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BURST.COM AND SUBSIDIARIES

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED
DECEMBER 31, 2004 (REVIEWED) AND 2003 (AUDITED)

BURST.COM AND SUBSIDIARIES
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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YOUR FINANCIAL SUCCESS ADVISORS

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders
Of Burst.com, Inc. and Subsidiaries

We have reviewed the accompanying consolidated balance sheet of Burst.Com, Inc. (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated Statements of Operations, Changes in Stockholder's Deficit, and Cash Flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of Burst.Com, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order them to be in conformity with generally accepted accounting principles.

The financial statements for the year ended December 31, 2003 were audited by us and we expressed an unqualified opinion on them in our report dated March 16, 2004, but we have not performed any auditing procedures since that date.

Sterck Kulik O'Neill

San Francisco, California
April 6, 2005

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

Assets	2004	2003
Current assets		
Cash and cash equivalents	$ 659,697	$ 299,220
Prepaid expenses and other current assets	28,941	4,802
Total current assets	688,638	304,022
Property and equipment, net of accumulated depreciation of $143,017 and $125,624 respectively	938	18,331
Other assets	968,283	968,283
Total assets	$ 1,657,859	$ 1,290,636

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 195,669	$ 239,088
Accrued expenses	363,655	385,296
Accrued interest	104,969	427,788
Notes and obligations payable, current portion	452,355	70,000
Total current liabilities	1,116,648	1,122,172
Long Term Liabilities	1,661,546	2,028,245
Stockholders' Deficit		
Convertible preferred stock, $.00001 par value, 20,000,000 shares authorized; none issued outstanding	-	-
Common stock, $.00001 par value; 100,000,000 shares authorized; 27,072,871 and 25,433,036 shares issued and outstanding during 2004 and 2003 respectively	271	254
Additional paid-in-capital	61,556,618	60,247,699
Accumulated deficit	(62,677,224)	(62,107,734)
Total stockholders' deficiency	(1,120,335)	(1,859,781)
Total Liabilities and Stockholders' Deficiency	$ 1,657,859	$ 1,290,636

See accompanying notes and accountants' report

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenue	$ 2,500	$ 163,182
Costs and expenses:		
Research and development	-	53,837
General and administrative	389,188	348,799
Total costs and expenses	389,188	402,636
Loss from operations	(386,688)	(239,454)
Other income (expenses):		
Interest income	27,331	8,973
Interest expense	(209,021)	(344,197)
Total other income (expenses)	(181,690)	(335,224)
Income tax (expense)	(1,112)	(1,646)
Net loss	$ (569,490)	$ (576,324)
Net loss per share, basic and diluted,	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	26,260,250	23,207,526

See accompanying notes and accountants' report

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Common Stock	
	Shares	Amount
Balance, December 31, 2002	22,681,771	227
Year ended December 31, 2003:		
Stock options exercised	2,401,265	24
Common Stock issued in return for services	100,000	1
Common Stock issued to investors	250,000	2
Balance, December 31, 2003	25,433,036	254
Year ended December 31, 2004:		
Stock options exercised	600,000	6
Common Stock issued in return for services	-	-
Common Stock issued to investors	1,039,835	11
Balance, December 31, 2004	27,072,871	271

See accompanying notes and accountants' report

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (CONTINUED)

	Additional Paid-In Capital	Deficit	Total
Balance, December 31, 2002	$ 59,084,955	$ (61,531,410)	$ (2,446,455)
Year ended December 31, 2003:			
Stock issued in exchange for notes	965,583	-	965,583
Stock issued in exchange for settlement Of debt	33,000	-	33,000
Warrants and options issued for debt	5,000	-	5,000
Warrants and options exercised	159,161	-	159,161
Net loss	-	(576,324)	(576,324)
Balance, December 31, 2003	$ 60,247,699	$ (62,107,734)	$ (1,860,035)
Year ended December 31, 2004:			
Compensation related to sale of common stock to investors	779,865	-	779,865
Stock issued in exchange for settlement Of debt		-	
Warrants and options issued with debt		-	
Options exercised	529,054	-	529,054
Net loss	-	(569,490)	(569,490)
Balance, December 31, 2004	$ 61,556,618	$ 62,677,224	$ 1,120,606

See accompanying notes and accountants' report

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash flows from operating activities:		
Net loss	$ (569,490)	$ (576,324)
Adjustments to reconcile net loss to net cash used by operations activities:		
Depreciation and amortization	17,393	40,644
Change in operating assets and liabilities:		
Notes receivable	-	(965,583)
Interest receivable	(28,901)	-
Prepaid and other current assets	4,762	(2,471)
Accounts Payable	(113,419)	(118,200)
Accrued expenses	(21,641)	2,615
Accrued interest	(322,819)	169,362
Deferred revenue	-	(161,200)
Net cash used by operating activities	(1,034,115)	(1,611,157)
Cash flows from investing activities:		
Purchase of property and equipment	-	(1,432)
Net cash used by investing activities	-	(1,432)
Cash flows from financing activities:		
Exercise of warrants and stock options	1,308,935	1,162,771
Proceeds from debt financing	85,657	104,836
Net cash provided by financing activities	1,394,592	1,267,607
Increase (Decrease) in cash and cash equivalents	360,477	(344,982)
Cash and cash equivalents, beginning of year	299,220	644,202
Cash and cash equivalents, end of year	$ 659,697	$ 299,220

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for income taxes	$ 1,112	$ 1,646
Cash paid during the year for interest	$ 184,932	$ 169,361

See accompanying notes and accountants' report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND CAPITALIZATION

Burst.com, Inc. and subsidiaries ("The Company") was incorporated in the State of Delaware as Instant Video Technologies, Inc. On January 27, 2000, the Certificate of Incorporations was amended to change the Company's name to Burst.com, Inc.

The Company's authorized capital stock consists of 100,000,000 shares of common stock, $0.00001 par value per share, and 20,000,000 shares of preferred stock, $0.00001 per share.

The board of directors has the authority, without action by the Company's stockholders, to provide for the issuance of preferred stock in one or more classes or series and to designate the rights, preferences and privileges of each class or series, which may be greater than the rights of the common stock. The Company had no preferred stock outstanding as of December 31, 2004 and 2003.

BUSINESS

The Company licenses burst transmission software and intellectual property for use within commercial, multimedia and interactive environments. The burst technology allows for time compression and burst transmission of video/audio programming that results in time-savings, network efficiency and superior quality products.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Burst.com, Inc and its wholly-owned subsidiaries, Explore Technology, Inc. and Timeshift-TV. All significant intercompany balances and transactions have been eliminated.

USE OF ESTIMATES

The accompanying consolidated financial statements have been prepared in conformity with U.S generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and operations for the period. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. The Company's most significant estimates are those related to the valuation of stock, stock options, and warrants in connection with equity and financing transactions.

Cash and cash equivalents consist of money market accounts and other short-term investments with an original or remaining term of three months or less.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash.

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. From time to time, the Company had cash in financial institutions in excess of federally insured limits.

INVESTMENTS

In accordance with Statement of Financial Accounting Standards (SFAS No. 115) "Accounting for Certain Investments in Debt and Equity Securities", securities are classified into three categories: held-to maturity, available-for-sale and trading. The Company's investments consisted of equity securities classified as available-for-sale. Accordingly, they were carried at fair value in accordance with SFAS No. 115. Further, SFAS No. 115 requires that unrealized gains and losses for available-for-sales securities be excluded from earnings and reported, net of deferred income taxes, as other comprehensive income. As of December 31, 2004 and 2003, the Company had disposed of all of its available for sale securities.

COMPREHENSIVE INCOME

The Company had no component of comprehensive income other than its reported amounts of net loss applicable to holders of common stock.

LONG-LIVED ASSETS

The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated life of intangible and other long-lived assets, or whether the remaining balance of intangible and other long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that intangible or other long-lived assets should be evaluated for possible impairment, the Company would make an estimate of undiscounted cash flows over the remaining lives of the respective assets in measuring recoverability.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition". Under the guidance of SOP No. 97.2, no revenue is recognized until evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is probable. License fees and services are generally recognized as revenue ratably over the license period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets that range from three to five years. Replacements, maintenance and repairs, which do not extend the lives of the respective assets are charged to expense as incurred.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments.

NET LOSS PER COMMON SHARE AND DILUTIVE SECURITIES

Earnings (loss) per share is computed in accordance with SFAS No. 128, "Earnings per Share". Basic earnings per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding during the period.

The following is a summary of the securities that could potentially dilute basic loss per share in the future that were not included in the computation of diluted loss per share because to do so would be anti-dilutive.

	2004	2003
Options	2,146,745	3,013,332
Warrants	17,916,415	17,346,678
Total	20,063,160	20,360,010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company accounts for income taxes using SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

ADVERTISING COSTS

There were no advertising costs expensed or incurred in 2004 and 2003.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations as incurred until such time as both technological feasibility is established and future economic benefit is assured. To date, such conditions have not been satisfied, and, accordingly, all software engineering and development costs have been expensed as incurred.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, in accounting for its employee stock options rather than the alternative fair value accounting followed by SFAS No. 123 "Accounting for Stock-Based Compensation." APB No. 25 provides that the compensation expense relative to the Company's employee stock options is measured based on the intrinsic value of the stock option. SFAS No. 123 requires companies that continue to follow APB No. 25 to provide a pro-forma disclosure of the impact of applying the fair value method of SFAS No. 123.

Equity instruments issued to non-employees are accounted for at fair value. The fair value of the equity instrument is determined using either the fair value of the underlying stock or the Black-Scholes option pricing model.

RECLASSIFICATIONS

Certain items have been reclassified to conform to current year presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OTHER APPLICABLE ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of the gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedge asset or liability that are attributable to the hedge risk or (ii) the earnings effect of the hedge forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. On June 30, 1999, the FASB issued SFAS No. 137, "*Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*". SFAS No. 133 as amended by SFAS No. 137 is effective for all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "*Accounting for Certain Derivatives Instruments and Certain Hedging Activities*". SFAS No. 133 as amended by SFAS No. 137 and 138 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

The Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes. Accordingly, SFAS 133, 137 and 138 do not affect the Company's financial statements.

In March 2000, the FASB issued Interpretation No. 44 (FIN 44), "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB No. 25. FIN No. 44 clarifies the application of APB No. 25 for (a) the definition of an employee for purposes of applying APB No. 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 became effective in July 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. FIN 44 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In June 2001, the FASB issued Statement No. 142 "Goodwill and Other Intangible Assets". This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. It provides guidance on how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. FASB Statement No. 142 does not affect the Company's financial statements.

NOTE 2 - GOING CONCERN CONSIDERATIONS

The accompanying consolidated financial statements have been presented in accordance with accounting principles generally accepted in the United States of America, which assume the continuity of the Company to continue as a going concern. However, the Company has incurred substantial losses resulting in an accumulated deficit of $62,677,224 as of December 31, 2004. The Company's current liabilities exceed current assets by $428,010 at December 31, 2004. These conditions raise substantial doubt as the ability of the Company to continue as a going concern.

Management's plans with regards to these issues are as follows:

- Expanding revenues by focusing on existing customers that are growing and whose needs for Burstware are increasing.
- Expanding revenues by finding a limited number of new customers that can benefit by utilizing either Burstware in its current form, or by licensing a combination of the Company's intellectual property and/or Burstware source-code.
- Continue and expand the enforcement of the Company's intellectual property rights.

Notwithstanding the subsequent events discussed in Note 13, the Company cannot ascertain the eventual success of management's plans with any degree of certainty. No assurances can be given that the Company will achieve profitability or positive cash flows. If the Company is unable to bring the Company to profitability or positive cash flows, there can be no assurance that the Company can continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the eventual outcome of the risks and uncertainty described above.

NOTE 3 - INVESTMENTS

The Company had no securities as of December 31, 2004 or 2003.

NOTE 4 - PROPERTY AND EQUIPMENT

	December 31	
	2004	2003
Computer equipment	$ 63,311	$ 63,311
Furniture	15,000	15,000
Office equipment	5,000	5,000
Software	55,644	55,644
Trade show booth	5,000	5,000
	143,955	143,955
Less accumulated depreciation	(143,017)	(125,624)
	$ 938	$ 18,331

Depreciation expense was $17,394 and $40,645 , for the years ended December 31, 2004 and 2003, respectively.

NOTE 5 - ACCRUED LIABILITIES

	December 31	
	2004	2003
Accrued severance costs	$ 186,600	$ 186,600
Accrued wages and vacation	173,601	195,242
Other	3,454	3,454
	$ 363,655	$ 385,296

NOTE 6 - NOTES AND OBLIGATIONS PAYABLE

	December 31	
	2004	2003
Notes payable to Gordon Rock (net of unamortized discount of $1,570 and $24,739 , respectively)	$1,488,430	$1,465,259
Notes payable to investors, (net of unamortized discount of $0 and $910 , respectively)	$ 260,000	$ 259,090
Notes and obligations payable issued in connection with debt settlements	$ 365,471	$ 433,896
	$2,113,901	$2,098,245

NOTES PAYABLE TO GORDON ROCK

Subsequent to year end, on February 17, 2005, the maturities on notes payable to Mr. Rock, aggregating $1,490,000, were extended to March 31, 2008. In connection with the extensions, Mr. Rock received 298,000 additional warrants to purchase shares of the company's common stock at $1.50 per share.

NOTE 6 - NOTES AND OBLIGATIONS PAYABLE (CONTINUED)

NOTES ISSUED TO INVESTORS

During 2001, the Company issued a promissory note to an investor, in the principal amount of $30,000. The note is collateralized by a security interest in all assets of the Company. The note was due in March 2004 and bears interest at prime plus 2%. In connection with the note, the Company issued 100,000 warrants to the investor to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the note for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $4,280 was amortized over the term of the note. This note has been extended to March 31, 2008. In exchange, the company issued 6,000 warrants to the investors to purchase 6,000 shares of common stock at 1.50 per share.

During February 2002, the Company issued promissory notes to two investors, in the aggregate principal amount of $70,000. The notes are due in December 2004 and January 2005, respectively, and bear interest at prime plus 2%. In connection with the notes, the Company issued 233,333 warrants to the investors to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $8,437 amortized over the respective terms of the notes. These notes were extended to March 31, 2008. In exchange, the company issued 14,000 warrants to the investors to purchase common stock at $1.50 per share.

NOTE 6 - NOTES AND OBLIGATIONS PAYABLE (CONTINUED)

During June 2002, the Company issued a promissory note to an investor, in the principal amount of $60,000. The note is due in June 2005, and bears interest at prime plus 2%. In connection with the note, the Company issued 200,000 warrants to the investor to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the note for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $30,629 is being amortized over the term of the note.

NOTES AND OBLIGATIONS ISSUED IN CONNECTION WITH DEBT SETTLEMENTS

The Company entered into settlement agreements with former employees and certain debtors. These notes and obligations were all due in 2005. In February, 2005 two employees and one debtor totaling $63,116 and $10,000, respectively extended their notes to March 31, 2008. In exchange, the company issued 12,623 and 2,000 warrants, respectively to the note holders to purchase common stock at $1.50 per share.

Maturities of long-term debt at December 31, 2004 are as follows:

2005	$ 452,355
2006	-
2007	-
2008	1,661,546
Total	2,113,901
Less: current portion	452,355
	$1,661,546

NOTE 7 - EQUITY

SALES OF COMMON STOCK

During January 2000, the Company issued a total of 3,474,625 shares of its common stock and warrants to purchase 3,474,625 shares of its common stock for total proceeds of $13,898,500 in transactions with various investors, including some directors and employees of the Company. The price per share of common stock was $4.00, which included the issuance of one warrant for each share of stock sold. The gross proceeds were reduced by

NOTE 7 - EQUITY (CONTINUED)

approximately $1,303,000 in transaction costs. Each warrant was exercisable for one share of common stock at an exercise price of $5.00 per share and expires 5 years from the date of issue. Those warrants contained anti-dilution provisions that adjust the exercise price and the number of shares exercisable thereunder if shares of the Company's common stock were issued or deemed issued at prices below the warrant exercise price. The issuance of new warrants through December 31, 2002, as described in Note 7, resulted in a decrease in the exercise price of these warrants to $3.60 per share and an increase of 1,877,685 warrant shares.

In connection with this offering, the Company also issued 98,870 five-year warrants to purchase common stock at $8.4375 per share. Compensation expense of $77,726 was recorded as a result of sales of stock to employees for the excess of fair value over the price paid.

During August 2000, the Company issued a total of 857,633 shares of its common stock and warrants to purchase 857,633 shares of its common stock for total proceeds of $5,000,000 to SBC Venture Capital Corp. The price per share of common stock was $5.83 per share, which included the issuance of one warrant for each share of stock sold. The gross proceeds were reduced by approximately $460,214 in transaction costs. Each warrant is exercisable for one share of common stock at an exercise price of $5.83 per share and expires 5 years from the date of issue. Those warrants contained anti-dilution provisions that adjust the exercise price and the number of shares exercisable there-under if shares of the Company's common stock were issued or deemed issued at prices below these warrant exercise price. The issuance of new warrants through December 31, 2002, as described in Note 7, resulted in a decrease in the exercise price of these warrants to $4.19 per share and an increase of 328,850 warrant shares.

During July 2004, the company raised $779,875 by issuing to accredited investors 1,039,835 shares of common stock at $.75/share. These investors also received 519,920 Warrants, exercisable at $1.50.

EXERCISE OF STOCK OPTIONS AND WARRANTS

During 2004, options to purchase 600,000 shares of the Company common stock were exercised for $529,065. In addition, the expiration dates of several stock options were extended.

NOTE 8 – STOCK OPTIONS

On November 6, 1992 and April 29, 1998, the Board of Directors adopted the 1992 Stock Incentive Plan and 1998 Stock Inventive Plan, respectively. Under the plans, the Board may grant options to officers, key employees, directors and consultants. Incentive stock options may be granted at not less than 100% of the fair market value of the stock on the date the option is granted. The option price of stock not intended to qualify as incentive stock options may not be less than 85% of the fair market value on the date of grant.

The maximum term of the options cannot exceed ten years. A total of 3,500,000 and 4,000,000 shares have been reserved for issuance under the plans, respectively. Certain options are still outstanding from prior to the 1992 and 1998 plans that carried similar terms.

On August 23, 1999, the Board of Directors adopted the 1999 Stock Incentive Plan. Under the plan, the Board may grant options to officers, key employees, directors and consultants. Incentive stock options may be granted at not less than 100% of the fair market value of the stock on the date the option is granted. The option price of stock not intended to qualify as incentive stock options may not be less than 85% of the fair market value on the date of grant. The maximum term of the options cannot exceed ten years. A total of 3,000,000 shares have been reserved for issuance under the plan.

During 1999, the Company issued stock options in lieu of cash for services performed, covering 120,621 shares of the Company's common stock at exercise prices ranging from $2.19 to $9.72 per share, expiring between February 2000 and December 2004. $105,805 was recorded as a general and administrative expense, $160,588 was recorded as a sales and marketing expense, and $2,082 was recorded as a research and development expense based on the fair value of the stock options issued.

During 2000, the Company repriced all options held by the 20 remaining employees and Board members. The revised exercise price was $0.2812 per share.

During 2000, the Company issued stock options in lieu of cash for services performed, covering 8,621,242 shares of the Company's common stock at exercise prices ranging from $.2812 to $4.50 per share, expiring by December 2005. $332,563 was recorded as a general and administrative expenses based on the fair value of the stock options issued.

During 2001, the Company granted options to purchase 150,000 shares of common stock exercisable at $0.2812 per share to an independent contractor. In addition, during 2001, existing options granted to employees under variable plan accounting and unvested options being earned by contractors were revalued, resulting in a net reduction in stock-based compensation of $280,400. Furthermore, as a result of severance agreements with certain senior officials, the lives of their options were extended to one year after termination or the full contractual life instead of expiring within a shorter time. These extensions resulted in a stock-based compensation charge of approximately $127,947. These two adjustments resulted in a net reduction in stock-based compensation of approximately $152,453.

NOTE 8 – STOCK OPTIONS (CONTINUED)

During 2001, the Company granted options to purchase 250,000 shares of common stock at an exercise price of $0.18 to John Micek III, a member of the Board of Directors. The Company also granted options to purchase 100,000 options of common stock to an employee at an exercise price of $0.1875 per share. The Company also granted a former employee options to purchase 50,000 shares of common stock at an exercise price of $0.30 per share in connection with a settlement agreement. See note 7.

During 2003, the Company granted a total of 200,000 options to purchase shares of common stock at an exercise price of $.75 to the following individuals:

	2003
Barry Ritholtz	50,000
Brian Murphy	150,000

No options were granted during 2004.

During 2003, Richard Lang and Eric Walters exercised all their vested options totaling 2,151,761 and 198,392 shares, respectively. As part of this transaction, the company officers signed a note payable to the company for $839,475 and $126,107, respectively. These notes are due December 31, 2005, earlier upon any transfer of the shares or upon any declaration of a dividend on the shares which all collateral on the notes. These notes bear interest at the rate 2.5% per annum.

The Company applies APB opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for options issued to employees. Compensation cost for stock options is measured at the intrinsic value, which is the excess of the market price of the Company's common stock at the date of grant over the amount the recipient must pay to acquire the common stock.

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", requires the Company to provide pro forma information regarding net income (loss) and earnings (loss) per share as if compensation cost for employee stock options has been determined in accordance with the fair value based method prescribed by SFAS 123.

The per share weighted average fair value of stock options granted during 2003 was $0.21 on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions: volatility of 217%; expected dividend yield of 0%; risk free interest rate of approximately; and an expected life of 2.5 years for 2003.

NOTE 8 – STOCK OPTIONS (CONTINUED)

The option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, valuation models require input of highly subjective assumptions, including the expected price volatility. Since the Company's stock options have characteristics significantly different from those of traded options, and since variations in the subjective input assumptions can materially affect the fair value estimate, the actual results can vary significantly from estimated results.

	Number of Shares	Weighted Average Exercise Price
Balance on December 31, 2002	5,907,497	0.91
Options granted	200,000	$0.75
Options exercised	(2,611,265)	$0.28
Options expired	(482,900)	$1.49
Options forfeited	-0-	$0.00
Balance on December 31, 2003	3,013,332	$1.25
Options granted	-0-	$0.00
Options exercised	(600,000)	$0.88
Options expired	(266,587)	$0.00
Options forfeited	-0-	$0.00
Balance on December 31, 2004	2,146,745	$1.00

NOTE 8 – STOCK OPTIONS (CONTINUED)

Stock options outstanding and exercisable at December 31, 2004 are as follows:

	Options Outstanding			Options Exercisable	
	Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Shares Outstanding	Weighted Average Exercise Price
$0.18-$0.30	961,875	$0.28	2.10	957,800	$0.28
$0.50-$1.00	906,500	$0.87	1.19	906,500	$0.87
$1.37-$2.75	112,100	$7.39	4.55	112,100	$2.39
$3.50-$5.00	116,250	$4.27	6.49	116,250	$4.27
$5.75-$6.38	50,000	$6.38	0.13	50,000	$6.38
	2,146,725	$1.00	1.98	2,142,670	$1.00

	Warrants Outstanding			Warrants Exercisable	
	Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Shares Outstanding	Weighted Average Exercise Price
$0.15-$0.20	2,666,666	$0.17	1.50	2,666,666	$0.17
$0.25-$0.30	4,006,666	$0.27	1.19	4,006,666	$0.27
$0.60-$1.00	2,595,287	$0.65	4.55	2,595,287	$0.65
$1.50	529,920	$1.50	6.49	529,920	$1.50
$3.50	6,897,833	$3.50	0.13	6,897,833	$3.50
$4.07	1,220,043	$4.07	0.62	1,220,043	$4.07
	17,916,415	$1.86	1.84	17,916,415	$1.86

NOTE 9 – LEASE COMMITMENTS

The Company leases its office space under a one year operating lease, which provides for one-year extensions. The lease was extended to April 30, 2005.

NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Rent paid in the years ended December 31, 2004 and 2003 was $13,500 and $10,635 respectively.

NOTE 10 – INCOME TAXES

At December 31, 2004, the Company had net operating loss carry-forwards for federal income tax purposes of approximately $48,581,300 which are subject to annual limitations, and are available to offset future taxable income, if any, through 2022 and net operating loss carry-forwards for state income tax purposes of approximately $21,355,662, which are available to offset future state taxable income through 2012.

The temporary differences that give rise to deferred tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
Net operating losses	18,460,900	17,222,100
Research and experimentation credit	421,900	421,900
State income tax effect on federal	(914,600)	(774,900)
Total deferred tax assets	17,968,200	16,869,100
Less valuation allowance	(17,968,200)	(16,869,100)
Net deferred tax assets	$ -	$ -

In assessing the amount of deferred tax assets to be recognized, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. It is not possible at this time to determine that the deferred tax assets are more likely to be realized than not. Accordingly, a full valuation allowance has been established for all periods presented.

NOTE 10 – INCOME TAXES (CONTINUED)

The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change", as defined by the Internal Revenue Code. All federal and state net operating loss carryforwards are subject to limitations as a result of these restrictions. If there should be a subsequent ownership change, as defined, the Company's ability to utilize its carryforwards could be reduced.

NOTE 11 – BUSINESS RISKS AND SEGMENT DISCLOSURES

The Company's primary source of revenue is the licensing of Burst technology, and its success is largely dependent on this product. Changes in desirability of the product in the marketplace may significantly affect the Company's future operating results.

The Company operates in one segment and accordingly has provided only the required enterprise wide disclosure. The Company recognized no foreign revenues in 2003 and 2002.

NOTE 12 – SETTLEMENTS

The Company settled various long-standing account payable balances. These settlements resulted in a recovery of $49,000 and $166,000 in 2004 and 2003 respectively.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to year-end, the company entered into a settlement agreement with a major software company. This settlement provided the software company with a non-exclusive licensing agreement in exchange for a one-time payment to Burst of $60,000,000. Legal costs associated with this settlement totaled $21,170,000 (including attorney's fees and $1,770,000 in costs). The company plans on paying-off its Notes and Obligations Payable and accrued liabilities, as well as investor and former employee obligations with the proceeds from this settlement, and will retain a cash reserve of approximately $4,000,000 to fund ongoing operations. See Notes 5 and 6 for details describing these obligations.