

Burst.Com Annual Report

For the Fiscal Year ended: December 31, 2006

Delaware

84-1141967

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification Number)

613 Fourth Street, Suite 201
Santa Rosa, California, 95404

(707) 541-3870

Note that our Securities are not registered under Section 12(b) or under
Section 12(g) of the Exchange Act

Common Stock \$.00001 Par Value

As of December 31, 2006, there were 39,950,633 shares of the Company's Common Stock
outstanding. The closing price of the Common Stock as reported on The NASDAQ Over-the-
Counter Bulletin Board for that date was \$1.15.

The Company's transfer agent is ComputerShare, Inc. Their address is P.O. Box
1596, Denver, CO 80201.

BURST.COM, INC.
2006 ANNUAL REPORT
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Instant Video(R), Burstware(R), Faster-Than-Real-Time(R), Burstware Conductor(R), Burstware Player(R), and Burstware Server(R) are registered trademarks of BURST.COM, INC. All other names are trademarks and/or registered trademarks of their respective owners.

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things:

- * Implementing our business strategy;
- * Maintaining sufficient cash balances to continue in operation;
- * Rapid technological changes in our industry and relevant markets and
- * Competition in our market.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and similar expressions. These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A comprehensive description of certain risk factors, which, in general, may still be applicable, can be found in the last report we filed with the S.E.C., the 2001 10K report, which is available on our web site: www.burst.com. These forward-looking statements are made as of the date of this report and we assume no obligation to update them or to explain the reasons why actual results may differ.

THE COMPANY

We have developed client/server network software and intellectual property for the delivery of video and audio information over networks, and hold a number of patents on our technology. Our office is located in Santa Rosa, California. Our software manages the delivery of video and audio content over a variety of networks; optimizing network efficiency and quality of service. Our Burstware® suite of software products enables companies to manage the delivery of video and audio files at Faster-Than-Real Time® speeds, which is accomplished by utilizing available bandwidth capacity and local storage in conjunction with data compression to deliver more video or audio data to users than the players are consuming in real time. Video and audio content is stored on the user's machine for playing on demand, thus isolating the user from noise and other network interference. The result is high-quality, full-motion video and CD-quality audio to the end-user. Burstware® utilizes various components of our international patent portfolio, including the Faster-Than-Real-Time delivery method.

In January 2000, we changed our name from "Instant Video Technologies, Inc." to "Burst.com, Inc." Since February 2003, our stock trades on the over-the-counter "Pink Sheets" under the symbol "BRST".

Since October 2001, we have had two full-time employees: Chief Executive Officer Richard Lang and Vice-President of Operations Eric Walters. Effective November 16, 2004, we added a 3rd full-time employee to handle administrative and other responsibilities. Since October 2001, engineering, licensing, legal, accounting and other support services are being procured on an "as-needed" basis from a combination of former employees providing contract services, and outside consulting, legal and accounting firms. In light of our reduced operations, we have changed our mode of conducting business by engaging in a business model that focuses exclusively on efforts to license both our intellectual property and existing versions of Burstware®.

At the end of 2001, software giant Microsoft, Inc. announced that its new media delivery platform, code named "Corona" (since renamed "WMP-9"), would include a number of new features which we determined had been misappropriated from Burst, and were also infringing on several of Burst's patents. We initiated legal action against Microsoft in June of 2002 (details are available on our website: www.burst.com). After completing the fact discovery process and expert reports phases of the litigation, we announced on March 10th, 2005 that we had come to preliminary agreement with Microsoft to settle the litigation. Under the terms of the final agreement, which was fully executed on April 4th, 2005, Microsoft agreed to license Burst's International patent portfolio and make a one-time licensing payment of \$60 million. In return, we agreed to drop our complaint in its entirety. Burst's license of its patents to Microsoft is non-exclusive, and does not include any sublicensing rights. After court costs and the payment of a 35% contingency fee to our litigation attorneys, Burst received a net payment of approximately \$38 million.

Following the successful licensing of our patent portfolio to Microsoft, we are now pursuing the licensing of our patents to other companies, large and small, that we believe are either already infringing our patents or will be infringing our patents when they begin selling their publicly announced services or products. In addition to the attempted licensing of our patents, to a much lesser degree, we are attempting to license our media delivery software, Burstware®, to companies that we believe could benefit from the use of our independent media delivery platform. While we believe that our ability to license our patents to other companies has been improved by the validation of our patents that we believe our patent license to Microsoft provides, it is possible that other companies may decide to fight our licensing efforts and possibly challenge our patents. In fact, on January 4th, 2006, Burst was sued in U.S. District Court in San Francisco by Apple Computer for declaratory relief, alleging patent invalidity or non-infringement. The suit followed a break-down in protracted negotiations for issuance of a license of Burst's patents to cover several of Apple's products and services. There can be no guarantee that we will be successful in our efforts to license our patents or Burstware to Apple Computer or to any other companies beyond Microsoft. If we are unsuccessful in our litigation against Apple Computer, the value of our patent portfolio could be materially affected.

INDUSTRY BACKGROUND

In recent years, several related technologies have converged to enable the distribution of video and audio content over electronic communications networks. As network bandwidth, data storage, processing power, and compression technologies have become increasingly available and affordable, the demand for high quality video and audio over the Internet, as well as over intranet and other networks, has expanded rapidly. The result of such developments has been the transition of the Internet from a static, text-oriented network to an interactive environment filled with graphical and audio-visual content.

Distributing audio-visual, time-based content over the Internet, or within an intranet, offers certain advantages and capabilities not generally available through traditional media, including consumer targeting and interactive responsiveness.

MARKET OPPORTUNITY

We believe that our intellectual property and to a lesser degree, our primary software product, Burstware®, should be attractive to any company that wishes to deliver digital media over electronic networks at a quality level high enough to justify charging end-users, content providers or advertisers. However, we no longer provide any meaningful technical support for our software product, except through independent 3rd parties familiar with our product. As a result, our business model involves developing strategies that will enable us to successfully enforce our intellectual property and thereafter receive what we believe will be substantial licensing revenues as a result, although there can be no assurance that this will be the case.

THE BURST SOLUTION

With our patented Burstware® technology, we provide a server-client based intelligent network management system delivering "Faster-Than-Real-Time®" content across a variety of networks. Our software is designed to work equally well with content created using almost any data compression/decompression (CODEC) methodology. The Burstware® solution ensures a consistent, high-quality experience over multiple platforms through optimization of network resources and superior isolation of clients from network disturbances.

The intelligent Burstware network resource management features enable multiple end-user applications as well. With the capacity to deliver data in a clear, efficient and cost-effective manner, the Burstware solution creates a high-quality audio-visual experience for the end-user and enables powerful business-to-business, business-to-customer and business-to-employee communication. Burstware also gives producers, content aggregators and developers the ability to reach new markets with virtually unlimited access to vast libraries of content. With these various applications, Burstware's network delivery mechanism is ideally suited for numerous industries including news, entertainment, retail and advertising as well as local, state and federal governments and agencies.

BUSINESS OF THE COMPANY

Overview

We have developed media delivery-related intellectual property, and to a lesser degree, our Burstware software, for use within commercial, multimedia, and interactive networks, including satellite, wireless and cable networks, as well as the Internet. We intend to continue the development of our patent portfolio and to develop additional enhancements to Burstware that may be requested by customers and as funds permit. At this time, we are engaged in litigation against Apple, Inc. If we are successful, we believe that this should have the effect of both providing licensing revenue and further validating our patents, thus increasing the likelihood that we will be able to license our patents to other companies without engaging in litigation. Concurrently with our litigation with Apple, we are reviewing patent infringement and licensing opportunities with other companies that we believe should be licensing our intellectual property.

Strategy

Burst.com's goal has been to see its "faster-than-real-time" or "Burst" digital media delivery technology integrated in the broadband-centered media-on-demand industry. We have viewed and continue to view our designs and methods employing "faster-than-real time" technology as essential to the successful deployment of commercially viable media-on-demand systems, which we believe require the quality of service and network efficiencies that our technology provides. Our longstanding belief in the necessity of utilizing our technology and intellectual property in order to derive these benefits has been validated by what we believe to be current widespread use of our intellectual property in our industry, in applications ranging from video and audio "on-demand" to network management. We intend to continue to pursue our business goals by enforcing our patent rights and building our patent licensing revenue, to the extent we are successful in the enforcement of our patent rights. Additionally, we plan to continue in our efforts to license our media delivery software solution, Burstware, to companies that we believe would like to utilize a media delivery platform that is wholly independent from those offered by our primary competitors, even though we have not yet been successful in those efforts. On a limited basis, we plan to continue to offer to license our current version Burstware media delivery software solution to value-added resellers, set-top box manufacturers and developers of media-on-demand systems, among others. Having successfully concluded our litigation against Microsoft with the granting of a non-exclusive patent license with no sub-licensing rights, we continue to focus in largest part on the licensing and aggressive enforcement of our international patent portfolio, which focuses on media delivery innovation.

Competition

We compete in markets that are rapidly evolving and intensely competitive. We have experienced and expect to continue to experience increasing competition from current and potential competitors, many of which have significantly greater financial, technical, marketing and other resources.

Sales and Marketing

While we pursue Burstware software and patent licensing efforts, we will continue to support any existing value added resellers and software customers on an as-needed basis, using outside engineering consultants, although we are not currently aware of any such resellers or software customers that require this support. Our target market for the licensing of our software solution is comprised of companies involved in the enablement or direct sales and/or manufacture of digital media-on-demand solutions, including devices and systems utilized to deliver video and/or audio programs. Potential customers include businesses or other end-users that desire to send, receive or effectively manage high-quality video and audio content over their own networks or to outside customers through the Internet and/or other networks. Applications include corporate communications, education, advertising, entertainment, broadcasting and retail video, movie and audio delivery directly to consumers. In 2005 and 2006, we relied almost exclusively on one existing U.S.-based Master Reseller to market our software product and certain derivatives directly to end customers for such software. As of December 31, 2006, this individual Master Reseller had not generated any sales resulting in royalty payments to Burst. Due to this Master Reseller's refocusing on its core competencies and lack of funding for new technology initiatives, we do not expect any software-based licensing revenues from this Master Reseller in the foreseeable future.

Our target market for licensing of our Intellectual Property is comprised of content providers, platform providers, network providers, content aggregators, computer manufacturer and consumer device manufacturers that are involved in the delivery of video and audio content to end users. We are currently focusing our marketing efforts on licensing our patent portfolio to these prospective customers. The internal sales organization consists of our CEO and our VP of Operations. We are assisted by a team of outside attorneys specializing in the enforcement of intellectual property rights.

We believe that our ability to license our patents to companies that we view as part of our core market for such licenses may be materially affected by the outcome of our litigation with Apple, Inc., in either a positive or a negative direction. While we await word of any material developments in our litigation with Apple, we believe that most companies who might otherwise have an interest in licensing our technology will be inclined not to do so until our litigation with Apple is resolved, operating under the assumption that if we do not prevail against Apple they may be able to utilize our technology without a license. However, we believe that if we do prevail in this litigation, we will be in a much better position to enforce our patent rights against any infringers of our patents, and that any such infringers will be motivated to license our patents, and possibly our Burstware platform, rather than face litigation against patents that have been recently validated by the courts.

We do not believe that there is any significant seasonality that would affect the licensing of our intellectual property or the sales of our products or services. As of December 31, 2006, there was no backlog of unfilled orders for our products.

Patents and Trademarks

Our business is highly dependent on our patent portfolio. We have ten issued U.S. patents. The early patents describe a broad class of systems that allow a user to view, edit, store video and/or audio information and send and receive the data associated with that video and/or audio information over networks in less time than is normally required to view or listen to the content. The later patents describe derivative inventions, including the use of burst mode delivery as a means of achieving network optimization.

Ten patents have been issued to Burst.com in the United States with an additional four patent applications pending before the United States Patent Office. Burst.com presently has a single Patent Cooperation Treaty application pending in the United States Receiving Office. Burst.com has been granted five European patents that were validated and remain in force in Germany, France, and the United Kingdom. Burst.com has four patents granted and in force in Australia and two patents granted and in force in each of South Korea, Canada, and India. Burst.com also has one patent in each of Mexico, Singapore, and Japan; each of these patents remains in force. Burst.com has two pending European patent applications and one pending Japanese patent application. The Indian Patent Office has indicated its intent to grant an additional Indian patent subject to the processing of certain fees.

In addition to protecting the Burstware® product offerings, we believe that our patents have broader application as various new market applications appear, and our potential to license our intellectual property expands into additional vertical market segments, including the download & play video and audio markets. Also, our newer pending patent applications pertain to improvements in Digital Video Recorder (DVR) functionality, as well as improved network efficiency strategies. We believe that these newer pending patents, if issued, would prove timely in terms of providing valuable industry-wide solutions to existing DVR-related and network efficiency problems. However, there can be no assurance either that these patent applications will be granted, or that if they are granted they will result in the added value that we perceive.

We view our portfolio as a critical component in gaining relationships with strategic partners. Potential licensees include companies such as server and client manufacturers, bandwidth, network and platform providers, content aggregators, copyright owners, as well as personal computer, consumer device and other hardware manufacturers.

Our plan is to establish the value of our patent portfolio through successful licensing and enforcement of our patent portfolio, beginning with Apple, Inc., and to seek licensing revenues from any companies who seek to utilize our patented technology in their products or services. We have assembled a continuously updated database of potential licensing candidates whose goods and/or services we believe may require them to license our technology in order to avoid being in violation of our patents.

We have registered the trademarks "INSTANT VIDEO®, BURSTWARE®, FASTER-THAN-REAL-TIME®, BURSTWARE CONDUCTOR®, BURSTWARE PLAYER® and

BURSTWARE SERVER®" in the United States, as well as in certain countries in Europe and Asia.

PROPERTY.

We presently occupy approximately 450 square feet of office space at 613 Fourth Street, Suite 201, Santa Rosa, California, under a lease that expires at the end of April 2007, which we plan to extend for an additional one-year term. The current lease provides for rent of \$1246 per month through April 2007. We believe that our current facility is suitable and sufficient to accommodate our operating needs for the foreseeable future.

LEGAL PROCEEDINGS.

On June 18, 2002, our company filed a lawsuit accusing software giant Microsoft Corporation of violations of the Patent Act, Sherman Act Sections 1 & 2, California Cartwright Act (anti-trust), California Business & Professions Code Section 17200 (unfair acts or practices), the California Trade Secrets Act and for breach of contract. Burst.com was represented in the action by San Francisco law firm Hosie, Frost, Large & McArthur; and Palo Alto intellectual property law firm Carr-Ferrell, LLP. The original complaint, which was filed in the U.S. District Court for the Northern District of California Tuesday, June 18th, is available on our website: www.burst.com.

Our litigation with Microsoft was settled on April 4th, 2005, in the form of a patent license and settlement agreement, for which Microsoft paid Burst a one-time fee of \$60 million for a non-exclusive right to use our patents in Microsoft products. As part of the agreement, we agreed to drop our complaint against Microsoft upon receipt of the license fee. Of the fee paid to Burst, we paid approximately \$1.77 million in costs, and approximately \$20,400,000 to our attorneys, who had been retained on a 100% contingency basis. Their fees equaled 35% of our license fee after costs were deducted. Of the funds remaining, we issued a cash dividend of \$.90 per share payable to all of the Company's shareholders of record on May 6, 2005, equaling a total of approximately \$38,350,633 distributed to Burst shareholders. This was the first dividend that the company has paid to its shareholders. After payment of the dividend and a reserve for the payment of anticipated taxes, the company retained approximately \$4 million for its ongoing operations and as a contingency reserve. The Company also paid approximately \$747,000 in Federal Taxes based on Alternative Minimum Tax, which was later refunded to us in full by the Internal Revenue Service, based on our ability to qualify for a one-time exemption from AMT.

On January 4th, 2006, Burst was sued in U.S. District Court in San Francisco by Apple Computer for declaratory relief, alleging patent invalidity or non-infringement. The suit followed a break-down in protracted negotiations for issuance of a license of Burst's patents to cover Apple's iPod and iTunes products. Subsequently, on April 17, 2006, Burst filed counterclaims accusing Apple Computer of infringing four of Burst's U.S. patents. In the counterclaims, Burst alleges that Apple's iTunes Music Store, iTunes software, the iPod devices, and Apple's QuickTime Streaming products infringe Burst's U.S. Patents 4,963,995; 5,995,705; 5,057,932

and 5,164,839. Burst requests in its counterclaims that Apple pay a reasonable royalty for Apple's infringing products and services, and also seeks an injunction against further infringement. A copy of the filing can be found on Burst's website: www.burst.com.

Burst.com is represented in the action against Apple by the Seattle office of Susman Godfrey, LLP, as well as Houston-based intellectual property firm Heim, Payne & Chorush, LLP. Burst's legal team also includes San Francisco based law firm Hosie-MacArthur and Palo Alto-based intellectual property firm Carr & Ferrell, LLP, both of whom also represented Burst in its litigation against Microsoft. Burst's entire legal team is working on a tiered contingency fee arrangement, including all costs.

There can be no guarantee that we will be successful in our efforts to license our patents or Burstware to Apple Computer or to any other companies beyond Microsoft. If we are unsuccessful in our litigation against Apple Computer, the value of our patent portfolio could be materially affected.

We are not aware of any other material legal proceedings pending or threatened against us.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The company will hold an Annual Meeting on May 10th, 2007, for the purpose of electing a Board of Directors – See Proxy Statement.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

On December 31, 2001 our common stock was traded on the NASDAQ OTC:BB (Over The Counter Bulletin Board) under the symbol "BRST" (prior to January, 2001, our common stock had been traded on the NASDAQ Small Cap Market).

In January 2002, the company elected to "De-Register" its stock under S.E.C. Rule 12g. The company's common stock continues to trade on the "Pink Sheets" under the trading symbol "BRST" in accordance with the provisions of Rule 15c2-11.

The following table sets forth the closing high and low bid prices of the Common Stock for the periods indicated. These prices are believed to be representative inter-dealer quotations, without retail markup, markdown or commissions, and may not represent prices at which actual transactions occurred.

2006	High	Low
----- 1st Quarter	----- \$ 2.07	----- \$ 1.02

2nd Quarter	\$ 2.01	\$ 1.26
3rd Quarter	\$ 1.65	\$.86
4th Quarter	\$ 1.61	\$ 1.06

2005	High	Low
-----	-----	-----
1st Quarter	\$ 3.39	\$1.32
2nd Quarter	\$ 1.85	\$.61
3rd Quarter	\$ 1.12	\$.66
4th Quarter	\$ 1.07	\$.63

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2006, was approximately 268. The closing bid price of our stock was \$1.15 on December 31, 2006.

DIVIDENDS

No dividends were issued during 2006.

RECENT SALES OF UNREGISTERED SECURITIES

There were no sales of unregistered securities during 2006

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

The following discussion of the financial condition and results of operations of Burst.com, Inc. should be read in conjunction with the Company's Year-End Financial Statements for 2005, currently posted on its web site, www.burst.com. Please note that the 2005 and 2006 Financial Statements are Audited.

We are an independent provider of client/server network software and intellectual property for the delivery of video and audio information over networks. Our principal executive offices are located in Santa Rosa, California.

During 2006, we maintained operations utilizing funds in the amount of \$762,965

In 2006 we had no income derived from fees for software licenses. Our current monthly operating expenses are approximately \$70,000 per month.

As of December 31, 2006, we had approximately \$169,318 cash on hand, as well as Treasury Bills available for sale, valued at \$3,320,883. We believe that after payment of all 2006 taxes, our cash reserve will enable us to sustain our current operations, even with modest cost increases, into early-2011, without the benefit of revenues or additional fund-raising. We are

pursuing additional licensing revenues; however, there can be no assurance our efforts will be successful. Our success will depend, in large part, on our ability to protect the intellectual property that we have developed through patents, trademarks, trade secrets, copyrights, licenses and other intellectual property rights, beginning with our litigation with Apple.

We plan to aggressively enforce our intellectual property rights. We have contacted companies beyond Microsoft and Apple, whom we believe should be licensing our technology in order to avoid infringing our patents. If Burst succeeds in reaffirming the validity of our patents and/or if Apple or other companies license our technology, we believe it will make it increasingly difficult for other infringers of our patents to avoid paying us a reasonable royalty. However, there can be no assurance that this will be the result of our litigation against Apple or that we will be successful in licensing other companies either prior to or after the resolution of our litigation against Apple.

In our litigation against Microsoft, our attorneys were being retained under a 100% contingency agreement, including all costs. We have made similar contingency arrangement with our attorneys while we pursue our litigation against Apple Computer; however with regard to other potential licensees, we anticipate that if we are successful in licensing Apple, Inc. on terms that we seek, the future terms of any new Contingency Fee Agreements with any attorneys will be likely better than they were in either the Microsoft or Apple litigation, and we may also elect not to utilize a contingency arrangement at all in certain instances. While we pursue new patent licensing opportunities, we will continue to engage in discussions with potential licensees of our Burstware® media delivery software, and attempt to license our technology, as opportunity permits. While we believe that success in licensing our technology to Apple should greatly improve our likelihood of successfully licensing other companies beyond Apple, there can be no assurance that this will in fact be the case, or that we will even succeed in licensing Apple.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Our independent auditors for fiscal year 2006 were Sterck, Kulik & O'Neill, of San Francisco, CA. There were no disagreements with our auditors over any items.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, key employees and Directors and their ages as of December 31, 2006, are as follows:

Name	Age	Position
Richard A. Lang	53	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	50	Vice President, Operations
Brian Murphy	51	Director
Barry L. Ritholtz	45	Director
Gordon Rock	65	Director

The following sets forth biographical information as to the business experience of each Executive Officer and Director of the Company for the year ended December 31, 2006:

Richard A. Lang is our Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer. From September 1997 through the end of May 2000 he served as President and from September 1997 through September 2000 he served as Chief Executive Officer. From January 31, 1997 through August 1997, Mr. Lang served as one of our directors. Mr. Lang served as our Chairman of the Board and Treasurer until January 31, 1997. He had served as Chairman of the Board, Chief Executive Officer and Treasurer from December 1993 to September 1995 and as a Director since August 1992. He has been a Director of our subsidiary, Explore Technology, Inc., since February 1990, and served as its President from February 1990 to August 1992. Mr. Lang has presided over the development of our patent portfolio. He is the inventor of record for the bulk of our Intellectual Property. Mr. Lang was also a co-founder of Go-Video, Inc., Scottsdale, Arizona and co-inventor of Go-Video's patented dual-deck VCRs. Mr. Lang received his A.A. degree in Communications with a Foreign Language minor from Scottsdale Community College in 1973. Starting April 1, 2001, Mr. Lang again became Chief Executive Officer as a result of the resignation of Douglas Glen.

Brian Murphy has been one of our directors since January 1997. Brian is a partner in O.J. Kilkenny & Company, Ltd in Chartered Accountants specializing in the entertainment industry, with offices in London, and he is also a consultant with Mazars O.J. Kilkenny in Dublin. The firm provides a wide range of services to their clients, consisting of major international entertainment artists, covering all areas of financial management and audit and accountancy advice. Mr. Murphy is involved with a number of companies in the property and entertainment business. Mr. Murphy received a Bachelors Degree in Commerce from Dublin University and became a fellow of the Institute of Chartered Accountants in Ireland, England and Wales. Mr. Murphy is also an accredited mediator with CEDR (Centre for Effective Dispute Resolution).

Barry L. Ritholtz has been one of our directors since March 8, 2002. Mr. Ritholtz performed his graduate studies at Yeshiva University's Benjamin N. Cardozo School of Law in New York, graduating *Cum Laude* with. Mr. Ritholtz is presently Chief Investment Officer at Ritholtz Capital Partners, a New York Hedge fund. He is also Chief Market Strategist for Ritholtz

Research, an independent institutional research firm. Most recently, Mr. Ritholtz was Chief Market Strategist for Maxim Group, a New York Investment bank, managing over \$5 Billion in client assets. Mr. Ritholtz is a frequent guest on CNBC, where he has been guest host of *Squawk Box*, and is a regular on *Kudlow & Company*. He has also appeared on *Your World with Neil Cavuto*, *Bulls & Bears*, *Wall Street Week* and is frequent guest on other shows. His perspectives on the markets are quoted regularly in the *Wall Street Journal*, *Barron's*, and other print media. Beyond weekly commentary and published articles, for the past several years Mr. Ritholtz has been writing *The Big Picture*, an informal economics weblog covering diverse topics, including investing, digital media, geopolitics, film and music industries, and more.

Gordon Rock has been one of our directors since April 2005. He has an entrepreneurial communications background in cable television, cellular and satellite distribution. Mr. Rock has also advised and invested in several early stage and turnaround companies. He has been an investor in each of the Company's financings since making his original investment in 1992. He was also the Company's only secured creditor until his debt was retired in April of 2005, following the successful licensing of Burst's patent portfolio to Microsoft Corporation.

Eric H. Walters, a key employee, has served as our Vice-President of Operations since October 2001. He is responsible for our administrative operations as well as intellectual property management. From March 2000 to October 2001, Mr. Walters served as the Manager of our Intellectual Property Department. From March 1999 to March 2000, he was our Manager of Inside Sales. Mr. Walters has been associated with us since our formation in 1990. He held the position of Director of Corporate Communications during 1991 and 1992. Prior to joining us in 1990 and again in 1999, Mr. Walters worked at Intel Corporation in Press Relations for the Digital Imaging and Video Division. Mr. Walters is the co-inventor of record for several of our patents and pending patent applications

EXECUTIVE COMPENSATION AND OTHER MATTERS.

Summary of Compensation. The following table sets forth all compensation earned or paid for services rendered to us in all capacities by our Chief Executive Officer and Vice President of Operations for the fiscal year ended December 31, 2006. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2006.

Summary Compensation Table

Name and Principal Position	Annual Compensation		Long-Term Compensation	
	Year	Salary	Bonus Underlying Options (#)	Securities All Other Compensation(\$)
Richard A. Lang, Chairman	2006	\$240,000		\$ 5,822(1)
	2005	212,550		\$ 63,626

of the Board President and Chief Executive Officer	2004	130,000	\$ 44,942
Eric H. Walters	2006	\$ 84,000	\$ 0
Vice-President of Operations	2005	\$ 75,500	\$ 49,188

(1) Represents monthly auto allowance payments made to Mr. Lang totaling \$5,822 for the year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to beneficial ownership of our common stock by each person who beneficially owns more than 5% of our common stock; each of our executive officers; each of our Directors; and all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. To our knowledge, except under applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned. The applicable percentage of ownership for each stockholder is based on 39,950,633 shares of common stock outstanding on December 31, 2006 together with applicable options and warrants for that stockholder. Shares of common stock issuable upon exercise of options and other rights beneficially owned are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, but are not deemed outstanding for computing the percentage ownership of any other person.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding

5% Stockholders		

None identified beyond Executive Officers and Directors		
Executive Officers and Directors		

Richard A. Lang	4,128,160 (1)	10.33%
Brian Murphy	762,645 (2)	1.90%
Barry L. Ritholtz	450,000 (3)	1.12%
Gordon Rock	10,931,052 (4)	27.27%
All executive officers and directors as a group (4 persons)	16,271,857	40.18%

- (1) Includes 3,980,160 shares of our common stock in the name of the Lisa Walters and Richard Lang Revocable Trust. Also includes 100,000 shares transferred to the family's irrevocable trust fund in 2002, an additional 28,000 shares transferred in 2005, and an additional 20,000 shares transferred in 2006.
- (2) Includes an option, which expires on May 18, 2008 to purchase 200,000 shares of our common stock at \$.50 per share, and a warrant, which expires on February 15, 2008 to purchase 20,000 shares of our common stock at \$1.50 per share.
- (3) Includes an option, which expires on May 18, 2008, to purchase 200,000 shares of our common stock at \$.50 per share.
- (4) Includes 10,802,568 shares owned by Mercer Management and the Gordon Rock family and a warrant, held by Mercer Management Inc., which expires on December 31, 2007, to purchase 128,484 shares of our common stock at \$3.50 per share.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Since January 1, 2006, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$60,000 and in which any director, executive officer or holder of more than 5% of our common stock, or an immediate family member of any of the foregoing, had or will have a direct or indirect interest other than compensation arrangements that are described in Executive Compensation and Other Matters, above, and the transactions described below.

SUBSEQUENT EVENTS

On February 8th, 2006 the Markman Hearing in the case of Burst.com vs. Apple took place. This hearing, also called the "Claim Construction" hearing, was an opportunity for the Judge to hear arguments on what the claims in our patents mean for the purposes of further proceedings in the case. The eventual "construction" of the various terms will help the jury to determine whether infringement of our patents has taken place, and if so, to what extent. As of the date of this Annual Report, Judge Patel had not yet ruled on the Claim Construction issues. As soon as it is issued, we will post the ruling on our website, www.burst.com, along with any comments which we deem appropriate.

BURST.COM, INC.

Dated: March 19th, 2007

By /s/ Richard A. Lang

Richard A. Lang

Chairman, Chief Executive Officer and Chief Financial Officer

BURST.COM, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006 and 2005

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders of
Burst.com, Inc. and Subsidiaries
Santa Rosa, California

SUMMARY FINANCIALS TO FOLLOW

Complete Audited Financials Can be found on our website: www.burst.com

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 169,318	\$ 79,605
Accrued interest on Notes Receivable	109,951	64,207
Treasury Bills available-for-sale	3,320,883	5,483,916
Prepaid expenses	<u>12,200</u>	<u>-</u>
Total current assets	<u>3,612,352</u>	<u>5,627,728</u>
Property and equipment, net of accumulated depreciation of \$146,256 and \$146,256, respectively		
	-	-
Note Receivable - Employees	1,740,583	1,740,583
Other assets	<u>2,740</u>	<u>8,116</u>
Total assets	<u>\$ 5,355,675</u>	<u>\$ 7,376,427</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities		
Accounts payable	\$ -	\$ 2,395
Accrued expenses	49,921	50,268
State income taxes payable	<u>-</u>	<u>1,448,909</u>
Total current liabilities	<u>49,921</u>	<u>1,501,572</u>
Stockholders' Equity		
Convertible preferred stock, \$.00001 par value, 20,000,000 shares authorized; none issued outstanding	-	-
Common stock, \$.00001 par value; 100,000,000 shares authorized; 39,950,633 shares issued and outstanding during 2006 and 2005	400	400
Additional paid-in-capital	68,008,864	68,008,864
Accumulated deficit	(62,698,508)	(62,165,299)
Accumulated other comprehensive income:		
Unrealized holding gain/ (loss) on marketable securities	<u>(5,002)</u>	<u>30,890</u>
Total stockholders' equity	<u>5,305,754</u>	<u>5,874,855</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,355,675</u>	<u>\$ 7,376,427</u>

BURST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenue	\$ -	\$ 60,300,000
Costs and expenses:		
General and administrative	762,965	1,690,387
Legal fees and costs associated with licensing revenue	<u>-</u>	<u>22,262,685</u>
Total costs and expenses	<u>762,965</u>	<u>23,953,072</u>
Income (Loss) from operations	<u>(762,965)</u>	<u>36,346,928</u>
Other income (expenses):		
Interest income	174,054	125,622
Interest expense	(3,123)	(37,294)
Gain on sale of securities	59,675	41,995
Total other income (expenses)	<u>230,606</u>	<u>130,323</u>
Income tax (expense)	<u>(850)</u>	<u>(1,450,560)</u>
Net Income (Loss)	<u>\$ (533,209)</u>	<u>\$ 35,026,691</u>
Unrealized Gain/ (Loss)	<u>(35,892)</u>	<u>30,890</u>
Total comprehensive income	<u>\$ (569,101)</u>	<u>\$ 35,057,581</u>
Net income (loss) per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$.86</u>
Weighted average number of common shares outstanding	<u>35,391,968</u>	<u>35,391,968</u>