to the Default Put ($87,146) and the warrants ($901,665) based upon their fair values, because these instruments are required to be initially and subsequently carried at fair values. These instruments will be carried in our balance sheet following the financing under the classification, Derivative Liabilities and

adjusted to fair value. The warrants and shares of common stock underlying the warrants and notes were issued to two accredited investors in a private placement exempt from registration under the Securities Act of 1933 pursuant Regulation D.

On May 16, 2006, we issued 2,000,000 shares of common stock pursuant to an exercise of a warrant associated with our January 2005 convertible note financing. The common stock underlying this warrant was registered pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On June 7, 2006, we issued 101,100 shares of common stock pursuant to a conversion of our May 2005 convertible note. The shares of common stock underlying this convertivle note issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On June 23, 2006, we issued 2,000,000 shares of common stock pursuant to an exercise of a warrant associated with our November 2003 convertible notes financing. The common stock underlying this warrant was registered pursuant to a registration statement declared effective by the Securities and Exchange Commission on August2, 2005.

On July, 6, 2006, we issued 83,121 shares of our common stock in a private placement, pursuant to Section 4(2) of the Securities Act of 1933, to an accredited investor.

On July, 14, 2006, we issued 436,388 shares of common stock upon the cashless exercise of a warrant associated with our Series D convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On July 14, August 14 and August 31, 2006, we issued, in the aggregate, 250,000 shares of common stock pursuant to a conversion of our Series H preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On July, 19, 2006, we issued 1,008,065 shares of common stock upon the cashless exercise of a warrant associated with our Series H convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On July 27, 2006, we entered into definitive agreements to sell $30 million senior convertible notes that are due in 2010 to several institutional and accredited investors in a private placement exempt from

registration under the Securities Act of 1933. The notes initially carry a 9% coupon, payable quarterly and are convertible into shares of common stock at $0.70 per share. In 2007, the coupon may decline to LIBOR upon the Company achieving certain financial milestones. The notes will begin to amortize in equal, bi-monthly payments beginning in mid-2007. We concurrently issued warrants to purchase 12,857,143 shares of common stock at $0.73 per share that expire in July 2011 to the investors in the private placement. Under the terms of the financing, we will sell $30 million notes, of which $15.0 million of the notes will be held in escrow. The release of the escrowed funds will be subject to stockholder approval. We intend to file a proxy statement seeking such shareholder approval as soon as practical. As a result of our failure to file our March 31, 2006 Form 10QSB timely, an event of default has occurred under the terms of the Notes, and the interest rate on the Notes, payable quarterly, was increased from 9% to 14% per annum. Pursuant to the terms of the Notes, upon the

occurrence of an event of default, holders of the Notes may, upon written notice to the Company, each require the Company to redeem all or any portion of their Notes, at a default redemption price calculated pursuant to the terms of the Notes. We have entered into an Amendment Agreement with the holders of the Notes to amend the Notes in certain respects as consideration for the holders' release of the Company's default resulting from its delay in the filing of this quarterly report.

On August 24, 2006, we issued 168,937 shares of common stock pursuant to a conversion of our May 2005 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On September 13 2006, we issued, in the aggregate, 161,527 shares of common stock pursuant to a conversion of our Series F preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On September 28, 2006, we issued 4,000,000 shares of common stock pursuant to a conversion of our November 2003 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 3, 2004.

On September 28, 2006, we issued 1,000,000 shares of common stock pursuant to a conversion of our June 2004 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our Articles of Incorporation, as amended, provide to the fullest extent permitted by Delaware law, our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Articles of Incorporation, as amended, is to eliminate our right and our shareholders (through shareholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in its Articles of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such

indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth an itemization of all estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

NATURE OF EXPENSE	AMOUNT
SEC Registration fee	$ 4,340.90
Accounting fees and expenses	10,000.00*
Legal fees and expenses	35,000.00*
Miscellaneous	5,000.00
TOTAL	$ 54,340.90*

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* Estimated.

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

On January 2, 2002, we issued options for 3,714 shares of common stock having an exercise price of $0.35 and exercisable for five years, pursuant to an employment agreement.

On January 18, 2002, we issued 238,334 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 5,000 shares of Series D Convertible Preferred, at a conversion price of $0.2453. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $8,463.34.

On January 18, 2002, we issued 238,334 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 5,000 shares of Series D Convertible Preferred, at a conversion price of $0.2453. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $8,463.34.

On January 28, 2002, we issued 40,000 shares of common stock to The Keshet Fund LP, upon the conversion of 883 shares of Series G Convertible Preferred, at a conversion price of $0.2453. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $984.83.

On January 28, 2002, we issued 136,038 shares of common stock to Amro International, S.A., upon the conversion of 2,840 shares of Series D Convertible Preferred, at a conversion price of $0.2453. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $4,970.00.

On January 30, 2002, we issued 15,000 shares of its Series H convertible preferred stock, having a conversion price of $0.40 per share of common stock, and warrants for 375,000 shares at $0.50 per share. The Series H convertible preferred stock and warrants were priced at $10.00 per unit, and resulted in proceeds of $150,000 in cash.

On February 4, 2002, we issued 206,700 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 4,375 shares of Series D Convertible Preferred, at a conversion price of $0.2480. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $7,511.60.

On February 4, 2002, we issued 206,700 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 4,375 shares of Series D Convertible Preferred, at a conversion price of $0.2480. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $7,511.60.

On February 5, 2002, we issued 20,000 shares of common stock to The Keshet Fund LP, upon the conversion of 492 shares of Series G Convertible Preferred, at a conversion price of $0.2453. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $496.03.

On February 15, 2002, we issued 5,000 shares of its Series H convertible preferred stock, having a conversion price of $0.40 per share of common stock, and warrants for 125,000 shares at $0.50 per share to a sophisticated and accredited investor. The Series H convertible preferred stock and warrants were priced at $10.00 per unit, and resulted in proceeds of $50,000 in cash.

On February 20, 2002, we issued 35,000 shares of common stock to The Keshet Fund LP, upon the conversion of 832 shares of Series G Convertible Preferred, at a conversion price of $0.2949. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $952.05.

On February 29, 2002, we issued 279,795 shares of common stock to Amro International, S.A, upon the conversion of 7,160 shares of Series D Convertible Preferred, at a conversion price of $0.3013. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $12,711.00.

On March 1, 2002, we issued 20,000 shares of common stock to The Keshet Fund LP, upon the conversion of 536 shares of Series G Convertible Preferred, at a conversion price of $0.2993. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $630.20.

On March 1, 2002, we issued warrants for 25,000 shares of common stock, having an exercise price of $0.40 per share. The warrants are immediately exercisable and have an expiration date of February 28, 2007. These warrants were issued to the lender in connection with a December 27, 2001 loan of $250,000 to us.

On March 15, 2002, we issued 20,000 shares of common stock to The Keshet Fund LP, upon the conversion of 532 shares of Series G Convertible Preferred, at a conversion price of $0.2973. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $633.70.

On March 18, 2002, we issued 50,000 shares of its Series H convertible preferred stock, having a conversion price of $0.40 per share of common stock, and warrants for 1,250,000 shares at $0.50 per share to a sophisticated and accredited investor. The Series H convertible preferred stock and warrants were priced at $10.00 per unit, and resulted in proceeds of $500,000 in cash.

On April 19, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 252 shares of Series G Convertible Preferred, at a conversion price of $0.2840. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $320.80.

On April 19, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 234 shares of Series G Convertible Preferred, at a conversion price of $0.2640. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $299.40.

On April 24, 2002 our Board of Directors voted to extend options for 1,383,705

shares of common stock issued on April 29 and December 15, 1997 to Tamarind Management, Ltd. (an affiliate of Mr. Paul Downes, a founder of the Company) and options for 700,000 shares of common stock issued on December 15, 1997 to Mr. Dale Reese (a founder of the Company), for services rendered to us. These extended options, which had original expiration dates of April 29 and December 15, 2002, respectively, retain an exercise price of $1.00 and are exercisable upon the following conditions: The expiration dates for these options are extended for a two year period, commencing upon the effective date of a registration statement for the resale of the common stock underlying the options; the options will not be exercised during a one year lockup period commencing on the 1st day after our common stock trades during a 90 day period at a moving average of at least $1.00; we have the option to call the options commencing on the 1st day after our common stock trades during a 90 day period at a moving average of at least $2.00.

On May 3, 2002, we issued 52,730 shares of common stock to Amro International, S.A, upon the conversion of 1,000 shares of Series D Convertible Preferred, at a conversion price of $0.22. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $1,811.51.

On May 7, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 215 shares of Series G Convertible Preferred, at a conversion price of $0.2427. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $277.44.

On May 13, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 158 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $207.77.

On May 13, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 158 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $207.77.

On May 13, 2002, we issued 20,000 shares of common stock to Keshet LP, upon the conversion of 316 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $416.07.

On May 13, 2002, we issued 15,000 shares of common stock to Keshet LP, upon the conversion of 237 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $312.45.

On May 17, 2002, we issued 131,239 shares of common stock to Amro International, S.A, upon the conversion of 2,000 shares of Series D Convertible Preferred, at a conversion price of $0.18. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $3,623.00.

On May 17, 2002, we issued 278,498 shares of common stock to Amro International, S.A, upon the conversion of 4,000 shares of Series D Convertible Preferred, at a conversion price of $0.17. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $7,344.00.

On May 20, 2002, we issued 10,000 shares of common stock to Keshet LP, upon the conversion of 158 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $209.37.

On May 20, 2002, we issued 10,000 shares of common stock to Keshet LP, upon the conversion of 131 shares of Series G Convertible Preferred, at a conversion price of $0.1680. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $372.82.

On May 23, 2002, we issued 63,454 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 1,000 shares of Series D Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $7,494.00.

On May 23, 2002, we issued 63,454 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 1,000 shares of Series D Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $7,494.00.

On May 24, 2002, we issued 15,000 shares of common stock to Keshet LP, upon the conversion of 237 shares of Series G Convertible Preferred, at a conversion price of $0.1787. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $312.85.

On May 24, 2002, we issued 15,000 shares of common stock to The Keshet Fund LP, upon the conversion of 157 shares of Series G Convertible Preferred, at a conversion price of $0.1680. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $449.88.

On May 29, 2002, we issued 652,178 shares of common stock to Amro International, S.A, upon the conversion of 9,642 shares of Series D Convertible Preferred, at a conversion price of $0.168. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $13,146.

On May 29, 2002, we issued 652,178 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 9,642 shares of Series D Convertible Preferred, at a conversion price of $0.168. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $13,146.

On May 30, 2002, we issued 652,178 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 9,642 shares of Series D Convertible Preferred, at a conversion price of $0.168. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $13,146.

On June 13, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 126 shares of Series G Convertible Preferred, at a conversion price of $0.1627. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $366.70.

On June 13, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 130 shares of Series G Convertible Preferred, at a conversion price of $0.1680. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $381.12.

On June 17, 2002, we received sufficient consents to file an amended certificate of incorporation, which increased our authorized common stock from 20,000,000 to 50,000,000 shares.

On June 17, 2002, we issued 30,000 shares of its Series I 8% convertible preferred stock and warrants for 2,000,000 shares at $0.50 per share, exercisable within three years from issue, to two sophisticated and accredited investors, pursuant to Rule 506, Regulation D and Section 4(2) of the Securities

Act of 1933. The conversion of the preferred into common stock shall be at a per common share conversion price of 75% of the average of the three lowest closing bid prices for the thirty day period immediately preceding conversion. The conversion price is subject to a maximum of $0.50 per share and a minimum of $0.30 per share, which minimum conversion price shall govern for the 270 days immediately following the issue date of the Series I preferred shares. The minimum conversion price shall be extended indefinitely upon the occurrence of certain defined events, including the effectiveness of a registration statement for the resale of the common stock underlying the preferred and a trading price of our common stock at $0.50 or higher for fifteen consecutive days. We have the ability to compel the exercise of the warrants in tranches of not more than 500,000 warrants each, if the trading price of our common stock equals or exceeds $1.00 for thirty consecutive trading days and a registration statement for the underlying common is effective. The Series I convertible preferred stock and warrants were priced at $10.00 per unit, and resulted in gross cash proceeds of $300,000, less expenses of $12,000.

On June 18, 2002, we agreed to extend the expiration dates of warrants issued in connection with our Series D and F preferred until June 17, 2005 and to reduce the exercise price of certain of those warrants to $1.00. In consideration for this warrant modification, the holders of two promissory notes executed by us aggregating $100,000, dated November 6 and 7, 2001, respectively, agreed to extend the maturity dates of the notes to December 31, 2002. In addition, the holders of our Series D and F preferred stock agreed to waive all potential penalties associated with the Series D and F preferred, including the abandonment of a certain SB-2 registration statement filed in connection with the resale of the common stock underlying the Series D and F preferred. Below is a table containing the warrant modifications.

WARRANTHOLDER	(Series)	WARRANT ISSUE DATE	COMMON SHARES UPON EXERCISE	UNMODIFIED PURCHASE PRICE
Austinvest Anstalt Balzers	(D)	3-9-99	16,250	$2.96
Austinvest Anstalt Balzers	(D)	4-23-99	8,125	$2.96
Austinvest Anstalt Balzers	(D)	2-1-00	422,500	$0.625*
Austinvest Anstalt Balzers	(F)	4-7-00	1,000,000	$1.00
Austinvest Anstalt Balzers	(F)	10-13-00	38,259	$0.9825*
Esquire Trade & Finance, Inc.	(D)	3-9-99	16,250	$2.96
Esquire Trade & Finance, Inc.	(D)	4-23-99	8,125	$2.96
Esquire Trade & Finance, Inc.	(D)	2-1-00	422,500	$0.625*
Esquire Trade & Finance, Inc.	(F)	4-7-00	1,000,000	$1.00
Esquire Trade & Finance, Inc.	(F)	10-13-00	38,259	$0.9625*
Libra Finance, S.A .	(F)	4-7-00	1,600,000	$0.84*
Amro International, S.A.	(D)	2-1-00	455,000	$0.625*
Amro International, S.A.	(F)	4-7-00	1,000,000	$1.00
Amro International, S.A.	(F)	10-13-00	38,259	$0.9625*
Amro International, S.A.	(D)	3-9-99	17,500	$2.96
Amro International, S.A.	(D)	4-23-99	8,750	$2.96

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* Exercise price not adjusted

On June 19, 2002, we issued 33,333 shares of restricted common stock to Tradersbloom Limited, as a finder fee in connection with the issuance of our Series I preferred stock. Tradersbloom Limited is a sophisticated and accredited investor.

On June 19, 2002, we issued 66,667 shares of restricted common stock to Libra Finance, S.A., as a finder fee in connection with the issuance of our Series I preferred stock. Libra Finance, S.A. is a sophisticated and accredited investor.

On June 21, 2002, we issued 10,000 shares of common stock to The Keshet Fund LP, upon the conversion of 135 shares of Series G Convertible Preferred, at a conversion price of $0.1760. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $402.29.

On July 1, 2002, the Company issued 500,000 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 8,250 shares of Series D Convertible Preferred, at a conversion price of $0.165. The conversion did not include accrued and unpaid dividends on the preferred converted.

On July 1, 2002, the Company issued 500,000 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 8,250 shares of Series D Convertible Preferred, at a conversion price of $0.165. The conversion did not include accrued and unpaid dividends on the preferred converted.

On July 23, 2002, the Company issued 475,000 shares of common stock to The Keshet Fund LP, upon the conversion of 6,172 shares of Series G Convertible Preferred, at a conversion price of $0.1680. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $18,083.72.

On July 23, 2002, the Company issued 475,000 shares of common stock to Keshet LP, upon the conversion of 6,172 shares of Series G Convertible Preferred, at a conversion price of $0.1680. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $18,083.72.

On September 26, 2002, the Company issued 154,171 shares of common stock to Amro International, SA, upon the conversion of 2,500 shares of Series D Convertible Preferred, at a conversion price of $0.187. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $3,830.

On September 26, 2002, the Company issued 396,053 shares of common stock to Amro International, SA, upon the conversion of 7,108 shares of Series D Convertible Preferred, at a conversion price of $0.208. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $11,299.

On September 30, 2002, the Company issued 100,000 shares of non-voting Series J Convertible Preferred stock, having a stated value of $10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. ("Mid-Am") for the aggregate purchase price of $1,000,000. Each preferred share is convertible to 40 shares of the Company's common stock of at a per common share conversion price of $0.25, representing 4,000,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 25 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of $0.40 per common stock share, representing 2,500,000 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period . The blended per share price for the common stock underlying the preferred and the warrants is $0.307; the September 30, 2002 closing market trading price was $0.29 per share. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

The common stock issued by the Company in the fourth quarter 2002 resulted from conversions by the holders of Series F and G convertible preferred stock. The common stock and the preferred converted were issued to sophisticated and accredited investors, who had appropriate access to information concerning the Company's operations and financial condition in a rule 506 private offering. Holders of the Series F and G preferred can convert such equity into common shares at 75% of the average of the three lowest bid trading prices of the

Company's common shares measured during a 20 day lookback period.

On November 8, 2002, the Company issued 160,112 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 2,642 shares of Series F Convertible Preferred, at a conversion price of $0.165. The Series F preferred does not include dividends.

On November 8, 2002, the Company issued 160,112 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 2,642 shares of Series F Convertible Preferred, at a conversion price of $0.165. The Series F preferred does not include dividends.

On November 18, 2002, the Company issued 26,000 shares of common stock to Nesher, Ltd., upon the conversion of 377 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $1,333.92.

On November 18, 2002, the Company issued 11,240 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 163 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $577.16.

On November 18, 2002, the Company issued 10,000 shares of common stock to Nesher, Ltd., upon the conversion of 145 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $515.68.

On November 18, 2002, the Company issued 6,000 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 87 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $309.67.

On November 18, 2002, the Company issued 8,000 shares of common stock to The Keshet Fund LP, upon the conversion of 116 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $413.25.

On November 18, 2002, the Company issued 14,440 shares of common stock to Keshet, LP, upon the conversion of 208 shares of Series G Convertible Preferred, at a conversion price of $0.1960. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $747.92.

On November 18, 2002, the Company issued 6,000 shares of common stock to Keshet, LP, upon the conversion of 93 shares of Series G Convertible Preferred, at a conversion price of $0.2093. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $332.70.

On November 20, 2002, the Company issued 2,000,000 shares of common stock to Amro International, SA, upon the conversion of 39,200 shares of Series F Convertible Preferred, at a conversion price of $0.1960. The Series F preferred does not include dividends.

On November 27, 2002, the Company issued 16,000 shares of common stock to Keshet, LP, upon the conversion of 257 shares of Series G Convertible Preferred, at a conversion price of $0.2093. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $931.69.

On November 27, 2002, the Company issued 15,000 shares of common stock to

Keshet, LP, upon the conversion of 273 shares of Series G Convertible Preferred, at a conversion price of $0.2480. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $994.59.

On December 24, 2002, the Company issued 8,000 shares of common stock to The Keshet Fund LP, upon the conversion of 144 shares of Series G Convertible Preferred, at a conversion price of $0.2467. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $534.17.

On December 24, 2002, the Company issued 45,000 shares of common stock to Nesher, LP, upon the conversion of 750 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $2,815.26.

On December 24, 2002, the Company issued 90,000 shares of common stock to Keshet, LP, upon the conversion of 1,501 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $5,630.52.

On December 24, 2002, the Company issued 45,000 shares of common stock to Talbiya B. Investments, Ltd, upon the conversion of 750 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $2,815.26.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vested immediately, expire on December 30, 2007 and have an exercise price of $0.40 per share.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vest on December 31, 2003, expire on December 30, 2008 and have an exercise price of $0.40 per share.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vest on December 31, 2004, expire on December 30, 2009 and have an exercise price of $0.40 per share.

On February 4, 2003, the Company issued 30,000 shares of common stock to Keshet, LP, upon the conversion of 480 shares of Series G Convertible Preferred, at a conversion price of $0.1960. The conversion included accrued and unpaid dividends on the preferred converted.

On February 21, 2003, the Company issued 50,000 shares of non-voting Series J 8% Convertible Preferred stock, having a stated value of $10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. ("Mid-Am") for the aggregate purchase price of $500,000. Each preferred share is convertible to 40 shares of the Company's common stock of at a per common share conversion price of $0.25, representing 2,000,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 33.33 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of $0.30 per common stock share, representing 1,666,667 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period. The February 21, 2003 closing market trading price was $0.23 per share. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On April 14, 2003, the Company issued 50,000 shares of common stock to Keshet, LP, upon the conversion of 596 shares of Series G Convertible Preferred, at a conversion price of $0.148. The conversion included accrued and unpaid dividends on the preferred converted.

On April 22, 2003, the Company issued 50,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 595 shares of Series G Convertible Preferred, at a conversion price of $0.148. The conversion included accrued and unpaid dividends on the preferred converted.

On May 22, 2003, the Company issued 100,000 shares of common stock to Keshet, LP, upon the conversion of 607 shares of Series G Convertible Preferred, at a conversion price of $0.076. The conversion included accrued and unpaid dividends on the preferred converted.

On May 22, 2003, the Company issued 100,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 607 shares of Series G Convertible Preferred, at a conversion price of $0.076. The conversion included accrued and unpaid dividends on the preferred converted.

On May 29, 2003, the Company issued 50,000 shares of non-voting Series J 8% Convertible Preferred stock, having a stated value of $10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. ("Mid-Am") for the aggregate purchase price of $500,000. Each preferred share is convertible to 50 shares of the Company's common stock of at a per common share conversion price of $0.20, representing 2,500,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 40 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of $0.25 per common stock share, representing 2,000,000 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period. The May 22, 2003 closing market trading price was $0.22 per share. In addition, the following adjustments were made to prior issued Warrants for the purpose of facilitating future fund raising by the Company arising out of the exercise of the Warrants by Holder. The Purchase Price, as defined in the Warrants No. 1 and 2, has been reduced to $0.25, subject to further adjustment as described in the Warrants. The Warrant Stock provided for in Warrant No.1 has been increased by 1,500,000 shares. The Warrant Stock provided for in Warrant No. 2 has been increased by 333,333 shares. The Expiration Date, as defined in the respective Warrants, remains as stated. The aforementioned adjustments resulted in a total of 6,000,000 shares of common stock underlying Warrant No. 1 and Warrant No. 2. Those warrants were valued using the Black-Scholes model as of May 22, 2003. No adjustments resulted from that valuation. The trading price Call Option trigger set forth in Section 9 (b) of the Warrants has been reduced from $1.75 to $0.75 per share. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On August 12, 2003, the Company issued 1,200,000 shares of common stock upon the conversion of 6,542 shares of Series G Convertible Preferred. The conversions were based upon notices of conversion received in June and July 2003, and was delayed in order to determine the accuracy of the conversion variables contained in the respective notices of conversion. The conversion-based issuances of common were as follows:

- The Company issued 200,000 shares of common stock to Keshet, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of $0.076. The conversion included accrued and unpaid dividends on the preferred converted.

- The Company issued 200,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of $0.076. The conversion included accrued and unpaid dividends on the preferred converted.

- The Company issued 150,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 773 shares of Series G Convertible Preferred, at a conversion price of $0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

- The Company issued 250,000 shares of common stock to Keshet, LP, upon the conversion of 1,289 shares of Series G Convertible Preferred, at a conversion price of $0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

- The Company issued 200,000 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of $0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

- The Company issued 200,000 shares of common stock to Nesher. Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of $0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

On September 15, 2003, the Company issued 213,750 shares of common stock to Michael Willms, upon the conversion of 7,500 shares of Series H Convertible Preferred, at the fixed conversion price of $0.40. The conversion included accrued and unpaid dividends on the preferred converted.

On September 29, 2003, the Company issued 70,938 shares of common stock to The Dennis H. Willms Irrevocable Trust, Michael Willms, Trustee, upon the conversion of 2,500 shares of Series H Convertible Preferred, at the fixed conversion price of $0.40. The conversion included accrued and unpaid dividends on the preferred converted.

To obtain funding for our ongoing operations, we entered into a Subscription Agreement with two accredited investors in November 2003 for the sale of (i) $400,000 in convertible debentures, (ii) class A warrants to buy 2,000,000 shares of our common stock and (iii) class B warrants to buy 10,000,000 shares of common stock. In connection with this financing, we paid a finders fee to an accredited investor, which included (i) 400,000 shares of common stock, (ii) class A warrant to purchase 2,000,000 shares of common stock and (iii) 10% of the proceeds received by us in connection with the exercise of the class B warrants, which is payable in shares of common stock at the rate of one share of common stock for every ten shares of common stock actually issued upon exercise of the class B warrants.

In April 2004, we entered into a Subscription Agreement with two accredited investors for the sale of (i) $500,000 in convertible debentures and (ii) warrants to buy 3,000,000 shares of our common stock. In connection with this financing, we paid a fee in the amount of $50,000 in the form of a convertible debentures.

The debentures issued in connection with the April 2004 financing bear interest at 10%. The principal on the notes is due in equal monthly installments

commencing on November 1, 2004 until October 1, 2005. On October 1, 2005, all principal and interest shall become due. In the event that our common stock has a closing price in excess of $.20 for the five days preceding the monthly payment, then, within our discretion, the monthly payment may be deferred. and the notes are convertible into our common stock at $0.10 per share.

Marvel License

On February 1, 2004, we entered into a license agreement with Marvel Enterprises, Inc. In consideration for the use of proprietary information, we issued Marvel 750,000 shares of our common stock and a common stock purchase warrant to purchase 750,000 shares of our common stock. The warrants have an exercise price of $.10 per share for the first year and, upon the occurrence of certain conditions tied to the royalty performance under the license, can be extended for an additional year with an exercise price of $.14 per share.

June 2004

In June 2004, we entered into a Subscription Agreement with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited and Stonestreet Limited Partnership for the issuance of convertible 10% notes in the aggregate amount of $800,000 and five-year "A" warrants for the purchase of, in the aggregate, 3,200,000 shares of common stock, at $0.25 per share, and five-year "B" warrants for the purchase of, in the aggregate, 8,000,000 shares of common stock, at $2.00 per share. In addition, in a separate private placement, Mid-Am Capital L.L.C. invested $500,000 in exchange for convertible 10% notes, 5,000,000 "A" warrants and 2,000,000 "A" warrants, which had identical terms to that of the other investors. In consideration for the investors providing us with additional financing in the aggregate amount of $550,000 in October 2004, we subsequently amended the exercise price to $.15 for the "A" warrants and to $.125 for the "B" warrants issued to Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited and Stonestreet Limited Partnership. The notes are convertible into shares of common stock of the Company at $0.10 per common share. The notes are payable in twelve equal monthly installments, commencing January 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on December 1, 2005, if our common stock trades above $0.20 for the five trading days prior to the due date of an installment payment.

The investors have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

October 2004

On October 29, 2004, we entered into Subscription Agreements with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited and Stonestreet Limited Partnership for the issuance of convertible 10% notes in the aggregate amount of $550,000 and five-year "C" warrants for the purchase of, in the aggregate, 2,200,000 shares of common stock, at $0.15 per share, and the repricing of five-year "A" warrants, issued June 30, 2004 for the purchase of, in the aggregate, 3,200,000 shares of common stock, from $0.25 to $0.15 per share. The notes are convertible into shares of common stock at $0.10 per common share. The notes are payable in twelve equal monthly installments, commencing May 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above $0.15 for the five trading days prior to the due date of an installment payment and the underlying common stock is registered. In connection

with this transaction, we issued additional notes, without attached warrants, in the aggregate amount of $27,500 to Gem Funding, LLC, Bi-Coastal Consulting Corp., Stonestreet Limited Partnership and Libra Finance, S.A upon identical terms as the principal notes, as a finder's fee, and paid $12,500 in legal fees. The common stock underlying all notes and warrants carry registration rights.

The investors have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

December 2004

In December 2004, we entered into Subscription Agreements with Momona Capital Corp. and Ellis International Ltd. for the issuance of convertible 10% notes in the aggregate amount of $400,000 and five-year "C" warrants for the purchase of, in the aggregate, 800,000 shares of common stock, at $0.15 per share The notes are convertible into shares of common stock at $0.10 per common share. The notes are payable in twelve equal monthly installments, commencing May 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above $0.15 for the five trading days prior to the due date of an installment payment and the underlying common stock is registered. In connection with this transaction, we issued additional notes, without attached warrants, in the aggregate amount of $10,000 to Momona Capital Corp. and Ellis International Ltd. upon identical terms as the principal notes, as a finder's fee. The common stock underlying all notes and warrants carry registration rights.

The investors have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

YEAR ENDED DECEMBER 31, 2005

Quarter Ended March 31, 2005

New Financing: January 2005 Convertible Notes . On January 31, 2005, we closed a funding transaction with Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited, five institutional accredited investors, for the issuance and sale to the Subscribers of up to $2,300,000 of principal amount of promissory notes convertible into shares of our common stock, and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. One Million One Hundred Fifty Thousand Dollars ($1,150,000) of the purchase price was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars ($1,150,000) of the purchase price will be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement as defined in the Subscription Agreement. The initial closing notes were at prime plus 4% interest in the aggregate amount of $1,150,000, plus five-year Warrants for the purchase of, in the aggregate, 9,200,000 shares of common stock, at the lesser of (i) $0.16, or (ii) 101% of the closing bid price of the Common Stock as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding the Closing Date. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99%

of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 460,000 shares plus the aggregate cash amount of $57,500 for due diligence fees to the investors in this transaction. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective August 2, 2005.

November 2003 Convertible Notes. We converted $25,000 of our November 2003 Convertible Promissory Notes into 549,340 shares of common stock pursuant to a notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion included $2,467 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

April 2004 Convertible Notes. We converted $99,999 of our April 2004 Convertible Promissory Notes into 1,141,387 shares of common stock pursuant to notices of conversion from Longview Fund LP, at a fixed conversion price of $0.10. The conversions included $14,138 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

June 2004 Convertible Notes. We converted $41,666 of our June 2004 Convertible Promissory Notes into 430,327 shares of restricted common stock pursuant to a notice of conversion from Longview Fund LP, at a fixed conversion price of $0.15. The conversion included $22,822 of accrued and unpaid interest. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective April 18, 2005.

Quarter Ended June 30, 2005

New Financing: April 2005 Convertible Note. On April 21, 2005, we closed a funding transaction with Alpha Capital Aktiengesellschaft for the issuance of a convertible 10% note in the aggregate amount of $300,000. The promissory note is convertible into shares of common stock of the Company at $0.20 per common share. Conversions are limited to a maximum ownership of 9.99% of the Company's common stock at any one time. The note has an October 31, 2005 maturity and is payable in five equal monthly installments, commencing June 1, 2005. The installment payments consist of principal (equal to 1/5th of the initial principal amount) plus accrued interest. Installments can be paid in cash or common stock valued at the average closing price of the Company's common stock during the five trading days immediately preceding the relevant installment due date. The Company has repriced Class B Warrants issued on June 30, 2004 from $2.00 per share to $0.125 per share and issued restricted common stock in the aggregate amount of 93,750 shares for finder's fees to a third-party to facilitate this transaction. The Company has the right to prepay the promissory note by paying to the holder cash equal to 120% of the principal to be prepaid plus accrued interest. The notes have an acceleration provision upon the change

in a majority of the present Board of Directors except as the result of the death of one or more directors or a change in the present CEO of the Company. The common stock underlying the note and the finder's fee common stock have "piggy back" registration rights. We issued the convertible note and finder's fee common stock to accredited investors, pursuant to a Regulation D offering.

New Financing: May 2005 Convertible Notes On May 23, 2005, we closed a funding transaction (the "May '05 Transaction") with Longview Fund, LP, Whalehaven Funds Limited, Ellis International Ltd., and Osher Capital Corp., four institutional accredited investors, for the issuance and sale to the Subscribers of Five Hundred Thousand Dollars ($500,000) of principal amount of promissory notes convertible into shares of our common stock and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. This May '05 Transaction was a part of a January 23, 2005 funding transaction for an aggregate of Two Million Three Hundred Thousand Dollars ($2,300,000), One Million One Hundred Fifty Thousand Dollars ($1,150,000) of which was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars ($1,150,000) of which (the "Second Tranche") was to be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement covering the aggregate transaction, as defined in the Subscription Agreement. The May '05 Transaction for Five Hundred Thousand Dollars ($500,000) is a partial interim closing of the Second Tranche, which occurred prior to the anticipated effectiveness of the SB-2 Registration Statement covering the aggregate transaction. Contemporaneous with the May '05 Transaction, we agreed to a modification of the January 23, 2005 aggregate transaction for the substitution of Ellis International Ltd. and Osher Capital Corp. in the place of Alpha Capital Aktiengesellschaft, one of the original investors. The May '05 Transaction convertible notes are at prime plus 4% interest in the aggregate amount of $500,000, plus five-year Warrants for the purchase of, in the aggregate, 4,000,000 shares of common stock, at an exercise price of $0.129. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 200,000 shares plus the aggregate cash amount of $25,000 for due diligence fees to Longview Fund, LP, Gem Funding LLC, Ellis International Ltd., and Osher Capital Corp. in this transaction. The Second Tranche of the January 23, 2005 aggregate transaction, now in the amount of $650,000, remains outstanding and will be triggered by the effectiveness of the pending SB-2 registration statement.

Conversions: November 2003 Convertible Notes. We converted $50,000 of our November 2003 Convertible Promissory Note into 1,106,740 shares of common stock pursuant to a notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of $0.05. The conversion included $5,337 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

Warrant Exercise: November 2003 Warrant. We issued 1,000,000 shares of common stock to Gamma Opportunity Capital Partners LP pursuant to the exercise of a Warrant issued in connection with the November 2003 financing transaction,

and received $50,000 in warrant exercise payments. The shares of common stock underlying the warrant were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 3, 2004.

Warrant Exercise: April 2004 Warrant. We issued 1,500,000 shares of common stock to Longview Fund LP pursuant to the exercise of a Warrant issued in connection with the April 2004 financing transaction, and received $225,000 in warrant exercise payments. The shares of common stock underlying the warrant were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 3, 2004.

Conversions: June 2004 Convertible Notes. We converted $528,573 of our June 2004 Convertible Promissory Notes into 5,633,039 shares of common stock pursuant to notices of conversion from Longview Fund LP, Gem Funding LLC, Whalehaven Capital Fund Limited, Stonestreet Limited Partnership and Bi-Coastal Consulting Corp. at a fixed conversion price of $0.10. The conversion included $33,689 of accrued and unpaid interest. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Warrant Exercise: June 2004 Warrant. We issued 2,200,000 shares of common stock to Longview Fund LP, Whalehaven Capital Fund Limited and Stonestreet Limited Partnership pursuant to the exercise of Warrants issued in connection with the June 2004 financing transaction, and received $309,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: October 2004 Convertible Notes. We converted $446,250 of our October 2004 Convertible Promissory Notes into 4,718,514 shares of common stock pursuant to notices of conversion from Longview Fund LP, Gem Funding LLC, Whalehaven Capital Fund Limited, Stonestreet Limited Partnership and Bi-Coastal Consulting Corp. at a fixed conversion price of $0.10. The conversion included $25,602 of accrued and unpaid interest. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Warrant Exercise: October 2004 Warrant. We issued 1,700,000 shares of common stock to Longview Fund LP, Whalehaven Capital Fund Limited and Stonestreet Limited Partnership pursuant to the exercise of Warrants issued in connection with the October 2004 financing transaction, and received $248,700 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: December 2004 Convertible Notes. We converted $210,000 of our December 2004 Convertible Promissory Notes into 2,176,706 shares of common stock pursuant to notices of conversion, to Momona Capital Corp. and Ellis International Ltd Inc., at a fixed conversion price of $0.10 per share. The conversion included $7,450 of accrued and unpaid interest. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

Warrant Exercise: December 2004 Warrant. We issued 500,000 shares of common stock to Momona Capital Corp. and Ellis International Ltd Inc., pursuant to the exercise of Warrants issued in connection with the December 2004 financing transaction, and received $72,500 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18,

2005.

Conversions: January 2005 Convertible Notes. We converted $534,304 of our January 2005 Convertible Promissory Notes into 4,461,685 shares of restricted common stock pursuant to notices of conversion, to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP at a fixed conversion price of $0.125 per share. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is now registered pursuant to a Form SB-2 registration statement declared effective August 2, 2005.

Conversions: Series F Convertible Preferred. We converted 31,134 shares of our Series F Convertible Preferred, having a stated value of $311,340 into 2,903,839 shares of common stock pursuant to notices of conversion, to Austinvest Anstalt Balzers and Esquire Trade & Finance Inc. We issued the Series F Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series H Convertible Preferred. We converted 100,000 shares of our Series H Convertible Preferred, having a stated value of $1,000,000 into 2,500,000 shares of common stock pursuant to notices of conversion, to four individual and two institutional investors. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series I Convertible Preferred. We converted 20,000 shares of our Series I Convertible Preferred, having a stated value of $200,000 into 2,354,808 shares of common stock pursuant to a notice of conversion, to Alpha Capital AG. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Warrant Exercise: Series I Warrant. We issued 1,333,333 shares of restricted common stock to Alpha Capital AG, pursuant to the exercise of Warrants issued in connection with the Series I financing transaction, and received $133,333 in warrant exercise payments. The shares of common stock underlying the warrants are now registered pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Private Placements. On May 17, 2005 we issued the aggregate of 27,500 restricted shares of the Company's common stock, with a recorded value of $4,950, to eleven product sales brokers as a bonus for the performance of services for the Company. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

S-8 Registration. On April 14, 2005 and April 18, 2005, we issued 750,000 and 250,000 shares, respectively, of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. These shares were part of 1,500,000 shares of the Company's common stock registered under a Form S-8 registration statement filed December 23, 2004.

Warrant Issue. On June 20, 2005, we issued one year Warrant to Marvel Enterprises Inc. to purchase 1,000,000 shares of our common stock a $0.05 per share. This Warrant was issued in connection with the execution of a License Agreement with Marvel for the United States, Canada and Mexico. We issued the Warrant pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

Quarter Ended September 30, 2005

Warrant Exercise: Series D Warrant. We issued 696,042 shares of common stock to Longview Fund LP, Longview Equity Fund LP, Longview International Equity Fund LP and Esquire Trade & Finance Inc., pursuant to the cashless exercises of warrants for 763,750 shares of common stock. We issued the Warrants and the underlying common stock upon exercise to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series F Convertible Preferred. We converted 19,133 shares of our Series F Convertible Preferred, having a stated value of $191,330 into 804,752 shares of common stock pursuant to notices of conversion to Amro International, SA. We issued the Series F Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Warrant Exercise: Series F Warrant. We issued 3,345,417 shares of common stock to Austinvest Anstalt Balzers and Esquire Trade & Finance Inc. and Libra Finance, SA., pursuant to the cashless exercise of warrants for 3,676,518 shares of common stock. We issued the Warrants and the underlying common stock upon exercise to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series H Convertible Preferred. We converted 1,000 shares of our Series H Convertible Preferred, having a stated value of $10,000 into 25,000 shares of common stock pursuant to notices of conversion, to one individual investor. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: Series I Convertible Preferred. We converted 10,000 shares of our Series I Convertible Preferred, having a stated value of $100,000 into 656,953 shares of common stock pursuant to a notice of conversion, to Tradersbloom Limited. The conversion included $24,000 of accrued and unpaid interest. We issued the Convertible Preferred and the underlying common stock upon conversion to accredited investors, pursuant to a Regulation D offering and Rule 144(k).

Conversions: April 2004 Convertible Notes. We converted $250,000 of our April 2004 Convertible Promissory Notes into 2,808,219 shares of common stock pursuant to notices of conversion from Osher Capital Inc., Ellis International Ltd Inc. and Alpha Capital AG. The conversion included $3,082 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 4, 2004.

Conversions: June 2004 Convertible Notes. We converted $250,000 of our June 2004 Convertible Promissory Notes into 2,796,575 shares of common stock pursuant to notices of conversion from Alpha Capital AG at a fixed conversion price of $0.10. The conversion included $29,657 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

Conversions: October 2004 Convertible Notes. We converted $125,000 of our October 2004 Convertible Promissory Notes into 1,342,808 shares of common stock pursuant to notices of conversion from Alpha Capital AG at a fixed conversion price of $0.10. The conversion included $9,280 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and

Exchange Commission on April 18, 2005.

Warrant Exercise: December 2004 Warrant. We issued 300,000 shares of common stock to Momona Capital Corp. pursuant to the exercise of Warrants issued in connection with the December 2004 financing transaction, and received $30,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

Conversions: January 2005 Convertible Notes. We converted $500,071 of our January 2005 Convertible Promissory Notes into 4,186,644 shares of restricted common stock pursuant to notices of conversion, to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP at a fixed conversion price of $0.125 per share. The conversion included $23,260 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: January 2005 Warrant. We issued 7,200,000 shares of common stock to Whalehaven Capital Fund Limited, Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP pursuant to the exercise of Warrants issued in connection with the January 2005 financing transaction, and received $720,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Conversions: April 2005 Convertible Notes. We converted $300,000 of our April 2005 Convertible Promissory Note into 1,556,438 shares of restricted common stock pursuant to notices of conversion, to Alpha Capital AG at a fixed conversion price of $0.20 per share. The conversion included $11,288 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Conversions: May 2005 Convertible Notes. We converted $475,000 of our May 2005 Convertible Promissory Notes into 4,141,270 shares of restricted common stock pursuant to notices of conversion, to Whalehaven Capital Fund Limited, Ellis International Ltd, Longview Fund LP and Osher Capital Corp. The conversion included $9,317 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: May 2005 Warrant. We issued 4,000,000 shares of common stock to Whalehaven Capital Fund Limited, Ellis International Ltd, Longview Fund LP and Osher Capital Corp. pursuant to the exercise of Warrants issued in connection with the January 2005 financing transaction, and received $400,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

New Financing: August 2005 Convertible Notes On August 18, 2005, we closed a funding transaction (the "August '05 Transaction") with Longview Fund, LP, Longview Equity Fund, LP and Longview International Equity Fund, LP, three institutional accredited investors, for the issuance and sale to the Subscribers of Six Hundred Fifty Thousand Dollars ($650,000) of principal amount of promissory notes convertible into shares of our common stock and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. This August'05 Transaction

was a part of a January 23, 2005 funding transaction for an aggregate of Two Million Three Hundred Thousand Dollars ($2,300,000). The August '05 Transaction is the Second Tranche of the January '05 transaction, which occurred upon the effectiveness of the SB-2 Registration Statement covering the aggregate transaction. The August'05 Transaction convertible notes are at prime plus 4% interest in the aggregate amount of $650,000, plus five-year Warrants for the purchase of, in the aggregate, 5,200,000 shares of common stock, at an exercise price of $0.129. The notes are convertible into shares of our common stock at $0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 260,000 shares plus the aggregate cash amount of $32,500 for due diligence fees to Longview Fund companies. We issued the equity equivalents, the underlying common stock upon conversion and the finders' fee common stock pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On September 30, 2005, we prepaid $250,000 of the aggregate $650,000 of the August '05 Transaction notes, as follows: $57,692 to Longview Fund, LP, $144,231 to Longview Equity Fund, LP and $ $48,077 to Longview International Equity Fund, LP. The holders of these notes waived the prepayment premium in lieu of their retention of warrants attached to August '05 Transaction.

Conversions: August 2005 Convertible Notes. We converted $91,217 of our August 2005 Convertible Promissory Notes into 743,750 shares of restricted common stock pursuant to a notice of conversion, to Longview Fund LP, at a fixed conversion price of $0.125 per share. The conversion included $1,752 of accrued and unpaid interest on the converted amount. We issued the common stock upon conversion pursuant to a Form SB-2 registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

Warrant Exercise: August 2005 Warrant. We issued 5,200,000 shares of common stock to Longview Fund LP, Longview Equity Fund LP and Longview International Equity Fund LP pursuant to the exercise of Warrants issued in connection with the August 2005 financing transaction, and received $520,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on August 2, 2005.

Private Placements. On August 3, 2005 we issued 500,000 restricted shares of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering.

On August 29 and September 19, 2005 we issued the aggregate of 1,000,000 restricted shares of our common stock to National Financial Communications Corp. pursuant to the exercise of Warrants issued in connection with a consulting agreement for services rendered for strategic business planning. We issued the restricted common stock pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for

transactions not involving a public offering.

On September 19, 2005, we issued 450,000 restricted shares of our common stock to Alpha Capital AG, an accredited investor, in a sale not involving a public offering at a price of $1.00 per share. We issued the common stock pursuant to a Regulation D offering.

Warrant Issue. On August 31, 2005, we issued a three year Warrant to Coca-Cola Enterprises Inc. to purchase 30,000,000 shares of our common stock a $0.36 per share. During the first 18 months of the exercise period, the Company has the option to "call" the exercise of up to 10,000,000 shares of common stock issuable upon exercise of the Warrant, upon the Company's satisfaction of certain conditions, including a trading price of not less than $1.08 per share for 20 consecutive trading days. This Warrant was issued in connection with the execution of a Master Distribution Agreement on August 31, 2005. We issued the Warrant pursuant to Section 4(6) of the Securities Act of 1933, which provides an exemption from the registration requirements of the Act for transactions not involving a public offering. The Company will record an $11,900,000 net charge in deferred distribution costs for the issuance of a three year warrant to Coca-Cola Enterprises to purchase of 30,000,000 shares of our common stock in connection with the Master Distribution Agreement. The Company will recognize that cost as a selling expense over the 10-year term of the agreement.

Quarter Ended December 31, 2005

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of 40,500,000 shares of our common stock for a purchase price of $20,250,000. In addition, we also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of $0.80 per share. The securities are restricted and have been issued pursuant to an exemption to the registration requirements of Section 5 of the Securities Act of 1933 for "transactions of the issuer not involving any public offering" provided in Section 4(2) of the Act and pursuant to a Regulation D offering. In connection with this financing, we issued common stock purchase warrants to purchase 1,012,500 shares of common stock at an exercise price of $.50 per share and 304,688 shares of common stock at an exercise price of $.80 per share to SG Cowen & Co., LLC, who acted as placement agent for this financing.

The shares of common stock and the shares of common stock underlying the warrants carry registration rights that obligate us to file a registration statement within 45 days from closing and have the registration statement declared effective within 120 days from closing.

All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, or business associates of Bravo! Brands Inc., and transfer was restricted by Bravo! Brands Inc. in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Warrant Exercise: June 2004 Warrant. In December 2005, we issued 2,500,000

shares of common stock to Alpha Capital AG pursuant to the exercise of a "B" Warrant issued in connection with the June 2004 financing transaction and received $250,000 in warrant exercise payments. The shares of common stock underlying the warrants were issued pursuant to a Form SB-2 shelf registration statement, declared effective by the SEC on April 18, 2005.

On March 31, 2005, we received notices of exercise for and issued 1,000,000 shares of common stock as provided in our June 2004 A Warrant and 500,000 shares of our October 2004 C Warrant. The shares of common stock underlying these Warrants were registered pursuant to a registration statement declared effective April 18, 2005.

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of common stock for a purchase price of $20,250,000. We also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of $0.51 per share to these investors. In addition, in July 2006, we entered into a letter agreement with each of the accredited institutional investors pursuant to which we issued additional five-year warrants to purchase an aggregate of 8,809,276 shares of common stock exercisable at an exercise price of $0.51 per share (the "Additional November 2005 Warrants") as a result of the trigger of certain anti-dilution provisions. In December 2006, as a result of the anti dilution provisions being triggered, the number of shares exercisable upon exercise of the Additional November 2005 Warrants was increased to 14,318,478 and the exercise price was adjusted to $0.32. In addition, we issued common stock purchase warrants to purchase 437,500 shares of common stock, exercisable at a price of $0.32 per share, to two finders (the "Finders Warrants"). This prospectus relates to the resale of the shares of common stock underlying the Additional November 2005 Warrants and the Finders Warrants.

YEAR 2006

On April 13, 2006, we issued 457,125 shares of common stock pursuant to a notice of conversion of interest and premium associated with our June 2004 convertible note. The common stock underlying this note was registered pursuant to a registration statement declared effective on April 18, 2005.

On April 17, 2006, we issued 807,692 shares of common stock underlying our Series F Warrant for 1,000,000 shares to an accredited investor. The shares of common stock underlying the Warrant were issued pursuant Regulation D.

On April 21, 2006, we issued 437,500 shares of common stock to an accredited investor pursuant to notices of conversion of our April, June and October 2004 convertible notes. The common stock underlying these notes was registered pursuant to a registration statement declared effective on August 3, 2004 and April 18, 2005, respectively.

On April 21, 2006, we issued 196,078 shares of our common stock in a private placement, pursuant to Section 4(2) of the Securities Act of 1933, to an accredited investor.

On April 28, 2006 we issued 1,500,000 shares of common stock underlying our April 2004 Warrant. The shares of common stock underlying the Warrant were registered pursuant to a registration statement declared effective on August 3, 2004.

On May 12, 2006, we issued $2,500,000, six-month-term, 10% notes payable plus detachable warrants to purchase 1,500,000 shares of our common stock with a strike price of $0.80 for a period of five-years. Net proceeds from this financing transaction amounted to $2,235,000. The holder has the option to redeem the notes for cash in the event of defaults and certain other contingent

events, including events related to the common stock into which the instrument is convertible, registration and listing (and maintenance thereof) of our common stock and filing of reports with the Securities and Exchange Commission (the "Default Put"). We evaluated the terms and conditions of the notes and warrants and determined that (i) the Default Put required bifurcation because it did not meet the "clearly and closely related" criteria of FAS 133 and (ii) the warrants did not meet all of the requisite conditions for equity classification under FAS 133. As a result, the net proceeds from the arrangement were first allocated to the Default Put ($87,146) and the warrants ($901,665) based upon their fair values, because these instruments are required to be initially and subsequently carried at fair values. These instruments will be carried in our balance sheet following the financing under the classification, Derivative Liabilities and adjusted to fair value. The warrants and shares of common stock underlying the warrants and notes were issued to two accredited investors in a private placement exempt from registration under the Securities Act of 1933 pursuant Regulation D.

On May 16, 2006, we issued 2,000,000 shares of common stock pursuant to an exercise of a warrant associated with our January 2005 convertible note financing. The common stock underlying this warrant was registered pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On June 7, 2006, we issued 101,100 shares of common stock pursuant to a conversion of our May 2005 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On June 23, 2006, we issued 2,000,000 shares of common stock pursuant to an exercise of a warrant associated with our November 2003 convertible notes financing. The common stock underlying this warrant was registered pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 3, 2004.

On July, 6, 2006, we issued 83,121 shares of our common stock in a private placement, pursuant to Section 4(2) of the Securities Act of 1933, to an accredited investor.

On July, 14, 2006, we issued 436,388 shares of common stock upon the cashless exercise of a warrant associated with our Series D convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On July 14, August 14 and August 31, 2006, we issued, in the aggregate, 275,000 shares of common stock pursuant to a conversion of our Series H preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On July, 19, 2006, we issued 1,008,065 shares of common stock upon the cashless exercise of a warrant associated with our Series H convertible preferred stock. These shares were issued to an accredited investor pursuant to Regulation D and Section 4(2) of the Securities Act of 1933.

On July 26, 2006, we entered into a Securities Purchase Agreement with five accredited institutional investors, for the issuance and sale of $30 million in senior convertible notes that are due in January 2010. Under the terms of the financing, we sold $30 million in senior convertible notes, of which $15 million (the "Initial Notes") were released upon closing and $15 million (the "Additional Notes") were released from escrow in November 2006. The Initial

Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share. The Additional Notes carry a 9% annual coupon, payable quarterly, and were initially convertible into shares of common stock at $0.70 per share and then subsequently to $0.51 per share. In addition, the Additional Notes also provide that, from and after October 10, 2006 through December 15, 2006, the holder may require us to redeem at such holder's option any portion of the holder's Additional Note in cash at a price equal to 125% of the amount redeemed (the "Holder Optional Redemption"). In the event that such holder does not exercise the Holder Optional Redemption, the holder's right to any such optional redemptions shall terminate; provided, however, that once a holder delivers such a request, its right to deliver a subsequent request shall terminate.

We also issued to the investors series A warrants to purchase 13,178,571 shares of common stock initially exercisable at $0.73 per share (the "Series A Warrants") that expire in July 2011 and series B warrants to purchase 43,392,856 shares of common stock initially exercisable at $0.73 per share (the "Series B Warrants") that expire in July 2011. We have the option to redeem the Initial Notes and the Amended Notes at a date earlier than maturity (the "Company Redemption"). If we exercise the Company Redemption, the holders will have the right to exercise the Series B Warrants and receive common shares to which these contingent warrants are indexed. Absent our exercise of the Company Redemption to redeem the Initial Notes and/or the Additional Notes, the holders have no right to exercise the Series B Warrants.

Pursuant to a Registration Rights Agreement between our company and the investors, also dated July 26, 2006, we agreed to prepare and file a registration statement covering the resale of the shares issuable upon the conversion of the senior convertible notes and exercise of the warrants. We agreed to file this resale registration statement by the later to occur of (i) August 26, 2006 and (ii) 15 days following the effectiveness of the Form SB-2 filed by our company on December 21, 2005, but in no event later than October 10, 2006. If, among other things, (a) we fail to file the resale registration statement within the period described above, which we were unable to do, or (b) we fail to cause the resale registration statement to be effective by the SEC within 60 days following the date we file the resale registration statement, or within 90 days, if there is a review of the resale registration statement by the SEC, we will be obligated to pay to each investor, as partial relief, on the date of such failure, an amount in cash equal to .75% of the aggregate purchase price paid by such investor for the notes and the warrants. We will be further obligated to pay, as partial relief, an amount in cash equal to 1.5% of the aggregate purchase price paid by such investor for the notes and the warrants on every thirtieth day that such failure continues (prorated for partial periods).

On August 31, 2006, we entered into Amendment Agreements with respect to the July 26, 2006 $30 million senior convertible notes transaction described above. Pursuant to the Amendment Agreements, the investors each agreed to release us from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of our Form 10-QSB for the quarterly period ended June 30, 2006. We agreed, in consideration for such releases, to exchange the Additional Notes for amended and restated notes (the "Amended and Restated Notes").

The terms of the Amended and Restated Notes differ from the terms of the Additional Notes in certain regards. The conversion price applicable was reduced from $0.70 to $0.51. We also granted the Holder Optional Redemption as discussed above.

On December 29, 2006, we entered into Amendment and Exchange Agreements (the "December Amendment") with these investors. Pursuant to the December Amendment, each of the investors agreed to release our company from the events of default that occurred under the terms of the Initial Notes and Additional Notes as a result of our late filing of its Form 10-QSB for the quarterly period ended June 30, 2006. Each of the investors waived any events of default in the Amended and Restated Additional Notes relating to our failure to pay the Holder Optional Redemption. Further, we agreed to capitalize the $3,750,000 redemption premium (which represents a 25% premium on the $15,000,000 principal amount of the Additional Notes) with respect to the investors' right to compel redemption pursuant to the Holder Redemption. Also, in connection with the December Amendment, the investors' right to compel redemption by exercise of the Holder Redemption has been terminated.

In consideration for each of the investors entering into the December Amendment, we agreed to amend and restate the terms of the Initial Notes, the Additional Notes, the Series A Warrants and the Series B Warrants. The conversion price of the Initial Notes and the Additional Notes has been reduced to $0.32. The exercise price of the Series A Warrants and the Series B Warrants was reduced to $0.34.

On August 24, 2006, we issued 168,937 shares of common stock pursuant to a conversion of our May 2005 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 2, 2005.

On September 13 2006, we issued, in the aggregate, 161,527 shares of common stock pursuant to a conversion of our Series F preferred stock. The shares of common stock underlying the preferred were issued pursuant to Regulation D.

On September28, 2006, we issued 4,000,000 shares of common stock pursuant to a conversion of our November 2003 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on August 3, 2004.

On September28, 2006, we issued 1,000,000 shares of common stock pursuant to a conversion of our June 2004 convertible note. The shares of common stock underlying the convertible note were issued pursuant to a registration statement declared effective by the Securities and Exchange Commission on April 18, 2005.

ITEM 27. EXHIBITS.

The following exhibits are included as part of this Form SB-2. References to "the Company" in this Exhibit List mean Bravo! Brands Inc., a Delaware corporation.

No.	Exhibit Title of Document
3.1	Articles of Incorporation (1)
3.2	Amended Articles (name change) (1)
3.3	Restated Bylaws China Peregrine Food Corporation (1)
3.4	Amended Articles (name change and increase in authorized shares of common stock) (20)

4.1	Preferred, Series B Designation (1)
4.2	Preferred, Series F Designation (2)
4.3	Preferred, Series G Designation (3)
4.4	Preferred, Series H Designation (6)
4.5	Preferred, Series I Designation (7)
4.6	Preferred, Series J Designation (8)
4.7	Preferred, Series K Designation (10)
4.8	Subscription Agreement dated November 2003 entered with Gamma Opportunity Capital Partners, LP (11)
4.9	Class A Common Stock Purchase Warrant issued to Gamma Opportunity Capital Partners, LP (11)
4.10	Class B Common Stock Purchase Warrant issued to Gamma Opportunity Capital Partners, LP (11)
4.11	Convertible Note issued to Gamma Opportunity Capital Partners, LP dated November 2003 (11)
4.12	Class A Common Stock Purchase Warrant issued to Libra Finance, S.A. (11)
4.13	Subscription Agreement dated November 2003 entered with MID-AM CAPITAL, L.L.C. (11)
4.14	Class A Common Stock Purchase Warrant issued to MID-AM CAPITAL, L.L.C. (11)
4.15	Class B Common Stock Purchase Warrant issued to MID-AM CAPITAL, L.L.C. (11)
4.16	Convertible Note issued to MID-AM CAPITAL, L.L.C. dated November 2003 (11)
4.17	Subscription Agreement dated April 2, 2004 entered with Alpha Capital Aktiengesellschaft and Longview Fund LP (11)
4.18	Convertible Note issued to Alpha Capital Aktiengesellschaft dated April 2004 (11)

4.19	Convertible Note issued to Longview Fund LP dated April 2004 (11)
4.20	Common Stock Purchase Warrant issued to Alpha Capital Aktiengesellschaft dated April 2004 (11)
4.21	Common Stock Purchase Warrant issued to Longview Fund LP dated April 2004 (11)
4.21	Subscription Agreement entered by and between the Company and Mid-AM Capital LLC dated June 2004 (12)
4.22	Convertible Note issued to Mid-AM Capital LLC dated June 2004 (12)

4.23 Common Stock Purchase Warrant A issued to Mid-AM Capital LLC dated June 2004 (12)

4.24 Common Stock Purchase Warrant B issued to Mid-AM Capital LLC dated June 2004 (12)

4.25 Subscription Agreement entered by and between the Company and Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership, Whalehaven Funds Limited and Gamma Opportunity Capital Partners LP dated June 2004 (12)

4.26 Form of Common Stock Purchase A issued to Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership, Whalehaven Funds Limited and Gamma Opportunity Capital Partners LP dated June 2004 (12)

4.27 Form of Common Stock Purchase B issued to Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership, Whalehaven Funds Limited and Gamma Opportunity Capital Partners LP dated June 2004 (12)

4.28 Form of Convertible Note issued to Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership, Whalehaven Funds Limited and Gamma Opportunity Capital Partners LP dated June 2004 (12)

4.29 Subscription Agreement entered by and between the Company and Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership and Whalehaven Funds Limited dated October 2004 (12)

4.30 Form of Common Stock Purchase C issued to Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership and Whalehaven Funds Limited dated October 2004 (12)

4.31 Form of Convertible Note issued to Alpha Capital, Longview Fund LP, Stonestreet Limited Partnership, Whalehaven Funds Limited and Gamma Opportunity Capital Partners LP dated October 2004 (12)

4.32 Subscription Agreement entered by and between the Company and Momona Capital Corp. and Ellis International Ltd. dated December 2004 (12)

4.33 Form of Common Stock Purchase C issued to Momona Capital Corp. and Ellis International Ltd. dated December 2004 (12)

4.34 Form of Convertible Note issued to Momona Capital Corp. and Ellis International Ltd. dated December 2004 (12)

4.35 Subscription Agreement entered by and between the Company and Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited dated January 2005 (13)

4.36 Form of Convertible Note issued in January 2005(13)

4.37 Form of Common Stock Purchase Warrant issued in January 2005 (13)

4.38 Modification Agreement entered by and between the Company and Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven

	Funds Limited dated May 2005 (13)
4.39	Subscription Agreement entered by and between the Company and Alpha Capital Aktiengesellschaft dated April 2005 (13)
4.40	Form of Convertible Note issued in April 2005(13)
4.41	Form of Securities Purchase Agreement with 13 institutional investors in connection with November 28, 2005 $20,250,000 financing (16)
4.42	Form of Stock Purchase Warrant in connection with November 28, 2005 $20,250,000 financing (16)
4.43	Securities Purchase Agreement for the August 2006 financing (17)
4.44	Registration Rights Agreement for the August 2006 financing (17)
4.45	Form of Initial Senior Convertible Note for the August 2006 financing (17)
4.46	Form of Additional Senior Convertible Note for the August 2006 financing (17)
4.47	Form of Series A Warrant for the August 2006 financing (17)
4.48	Form of Series B Warrant for the August 2006 financing (17)
4.49	Form of Amendment Agreement for the August 2006 financing (18)
4.50	Form of Amended and Restated Note (18)
4.51	Form of Amendment and Exchange Agreement dated December 29, 2006 (21)
4.52	Form of Amended and Restated Initial Note dated December 29, 2006 (21)
4.53	Form of Amended and Restated Additional Note dated December 29, 2006 (21)
4.54	Form of Series A Replacement Warrant dated December 29, 2006 (21)
4.55	Form of Series B Replacement Warrant dated December 29, 2006 (21)
5.1	Sichenzia Ross Friedman Ference LLP Opinion and Consent (15)
10.1	Warner Bros China License Agreement (5)
10.2	Warner Bros China License Agreement (modified) (5)
10.3	Warner Bros. U.S. License Agreement (5)
10.4	Warner Bros. Mexico License Agreement (6)
10.5	Warner Bros. Canada License Agreement (6)
10.6	MoonPie License Agreement (10)
10.7	Marvel License Agreement (10)
10.8	SADAFCO Production Agreement (10)

10.9 Real Estate Lease Amendment Extending Term (10)

10.10 Coca-Cola Enterprises Master Distribution Agreement (14)

10.11 Oman National Dairy Products Co. Ltd. Production Agreement (14)

10.12 Marvel Enterprises License (Middle East) (14) 10.13 Bravo! - HP Hood Contract Packaging Agreement (19)

21.1 Subsidiaries (6)

21.2 Subsidiaries Articles of Association (6) China Premium Food Corporation (Shanghai) Co., Inc.

23.1 Consent of Lazar Levine & Felix LLP (filed herewith).

23.2 Consent of legal counsel (see Exhibit 5.1).

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(1) Filed with Form 10SB/A First Amendment
(2) Filed with Form 10QSB for 3-31-99
(3) Filed with Form 10QSB for 6-30-99
(4) Filed with Form 10K-SB for 12-31-99
(5) Filed with Form 10QSB for 6-30-00
(6) Filed with Form SB-2/A Second Amendment
(7) Filed with Form SB-2/A Third Amendment
(8) Filed with Form 10K-SB 2001
(9) Filed with Form 8K filed October 2, 2002
(10) Filed with Form 10-KSB for 12-31-03
(11) Filed with Form SB-2 filed June 4, 2004
(12) Filed with the Form SB-2 filed on January 19, 2005
(13) Filed with the Form SB-2 filed on June 10, 2005
(14) Filed with the Form 10-QSB for the quarter ended September 30, 2005
(15) Filed with the Form SB-2 filed on December 21, 2005
(16) Filed with the Form 8-K filed November 28, 2005
(17) Filed with the Form 8-K filed August 2, 2006
(18) Filed with the Form 8-K filed September 5, 2006
(19) Filed with the Form 8-K filed October 2, 2006
(20) Filed with Form SB-2/A Registration Statement filed on November 1, 2006
(21) Filed with Form 8-K filed on December 29, 2006

ITEM 28. UNDERTAKINGS.
The undersigned registrant hereby undertakes to:

(1) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end

of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement, and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

(5) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration

statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorizes this registration statement to be signed on its behalf by the undersigned, in the City of North Palm Beach, State of Florida, on December 29, 2006.

BRAVO! BRANDS INC.

By: /s/ Roy G. Warren

Roy G. Warren, CEO

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated.

Name	Title	Date
/s/Stanley Hirschman --- Stanley Hirschman	Chairman and Director	December 29, 2006
/s/Roy G. Warren --- Roy G. Warren	Director and CEO	December 29, 2006
/s/Arthur W. Blanding --- Arthur W. Blanding	Director	December 29, 2006
/s/Robert Cummings --- Robert Cummings	Director	December 29, 2006
/s/Phillip Pearce --- Phillip Pearce	Director	December 29, 2006
/s/John McCormack --- John McCormack	Director	December 29, 2006
/s/Gerald L. Bos ---	Director	December 29, 2006

Gerald L. Bos		
/s/Tommy Kee ----------	Chief Accounting Officer	December 29, 2006
Tommy Kee		
/s/Roy D. Toulan ----------	Vice President, Corporate Secretary and General Counsel	December 29, 2006
Roy D. Toulan		
/s/Jeffrey Kaplan ----------	Chief Financial Officer	December 29, 2006
Jeffrey Kaplan		