

SKREEM ENTERTAINMENT CORP
Form 10QSB
March 19, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2006

OR

TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

From the transition period from _____ to _____.

Commission File Number 0-22236

SKRM Interactive, Inc.

(formerly SKREEM ENTERTAINMENT CORPORATION))
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0565710
(IRS Employer Identification No.)

11637 Orpington Street, Orlando, Florida 32817
(Address of principal executive offices)

(407) 207-0400
(Issuer's telephone number)

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

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

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| Class | Shares Outstanding | Date |
|--------------------------|--------------------|----------------|
| Common, \$.001 par value | 29,298,292 | March 16, 2007 |

Transitional Small Business Disclosure Format (Check one): Yes o No x

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(formerly SKREEM ENTERTAINMENT CORPORATION))

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SKRM Interactive, Inc.
(formerly SKREEM ENTERTAINMENT CORPORATION)
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED BALANCE SHEETS
December 31, 2006 and March 31, 2006

| | December 31, 2006 | March 31, 2006 |
|---|----------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 26,795 | \$ 62,383 |
| Related party receivable | 5,158 | - |
| Total current assets | 31,953 | 62,383 |
| Property and equipment, net | 5,400 | 7,030 |
| Deferred financing costs, net | 87,640 | - |
| Total assets | \$ 124,993 | \$ 69,413 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 174,992 | \$ 173,410 |
| Related party payable | 9,254 | 9,254 |
| Accrued interest payable - related parties | - | 217,190 |
| Deferred revenue | 25,027 | 24,500 |
| Notes payable - shareholder | 126,996 | 556,770 |
| Notes payable - affiliates | - | 933,620 |
| Derivative liabilities | 2,485,243 | - |
| Total current liabilities | 2,821,512 | 1,914,744 |
| Callable secured convertible notes payable net of unamortized discount of \$600,000 | - | - |
| Total liabilities | 2,821,512 | 1,914,744 |
| Shareholders' deficit: | | |
| Preferred shares - \$0.001 par value; 1,000,000 authorized, no shares issued or outstanding | - | - |
| Common shares - \$0.001 par value; 50,000,000 authorized; 29,298,292 and 24,484,256 shares issued and outstanding | 29,298 | 24,484 |
| Additional paid - in capital | 10,881,999 | 3,235,847 |
| Shares receivable | (4,020,000) | - |
| Losses accumulated in the development stage | (9,587,816) | (5,105,662) |
| Total shareholders' deficit | (2,696,519) | (1,845,331) |
| Total liabilities and shareholders' deficit | \$ 124,993 | \$ 69,413 |

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

SKRM Interactive, Inc.

(formerly SKREEM ENTERTAINMENT CORPORATION)

(A DEVELOPMENT STAGE COMPANY)

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Nine Months Ended December 31, 2006 and 2005 and for the Period From

Inception, August 19, 1999, to December 31, 2006

| | Nine Months Ended | | Inception to |
|---|-------------------|----------------|----------------|
| | December 31, | December 31, | December 31, |
| | 2006 | 2005 | 2006 |
| Revenue | \$ 33,633 | \$ 63,987 | \$ 222,358 |
| Revenue - related party | 127,200 | - | 127,200 |
| Total Revenue | 160,833 | 63,987 | 349,558 |
| Expenses | | | |
| Operating | (1,230,552) | (793,939) | (4,555,914) |
| General and administrative | (1,067,849) | (284,294) | (2,424,268) |
| Impairment of loan receivable | (410,701) | - | (540,701) |
| Total expenses | (2,709,102) | (1,078,233) | (7,520,883) |
| Loss from operations | (2,548,269) | (1,014,246) | (7,171,325) |
| Other income (expense) | | | |
| Interest income | 10,701 | - | 10,701 |
| Interest expense | (59,344) | (121,668) | (541,949) |
| Change in fair value of derivatives | (1,885,243) | - | (1,885,243) |
| Total other | (1,933,886) | (121,668) | (2,416,491) |
| Net loss | \$ (4,482,155) | \$ (1,135,914) | \$ (9,587,816) |
| Weighted Average Shares Outstanding - basic and diluted | 25,643,956 | 23,107,856 | |
| Loss Per Share - basic and diluted | \$ (0.17) | \$ (0.05) | |

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

SKRM Interactive, Inc.

(formerly SKREEM ENTERTAINMENT CORPORATION)

(A DEVELOPMENT STAGE COMPANY)

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS For the Three Months Ended
December 31, 2006 and 2005

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 31, 2006 | December 31, 2005 |
| Revenue | \$ 2,185 | \$ 39,590 |
| Revenue - related party | 1,100 | - |
| Total Revenue | 3,285 | 39,590 |
| Expenses | | |
| Operating | (305,598) | (229,434) |
| General and administrative | (812,581) | (66,634) |
| Impairment of note receivable | (410,701) | - |
| Total expenses | (1,528,880) | (296,068) |
| Loss from operations | (1,525,595) | (256,478) |
| Other income (expenses) | | |
| Interest income | 9,608 | - |
| Change in fair value of derivatives | (1,885,242) | - |
| Interest expense | (10,584) | (44,576) |
| Total other | (1,886,218) | (44,576) |
| Net loss | \$ (3,411,813) | \$ (301,054) |
| Weighted Average Shares Outstanding - basic and diluted | 27,469,293 | 23,107,856 |
| Loss Per Share - basic and diluted | \$ (0.12) | \$ (0.01) |

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

SKRM Interactive, Inc.

(formerly SKREEM ENTERTAINMENT CORPORATION)

(A DEVELOPMENT STAGE COMPANY)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT For the period from inception, August 19, 1999, to December 31, 2006

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Losses Accumulated During the Development Stage | Shares Receivable | Total Shareholders Deficit |
|--|------------------------|------------------------|----------------------------------|---|----------------------|----------------------------------|
| Balance at Inception, August 19, 1999 | - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Issuance of common stock | 20,000 | 20 | - | - | - | 20 |
| Net loss | - | - | - | (84,021) | - | (84,021) |
| Balance at December 31, 1999 | 20,000 | 20 | - | (84,021) | - | (84,001) |
| Net loss | - | - | - | (230,879) | - | (230,879) |
| Balance at December 31, 2000 | 20,000 | 20 | - | (314,900) | - | (314,880) |
| Net loss | - | - | - | (494,816) | - | (494,816) |
| Balance at December 31, 2001 | 20,000 | 20 | - | (809,716) | - | (809,696) |
| Net loss | - | - | - | (384,590) | - | (384,590) |
| Balance at December 31, 2002 | 20,000 | 20 | - | (1,194,306) | - | (1,194,286) |
| Reclassification of debt to equity | 43,000 | 43 | 1,581,940 | - | - | 1,581,983 |
| Net loss | - | - | - | (736,364) | - | (736,364) |
| Balance at December 31, 2003 | 63,000 | 63 | 1,581,940 | (1,930,670) | - | (348,667) |
| Effect of issuance of common stock and recapitalization in a reverse acquisition transaction | 25,943,925 | 25,944 | (25,944) | - | - | - |
| Net loss | - | - | - | (205,994) | - | (205,994) |
| Balance at March 31, 2004 | 26,006,925 | 26,007 | 1,555,996 | (2,136,664) | - | (554,661) |
| Proceeds from issuance of common stock | 603,856 | 604 | 301,324 | - | - | 301,928 |
| Cancellation of shares | (3,502,925) | (3,503) | 3,503 | - | - | - |
| Net loss | - | - | - | (1,592,469) | - | (1,592,469) |
| Balance at March 31, 2005 | 23,107,856 | 23,108 | 1,860,823 | (3,729,133) | - | (1,845,202) |
| Proceeds from issuance of common stock | 276,400 | 276 | 276,124 | - | - | 276,400 |

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| | | | | | | |
|---|------------|-----------|---------------|----------------|----------------|----------------|
| Stock issued for accounts payable | 50,000 | 50 | 49,950 | - | - | 50,000 |
| Stock issued for conversion of debt | 1,050,000 | 1,050 | 1,048,950 | - | - | 1,050,000 |
| Net loss | - | - | - | (1,376,529) | - | (1,376,529) |
| Balance at March 31, 2006 | 24,484,256 | 24,484 | 3,235,847 | (5,105,662) | - | (1,845,331) |
| Proceeds from issuance of common stock | 24,694 | 25 | 24,670 | - | - | 24,695 |
| Stock issued for services | 250,000 | 250 | 249,750 | - | - | 250,000 |
| Net loss | - | - | - | (433,538) | - | (433,538) |
| Balance at June 30, 2006 | 24,758,950 | 24,759 | 3,510,267 | (5,539,200) | - | (2,004,174) |
| Stock issued for conversion of debt | 817,342 | 817 | 1,838,204 | - | - | 1,839,021 |
| Expense paid by shareholder | - | - | 515,000 | - | - | 515,000 |
| Net loss | - | - | - | (636,803) | - | (636,803) |
| Balance at September 30, 2006 | 25,576,292 | 25,576 | 5,863,471 | (6,176,003) | - | (286,956) |
| Stock issued for services | 722,000 | 722 | 1,001,528 | - | - | 1,002,250 |
| Stock issued for investment to be rescinded | 3,000,000 | 3,000 | 4,017,000 | - | (4,020,000) | - |
| Net loss | - | - | - | (3,411,813) | - | (3,411,813) |
| Balance at December 31, 2006 | 29,298,292 | \$ 29,298 | \$ 10,881,999 | \$ (9,587,816) | \$ (4,020,000) | \$ (2,696,519) |

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

SKRM Interactive, Inc.

(formerly SKREEM ENTERTAINMENT CORPORATION)

(A DEVELOPMENT STAGE COMPANY)

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended December 31, 2006 and 2005 and for the Period From

Inception, August 19, 1999, to December 31, 2006

| | Nine months Ended | | Inception to |
|---|----------------------|----------------------|----------------------|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 |
| Cash Flows from Operating Activities: | | | |
| Net loss | \$ (4,482,155) | \$ (1,135,914) | \$ (9,587,816) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation expense | 3,660 | 2,763 | 48,244 |
| Impairment of note receivable | 410,701 | - | 540,701 |
| Accrued interest converted to equity | 33,439 | - | 459,035 |
| Expenses paid by shareholder and affiliate | 515,000 | 68,770 | 636,796 |
| Stock issued for services | 1,252,250 | - | 1,252,250 |
| Amortization of deferred financing costs | 2,360 | - | 2,360 |
| Change in fair value of derivatives | 1,885,243 | - | 1,885,243 |
| Changes in operating assets and liabilities: | | | |
| Increase in interest receivable | (10,701) | - | (10,701) |
| Increase in related party receivable | (5,158) | - | (5,158) |
| Decrease in accounts receivable | - | 114,257 | - |
| Decrease in prepaid expenses and deposits | - | 8,908 | - |
| Increase in accounts payable and accrued liabilities | 1,583 | 188,355 | 234,248 |
| Increase in interest payable to affiliates | - | 92,883 | - |
| Increase (decrease) in deferred revenue | 530 | (10,413) | 25,027 |
| Net cash used in operating activities | (393,248) | (670,391) | (4,519,771) |
| Cash Flows from Investing Activities | | | |
| Payments for purchase of property and equipment | (2,030) | (864) | (53,644) |
| Note receivable | (400,000) | - | (530,000) |
| Net cash used in investing activities | (402,030) | (864) | (583,644) |
| Cash Flows from Financing Activities | | | |
| Proceeds from issuance of common stock | 24,695 | 14,000 | 603,024 |
| Proceeds from notes payable - other | - | 20,000 | 385,000 |
| Proceeds from notes payable - shareholder | 293,050 | 643,000 | 1,816,050 |
| Proceeds from notes payable - affiliate | 63,000 | 15,000 | 2,502,191 |
| Proceeds from convertible notes payable | 600,000 | - | 600,000 |
| Principal payments on notes payable - affiliate | - | - | (140,000) |
| Principal payments on notes payable - other | - | (50,000) | (335,000) |
| Principal payments on notes payable - shareholder | (131,055) | - | (211,055) |
| Debt issuance costs | (90,000) | - | (90,000) |
| Net cash provided by financing activities | 759,690 | 642,000 | 5,130,210 |
| Net increase (decrease) in cash and cash equivalents | (35,588) | (29,255) | 26,795 |
| Cash and cash equivalents, beginning of period | 62,383 | 52,195 | - |
| Cash and cash equivalents, end of period | \$ 26,795 | \$ 22,940 | \$ 26,795 |

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

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SKRM Interactive, Inc.
(formerly SKREEM ENTERTAINMENT CORPORATION)
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of SKRM Interactive, Inc. (formerly Skreem Entertainment Corporation) ("SKRM", "Skreem" or the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10QSB and Item 310(b) of Regulation S-B. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited consolidated financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes, which are included as part of consolidated financial statements as of March 31, 2006 included in Skreem's Form 10KSB.

Note 2 - ACCOUNTING POLICY FOR REVENUE RECOGNITION

Revenue is recognized when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable; delivery has occurred or services have been rendered or the license period has begun; and collect ability is reasonably assured.

Revenue from the distribution of recordings under license and distribution agreements is recognized as earned under the criteria established by Statement of Financial Accounting Standard No 50. Revenue is generally recognized when SKRM receives an "accounting" of recordings sold with payment from the licensee. In the event SKRM has not received an "accounting" from the licensee and if SKRM has information related to the licensed use of recordings that would result in the revenue being fixed and determinable, and collection is reasonably assured, then revenue is recognized in the periods in which the license revenue is earned. Minimum guarantees (advances) received from licensees are recorded as deferred revenue and are amortized over the performance period, which is generally the period covered by the agreement.

Note 3 - RECISSION OF INVESTMENT AND IMPAIRMENT OF NOTE RECEIVABLE

On November 20, 2006, SKRM completed and closed on a Stock Purchase Agreement, with Weaver Interactive, Inc. ("Weaver"), a company formed and existing under the laws of South Korea.

Pursuant to the transaction, SKRM purchased a 51% investment in Weaver. SKRM issued 3,000,000 shares of its commonstock as consideration for the equity investment. The Company initially determined that the minority shareholders had significant participatory rights that allowed them to participate in significant decisions of Weaver. Weaver would continue to operate completely and fully independently in all corporate business, free from corporate control or interference in day-to-day business by SKRM. Therefore SKRM would not consolidate the results of Weaver but rather would account for its investment under the equity method of accounting and in accordance with EITF 96-16, *Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*. SKRM also issued 200,000 shares of common stock as a finder's fee to an unrelated party as part of the investment transaction.

SKRM also agreed to loan Weaver \$500,000 in cash whereby the principal plus 21% interest would accrue for two years and be payable in full at the due date and the Company would also make a good faith deposit at the closing.

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During February 2007, SKRM and Weaver entered into negotiations for the termination of the Stock Purchase Agreement. Both parties plan to return the shares that were previously issued under the Stock Purchase Agreement and SKRM has requested Weaver to execute a promissory note for repayment of all monies loaned to Weaver by SKRM. As of the date of the filing, Management believes both parties will cooperate and return the shares. Therefore SKRM has recorded shares receivable of \$4,020,000 as a contra equity account. The receivable value was determined based on the fair value of the 3,000,000 common shares issued by using a 10 day average of its market closing price prior to and for the closing day of November 20, 2006 or \$1.34 per share. Management believes the total amount loaned of \$400,000 plus accrued of \$10,710 interest may not be collected and therefore recorded a total impairment change of \$410,710. In addition, since the transaction is no longer considered an equity investment, SKRM expensed the 200,000 shares issued as a finders fee of \$268,000.

NOTE 4 - CALLABLE SECURED CONVERTIBLE NOTES PAYABLE AND WARRANTS

SKRM entered into a securities purchase agreement with four investors (“note holders”) on November 30, 2006, for the sale of (i) \$1,000,000 in callable secured convertible notes and (ii) warrants to purchase 10,000,000 shares of common stock at an exercise price of \$1.75 per share. On November 30, 2006, SKRM sold to the note holders \$600,000 in callable secured convertible notes (“convertible notes”) and issued 10,000,000 warrants to purchase stock at an exercise price of \$1.75 per share.

The convertible notes with the notional balance of \$600,000 bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, provided that no interest shall be due and payable for any month in which the trading price is greater than \$1.5875 for each trading day of the month. The convertible notes mature three years from the date of issuance, and are convertible into common stock at the note holders’ option, at 50% of the average of the three lowest trading price for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date; however, such percentage shall increase to 55% upon the filing of a registration statement registering the shares underlying the convertible notes by the appropriate deadline and shall increase to 60% if such registration statement becomes effective on or before the effectiveness deadline. The note holders are not permitted to convert all or part of the outstanding balance if the trading volume weighted average price of the common stock for the thirty days prior to conversion is below the initial market price of \$1.27. Accordingly, there is no limit to the number of shares into which the convertible notes may be converted. The convertible notes are secured by substantially all of SKRM’s assets.

The warrants are exercisable for a period of 7 years from the date of issuance and have an exercise price of \$1.75 per share. In addition, the conversion price of the convertible notes and exercise price of the warrants will be adjusted in the event that the Company issues common stock at a price below the initial fixed conversion price. The conversion price of the convertible notes and exercise price of the warrants may also be adjusted in certain circumstances such as if the Company pays a stock dividend, subdivides or combines outstanding shares of common stock into a greater or lesser number of shares, or takes such other actions as would otherwise result in dilution of the note holders’ position.

The convertible note agreement restricts the note holders’ ability to convert their convertible notes or exercise their warrants and receive shares of common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the note holders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

SKRM gave the note holders registration rights to the shares issuable in connection with the convertible notes pursuant to a Registration Rights Agreement dated November 30, 2006. The Registration Rights Agreement required SKRM to file a Registration Statement with the Securities and Exchange Commission (“SEC”) within 30 days of the Closing Date. Additionally, under the Registration Rights Agreement, SKRM agreed to give its best efforts to obtain effectiveness of the Registration Statement within 120 days of the Closing Date. If SKRM does not file the

Registration Statement within 30 days of Closing Date or obtain effectiveness of this Registration Statement within 120 days of the Closing Date then SKRM agrees to pay to the note holders, as partial relief for damages, an amount equal to 2% per month of the outstanding principal amount. As a result of Amendment No. 1 to the Registration Rights Agreement dated December 19, 2006, the date by which SKRM was to file a Registration Statement covering all the securities issuable in connection with the convertible notes has been extended from within 30 days to within 60 days, or January 29, 2007. Additionally, the number of days to obtain effectiveness of the Registration Statement has been extended as well from within 120 days to within 150 days, or April 29, 2007.

In December 2006, FASB STAFF POSITION (“FSP”) No. EITF 00-19-2 *Accounting for Registration Payment Arrangements* was issued with guidance for the accounting of any future payments required by the Registration Rights Agreement in regards to the timely filing and effectiveness of the Registration Statement with the SEC. This FSP specifies that the contingent obligation should be separately recognized and measured in accordance with FASB Statement No. 5, *Accounting for Contingencies*. As of February 28, 2007, the Company has not filed a Registration Statement with the SEC and has recorded a contingent liability of \$12,000 as partial relief for damages to the note holders.

If certain events of default were to occur under the convertible notes, the note holders may at their option, demand repayment in full of all obligations and liabilities owed by the Company under the convertible notes, Securities Purchase Agreement and any Related Agreement and may require the Company to immediately pay 140% of the principal amounts outstanding under the convertible notes, plus any accrued and unpaid interest.

At February 28, 2007, there has been an event of default (failure to timely file registration statement within 45 days). However, the Company has not received any demands of repayment and this event of default does not require the Company to pay 140% of the principal amounts outstanding plus any accrued and unpaid interest.

The Company incurred debt issuance costs of \$90,000 associated with the issuance of the convertible notes. These costs were capitalized as deferred loan costs and will be amortized over the life of the convertible notes using the effective interest method. Total amortization expense related to the convertible notes was \$2,360 for the quarter ended December 31, 2006.

The Company analyzed the convertible notes and the warrants for derivative financial instruments, in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. The convertible notes are hybrid instruments which contains more than one embedded derivative feature which would individually warrant separate accounting as derivative instruments under SFAS 133. The various embedded derivative features have been bundled together as a single, compound embedded derivative instrument that has been bifurcated from the debt host contract. The single compound embedded derivative features include the conversion feature with the convertible notes, the interest rate adjustment, maximum ownership and default provisions. The Company valued the compound embedded derivatives based on a probability weighted discounted cash flow model. The value at inception of the single compound embedded derivative liability was \$139,286 and was bifurcated from the debt host contract and recorded as a derivative liability. The discount for the derivative will be accreted to interest expense using the effective interest method over the life of the convertible notes, or 36 months. Total accretion expense was di minimis for the quarter ended December 31, 2006.

Probability-Weighted Expected Cash Flow Methodology -

Assumptions: Single Compound Embedded Derivative within Convertible Note

| | At Inception November 30, 2006 | As of December 31, 2006 |
|--|-----------------------------------|----------------------------|
| Risk - free interest rate | 4.52% | 4.74% |
| Timely registration | 95.00% | 90.00% |
| Default status | 5.00% | 5.00% |
| Alternative financing available and exercised | 0.00% | 0.00% |
| Trading volume, gross monthly dollars monthly rate increase | 1.00% | 1.00% |
| Annual growth rate of stock price | 24.00% | 0.00% |
| Future projected volatility | 66.58% | 74.72% |

The stock purchase warrants (“warrants”) are freestanding derivative financial instruments which were valued using the Black-Scholes method. The fair value of the derivative liability was recorded at \$7,633,008 at inception on November 30, 2006. The unamortized discount of the warrant derivative liability of \$460,714 will be accreted to interest expense using the effective interest method over the life of the convertible notes, or 36 months. The total accretion expense was di minimis for the quarter ended December 31, 2006. The remaining value of \$7,172,294 was expensed at inception to change in fair value of derivative financial instruments since the total fair value of the derivative at inception exceeded the note proceeds.

Variables used in the Black-Scholes option-pricing model include (1) 4.52% to 4.74% risk-free interest rate, (2) expected warrant life is the actual remaining life of the warrant as of each period end, (3) expected volatility is from 66.58% to 74.72% and (4) zero expected dividends.

Both the embedded and freestanding derivative financial instruments were recorded as liabilities in the consolidated balance sheet and measured at fair value. These derivative liabilities will be marked-to-market each quarter with the change in fair value recorded as either a gain or loss in the income statement.

The impact of the application of SFAS No. 133 and EITF 00-19 in regards to the derivative liabilities on the balance sheet and statements of operations as of and through December 31, 2006 was as follows:

| | Transaction Date November 30, 2006 | Liability as of December 31, 2006 |
|--|---------------------------------------|--------------------------------------|
| Derivative liability-single compound embedded derivatives within the convertible notes | \$ 139,286 | \$ 69,171 |
| Derivative liability-warrants | 7,633,008 | 2,416,072 |
| Total | \$ 7,772,294 | \$ 2,485,243 |
| Less basis allocated from debt proceeds | | (600,000) |
| Net change in fair value of derivatives | | \$ 1,885,243 |

The following summarizes the financial presentation of the convertible notes at inception and December 31, 2006:

| | At inception November 30, 2006 | December 31, 2006 |
|--|-----------------------------------|-------------------|
| Notional amount of the convertible notes | \$ 600,000 | \$ 600,000 |
| Adjustments: | | |
| Discount for single compound embedded Derivatives within the convertible notes | (139,286) | (139,286) |
| Discount for warrants | (460,714) | (460,714) |
| Convertible notes balance, net | \$ - | \$ - |

Note 5 - NOTES PAYABLE - RELATED PARTIES

Shareholder

During the quarter ended June 30, 2006, Jeffrey D. Martin, a major stockholder loaned SKRM \$30,000 with two promissory notes of \$20,000 and \$10,000. The notes are payable on demand and bear interest at the rate of 8% and 17.49%, respectively. Interest on the notes begins to accrue on July 1, 2006. The notes are secured by the assets of Skreem.

During the quarter ended September 30, 2006, Jeffrey D. Martin, a major stockholder loaned SKRM \$146,700 with two promissory notes. The notes are payable on demand. The \$126,700 note bears interest at the rate of 8% and interest on this note begins to accrue on October 1, 2006. The \$20,000 note bears interest at approximately 17.49% per annum. The notes are secured by the assets of Skreem. During the quarter ended December 31, 2006, SKRM paid \$87,054 reducing the principal balance on the loans.

During the quarter ended December 31, 2006, Jeffrey D. Martin, a major stockholder loaned Skreem \$88,850 with multiple notes. The notes are payable on demand and bear interest at the rate of 8% and interest on this note begins to accrue on January 1, 2007. The notes are secured by the assets of SKRM.

On August 31, 2006, notes payable to Jeffrey Martin totaling \$591,770 and related interest payable of \$79,164 were converted to 298,193 shares of common stock at \$2.25 per share. Due to the related party nature of the transaction, no gain was recorded for the difference between the conversion price and the market price at the date of conversion.

Affiliates

During the quarter ended June 30, 2006, Skreem borrowed \$40,000 from Martin Consultants, Inc. The note is payable on demand and bears interest at a rate of 8% per annum. Interest on this note begins to accrue on July 1, 2006. Martin Consultants, Inc. is 100% owned by Jeffery D. Martin.

On August 31, 2006, notes payable to affiliates (Martin Consultants, Inc., JT Investments, and AM-PAC Investments) totaling \$996,620 and related interest payable of \$171,466 were converted to 519,149 shares of common stock at \$2.25 per share. Due to the related party nature of the transaction, no gain was recorded for the difference between the conversion price and the market price at the date of conversion.

Note 6 - GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. SKRM sustained losses of \$4,482,155 for the nine-months ended December 31, 2006. SKRM had an accumulated deficit of \$9,587,816 at December 31, 2006. These factors raise substantial doubt about the ability of SKRM to continue as a going concern for a reasonable period of time. SKRM is highly dependent on its ability to continue to obtain investment capital and loans from a major shareholder and third parties in order to fund the current and planned operating levels. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should SKRM be unable to continue as a going concern. SKRM's continuation as a going concern is dependent upon its ability to continue receiving investment capital from a shareholder and third parties and achieve a level of success that will enable it to sustain its operations. No assurance can be given that SKRM will be successful in these efforts.

Note 7 - PRODUCTION AGREEMENT

On June 13, 2006, SKRM entered into an agreement with 1171 Productions (1171) for the purpose of creating interest in and securing meeting opportunities of the "Star Maker" reality series. SKRM shall pay a commission of 5% of the net profits of the "Star Maker" series worldwide. In addition, Skreem agrees to use 1171 in the production of the series. SKRM has not recorded any transactions related to this agreement.

Note 8 - LICENSE AGREEMENT

During the quarter ended June 30, 2006, SKRM hired Zero Degrees Entertainment (Zero) under a 5-year agreement which grants Zero certain exclusive rights to distribute and sell recordings of the artist "3rd Wish" in France. SKRM shall receive royalties of 17% to 20% calculated on 100% net sales. In addition, SKRM may earn third party and other income as defined in the agreement. SKRM has not recorded any transactions related to this agreement.

Note 9 - ADVERTISING AND PROMOTIONAL SERVICE AGREEMENT

On May 24, 2006, Skreem hired Hobson, Bowerstock, & Associates, LLC (HLB) under a one-year agreement to prepare and implement a promotional campaign in exchange for 1,000,000 shares of common stock. During the quarter ended June 30, 2006, Skreem issued 250,000 shares and recorded advertising expense of \$250,000 in accordance with EITF 96-18. During the quarter ended December 31, 2006, Skreem's shareholder paid the shares directly and Skreem recorded advertising expense with an offset to paid-in capital of \$515,000 in accordance with EITF 96-18 and SAB 107 Topic 5.T. During the quarter ended December 31, 2006, SKRM terminated the agreement and no additional shares were issued and no additional services were provided.

Note 10 - RELATED PARTY REVENUE

During the quarter ended June 30, 2006, there were unsold recordings returned to Skreem by Cheyenne Records. Am-Pac Investment purchased these remaining recordings and Skreem recorded this sale as related party revenue during the quarter and nine months ended December 31, 2006. Am-Pac is owned by Jeffery Martin, a major shareholder.

Note 11 - STRATEGIC RESEARCH & ANALYSIS AGREEMENT

On July 1, 2006, SKRM hired Sterling LLC (Sterling) under a 2-year agreement to do research, market review and strategic analysis and to provide review and planning services in exchange for 3,000 shares per month for year one and 5,000 shares per month for year two, and additional incentives as described in the agreement. In accordance with EITF 96-18, SKRM recorded total expense of \$17,550 for the quarter ended September 30, 2006. On November 1, 2006, the agreement was amended to require SKRM to pay Sterling 30,000 shares per month, paid one year in advance, for a total of 360,000 shares and additional incentives as described in the addendum. SKRM recorded total expense of \$508,200 for the quarter ended December 31, 2006.

Note 12 - DISTRIBUTION AGREEMENT

On July 7, 2006, SKRM hired MD Lavert & Associates dba Nothing Else Works (NEW) which grants NEW exclusive rights to distribute designated albums for SKRM in the U.S. and Canada. NEW shall retain a retail marketing and distributing fee of 25% per artist of SKRM's whole sale price from sales of albums. SKRM has not recorded any transactions related to this agreement.

Note 13 - CONSULTING AGREEMENT

On November 15, 2006, SKRM hired International Capital Investors, LLC under a one-year agreement to do research, market review, and advising SKRM with regards to potential mergers and acquisitions for 150,000 shares of common stock and additional incentives as described in the agreement. SKRM recorded total expense of \$208,500 for the quarter ended December 31, 2006.

Note 14 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

During the nine months ended December 31, 2006 and 2005, approximately \$19,543 and \$32,202 was paid for interest, respectively. No cash was paid for income taxes during these periods.

During the nine months ended December 31, 2006, SKRM issued 817,342 shares of common stock for the conversion of related party debt of \$2,354,021 to equity. During the nine months ended December 31, 2006, SKRM recorded an initial discount on the convertible notes payable with an offset as derivative liabilities of \$600,000. During the nine months ended December 31, 2006, SKRM issued 3,000,000 shares of common stock with a value of \$4,020,000 with an offset to shares receivable.

Note 15 - SEGMENT REPORTING

At December 31, 2006 SKRM had two operating segments which consist of interactive online game operations and promoting, financing and managing artists in the music industry. The operating segments presented are the segments for which separate financial information is available and for which operating performance is evaluated regularly by management to decide how to allocate resources and to assess performance. SKRM evaluates the performance of the operating segments based on income (loss) from operations that is defined as total revenues less operating expenses.

Information regarding our reportable segments for the nine months ended December 2006 and 2005 is as follows:

| | Online Gaming | Music Operations | Total |
|----------------------|------------------|---------------------|-------------|
| <u>2006</u> | | | |
| Revenue | \$ - | \$ 160,833 | \$ 160,833 |
| Loss from operations | (1,329,612) | (1,218,657) | (2,548,269) |
| Other expenses, net | (1,887,288) | (46,598) | (1,933,886) |
| Net loss | (3,216,900) | (1,265,255) | (4,482,155) |
| Segment assets | 114,413 | 10,580 | 124,993 |
| <u>2005</u> | | | |
| Revenue | \$ - | \$ 63,987 | \$ 63,987 |
| Loss from operations | - | (1,014,246) | (1,014,246) |
| Other expense | - | (121,668) | (121,668) |
| Net loss | - | (1,135,914) | (1,135,914) |
| Segment assets | - | 57,621 | 57,621 |

Information regarding our reportable segments for the three months ended December 31, 2006 and 2005 is as follows:

| | Online Gaming | Music Operations | Total |
|-------------|------------------|---------------------|----------|
| <u>2006</u> | | | |
| Revenue | \$ - | \$ 3,285 | \$ 3,285 |

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| | | | |
|----------------------|-------------|-----------|-------------|
| Loss from operations | (1,329,613) | (195,982) | (1,525,595) |
| Other expenses, net | (1,881,995) | (4,223) | (1,886,218) |
| Net loss | (3,216,899) | (194,914) | (3,411,813) |
| Segment assets | 114,413 | 10,580 | 124,993 |

2005

| | | | | | | |
|----------------------|----|---|----|-----------|----|-----------|
| Revenue | \$ | - | \$ | 39,590 | \$ | 39,590 |
| Loss from operations | | - | | (256,478) | | (256,478) |
| Other expense | | - | | (44,576) | | (44,576) |
| Net loss | | - | | (301,054) | | (301,054) |
| Segment assets | | - | | 57,621 | | 57,621 |

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Note 16 -SUBSEQUENT EVENTS

SPIN-OFF OF SUBSIDIARY

The Board of Directors of SKRM Interactive, Inc. (formerly Skreem Entertainment Corporation, a Delaware corporation) (SKRM) has approved the spin-off of its subsidiary, SKREEM ENTERTAINMENT CORPORATION, (a Nevada Company) (SKREEM). SKREEM's primary operations have included promoting, financing and managing artists in the music industry. Each holder of SKRM's common stock at November 30, 2006 will receive one (1) share of SKRM stock held on that date. SKRM believes each of the resulting companies will be better positioned to focus on its core businesses and competencies, and thus compete more effectively in their respective markets. The effective date of transaction is February 5, 2007. SKRM will reflect the results of operations of SKREEM as discontinued operations during the fourth quarter ended March 31, 2007.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Plan of Operation

Online Game Development

During January 2007, we changed our name to SKRM Interactive, Inc., (SKRM), in connection with our Stock Purchase Agreement for the acquisition of 51% of the outstanding equity of Weaver Interactive, Inc. (Weaver) in exchange for 3,000,000 shares of our common stock and a loan of \$500,000. During February 2007, SKRM and Weaver entered into negotiations for the termination of the Stock Purchase Agreement. SKRM and Weaver plan to return the shares that were issued under the Stock Purchase Agreement and SKRM has requested Weaver to execute a promissory note for all monies loaned to Weaver by SKRM. We have impaired the loan and accrued interest receivable from Weaver as we believe it may not be collected. Our future plans include seeking other online game operators for acquisition and then we will primarily focus on developing and operating multiplayer online role playing games.

Spin Off

The Board of Directors of SKRM Interactive, Inc. (formerly Skreem Entertainment Corporation, a Delaware corporation) (SKRM) has approved the spin-off of its subsidiary, SKREEM Entertainment CORPORATION, (a Nevada Company) (SKREEM). SKREEM's primary operations have included promoting, financing and managing artists in the music industry. Each holder of SKRM's common stock at November 30, 2006 will receive one(1) share of SKRM stock held on that date. SKRM will reflect the results of operations of SKREEM as discontinued operations during the fourth quarter ended March 31, 2007.

SKREEM plans to continue operations as a separate company by developing current acts into successful music performing and recording acts. SKREEM has been actively promoting three acts, "3rd Wish", "Pat Moe" and "Willie Will". These three acts will tour, perform, make public appearances, and continue to record as opportunities are located. SKREEM is uncertain as to when these acts may enter the U.S. market. As of December 31, 2006, none of the Company's acts has received gold records for album sales.

The countries in which SKREEM has been promoting its acts are as follows:

Pat Moe

Germany, Switzerland, Austria

3rd Wish

Germany, Switzerland and Austria
UK, Eire, Australia,
New Zealand, France
Andorra, Monaco, Belgium, Russia, Azerbaijan,
Armenia, Georgia,
Moldova
Kazakstan, Krygyzstan, Tajikistan, Uzbekistan,
Turkmenistan,
Ukraine, Republic of Belarus, Lithuania, Latvia,
Estonia,
Israel, Portugal

SKREEM's cash balance is insufficient to satisfy its cash requirements for the next 12 months. SKREEM believes it can satisfy its cash requirements for 6 months with current cash and receivables. SKREEM is dependent on continued receipt of revenues and will need outside funding from the sale of shares or debt financing in order to continue

operations beyond that.

SKREEM does not anticipate acquiring any significant equipment during the next twelve months.

SKREEM does not anticipate any significant changes in the number of employees in the next twelve months.

SKREEM has entered into various license agreements that grant certain exclusive rights to sell and distribute certain recordings by "3rd Wish". Approximately 18% of the Company's revenue for the nine months ended December 31, 2006 came from the Cheyenne Records agreement. During the quarter ended June 30, 2006, there were unsold recordings returned to the Company by Cheyenne Records. A related party purchased these remaining recordings which represent approximately 79% of the total revenue. The remaining contracts represent, individually, less than 3% of revenue.

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The table below sets forth the parties, material terms, and territories covered by these license agreements:

Party(Licensee)Territories

Cheyenne Records Germany,
Switzerland
and Austria

Our agreement with Cheyenne Records provide that Cheyenne will market and sell 3rd Wish's recordings for a period of 5 years beginning in March 2004. Cheyenne will retain approximately 25% to 45% of revenue from distribution and sales and the Company will pay the costs of production. The term of the contract is 5.5 years from May 2004.

Three 8 UK,
Music Eire
Limited

Our agreement with Three 8 provides that they will receive royalties from 3rd Wish's first three singles released. Royalties are 19% on record sales and 50% on third party licensing. The term of the contract is 15 years from October 2004.

Shock Records Pty Australia, New
Ltd Zealand

Our agreement with Shock Records provides for royalties of 18-22% on album sales and 50% to Shock for third party licensing. The term of the contract is approximately 5 years from January 2005.

NRJ Music France,
Andorra,
Monaco,
Belgium

Our agreement with NRJ provides for royalties of 13-22% for record sales. The Company will bear the costs of production, the term is 5 years from January 2005.

MegalinerRecords Russia,
Azerbaijan,
Armenia,
Georgia,
Moldova,
Kazakstan,
Kyrgyzstan,
Tajikistan,
Uzbekistan,
Turkmenistan,
Ukraine,
Republic of
Belarus,
Lithuania,
Latvia,

Estonia

Our agreement with Megaliner provides Megaliner with 20% of income from record sales and 60% of third party licensing and broadcasting revenue. The term is three years.

NMC Israel
Music
Ltd.

NMC will receive royalties of approximately 18% of all record sales. The contract expires in December 2009.

Vidisco Portugal

Vidisco will receive a royalty of approximately 18% of all record sales. The contract expires in January of 2010.

Zero France
Degrees

Zero will receive a royalty of approximately 17-20% of record sales. The contract Expires in 2011.

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Revenue is recognized in accordance with Staff Accounting Bulletin No. 104 (SAB 104) when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable; delivery had occurred or services have been rendered or the license period has begun; and collectability is reasonably assured.

Revenue from the distribution of recordings under license and distribution agreements is recognized as earned under the criteria established by Statement of Financial Accounting Standard No. 50. Revenue is generally recognized when the Company receives an "accounting" of recordings sold with payment from the licensee. In the event the Company has not received an "accounting" from the licensee and if the Company has information related to the licensed use of recordings that would result in the revenue being fixed and determinable, and collection is reasonably assured, then revenue is recognized in the periods in which the license revenue is earned. Minimum guarantees (advances) received from licensees are recorded as deferred revenue and are amortized over the performance period, which is generally the period covered by the agreement.

Results of Operations for the Nine Months Ended December 31, 2006 as Compared to the Nine Months Ended December 31, 2005

Revenues - The Company recorded revenue of \$160,833 and \$63,987 for the nine months ended December 31, 2006 and December 31, 2005, respectively. The revenue for the nine months ended December 31, 2006 consists of earnings of \$33,633 from Licensing agreements to distribute 3rd Wish's music and sales of recordings to a related party of \$127,200. Revenue for the nine months ended December 31, 2005 consists of earnings from licensing agreements to distribute "3rd Wish's music of \$63,005 and live performances of \$982.

Operating expenses - Operating expenses for the nine months ended December 31, 2006 were \$1,230,552, an increase of \$436,613 or 55% from \$793,939 for the corresponding period ended December 31, 2005. The increase is primarily due to the significant increase in advertising expense of \$780,685 and a finders fee of \$268,000 that was related to the Weaver acquisition offset by a net decrease in touring, travel, promotion and support for artist of approximately \$612,000.

General and Administrative Expenses - General and administrative expenses increased by \$783,555 or 276% to \$1,067,849 for the nine months ended December 31, 2006 from \$284,294 for the corresponding period ended December 31, 2005. This increase is primarily attributable to an increase in salaries of \$2,795, increased delivery expense of \$42,182, increased professional and consulting fees of \$723,097, and increased other general and administrative expenses of \$15,239.

Impairment of Note Receivable - In conjunction with our Stock Purchase Agreement with Weaver Interactive, Inc., we loaned Weaver \$400,000 and accrued interest of \$10,701 on the loan. We have entered into negotiations to terminate the Stock Purchase Agreement, and we have requested that Weaver pay all monies loaned to Weaver. However, we may not collect the note receivable and therefore have recorded an impairment charge of \$410,701 for the nine months ended December 31, 2006.

Other Income (expense) -

During the nine months ended December 31, 2006, the Company recorded \$10,701 for interest income on the \$400,000 loaned to Weaver Interactive, Inc. There were no notes receivable outstanding during the nine months ended December 31, 2005, therefore there was no interest income recorded.

For the nine months ended December 31, 2006, the Company recorded interest expense in the amount of \$59,344, which relates to the amortization of loan costs for the convertible notes, accrued interest for the convertible notes and notes payable to a shareholder and the accretion of the discount related to the convertible notes which was recorded in

conjunction with the derivative liabilities. This compares with interest expense on notes payable of \$121,668 for the nine months ended December 31, 2005.

We are required to measure the fair value of the warrants and the embedded conversion features related to our convertible notes on the date of each reporting period. The effect of this re-measurement is to adjust the carrying value of the liabilities related to the warrants and the embedded conversion features. Accordingly, the Company recorded non-cash other expense of \$1,885,243 in the nine months ended December 31, 2006 related to the change in the fair market value of the warrants and embedded derivative liability. The Company did not have any derivative liabilities during 2005.

Results of Operations for the Three Months Ended December 31, 2006 as Compared to the Three Months Ended December 31, 2005

Revenues - The Company recorded revenue of \$3,286 and \$39,590 for the three months ended December 31, 2006 and December 31, 2005, respectively. The revenue for the three months ended December 31, 2006 consists of earnings from licensing agreements to distribute 3rd Wish's music of \$2,186 and sales of recordings to a related party of \$1,100. The revenue for the three months ended December 31, 2005 consists of earnings from licensing agreements to distribute 3rd Wish's music.

Operating expenses - Operating expenses for the three months ended December 31, 2006 were \$305,598, an increase of \$76,164 or 33% from \$229,434 for the corresponding period ended December 31, 2005. The increase is primarily due to a finders fee of \$268,000 related to the Weaver acquisition, an increase in advertising of \$12,447, offset by a net decrease in touring, travel, promotion, and support for artists of approximately \$200,000.

General and Administrative Expenses - General and administrative expenses increased by \$745,947 for the three months ended December 31, 2006 to \$812,581 from \$66,634 for the corresponding period ended December 31, 2005. This increase is primarily attributable to an increase in consulting and professional fees of \$734,529.

Impairment of Note Receivable - In conjunction with our Stock Purchase Agreement with Weaver Interactive, Inc., we loaned Weaver \$400,000 and accrued interest of \$10,701 on the loan. We have entered into negotiations to terminate the Stock Purchase Agreement and we have requested that Weaver pay all monies loaned to them. However, we may not collect the note receivable and therefore have recorded an impairment charge of \$410,701 for the three months ended December 31, 2006.

Other Income (expense)-

During the three months ended December 31, 2006, the Company recorded \$9,608 for interest income on the \$400,000 loaned to Weaver Interactive, Inc. There were no notes receivable outstanding during the three months ended December 31, 2005, therefore there was no interest income recorded.

For the three months ended December 31, 2006, the Company recorded interest expense in amount of \$10,584, which relates to the amortization of loan costs for the convertible notes, accrued interest for the convertible notes and notes payable to a shareholder and the accretion of the discount related to the convertible notes which was recorded in conjunction with the derivative liabilities. This compares with interest expense on notes payable of \$44,576 for the three months ended December 31, 2005.

We are required to measure the fair value of the warrants and the embedded conversion features related to our convertible notes on the date of each reporting period. The effect of this re-measurement is to adjust the carrying value of the liabilities related to the warrants and the embedded conversion features. Accordingly, the Company recorded non-cash other expense of \$1,885,243 in the three months ended December 31, 2006 related to the change in the fair market value of the warrants and embedded derivative liability. The Company did not have and derivative liabilities during 2005.

Liquidity and Capital Resources

As of December 31, 2006, the Company had cash of \$26,795 and a deficit in working capital of \$304,316(excluding derivative liabilities of \$2,485,243). This compares with cash of \$62,383 and a deficit in working capital of \$1,852,361 as of March 31, 2006.

Cash used in operations decreased by \$277,143 to \$393,248 for the nine months ended December 31, 2006 from \$670,391 for the corresponding period of the prior year. The decrease is attributable to a significant increase in non-cash expenses of \$2,217,411, offset by a decrease in changes in operating assets and liabilities of \$13,749, a change in fair value of derivative or non-cash gain of \$1,885,243, and an increase in net loss of \$4,482,154.

Cash used in investing activities for the nine months ended December 31, 2006 was \$402,030, which is due to a loan to Weaver Interactive, Inc. of \$400,000 and the equipment purchases of \$2,030.

Cash provided financing activities for the nine months ended December 31, 2006 was \$759,690, which is primarily from the issuance of promissory notes of \$356,050, convertible notes of \$600,000 and common stock of \$24,695, offset by payments on notes payable of \$131,055 and debt issuance costs of \$90,000. This compares with \$642,000 of cash being provided from financing activities during the nine months ended December 31, 2005, all from the issuance of promissory notes and common stock.

Historically, the Company has been funded by the sale of its shares and loans from its Shareholders and others. However, the Company's continuation as a going concern is dependent upon its ability to continue receiving investment capital and obtaining loans to achieve a level of success that will enable it to sustain its operations. No assurance can be given that the Company will be successful in these efforts.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"). Based on this evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were not effective. This conclusion was based on two primary factors. The first factor being that we were not able to prepare our financial information and report it within the time periods specified by the SEC's rules and forms. The second factor being that during the course of their review of our quarterly financial information, our independent registered public accounting firm identified material adjustments in connection with our accounting for derivative financial instruments.

During the quarter ended December 31, 2006, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

| <u>Number</u> | <u>Description</u> |
|---------------|--|
| 31.1** | Certification of Chief Executive Officer of Skreem Entertainment Corporation Required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2** | Certification of Chief Financial Officer of Skreem Entertainment Corporation Required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Chief Executive Officer of Skreem Entertainment Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 Of 18 U.S.C. 63 |
| 32.2** | Certification of Chief Financial Officer of Skreem Entertainment Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 Of 18 U.S.C. 63 |
| * | Previously filed |
| ** | To be filed |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SKRM Interactive, Inc.
(FORMERLY SKREEM ENTERTAINMENT
CORPORATION)

Date: March 19, 2007

By: Charles Camorata

Charles Camorata
Principal Executive Officer

Date: March 19, 2007

By: Karen Pollino

Karen Pollino
Chief Financial Officer