Ascent Solar Technologies, Inc.
Form 10QSB
July 31, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

x	**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007

or

o	**TRANSITION REPORT UNDER SECTION 13 OR 15(d) of the SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission File No. 001-32919

Ascent Solar Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	**20-3672603**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8120 Shaffer Parkway
Littleton, CO 80127
(Address of principal executive offices)

303-285-9885
(Issuer s telephone number including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

At July 26, 2007, 10,075,140 shares of the registrant s Common Stock, par value $0.0001 per share, were outstanding.

Transitional Small Business Disclosure Format: Yes o No x

ASCENT SOLAR TECHNOLOGIES, INC.

Quarterly Report on Form 10-QSB

Quarterly Period Ended June 30, 2007

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.

(A Development Stage Company as Defined by SFAS No. 7)

BALANCE SHEET

(Unaudited)

PART I. FINANCIAL INFORMATION

Item 1. **Financial Statements**

	June 30, 2007
ASSETS	
Current Assets:	
Cash	$ 11,480,865
Restricted cash	$ 1,205,000
Short term investments	21,935,645
Accounts receivables	142,125
Related party receivable	115
Other current assets	147,314
Total current assets	34,911,064
Property & Equipment at Cost:	663,818
Less accumulated depreciation	(40,412)
	623,406
Other Assets	
Deposits on manufacturing equipment	3,528,156
Patents	46,956
	3,575,112
Total Assets	$ 39,109,582
LIABILITIES AND STOCKHOLDERS EQUITY	
Current Liabilities:	
Accounts payable	$ 105,734
Related party payable	178,251
Accrued expenses	633,330
Total current liabilities	917,315
Deferred Rent	14,967
Commitments and Contingencies (Note 9)	
Stockholders Equity:	
Preferred Stock, $0.0001 par value, 25,000,000 shares authorized, no shares outstanding	
Common Stock, $0.0001 par value, 75,000,000 shares authorized; 10,075,140 shares outstanding	1,007
Additional Paid in Capital	46,399,456
Deficit accumulated during the development stage	(8,223,163)
Total Stockholders equity	38,177,300
Total Liabilities and Stockholders Equity	$ 39,109,582

See accompanying notes to financial statements.

ASCENT SOLAR TECHNOLOGIES, INC.

(A Development Stage Company as Defined by SFAS No. 7)

STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006	For the Period from inception (October 18, 2005) through June 30, 2007
Research & Development Revenues					
Contract Revenues	$ 207,149	$	$ 415,668	$	$ 415,668
Related Party Revenues	857	6,797	27,519	10,177	27,519
Total Revenues	208,006	6,797	443,187	10,177	443,187
Costs and Expenses					
Research & Development	621,732	143,263	1,146,748	186,057	1,465,833
General and Administrative	1,309,004	618,003	2,537,871	1,081,364	6,798,584
Total Costs and Expenses	1,930,736	761,266	3,684,619	1,267,421	8,264,417
Loss from Operations	$ (1,722,730)	$ (754,469)	$ (3,241,432)	$ (1,257,244)	$ (7,821,230)
Other Income/(Expense)					
Interest Expense	(72)	(288,217)	(136)	(518,956)	(1,083,567)
Interest Income	261,253		406,551	-	681,634
	261,181	(288,217)	406,415	(518,956)	(401,933)
Net Loss	$ (1,461,549)	$ (1,042,686)	$ (2,835,017)	$ (1,776,200)	$ (8,223,163)
Net Loss Per Share (Basic and diluted)	$ (0.19)	$ (0.52)	$ (0.43)	$ (0.93)	
Weighted Average Common Shares Outstanding (Basic and diluted)	7,554,794	2,000,000	6,624,677	1,903,448	

See accompanying notes to financial statements.

4

ASCENT SOLAR TECHNOLOGIES, INC.

(Development Stage Company as Defined by SFAS No. 7)

STATEMENTS OF STOCKHOLDERS EQUITY

For the Period from inception (October 18, 2005) through December 31, 2006 (Audited) and for the

Six Months Ended June 30, 2007 (Unaudited)

	Common Stock Shares	**Amount**	**Preferred Stock Shares**	**Amount**	**Additional Paid-In Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at inception, October 18, 2005							
Proceeds from sale of common stock (11/05 @ $.04 per share)	972,000	$ 97			$ 38,783	$	$ 38,880
Stock Based Compensation:							
Founders Stock					933,120		933,120
Stock Options					26,004		26,004
Net loss						(1,207,234)	(1,207,234)
Balance, December 31, 2005	972,000	$ 97			$ 997,907	$ (1,207,234)	$ (209,230)
Transfer of assets at historical cost (1/06 @ $0.03 per share)	1,028,000	103			31,097		31,200
Proceeds From IPO (7/06 @ $5.50 per unit)	3,000,000	300			16,499,700		16,500,000
IPO Costs					(2,392,071)		(2,392,071)
Stock issued to Bridge Loan Lenders (7/06 @ $2.75 per share)	290,894	29			799,971		800,000
Exercise of Stock Options (9/06 & 12/06 @ $0.10 per share)	31,200	3			3,117		3,120
Stock Based Compensation-Stock options					348,943		348,943
Net loss						(4,180,912)	(4,180,912)
Balance, December 31, 2006	5,322,094	$ 532			$ 16,288,664	$ (5,388,146)	$ 10,901,050
Exercise of Stock Options (1/07, 3/07, & 6/07 @ $0.10 per share)	53,664	5			5,361		5,366
Conversion of Class A public Warrants at $6.60	3,098,382	310			20,449,011		20,449,321
Redemption of Class A Public Warrants at $0.25 per share					(48,128)		(48,128)
Conversion of Class B public Warrants at $11.00 per share	1,000				11,000		11,000

Stock Based Compensation-Stock options			533,515		533,515
Proceeds from Private Placement	1,600,000	160	9,235,840		9,236,000
Private Placement Costs			(75,807)		(75,807)
Net loss				(2,835,017)	(2,835,017)
Balance, June 30, 2007	10,075,140	$ 1,007	$ 46,399,456	$ (8,223,163)	$ 38,177,300

See accompanying notes to financial statements.

ASCENT SOLAR TECHNOLOGIES, INC.

(A Development Stage Company as Defined by SFAS No. 7)

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30, 2007	2006	For the Period from inception (October 18, 2005) through June 30, 2007
Operating Activities:			
Net loss	$ (2,835,017)	$ (1,776,200)	$ (8,223,163)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	27,777	4,069	40,412
Stock based compensation	533,515	164,232	1,841,583
Charge off of deferred financing costs to interest expense		89,140	198,565
Charge off of Bridge Loan discount to interest expense		359,141	800,000
Changes in operating assets and liabilities:			
Accounts receivable	(142,125)		(142,125)
Related party receivables	4,325	(145)	(115)
Other current assets	(32,092)	(5,714)	(147,314)
Accounts payable	32,691	193,203	105,734
Related party payable	(5,703)	435,761	178,251
Deferred Rent	5,055		14,967
Accrued expenses	511,693	155,250	633,328
Net cash used in operating activities	(1,899,881)	(381,263)	(4,699,877)
Investing Activities:			
Purchases of available-for-sale-securities	(40,756,599)		(87,001,049)
Maturities and sales of available for-sale securities	28,705,954		65,065,404
Purchase of equipment	(560,174)	(19,796)	(657,573)
Deposits on Manufacturing Equipment	(3,158,156)		(3,528,156)
Restricted Cash for Manufacturing Equipment	(1,205,000)		(1,205,000)
Patent activity costs	(9,388)	(9,723)	(21,999)
Net cash used in investing activities	(16,983,363)	(29,519)	(27,348,373)
Financing Activities:			
Proceeds from Bridge Loan financing		1,600,000	1,600,000
Repayment of Bridge Loan financing			(1,600,000)
Payment of financing costs		(171,400)	(198,565)
Payment of IPO & Private Placement costs	(75,807)	(608,163)	(2,467,879)
Proceeds from note			200,000
Repayment of note		(200,000)	(200,000)
Proceeds from sale of stock	29,701,687		46,243,687
Redemption of Class A Warrants	(48,128)		(48,128)
Net cash provided by financing activities	29,577,752	620,437	43,529,115
Net Change in Cash and Cash Equivalents	10,694,508	209,655	11,480,865
Cash and Cash Equivalents at Beginning of Period	786,357	28,059	
Cash and Cash Equivalents at End of Period	$ 11,480,865	$ 237,714	$ 11,480,865
Supplemental Cash Flow Information:			
Cash paid for interest	$ 63	$ 4,138	$ 84,882
Cash paid for income taxes	$	$	$
Non-Cash Transactions:			
ITN initial contribution of assets for equity	$	$	$ 31,200

See accompanying notes to financial statements.

ASCENT SOLAR TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(A Development Stage Company as Defined by SFAS No. 7)

NOTE 1. ORGANIZATION

Ascent Solar Technologies, Inc. (Ascent or the Company) was incorporated on October 18, 2005 to commercialize certain PV technologies developed by ITN Energy Systems, Inc. (ITN), a Colorado corporation dedicated to the development of thin-film, photovoltaic (PV), battery and fuel cell technologies. ITN had invested considerable resources in the research and development of Copper-Indium-Gallium-diSelenide (CIGS) PV technology. ITN formed Ascent to commercialize this CIGS PV technology, initially for the space and near-space markets and ultimately for the terrestrial market. In January 2006, in exchange for 1,028,000 shares of common stock of Ascent, ITN assigned its CIGS PV technologies and trade secrets and licensed certain proprietary process, control and design technologies to Ascent.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Company s activities to date have substantially consisted of raising capital and research and development. Revenues to date have not been significant, and were not generated from the Company s planned principal operations. Accordingly, the Company is considered to be in the development stage, as defined in Statement of Financial Accounting Standards No. 7 (SFAS No. 7), *Accounting and Reporting by Development Stage Enterprises*.

Short Term Investments: The Company s short-term investments, which are classified as available-for-sale securities, are invested in high-grade variable rate demand notes, which have a final maturity date of up to 30 years but whose interest rates are reset at varying intervals typically between 1 and 7 days. Variable rate demand notes can be readily liquidated at any interest rate reset date, either by putting them back to the original issuer or by putting them to a third-party remarketer as generally provided in the original prospectus. To date, the Company has always been able to redeem its holdings of these securities in accordance with their terms, and the Company believes that the risk of non-redemption is minimal. Consequently, these securities are available for use to support the current cash needs of our operations, and in accordance with Accounting Research Bulletin 43, they are classified as short-term investments.

Cash Equivalents: The Company considers all highly liquid debt securities purchased with an original maturity of three months or less to be cash equivalents.

Revenue Recognition: Revenue from cost-type contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs and an allocable portion of the fixed fee. Revenue from fixed price-type contracts is recognized under the percentage-of-completion method of accounting, with costs and estimated profits included in contract revenue as work is performed. If actual and estimated costs to complete a contract indicate a loss, provision is made currently for the loss anticipated on the contract. Revenue from time and materials contracts is recognized as costs are incurred at amounts represented by the agreed-upon billing amounts.

Patents: To the extent the Company obtains or is awarded patents, patent costs will be amortized on a straight line basis over the legal life, or over their estimated useful lives, whichever is shorter.

Deferred Financing Costs: Costs incurred in connection with obtaining debt are capitalized as deferred financing costs and are amortized to interest expense over the life of the related debt.

Deferred Offering Costs: The Company capitalizes costs associated with the issuance of stock as they are incurred. Upon issuance of the stock, such issue costs are treated as a reduction of the offering proceeds and accordingly charged to Additional Paid in Capital.

7

Property and Equipment: Property and equipment are recorded at the original cost to the Company. Assets are being depreciated over estimated useful lives of one to seven years using the straight-line method.

Risks and uncertainties: The Company s operations are subject to certain risks and uncertainties, including those associated with: the ability to meet obligations; continuing losses; fluctuation in operating results; funding expansions; strategic alliances; financing arrangement terms that may restrict operations; regulatory issues; and competition. Additionally, U.S. government contracts may be terminated prior to completion of full funding by the U.S. government.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net loss per common share: Statement of Financial Accounting Standards No. 128, *Earnings Per Share,* provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in the earnings of the Company, similar to fully diluted earnings per share.

Unaudited Information: The accompanying interim financial information as of June 30, 2007 and for the three and six months ended June 30, 2007 and the period from inception (October 18, 2005) through June 30, 2007 was taken from the Company s books and records without audit. However, in the opinion of management, such information includes all adjustments (consisting only of normal recurring accruals) that are necessary to properly reflect the financial position of the Company as of June 30, 2007 and the results of operations for the three and six months ended June 30, 2007 and the period from inception (October 18, 2005) through June 30, 2007 so that the financial statements are not misleading.

Research and development costs: Research and development costs are expensed as incurred.

Incomes Taxes: In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. The Company adopted the provisions of FIN No. 48 on January 1, 2007. Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. 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. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

NOTE 3. RESTRICTED CASH

In February and April 2007, the Company entered into irrevocable letters of credit with the Company s bank required by two of our manufacturing equipment vendors for a total of $1,760,000. Terms of the letters of credit are to make payments to the vendors in 2007 during the construction phase and at delivery based on acceptance by the Company. A payment of $555,000 was made to one of the vendors from the letter of credit in May 2007. The letters of credit are held in interest bearing bank accounts and are reflected as Restricted cash on the June 30, 2007 Balance Sheet.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2007:

Computer Equipment	$ 108,281
Furniture and Fixtures	2,027
R&D Equipment	53,157
Shop/Facility Equipment	3,026
Leasehold Improvements	330,199
Manufacturing Equipment	167,128
	663,818
Less: Accumulated depreciation	(40,412)
Property and equipment, net	$ 623,406

Depreciation and amortization expense for the three and six months ended June 30, 2007 was $14,807 and $27,777, respectively. As of June 30, 2007, the Company has made deposits on manufacturing equipment of $3,528,156 which has been reflected on the Balance Sheet as Other Assets. (See Note 9, Commitments; Manufacturing Equipment)

NOTE 5. DEBT

In January 2006, the Company completed a $1.6 million bridge loan (Bridge Financing) from lenders (Bridge Noteholders) to help meet the Company s working capital needs. The loans (Bridge Loans) accrued interest at an annual rate of 10% and were due and payable on the earlier of January 2007 or the completion of Ascent s public offering of equity securities with gross proceeds of at least $5,000,000 (Qualified Public Offering). In July 2006, with the proceeds from a Qualified Public Offering (i.e., the Company s initial public offering or IPO), the Company repaid the Bridge Loans with accrued interest.

In connection with the Bridge Loans, the Company issued rights (Bridge Rights) to the Bridge Noteholders. One Bridge Right was issued for every $25,000 loaned. In July 2006, upon completion of the IPO, the holders of Bridge Rights received restricted units. The holder of each Bridge Right received that number of units equal to $25,000 divided by the IPO price of the units of $5.50 for a total of 290,894 units. The units are identical to those offered in Ascent s IPO and consisted of one share of common stock, one redeemable Class A public warrant and two non-redeemable Class B public warrants. In September 2006, the SEC declared effective the Company s Registration Statement on Form SB-2 (Reg. No. 333-137008) for the shares and warrants underlying the 290,894 units issued in connection with the Bridge Rights.

Paulson Investment Company, Inc. acted as the placement agent for the Bridge Financing. The Company paid Paulson Investment Company, Inc. a commission equal to 10% of the gross proceeds from the Bridge Financing, plus reasonable out-of-pocket expenses. The Bridge Loans and the Bridge Rights were allocated for accounting purposes based on the relative fair values of the Bridge Loans without the Bridge Rights and the Bridge Rights themselves at the time of issuance. The actual value of the Bridge Loans and the Bridge Rights was computed at $1,600,000 each for a total value of $3,200,000. Since they were each of equal value, the $1,600,000 of proceeds was allocated 50% to the Bridge Loans

and 50% to the Bridge Rights (i.e. $800,000 each). The Bridge Rights of $800,000 were accounted for as paid-in capital.

The discount for the commission ($160,000) and the Bridge Rights ($800,000) were amortized into interest expense over the life of the loans. In July 2006 with the repayment of the Bridge Loans, the remaining unamortized balance of the discount for commission and Bridge Rights was recognized as interest expense in the Statements of Operations. For the period from inception (October 18, 2005) through June 30, 2007 the Company recorded $960,000 in interest expense related to these discounts.

NOTE 6. STOCKHOLDERS EQUITY

The Company s authorized capital stock consists of 75,000,000 shares of common stock, $0.0001 par value, and 25,000,000 shares of preferred stock, $0.0001 par value. In November 2005, the Company issued 972,000 shares of common stock at a price of $0.04 per share. The Company has recorded for financial statement purposes the 972,000 shares at a fair value of $1.00 per share. The Statements of Stockholder s Equity reflects compensation expense of $933,120 related to the recording of this stock transaction. In January 2006, in consideration of certain asset transfers, licenses and service agreements (see Note 1), the Company issued 1,028,000 shares of common stock to ITN Energy Systems, Inc.

Preferred stock, $0.0001 par value per share, may be issued in classes or series. Designations, powers, preferences, rights, qualifications, limitations and restrictions are determined by the Company s Board of Directors.

Initial Public Offering:

On July 10, 2006, the SEC declared effective the Company s Registration Statement on Form SB-2 (Reg. No. 333-131216), and we completed our IPO of 3,000,000 units on July 14, 2006. Each unit consisted of one share of common stock, one redeemable Class A public warrant and two non-redeemable Class B public warrants. The managing underwriter of our initial public offering was Paulson Investment Company, Inc. The initial public offering price was $5.50 per unit. The gross proceeds of the offering were $16,500,000. Our net proceeds from the offering, after deducting the underwriter s discount of $1,097,250 and other fees and expenses, aggregated approximately $14,000,000.

The common stock and Class A and Class B public warrants traded only as a unit through August 9, 2006, after which the common stock, the Class A public warrants and the Class B public warrants began trading separately.

Class A public warrants On May 24, 2007 the Company publicly announced that it intended to redeem its outstanding Class A public warrants. The Class A public warrants became eligible for redemption by the Company at $0.25 per warrant on April 16, 2007, when the last reported sale price of the Company s common stock had equaled or exceeded $9.35 for five consecutive trading days. There were 3,290,894 Class A warrants issued in connection with the Company s initial public offering, including the warrants issued to the Bridge Noteholders. The Class A warrants were exercisable at a price of $6.60 per share.

The exercise period ended June 22, 2007. During the exercise period, 3,098,382 Class A warrants (94.1% of the total outstanding) were exercised for an equal number of shares of common stock, and the Company received $20,449,321 in proceeds from the warrant exercises. At the end of the exercise period, 192,512 Class A public warrants remained outstanding. The Company has set aside funds with its warrant transfer agent to redeem the outstanding warrants for $0.25 per warrant, or a total cost of $48,128.

Class B public warrants The Class B public warrants included in the units became exercisable on August 10, 2006. The exercise price of a Class B public warrant is $11.00. The Class B public warrants expire on July 10, 2011.

The Company does not have the right to redeem the Class B public warrants. As of June 30, 2007, 6,580,788 Class B public warrants were outstanding.

Representative s Warrants Representative s warrants were issued to underwriters of the Company s initial public offering in July 2006. As of June 30, 2007, 300,000 Representative s warrants remained outstanding to purchase units at $6.60 each. A unit consists of one share of common stock, one Class A redeemable warrant and two Class B non-redeemable warrants. The warrants expire on July 10, 2011. Upon exercise of the representative s warrants, holders will be forced to choose whether to exercise the underlying Class A warrants or hold them for redemption. As noted above, on June 25, 2007, any Class A warrants then outstanding expired and became redeemable.

Private Placement of Securities:

We completed a private placement of securities with Norsk Hydro Produksjon AS (Norsk Hydro) in March 2007. Norsk Hydro is a subsidiary of Norsk Hyrdro ASA, one of the world s leading suppliers of energy and aluminum, with approximately 33,000 employees in nearly 40 countries. Norsk Hyrdro purchased 1,600,000 shares of our common stock for an aggregate purchase price of $9,236,000. The Company recorded $75,807 of costs associated with the private placement as a reduction to Additional Paid in Capital on the Company s Balance Sheet as of June 30, 2007. In connection with the private placement, Norsk Hydro was granted options to purchase additional shares and warrants.

As of June 30, 2007, the Company had 10,075,140 shares of common stock and no shares of preferred stock outstanding.

NOTE 7. STOCK BASED COMPENSATION

Stock Option Plan:

The Company s 2005 Stock Option Plan (the Option Plan), as amended, provides for the grant of incentive or non-statutory stock options to the Company s employees, directors and consultants. A total of 1,000,000 shares of common stock are reserved for issuance under the Option Plan. The Board of Directors and the Company s stockholders approved the plan and its amendments.

The Option Plan is administered by the Compensation Committee of the Board of Directors, which determines the terms of the options, including the exercise price (equal to or greater than fair market value), expiration date, vesting schedule and number of shares. The term of any incentive stock option granted under the Option Plan may not exceed ten years, or five years for options granted to an optionee owning more than 10% of the Company s voting stock. The exercise price of an incentive stock option granted under the Option Plan must be equal to or greater than the fair market value of the shares of the Company s common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of the Company s voting stock must have an exercise price equal to or greater than 110% of the fair market value of the Company s common stock on the date the option is granted. The exercise price of a non-statutory option granted under the Option Plan must be equal to or greater than 85% of the fair market value of the shares of the Company s common stock on the date the option is granted.

In November 2005, the Company granted options to purchase 408,000 shares of common stock under the Option Plan, all at an exercise price of $0.10 per share. For the year ended December 31, 2006, an additional 336,000 options were granted, 75,000 options were cancelled and 31,200 options were exercised. For the six month period ended June 30, 2007, an additional 87,000 options were granted, 8,000 options were canceled and 53,664 options exercised. As of June 30, 2007, there were outstanding options to purchase 663,136 shares of common stock under the Option Plan. As of June 30, 2007, 252,000 shares remained available for future grants under the Option Plan.

Stock Based Compensation:

The Company accounts for share-based payments under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment,* (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in our Statements of Operations. Stock-based compensation expense recognized in the Statements of Operations for the three and six months ended June 30, 2007 and 2006 and for the period from inception (October 18, 2005) through June 30, 2007 is based on awards ultimately expected to vest and it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For purposes of determining estimated fair value of share-based payment awards on the date of grant under SFAS 123(R), we used the Black-Scholes option-pricing model (Black-Scholes Model). The Black-Scholes Model requires the input of highly subjective assumptions. Because our employee stock options may have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models may not provide a reliable single measure of the fair value of its employee stock options. In addition, management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which result in changes to these assumptions and methodologies, which could materially impact our fair value determination.

The weighted average estimated fair value of employee stock options granted for the three months ended June 30, 2007 and 2006 were $4.20 and $2.13 per share, respectively, using the Black-Scholes Model with the following weighted average assumptions:

	For the Three and Six Months Ended June 30			
	2007		**2006**	
Expected volatility	90.2	%	86.1	%
Risk free interest rate	4.62	%	4.75	%
Expected dividends				
Expected life (in years)	6.1		6.1	

We based our estimate of expected volatility on disclosures made by peers. The expected option term was calculated using the simplified method permitted by Staff Accounting Bulletin (SAB) 107. Forfeitures were estimated based on historical employee retention experience among staff of similar position to those granted options in our plan.

12

Stock based compensation recognized under SFAS 123(R) for the three and six months ended June 30, 2007 and 2006 are as follows:

	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Officers, directors & employees	$ 60,132	$ 35,737	$ 117,909	$ 58,405
Outside Providers	192,031	65,415	415,606	105,827
	$ 252,163	$ 101,152	$ 533,515	$ 164,232

Stock-based compensation expense is calculated on a straight-line basis over the vesting periods of the related options. In future periods, the compensation expense that we record under SFAS 123(R) may differ significantly from what we have recorded in the current period, as we build company-specific performance history.

As of June 30, 2007, we have approximately $1,346,000 of total compensation cost ($478,000 to officers, directors and employees, and $868,000 to outside providers) related to non-vested awards not yet recognized and expect to recognize these costs over a weighted average period of approximately 3 years.

The following schedule summarizes activity in our stock-option plan (shares in thousands):

	Stock Option Shares	Stock Options Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
OUTSTANDING AT OCTOBER 18, 2005			
Granted	408	$ 0.10	
OUTSTANDING AT DECEMBER 31, 2005	408	0.10	
Granted	201	4.25	
	100	2.73	
	5	2.76	
	30	2.71	
Exercised	(31)	(.10)	
Canceled	(54)	(.10)	
	(21)	(4.25)	
OUTSTANDING AT DECEMBER 31, 2006	638	$ 1.83	6.84
Granted	38	2.90	
	20	2.51	
	16	2.86	
	8	7.90	
	5	8.82	
Exercised	(54)	(.10)	
Canceled	(8)	(.10)	
OUTSTANDING AT JUNE 30, 2007	663	$ 2.22	5.57
EXERCISABLE AT JUNE 30, 2007	143	$ 2.52	4.28

As of June 30, 2007, approximately 446,000 shares were expected to vest in the future at a weighted average exercise price of $2.52.

The following table contains details of our outstanding stock options:

	Options Outstanding			**Options Exercisable**	
	Exercise Price	**Number Outstanding (In Thousands)**	**Weighted Average Exercise Price**	**Number Exercisable (In Thousands)**	**Weighted Average Exercise Price**
As of June 30, 2007:	$ 7.90	8	$ 7.90		
	$ 8.82	5	$ 8.82		
	$ 2.86	38	$ 2.86		
	$ 2.51	20	$ 2.51		
	$ 2.90	16	$ 2.90		
	$ 2.71	30	$ 2.71		
	$ 2.73	100	$ 2.73		
	$ 2.76	5	$ 2.76		