INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
August 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.
For the quarterly period ended June 30, 2010

r Transition report pursuant to Section 13 or 15(d) of the Exchange
Act for the transition period from _________ to _________.

Commission File Number: 0-9376

INNOVATIVE FOOD HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Florida	20-1167761
(State of or Other Jurisdiction of Incorporation or Organization)	(IRS Employer I.D. No.)

3845 Beck Blvd., Suite 805
Naples, Florida 34114
(Address of Principal Executive Offices)

(239) 596-0204
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant : (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO r

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES r NO r

Indicate by check mark whether the registrant is a shell company (as defined in Regulation 12b-2 of the Exchange Act): YES r NO þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check One):

Large Accelerated filer r	Accelerated filer r
Non-accelerated filer r	Smaller reporting company þ
(Do not check if a smaller reporting company)	

State the number of shares outstanding of each of the issuer's classes of Common equity, as of the latest practicable date: 196,985,103 Common Shares outstanding at August 9, 2010.

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ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS

Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 284,484	$ 144,765
Accounts receivable, net of allowance for doubtful accounts	391,784	339,206
Loan receivable, net	140,550	143,050
Inventory	31,224	19,075
Other current assets	5,420	6,120
Total current assets	853,462	652,216
Property and equipment, net	27,159	33,698
	$ 880,621	$ 685,914
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	$ 792,324	$ 695,361
Accrued liabilities - related parties	166,845	160,845
Accrued interest, net	601,966	576,933
Accrued interest - related parties, net	183,852	170,144
Notes payable, net of discount	891,200	918,907
Notes payable - related parties	345,500	345,500
Warrant liability	1,737,557	631,853
Options liability	348,427	144,627
Conversion option liability	2,634,502	1,384,992
Total current liabilities	7,702,173	5,029,162
Note payable - long term portion	26,210	27,718
Total liabilities	7,728,383	5,056,880
Stockholders' deficiency		
Common stock, $0.0001 par value; 500,000,000 shares authorized; 210,985,103 shares issued and 196,985,103 shares outstanding at June 30, 2010; 194,638,638 shares issued and 184,638,638 shares outstanding at December 31, 2009	21,099	19,464
Additional paid-in capital	2,405,438	2,197,413
Accumulated deficit	(9,274,299)	(6,587,843)
Total stockholders' deficiency	(6,847,762)	(4,370,966)

	$ 880,621	$ 685,914

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations
(UNAUDITED)

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Revenue	$2,288,946	$1,767,923	$4,596,907	$3,368,598
Cost of goods sold	1,815,062	1,384,666	3,584,788	2,572,360
	473,884	383,257	1,012,119	796,238
Selling, general and administrative expenses	552,273	495,029	1,093,638	794,165
Total operating expenses	552,273	495,029	1,093,638	794,165
Operating profit (loss)	(78,389)	(111,772)	(81,519)	2,073
Other (income) expense:				
Interest expense	94,487	78,596	171,897	189,765
(Gain) on extinguishment of debt	-	-	-	(222,656)
Fair value of warrants issued in excess of discount on notes	813,824	-	948,040	-
Loss from change in fair value of warrant liability	143,164	964,694	157,664	254,283
Loss from change in fair value of conversion option liability	506,149	857,500	1,327,336	511,900
Total other expense	1,557,624	1,900,790	2,604,937	733,292
Loss before income taxes	(1,636,013)	(2,012,562)	(2,686,456)	(731,219)
Income tax expense	-	-	-	-
Net loss	$(1,636,013)	$(2,012,562)	$(2,686,456)	$(731,219)
Net loss per share – basic and diluted	$(0.008)	$(0.011)	$(0.014)	$(0.004)
Weighted average shares outstanding – basic and diluted	196,985,103	191,114,467	192,277,982	187,366,574

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(UNAUDITED)

	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (2,686,456)	$ (731,219)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,618	17,327
(Gain) on extinguishment of debt	-	(222,656)
Fair value of common stock issued to consultants	6,000	11,200
Fair value of extension in term of warrants issued to noteholders	948,040	-
Fair value of stock options vested by officers and directors	79,442	-
Amortization of discount on notes payable	33,667	29,380
Amortization of discount on accrued interest	61,744	70,136
Allowance for bad debt	11,577	-
Change in fair value of warrant liability	157,664	254,283
Change in fair value of option liability	124,358	35,046
Change in fair value of conversion option liability	1,327,336	511,900
Changes in assets and liabilities:		
Accounts receivable, net	(64,155)	36,398
Inventory and other current assets, net	(11,449)	(21,129)
Accrued liability and accrued interest - related party, net	23,807	(9,849)
Accounts payable and accrued interest	153,987	(37,793)
Net cash provided by (used in) operating activities	180,180	(56,976)
Cash flows from investing activities:		
Principal payments received on loan	2,500	-
Acquisition of property and equipment	(8,079)	(7,540)
Net cash used in investing activities	(5,579)	(7,540)
Cash flows from financing activities:		
Principal payments on debt	(34,882)	(2,619)
Net cash used in financing activities	(34,882)	(2,619)
Net increase (decrease) in cash and cash equivalents	139,719	(67,135)
Cash and cash equivalents at beginning of period	144,765	160,545
Cash and cash equivalents at end of period	$ 284,484	$ 93,410

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(UNAUDITED) (continued)

Supplemental disclosure of cash flow information:

Cash paid during the period for:				
Interest	$	497	$	8
Revaluation of conversion option liability	$	1,327,336	$	511,900
Revaluation of warrant liability	$	157,664	$	254,283
Revaluation of option liability	$	124,358	$	35,046
Common stock issued for consulting contract	$	6,000	$	16,250
Extension of the term of warrants held by note holders	$	948,040	$	-
Conversion of notes payable and accrued interest to common stock	$	57,982	$	-
Common stock issued in error, to be cancelled	$	400	$	-

See notes to consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(Unaudited)

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

Basis of Presentation

The accompanying unaudited consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, Food Innovations, Inc. ("FII"), Food New Media Group, Inc. ("FNM"), Gourmet Foodservice Group, Inc. ("GFG"), and 4 The Gourmet, Inc (d/b/a For The Gourmet, Inc.) ("Gourmet") (collectively, the "Company, or "IVFH"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. FNM is currently inactive. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial statement presentation. U.S. accounting principles also contemplate continuation of the Company as a going concern.

Acquisition and Corporate Restructure

We were initially formed in September 1979 as Alpha Solarco Inc., a Colorado corporation. From September 1979 through February 2004, we were either inactive or involved in discontinued business ventures. In February 2003 we changed our name to Fiber Application Systems Technology, Ltd.

On January 26, 2004, through a share exchange, the shareholders of Food Innovations, Inc. ('FII") converted 10,000 shares (post-reverse split) of FII common stock outstanding into 25,000,000 shares of IVFH. On January 29, 2004, in a transaction known as a reverse acquisition, the shareholders of Innovative Food Holdings, Inc. ("IVFH") exchanged 25,000,000 shares of IVFH for 25,000,000 shares of Fiber Application Systems (formerly known as Alpha Solarco) ("Fiber"), a publicly-traded company. The shareholders of IVFH thus assumed control of Fiber, and Fiber changed its name to IVFH. The 25,000,000 shares of IVFH are shown on the Company's balance sheet at December 31, 2003 as shares outstanding. These shares are shown at their par value of $2,500 as a decrease of additional paid-in capital at the acquisition date of January 29, 2004. There were 157,037 shares outstanding in Fiber at the time of the reverse acquisition; the par value of these shares, or $16, was transferred from additional paid-in capital at the time of the reverse acquisition.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Food Innovations, Inc. ("FII") is in the business of providing premium white tablecloth restaurants with the freshest origin-specific perishables and specialty food products direct from its network of vendors to the end users (restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses) within 24 - 72 hours. We currently sell approximately 90% of our products through a distributor relationship with Next Day Gourmet, L.P., a subsidiary of US Foodservice, Inc. ("USF"), a $20 Billion broadline distributor.

Interim Financial Information

The accompanying unaudited interim consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's financial statements and related notes as contained in Form 10-K for the year ended December 31, 2009. In the opinion of management, the interim consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results of operations to be expected for the full year.

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INNOVATIVE FOOD HOLDINGS, INC.
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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 reported periods. Actual results could materially differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned operating subsidiary, Food Innovations, Inc. and its other wholly-owned subsidiaries Food New Media Group, Inc., Gourmet Foodservice Group, Inc. and 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.). All material intercompany transactions have been eliminated upon consolidation of these entities.

Revenue Recognition

The Company recognizes revenue upon product delivery. We ship all our products either overnight shipping terms or three day shipping terms to the customer and the customer takes title to product and assumes risk and ownership of the product when it is delivered. Shipping charges to customers are included in revenues.

For revenue from product sales, the Company recognizes revenue in accordance with Financial Accounting Standards Board "FASB" Accounting Standard Codification "ASC" 605-15-05, which superseded SAB No. 101, Revenue Recognition. ASC 605-15-05 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. FASB ASC 605-15-05 incorporates ASC 605-25-05 "Multiple-Deliverable Revenue Arrangements". ASC 605-25-05 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC 605-25-05 on the Company's consolidated financial position and results of operations was not significant.

This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. ASC 605-25-05 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of ASC 605-25-05 and ASC 605-45-05.

Cost of Goods Sold

We have included in cost of goods sold all costs which are directly related to the generation of revenue. These costs include primarily the cost of the product plus the shipping costs.

Selling, General, and Administrative Expenses

We have included in selling, general, and administrative expenses all other costs which support the Company's operations but which are not includable as a cost of sales. These include primarily payroll, facility costs such as rent and utilities, selling expenses such as commissions and advertising, and other administrative costs including professional fees. Also included are non cash costs associated with stock and options expense and option valuation expense.

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(Unaudited)

Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of $17,228 and $3,574 at June 30, 2010 and December 31, 2009, respectively.

Property and Equipment

Property and equipment are valued at cost. Depreciation is provided over the estimated useful lives up to five years using the straight-line method. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

The estimated service lives of property and equipment are as follows:

Computer Equipment	3 years
Office Furniture and Fixtures	5 years

Inventories

The Company does not currently maintain any material amount of inventory. However, any such inventory is valued at the lower of cost or market and is determined by the first-in, first-out method.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, notes payable, line of credit, accounts payable and accrued expenses, none of which is held for trading, approximates their estimated fair values due to the short-term maturities of those financial instruments.

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Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The test for impairment is required to be performed by management at least annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

As of June 30, 2010, the Company’s management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change which could result in impairment of long-lived assets in the future.

Comprehensive Income

FASB ASC 220-10-15, “Reporting Comprehensive Income,” establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10-15 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of other comprehensive income in any of the periods presented.

Advertising

The Company follows the policy of charging the costs of advertising to expenses incurred. The Company incurred advertising costs in the amount of $1,910 and $4,440 for the three months ended June 30, 2010 and 2009, respectively.The Company incurred advertising costs in the amount of $9,566 and $8,125 for the six months ended June 30, 2010 and 2009, respectively.

Basic and Diluted Income (Loss) Per Share

In accordance with FASB ASC 260-10-45 (“ASC 260-10-45”, formerly referred to as SFAS No. 128), "Earnings Per Share," the basic income (loss) per common share is computed by dividing net income (loss) available to common stockholders less preferred dividends by the weighted average number of common shares outstanding. Diluted loss per common share is computed similarly to basic loss per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were not anti-dilutive.

Diluted loss per share was not separately computed for the three and six months ended June 30, 2010 as the effect would be to reduce loss per share.

Anti-dilutive shares for the six months ended June 30, 2010:

The following warrants and options were not included in fully diluted earnings per share because the effect would have been anti-dilutive:

Warrants:
179,700,000 shares at an exercise price of $0.005 per share; 18,500,000 shares at an exercise price of $0.011 per share; 74,000,000 shares at an exercise price of $0.0115 per share; and 1,000,000 shares at an exercise price of $0.012 per share.

Options:
15,000,000 shares at an exercise price of $0.005 per share; 22,000,000 shares at an exercise price of $0.007 per share; 6,625,000 shares at an exercise price of $0.0076 per share; and 6,625,000 shares at an exercise price of $0.00948 per share.

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Anti-dilutive shares for the six months ended June 30, 2009:

Warrants:
179,700,000 shares at an exercise price of $0.005 per share; 18,500,000 shares at an exercise price of $0.011 per share; 74,000,000 shares at an exercise price of $0.0115 per share; and 1,000,000 shares at an exercise price of $0.012 per share.

Options:
15,000,000 shares at an exercise price of $0.005 per share; and 22,000,000 shares at an exercise price of $0.007 per share.

Liquidity

As reflected in the accompanying consolidated financial statements, the Company had net loss of $1,636,013 and $2,012,562 for the three months ended June 30, 2010 and 2009, respectively and net losses of $2,686,456 and $731,219 for the six months ended June 30, 2010 and 2009, respectively. This variance was principally due to non-cash adjustments made concerning the changes in the amount of liabilities related to the values of warrants, stock options, and conversion options rather to differences in actual operating results. The Company had an accumulated deficit of $9,274,299 at June 30, 2010. In addition, the Company's current liabilities exceeded its current assets by $6,848,711 as of June 30, 2010. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

Historically, we have funded our operations from cash generated by operations and from the issuance of both debt and equity securities. The Company's cash on hand may be insufficient to fund its planned operating needs. Management is continuing to pursue new debt and/or equity financing and is continually evaluating the Company's cash and capital needs.

The Company expects that any sale of additional equity securities or convertible debt will result in additional dilution to our stockholders. The Company can give no assurance that it will be able to generate adequate funds from operations, that funds will be available, or the Company will be able to obtain such funds on favorable terms and conditions. If the Company cannot generate sufficient positive cash flow from operations and /or secure additional funds, it will not be able to continue as a going concern.

By adjusting its operations and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to increase market share and cash flow from operations by focusing its sales activities on specific market segments. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms it finds acceptable, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 9 to the financial statements included in this report, nor have we identified any long-term obligations that we contemplate incurring in the near future. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

The independent auditors report on our December 31, 2009 financial statements state that our recurring losses raise substantial doubts about our ability as a going concern.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash in investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limit. At June 30, 2010 and 2009, trade receivables from the Company's largest customer amounted to 93% and 90%, respectively, of total trade receivables. During the six months ended June 30, 2010 and 2009 over 90% of our revenues came from one customer.

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INNOVATIVE FOOD HOLDINGS, INC.
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(Unaudited)

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718-10, Share-Based Payment. This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in ASC 780-10 the cost of these options are valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation is charged to compensation expense during the period. Options expense and gain or loss on revaluation during the three and six months ended June 30, 2010 and 2009 are summarized in the table below:

	For the Three Months June 30,		For the Six Months June 30,	
	2010	2009	2010	2009
Option expense	$ 50,541	$ -	$ 79,442	$ -
Loss on revaluation of options	$ 39,998	$ 122,477	$ 124,358	$ 35,047

Options outstanding as of December 31, 2009, and changes during the six months ended June 30, 2010 are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2009	53,000,000	$ (a)
Granted	10,500,000	(b)
Exercised	-	-
Cancelled/Expired	-	-
Options outstanding at June 30, 2010	63,500,000	$ (c)
Non-vested	13,250,000	(d)
Vested	50,250,000	$ 0.007

(a) Consists of options to purchase 15,000,000 shares at a price of $0.005 per share; 22,000,000 shares at a price of $0.007 per share; and unvested options to purchase 16,000,000 shares at a price of 120% of the closing market price on the date of vesting.

(b) Consists of options to purchase 2,625,000 shares at a price of $0.076 per share; 2,625,000 shares as a price of $0.095 per share; and unvested options to purchase 5,250,000 shares at a price of 120% of the closing market price on the date of vesting.

(c) Consists of options to purchase 50,250,000 shares at a price of $0.007 per share, plus the shares described in note (d) below.

(d) Consists of unvested options to purchase 13,250,000 shares at a price of 120% of the closing market price on the date of vesting.

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(Unaudited)

Aggregate intrinsic value of options outstanding and options exercisable at June 30, 2010 was $59,077. Aggregate intrinsic value represents the difference between the company's closing stock price on the last trading day of the fiscal period, which was $0.0079 at June 30, 2010, and the exercise price multiplied by the number of options outstanding. The total fair value of options vested was $50,541 and $79,442 for the six month periods ended June 30, 2010 and 2009. As of June 30, 2010, options to purchase 13,250,000 shares of common stock are unvested. The exercise price of these options will be 120% of the Company's stock price on the date of vesting. These shares would be valued at a total of $103,824 based upon the Company's stock price at June 30, 2010.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has reported a net loss of $1,636,013 and $2,686,456 for the three and six months ended June 30, 2010, and had an accumulated deficit of $9,274,299 as of June 30, 2010. The Company's net loss for the six months ended June 30, 2010 of $2,686,456 was generated primarily by non-cash transactions, including non-cash expenses of $157,664 on the revaluation of the warrant liability, $1,327,336 for the revaluation of the conversion option liability, and $948,040 for the value of the discount on the convertible notes payable in excess of the fair value of the convertible notes payable. The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management believes the Company will generate sufficient capital from operations and from debt and equity financing in order to satisfy current liabilities in the succeeding twelve months. Management's belief is based on the Company's operating plan, which in turn is based on assumptions that may prove to be incorrect. If the Company's financial resources are insufficient the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

Significant Recent Accounting Pronouncements

In April 2010, the FASB issued ASU 2010-13, Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades - a consensus of the FASB Emerging Issues Task Force. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is permitted. The Company does not expect the provisions of ASU 2010-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

The FASB issued ASU 2010-17, Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This ASU codifies the consensus reached in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition." The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive.

ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity’s fiscal year, the entity should apply 2010-17 retrospectively from the beginning of the year of adoption. Vendors may also elect to adopt the amendments in this ASU retrospectively for all prior periods. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations or cash flows of the Company

ASU 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached in EITF Issue No. 09-I, “Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset.” The amendments to the Codification provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40.

ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Company does not expect the provisions of ASU 2010-18 to have a material effect on the financial position, results of operations or cash flows of the Company

In May 2010, the FASB issued ASU 2010-19, Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations or cash flows of the Company.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

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3. ACCOUNTS RECEIVABLE

At June 30, 2010 and December 31, 2009, accounts receivable consists of:

	June 30, 2010	December 31, 2009
Accounts receivable from customers	$ 409,012	$ 342,780
Allowance for doubtful accounts	(17,228)	(3,574)
Accounts receivable, net	$ 391,784	$ 339,206

4. LOAN RECEIVABLE

The balance of loan receivable consisted of a loan to Pasta Italiana, Inc. ("Pasta") in the net carrying amount of $140,550 at June 30, 2010 and $143,050 at December 31, 2009, which are classified as current asset in both periods respectively. This note bears interest at the rate of 15% per annum, payable in shares of Pasta stock. The loan was renegotiated during the twelve months ended December 31, 2008, and resulted in the Company recognizing an impairment to the loan in the amount of $142,124, which was charged to operations during the year ended December 31, 2008. This impairment was based upon the renegotiated principal and interest amount due the Company. During the three and six months ended June 30, 2010, the Company received payments in the amount of $1,500 and $2,500 on this note. Subsequent to June 30, 2010, the Company has received payments in the amount of $1,500 on this note.

5. INVENTORY

Inventory consists of molecular gastronomy products, honey, and meat glue which is warehoused in Naples, Florida; and prepaid Kobe products held by our meat vendors.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2010 and December 31, 2009, is as follows:

	June 30, 2010	December 31, 2009
Computer equipment	$ 314,173	$ 305,794
Furniture and fixtures	67,298	67,298
	381,471	373,092
Less accumulated depreciation and amortization	(354,311)	(339,394)
Total	$ 27,159	$ 33,698

Depreciation and amortization expense amounted to $6,858 and $7,777, respectively, for the three months ended June 30, 2010 and 2009. Depreciation and amortization expense amounted to $14,618 and $17,327, respectively, for the six months ended June 30, 2010 and 2009.

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Trade payables	$ 781,019	$ 689,075
Accrued payroll and commissions	11,305	6,286
Total accounts payable and accrued liabilities - non-related parties	$ 792,324	$ 695,361

At June 30, 2010 and December 31, 2009, accrued liabilities to related parties in the amount of $166,845 and $160,845, respectively, consisted of accrued payroll and payroll related benefits.

8. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at prices ranging from of $0.005 to $0.010 per share. Beneficial conversion features are embedded in the convertible accrued interest. The Company is amortizing these beneficial conversion features over the lives of the related notes payable. Certain of these notes payable have exceeded their stated terms, and are still outstanding; in those instances, the Company charges the value of these beneficial conversion features to operations immediately, at the time the interest is accrued.

During the three months ended June 30, 2010 and 2009, the amounts of $33,732, and $34,910, respectively, were credited to additional paid-in capital as a discount on convertible interest. The aggregate amount of discounts on convertible interest charged to operations during the three months ended March 31, 2010 and 2009 was $31,196 and $25,528, respectively.

During the six months ended June 30, 2010 and 2009, the amounts of $67,852, and $86,060, respectively, were credited to additional paid-in capital as a discount on convertible interest. The aggregate amount of discounts on convertible interest charged to operations during the three months ended June 30, 2010 and 2009 was $31,196 and $25,528, respectively. The aggregate amount of discounts on convertible interest charged to operations during the six months ended June 30, 2010 and 2009 was $61,744 and $70,095, respectively.

At June 30, 2010 and December 31, 2009, the Company has the following accrued interest on its balance sheet:

June 30, 2010:	Gross	Discount	Net
Non-related parties	$ 643,731	$ (41,765)	$ 601,966
Related parties	183,852	-	183,852
Total	$ 827,583	$ (41,765)	$ 785,818

December 31, 2009:	Gross	Discount	Net

Non-related parties	$	611,416	$	(34,483)	$	576,933
Related parties		170,144		-		170,144
Total	$	781,560	$	(34,483)	$	747,077

Certain of the accrued interest is convertible in to shares of the Company's common stock at prices ranging from $0.005 to $0.010 per share. At June 30, 2010, convertible accrued interest was $792,103 which is convertible into 154,851,400 shares of common stock; at December 31, 2009, convertible accrued interest was $749,055 which was convertible into 146,559,160 shares of common stock.

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9. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

	June 30, 2010	December 31, 2009
Convertible note payable in the original amount of $350,000 to Alpha Capital Aktiengesselschaft ("Alpha Capital"), dated February 25, 2005. This note consists of $100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and $250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per annum, and the note became immediately due. During the three months ended June 30, 2009, the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion price of $0.005 per share. A beneficial conversion feature in the amount of $250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of $0.005 per share. Interest in the amount of $6,880 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $13,685 and $19,640 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006 the note holder converted $5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted $27,865 of accrued interest into common stock. This note is past due at December 31, 2008. The noteholder has agreed to extend the maturity date of this note until January 1, 2010. During the three months ended June 30, 1010, the noteholder has agreed to extend the maturity date of this note until April 15, 2011.	$345,000	$345,000
Convertible note payable in the original amount of $100,000 to Joel Gold, a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible by the holder into common stock of the Company at a conversion price of $0.005 per share. A beneficial conversion feature in the amount of $100,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004 and 2005. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of $0.005 per share. Interest in the amount of $498 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $991was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, $75,000 of the	25,000	25,000

principal amount was converted into common stock. This note was past due at June 30, 2010 and December 31, 2009.

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	June 30, 2010	December 31, 2009
Convertible note payable in the original amount of $85,000 to Briolette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $85,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. On December 21, 2006, this note was transferred to Whalehaven Capital Fund, Ltd. (“Whalehaven”). Accrued interest is convertible by the holder into common stock of the Company at a price of $0.005 per share. Interest in the amount of $758 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $1,507 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2005, the note holder converted $44,000 of the note payable into common stock. During the twelve months ended December 31, 2006, the Company made a $3,000 cash payment on the principal amount of the note. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date to February 15, 2010. During the three months ended June 30, 1010, the noteholder has agreed to extend the maturity date of this note until April 15, 2011.	38,000	38,000
Convertible note payable in the amount of $80,000 to Brown Door, Inc., dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $80,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of $0.005 per share. Interest in the amount of $1,596 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $3,175 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	80,000	80,000

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	June 30, 2010	December 31, 2009
Convertible note payable in the amount of $50,000 to Whalehaven dated February 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisites numbers of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per annum, and the note became due immediately. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $50,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in May, 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $798 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $1,587 and $2,278 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, $10,000 of principal and $589 of accrued interest was converted into common stock. This note is past due at December 31, 2008. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date to February 15, 2010. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date to April 15, 2011.	40,000	40,000
Convertible note payable in the amount of $50,000 to Oppenheimer & Co., Custodian for Joel Gold IRA, a related party, dated March 14, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $50,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $998 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $1,985 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	50,000	50,000
Convertible note payable in the original amount of $30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial	20,000	20,000

conversion feature in the amount of $30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005 and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $400 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $795 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, the note holder converted $10,000 of principal into common stock. This note was past due at June 30, 2010 and December 31, 2009.		
Convertible note payable in the amount of $25,000 to Joel Gold a board member and related party, dated January 25, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of $0.025 per share. A beneficial conversion feature in the amount of $25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of $0.025 per share. Interest in the amount of $498 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $991 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	25,000	25,000

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Convertible note payable in the amount of $25,000 to The Jay & Kathleen Morren Trust dated January 25, 2005. The note bears interest at the rate of 6% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $373 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $742 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	25,000	25,000
Convertible note payable in the amount of $10,000 to Lauren M. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.01 per share . A beneficial conversion feature in the amount of $10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.01 per share. Interest in the amount of $200 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $397 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	10,000	10,000
Convertible note payable in the amount of $10,000 to Richard D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.01 per share. A beneficial conversion feature in the amount of $10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.01 per share. Interest in the amount of $200 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $397 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	10,000	10,000

Convertible note payable in the amount of $10,000 to Christian D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.01 per share. A beneficial conversion feature in the amount of $10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.01 per share. Interest in the amount of $200 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $397 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	10,000	10,000
Convertible note payable in the amount of $10,000 to Andrew I. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.01 per share. A beneficial conversion feature in the amount of $10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.01 per share. Interest in the amount of $200 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $397 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	10,000	10,000

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Convertible note payable in the amount of $8,000 to Adrian Neilan dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and is due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $8,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $160 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $317 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	8,000	8,000
Convertible note payable in the amount of $5,000 to Matthias Mueller dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $5,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $100 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $199 and $200 was accrued on this note during the six months ended June 30, 2010 and 2009, respectively. This note was past due at June 30, 2010 and December 31, 2009.	5,000	5,000
Convertible note payable in the amount of $120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $120,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $1,995 and $2,393 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $4,304 and $6,832 was accrued on this note during the six	100,000	120,000

months ended June, 2010 and 2009, respectively. During the three months ended March 31, 2010, the noteholder converted principal in the amount of $20,000 into common stock. During the twelve months ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. In April 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010. This note was past due at June 30, 2010.		
Convertible note payable in the amount of $30,000 to Whalehaven Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $30,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $598 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $1,190 and $1,707 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date until February 15, 2010. In April, 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010.	30,000	30,000

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Convertible note payable in the original amount of $25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share . A beneficial conversion feature in the amount of $25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $300 and $394 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $646 and $1,134 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, the holder of the note converted $2,000 of principal and $3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional $3,000 of principal into common stock. During the twelve months ended December 31, 2009, the holder converted $2,000 of principal and $1,058 of accrued interest into common stock. During the three months ended March 31, 2010, the holder converted $3,000 of principal and $1,043 of accrued interest into common stock. The noteholder has agreed to extend the maturity date of this note until January 1, 2010. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.	15,000	18,000
Convertible note payable in the original amount of $25,000 to Momona Capital, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $25,000 was recorded	13,000	18,000

as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $258 and $358 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $597 and $1,023 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, the holder of the note converted $2,000 of principal and $3,667 of accrued interest into common stock, and during the twelve months need December 31, 2008, the holder of the note converted an additional $5,000 principal into common stock. During the three months ended March 31, 2010, the holder of the note converted $5,000 of principal into common stock. In April 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.

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	June 30, 2010	December 31, 2009
Convertible note payable in the amount of $10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note’s interest rate increased to 15% per annum and the note became immediately due. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. The note is convertible into common stock of the Company at a conversion of $0.005 per share. A beneficial conversion feature in the amount of $10,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of $0.005 per share. Interest in the amount of $119 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $238 and $340 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2006, the holder of the note converted $4,000 of principal and $1,467 of accrued interest into common stock. In April 2009, the noteholder has agreed to extend the maturity date of this note until January 1, 2010. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.	6,000	6,000

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	June 30, 2010	December 31, 2009
Note payable in the amount of $120,000 to Alpha Capital, dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of $0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of $95,588 and amortized this discount to interest expense when the note entered default status in October 2007. In January 2009, the Company extended this note to April 16, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 24,000,000 shares of common stock at $0.0115 per share; 6,000,000 shares of common stock at $0.011 per share; and 2,400,000 shares of common stock at $0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of $126,465. This transaction was accounted for as an extinguishment of debt, and a loss of $126,465 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of $4,487 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $8,926 and $10,674 was accrued on this note during the six months ended June, 2010 and 2009, respectively. In April 2009, the noteholder agreed to extend this note to April 1, 2009. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.	120,000	120,000
Note payable in the amount of $30,000 to Whalehaven Capital dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of $0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of $23,897 and amortized this discount to interest expense when the note entered default status in October 2007. On January 2009, the Company extended this note to April 16, 2009. As	30,000	30,000

consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 6,000,000 shares of common stock at $0.0115 per share; 1,500,000 shares of common stock at $0.011 per share; and 600,000 shares of common stock at $0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of $31,616. This transaction was accounted for as an extinguishment of debt, and a loss of $31,616 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of $1,122 and $1,496 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $2,256 and $2,602 was accrued on this note during the six months ended June, 2010 and 2009, respectively. In April 2009, the noteholder agreed to extend this note to February 15, 2010. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.		
Note payable in the amount of $75,000 to Michael Ferrone, dated August 2, 2004. The note bears interest at the rate of 8% per annum, and was due in full on February 2, 2005. On September 30, 2008, this note was extended to December 31, 2009 in exchange for adding a convertibility feature to the note. This feature allows for conversion to common stock at a price of $0.005 per share. The Company valued this beneficial conversion feature at the amount of $89,945 using the Black-Scholes valuation model. $75,000 of this amount was charged to discount on the note; $4,001 of this discount was amortized to interest expense during the year ended December 31, 2008. During the three and six months ended June 30, 2009, $9,477 and $14,220 was amortized to interest expense, respectively. Interest in the amount of $1,496 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $1,496 and $2,976 was accrued on this note during the six months ended June, 2010 and 2009, respectively. This note was past due at June 30, 2010.	75,000	75,000

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Note payable in the amount of $10,000 to Alpha Capital, dated May 19, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on November 19, 2006. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at February 20 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended June 30, 2009, the Company negotiated the default interest rate and the noteholder agreed to the application of the original interest rate, instead of the default rate beginning on April 1, 2009. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of $0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of $7,966 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 2,000,000 shares of common stock at $0.0115 per share; 500,000 shares of common stock at $0.011 per share; and 200,000 shares of common stock at $0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of $10,539. This transaction was accounted for as an extinguishment of debt, and a loss of $10,539 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of $373 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $742 and $866 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the three months ended June 30, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011.	10,000	10,000
Twenty-nine convertible notes payable in the amount of $4,500 each to Sam Klepfish, the Company's CEO and a related party, dated the first of the month beginning on November 1, 2006. Pursuant to the Company's employment agreement with Mr. Klepfish, the amount of $4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum and have no due date. These notes and accrued interest are convertible into common stock of the Company at a rate of $0.005 per share. Beneficial conversion features in the aggregate amount of $9,000 for the year ended December 31, 2006, $39,190 for the year ended December 31, 2007, $58,464 for the year ended December 31, 2008, and $8,100 for the three months ended March 31, 2009 were calculated using the Black-Scholes valuation model. Since these notes are payable on demand, the value of these discounts were charged immediately to interest expense. Interest in the amount of $2,603 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $2,603 and $5,006 was accrued on this note during the six months ended June, 2010 and 2009, respectively.	130,500	130,500

Note payable in the original amount of $25,787 to Microsoft Corporation dated May 3, 2006. The note bears interest at the rate of 9.7% per annum, and is payable in 60 monthly payments of $557 beginning October 1, 2006.Principal and interest in the amounts of $1,672 and $3,345 were paid on this note during the three and six months ended June 30, 2010 and 2009, respectively.	7,841	10,723
Convertible note payable in the amount of $200,000 to Alpha Capital, dated December 31, 2008. This note bears interest at the rate of 8% per annum, and is due in full on December 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. Also issued with this note are warrants to purchase 40,000,000 shares of the Company's common stock at a price of $0.005 per share. The Company calculated a discount to the note in the amount of $200,000, and recorded $9,261 and $11,577 amortization for this discount during the three months ended March 31, 2010. Interest in the amount of $3,403 and $3,989 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $5,280 and $7,934 was accrued on this note during the six months ended June, 2010 and 2009, respectively. During the twelve months ended December 31, 2009, the Company made an $8,000 payment on the principle of this note. During the six months ended June 30, 2010, the Company made $32,000 in principal payments on this note.	152,000	184,000

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Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of $230,000 to Alpha Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. The Company calculated a discount to the note in the amount of $230,000, and recorded $3,164 and $6,483 amortization for this discount during the three and nine months ended September 30, 2009, respectively. Interest in the amount of $4,587 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $8,360 and $9,074 was accrued on this note during the six months ended June, 2010 and 2009, respectively.	230,000	230,000
Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of $38,000 to Whalehaven Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. The Company calculated a discount to the note in the amount of $38,000, and recorded $523 and $1,071 amortization for this discount during the three months ended March 31, 2010. Interest in the amount of $1,420 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $2,256 and $2,809 was accrued on this note during the six months ended June, 2010 and 2009, respectively.	38,000	38,000
Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of $25,310 to Asher Brand, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. The Company calculated a discount to the note in the amount of $25,310, and recorded $348 of amortization for this discount during the three months ended March 31, 2010. Interest in the amount of $504 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $801 and $997 was accrued on this note during the six months ended June, 2010 and 2009, respectively.	25,310	25,310
Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of $25,310 to Momona Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. The Company calculated a discount to the note in the amount of $25,310, and recorded $348 of amortization for this discount during the three months ended March 31, 2010. Interest in the amount of $504 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $801 and $997 was accrued on this note during the six months ended June,	25,310	25,310

2010 and 2009, respectively.		
Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of $10,124 to Lane Ventures, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of $0.005 per share. The Company calculated a discount to the note in the amount of $10,124, and recorded $139 and $285 amortization for this discount during the three and nine months ended September 30, 2009, respectively. Interest in the amount of $203 was accrued on this note during the three months ended June 30, 2010 and 2009, respectively. Interest in the amount of $322 and $401 was accrued on this note during the six months ended June, 2010 and 2009, respectively.	10,124	10,124
	$ 1,719,083	$ 1,781,967

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June 30, 2010:	Note Amount	Unamortized Discounts	Net of Discount
Notes payable - current portion	$ 987,200	$ (96,000)	$ 891,200
Notes payable - related parties, current portion	345,500	-	345,500
Notes payable - maturity in the year 2011	386,386	(360,176)	26,210
Total	$ 1,719,086	$ (456,176)	$ 1,262,910

December 31, 2009:	Note Amount	Unamortized Discounts	Net of Discount
Notes payable - current portion	$ 1,014,907	$ (96,000)	$ 918,907
Notes payable - related parties, current portion	345,500	-	345,500
Notes payable - maturity in the year 2011	421,560	(393,842)	27,718
Total	$ 1,781,967	$ (489,841)	$ 1,292,126

	For the Three Months June 30,		For the Six Months June 30,	
	2010	2009	2010	2009
Discount on Notes Payable amortized to interest expense:	$ 20,615	$ 13,748	$ 33,667	$ 29,380

Conversion Options Embedded in Convertible Notes

The Company accounts for conversion options embedded in convertible notes in accordance with FASB ASC 815-10-05 (“ASC 815-10-05”,) ‘‘Accounting for Derivative Instruments and Hedging Activities’’ and FASB ASC 815-40-05 (“ASC 815-40-05”,) ‘‘Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock”. ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

At June 30, 2010 and December 31, 2009, the Company had outstanding $1,711,244 and $1,771,244 in principal, respectively, of various convertible notes with embedded conversion options accounted for as free standing derivative financial instruments in accordance with ASC 815-10-05 and ASC 815-40-05 . The fair value of these embedded conversion options was $2,666,031 and $1,384,992 at June 30, 2010 and December 31, 2009, respectively. The fair value of these embedded conversion options were estimated at June 30, 2010 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.20%; expected dividend yield of 0%; expected option life of 10; and volatility of 189%. The fair value of these embedded conversion options were estimated at December 31, 2009 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.20%; expected dividend yield of 0%; expected option life of 10; and volatility of 302.87%. The expected term of 10 years was used for all notes in both periods because several of the notes are currently or have been in default, and accordingly the term of the note is deemed not relevant as a variable for the Black-Scholes calculation. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the three months ended June 30, 2010 and 2009, the Company recorded a loss of $537,678 and $857,500, respectively, due to the change in value of the conversion option liability. During the six months ended June 30, 2010 and 2009, the Company recorded a loss of $1,358,865 and $511,900, respectively, due to the change in value of the conversion option liability. If all convertible options were converted, 344,248,800 additional shares would be issuable.

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When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the three months ended June 30, 2010 and 2009, a conversion option in the amount of $42,631 and $7,800, respectively, was transferred from liability to equity due to the conversion or payment of the related convertible notes payable. During the six months ended June 30, 2010 and 2009, a conversion option in the amount of $77,826 and $7,800, respectively, was transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

Discounts on notes payable

The Company calculates the fair value of any beneficial conversion features embedded in its convertible notes via the Black-Scholes valuation method. The Company also calculates the fair value of any detachable warrants offered with its convertible notes via the Black-Scholes valuation method. The instruments are considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features do not exceed the face value of the notes. These discounts are amortized to interest expense via the effective interest method over the term of the notes. The fair value of these instruments is expensed as original issue discount to the extent that the value of these instruments exceeds the face value of the notes.

Extension of notes payable

The Company accounts for modifications of its notes payable according to the guidance in FASB ASC 470-50-40 (“ASC 470-50-40”, and formerly referred to as EITF 96-19), “Debtor’s Accounting for a Modification or Exchange of Debt Instruments” and FASB ASC 470-50-40 (“ASC 470-50-40”, and formerly referred to as EITF 06-6, “Debtor’s Accounting for a Modification (or Exchange) of Convertible Debt Instruments”) Pursuant to ASC 470-50-40, changes to an existing note should be accounted for as an extinguishment of the note with resultant gain or loss if the present value of the cash flows from the new note vary by more than 10% from the present value of the cash flows from the original note. ASC 470-50-40 provides an exception to this rule for the addition of conversion options accounted for as a derivative liability.

During the year ended December 31, 2007, the Company negotiated the extension of three of its notes payable in the aggregate amount of $160,000. As consideration for the extension, the Company agreed to add a convertibility feature to the notes. Because this note falls under the exception in ASC 470-50-40 regarding the addition of conversion options accounted for as a derivative liability, the Company accounted for this transaction as a modification of the existing note. The conversion option liability was valued at the amount of $127,450 at the date of the issuance of the extension via the Black-Scholes method. This amount was debited to discount on notes payable, and is being amortized via the effective interest method over the extended term of the related notes.

During the year ended December 31, 2008, the Company negotiated the further extension of these three notes payable in the aggregate amount of $160,000. As consideration for the new extension, the Company provided warrants to purchase an aggregate 43,200,000 shares of common stock. The Company valued these warrants at the date of issuance via the Black-Scholes valuation method at $168,620. The value of these warrants are considered a component of the 10% present value calculation under ASC 470-50-40. The Company accounted for this transaction as an extinguishment of debt, and recorded a loss on extinguishment in the amount of $168,620. This amount was charged to operations during the year ended December 31, 2008.

During the year ended December 31, 2009, the Company negotiated further extensions of its notes payable in the aggregate amount of $587,000. The Company extended the maturity dates to January 1, 2010.These notes, along with two additional notes payable in the aggregate amount of $150,000, contained certain provisions for a default interest rate. The Company negotiated an agreement with the noteholders and the noteholders have agreed to the original interest rate of 8% per annum.

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Also during the year ended December 31, 2009, the Company negotiated the extension of its notes payable in the aggregate amount of $138,000. The Company extended the maturity date of these notes until February 15, 2010. During the six months ended June 30, 2010, as described below, the Company negotiated the extension of these notes payable, and the maturity dates of these notes are June 15, 2010 and April 15, 2011.

During the three months ended June 30, 2010, the Company negotiated the extension of nine of its notes payable in the aggregate amount of $617,000 to April 15, 2011. The Company also negotiated the extension of two its notes payable in the aggregate amount of $130,000 until June 15, 2010.

Embedded conversion features of notes payable:

The Company accounts for conversion options embedded in convertible notes in accordance with FASB ASC 815-10-05 (“ASC 815-10-05”) and FASB ASC 815-40-05 (“ASC 815-40-05”). ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to operations other (income) expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions for the six months ended June 30, 2010 and 2009:

	June 30,	
	2010	2009
Number of options outstanding	344,248,800	349,448,800
Value at June 30,	$ 2,634,502	$ 1,990,944
Number of options issued during the period	-	69,348,800
Value of options issued during the period	$ -	$ 336,844
Number of options exercised or underlying notes paid during the period	12,000,000	4,000,000
Value of options exercised or underlying notes paid during the period	$ 77,826	$ 7,800
Revaluation (loss) during the period	$ (1,327,336)	$ (511,900)
Black-Scholes model variables:		
Volatility	188.71 – 266.73%	364.6-390.59%
Dividends	-	-
Risk-free interest rates	0.20%	0.35-0.43%
Term (years)	10.	10

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10. INCOME TAXES

No provision for Federal and State income taxes was required for the periods ended June 30, 2010 and 2009, due to the Company's operating losses and increased deferred tax asset valuation allowance. As of June 30, 2010 and 2009, the Company has unused net operating loss carry-forwards of approximately $2,400,000 and $2,900,000 which expire at various dates throughout t 2030. Some of this amount may be subject to annual limitations under certain provisions of the Internal Revenue Cods related to "changes in ownership".

As of June 30, 2010 and 2009, the deferred tax assets related to the afore mentioned carry-forwards have been fully offset by valuation allowances, since significant utilization of such amounts is not presently expected in the foreseeable future.

Deferred tax assets and valuation allowances consist of:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net operating loss carry-forwards	$ (816,000)	$ (1,000,000)
Valuation allowance	816,000	1,000,000
Net deferred tax assets	$ -	$ -

11. EQUITY

Common Stock

During the six months ended June 30, 2010, the Company issued 4,000,000 shares of common stock to a note holder for the conversion of $20,000 of accrued interest of a convertible note.

During the six months ended June 30, 2010, the Company issued 5,787,899 shares of common stock to a note holder for the conversion of $20,000 of principal of a convertible note payable.

During the six months ended June 30, 2010, the Company issued 808,566 shares of common stock to a note holder for the conversion of $3,000 of principal and $1,043 of accrued interest on a convertible note payable.

During the six months ended June 30, 2010, the Company issued 1,000,000 shares of common stock to a note holder for the conversion of $5,000 of principal on a convertible note payable.

During the six months ended June 30, 2010, the Company issued 750,000 shares of common stock to a consultant for services. The fair value of these shares in the amount of $6,000 was charged to operations during the three months ended March 31, 2010.

During the six months ended June 30, 2010, the Company issued 4,000,000 shares in error due to an error by the transfer agent which resulted in duplication of shares of common stock issued to a note holder for conversion. The Company will return these shares for cancellation.

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Warrants

During the three months ended March 31, 2010, the Company entered into an agreement whereby they expiration date of 132,000,000 warrants that were set to expire of February 24, 2010, were extended to April 7, 2010. The extension of the expiration date resulted in an additional expense of $134,216, which was charged to operations during the three months ended March 31, 2010.

During the three months ended June 30, 2010, the Company entered into an agreement whereby they expiration date of 132,000,000 warrants that were set to expire of April 7, 2010, were extended to April 16, 2012. The extension of the expiration date resulted in an additional expense of $818,824, which was charged to operations during the three months ended June 30, 2010.

The following table summarizes the significant terms of warrants outstanding at June 30, 2010. These warrants may be settled in cash or via cashless conversion into shares of the Company's common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

Range of exercise prices	Number of warrants outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding warrants	Number of warrants exercisable	Weighted average exercise price of exercisable warrants
$ 0.0050	179,700,000	2.17	$ 0.0050	179,700,000	$ 0.0050
$ 0.0110	18,500,000	1.80	$ 0.0110	18,500,000	$ 0.0110
$ 0.0120	1,000,000	3.21	$ 0.0120	-	$ -
$ 0.0115	74,000,000	2.18	$ 0.0115	74,000,000	$ 0.0115