Rockwood Holdings, Inc.
Form 3
August 12, 2005

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â SCHNABEL SUSAN C
(Last) (First) (Middle)

C/O CSFB PRIVATE EQUITY, INC.,Â ELEVEN MADISON AVENUE
(Street)

NEW YORK,Â NYÂ 10010
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
08/12/2005

3. Issuer Name **and** Ticker or Trading Symbol
Rockwood Holdings, Inc. [ROC]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)		3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)		4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of			

	Shares	or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHNABEL SUSAN C C/O CSFB PRIVATE EQUITY, INC. ELEVEN MADISON AVENUE NEW YORK,Â NYÂ 10010	Â X	Â	Â	Â

Signatures

/s/ Susan Schnabel	08/12/2005
**Signature of Reporting Person	Date

Explanation of Responses:

No securities are beneficially owned

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Â

Remarks:

NoÂ SecuritiesÂ Owned

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ssued with the requisite consent of the holders of the Series C Preferred Stock and any other class or series whose vote is required) with respect to the payment of dividends and distributions upon liquidation, dissolution or winding up. We will generally be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of lawfully available assets for such payment (i.e., after taking account of all indebtedness and other non-equity claims).

Maturity:	The Series C Preferred Stock does not have any maturity date, and we are not required to redeem the Series C Preferred Stock. Accordingly, the Series C Preferred Stock will remain outstanding indefinitely, unless and until we decide to redeem it.
Exchange Listing:	We intend to apply for listing of the depositary shares on the New York Stock Exchange under the symbol ZB PrC. If approved for listing, we expect trading of the depositary shares on the New York Stock Exchange, or the NYSE, to commence within 30 days after the initial delivery of the depositary shares. We may not successfully list the Series C Preferred Stock on the NYSE.
Book-Entry System:	Depositary shares will be issued in book-entry form through Depository Trust Company, or DTC. Beneficial interests in the depositary shares will be shown on, and transfers of those beneficial interest can only be made through, records maintained by the DTC, and

its participants.

Auction / Distribution Agent: Zions Direct, Inc.

Registrar / Depositary / Transfer Agent: Zions First National Bank

This term sheet is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus Supplement dated June 25, 2008, the Prospectus Supplement dated June 27, 2008, and the accompanying Prospectus that we have filed with the Securities and Exchange Commission on March 31, 2006.

This term sheet contains selected information about the depositary shares subject to further description in the Prospectus and Prospectus Supplements described above. The depositary shares are not savings accounts, deposits or other obligations of any of the issuer s banks or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any other government agency.

Zions Bancorporation has filed a registration statement (Registration Statement No. 333-132868, including a Prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the Prospectus dated March 31, 2006 contained in that registration statement, the Prospectus Supplements dated June 25, 2008 and June 27, 2008 and other documents Zions Bancorporation has filed with the SEC for more complete information about Zions Bancorporation and this offering. You may get these documents and other documents Zions Bancorporation has filed for free by visiting EDGAR on the SEC Web site at www.sec.gov or by going to www.auctions.zionsdirect.com. Alternatively, Zions Bancorporation or a representative will arrange to send you the Prospectus and other documents Zions Bancorporation has filed with the SEC if you request it by calling toll free (800) 524-8875.

"> 2006 2005

Numerator:

Net income (loss)
$(479,303) $74,328
Denominator:

Weighted average shares outstanding basic
6,740,985 6,723,135
Effect of dilutive stock options
733,579
Effect of dilutive warrants
828,242

Weighted average shares outstanding assuming dilution
6,740,985 8,284,956

Net income (loss) per share basic
$(.07) $.01

Net income (loss) per share assuming dilution
$(.07) $.01

Basic and diluted loss per share were the same for the year ended December 31, 2006 because there was a net loss for the year.

Stock options exercisable for the purchase of 1,262,921 common stock shares at exercise prices ranging from $.08 to $3.00 per share were outstanding for the year ended December 31, 2005, but were not included in the calculation of income per share assuming dilution because the options were not dilutive.

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Warrants exercisable for the purchase of 953,248 common stock shares at exercise prices ranging from $.08 to $2.55 per share were outstanding for the year ended December 31, 2005, but were not included in the calculation of income per share assuming dilution because the warrants were not dilutive.

Convertible promissory notes convertible into 1,036,992 common stock shares at conversion prices ranging from $.15 to $.51 per share were outstanding for the year ended December 31, 2005 but were not included in the calculation of income per share assuming dilution because the convertible notes were not dilutive.

10. Stock Options and Warrants

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes *Accounting Principles Board* (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective method as described in the standard. Under the modified prospective method, the Company is required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion at time of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. As of January 1, 2006, the Company had no unvested outstanding awards and as a result, the adoption of SFAS No. 123(R) had no impact on the Company s consolidated financial statements or consolidated results of operations.

The Company used the modified prospective method at the date of adoption and therefore results for the year ended December 31, 2005 have not been restated. Had compensation expense for employee stock options granted under our stock option plans been determined based on fair value at the grant date consistent with SFAS No. 123, our net income and earnings per share for the year ended December 31, 2005 would have been the pro forma amounts indicated below:

	2005
Net income	
As reported	$ 74,328
Pro forma	$ 53,281
Basic income per share	
As reported	$ .01
Pro forma	$ .01
Diluted income per share	
As reported	$ .01
Pro forma	$ .01

The Company s common stock trades on the OTC Bulletin Board under the symbol FULO. The fair values of the granted options have been estimated at the date of grant using the Black-Scholes option pricing model.

The following weighted average assumptions were used:

	2005
Risk free interest rate	4.4%
Expected lives (in years)	5
Expected volatility	118%
Dividend yield	0%

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The following table summarizes the Company s employee stock option activity for years ended December 31, 2006 and 2005:

	2006	Weighted Average Exercise Price	2005	Weighted Average Exercise Price
Options outstanding, beginning of year	3,083,034	$ .45	3,014,700	$ .45
Options granted during the year	39,000	.09	111,000	.08
Options exercised during the year				
Options cancelled during the year			(42,666)	.07
Options outstanding, end of year	3,122,034	$ .42	3,083,034	$ .43
Options exercisable at end of year	3,083,034	$ .43	3,083,034	$ .43
Weighted average fair value of options granted during the year		$ .07		$ .07

The following table summarizes information about employee stock options outstanding at December 31, 2006:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at	Weighted-average exercise price
$0.01-$0.70	2,326,611	6.40 years	$ 0.12	2,287,911	$ 0.12
$1.00-$1.50	671,290	3.85 years	$ 1.07	671,290	$ 1.07
$1.81-$3.00	124,133	3.32 years	$ 2.62	124,133	$ 2.62
	3,122,034	5.73 years	$ 0.42	3,083,334	$ 0.43

Common Stock Warrants and Certain Stock Options A summary of common stock purchase warrant and certain stock option activity for the years ended December 31, 2006 and 2005 follows:

Warrants for 18,000 shares of the Company s common stock were exercised in January 2006 for $180.

In January and November 2006, the Company agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for a related party lessor in return for a credit of $17,960 and $3,940, respectively, on the operating lease.

Common stock warrants and certain stock options exercisable for 794,306 shares of common stock expired during 2006 (weighted average exercise price $1.16 per share).

Common stock warrants and certain stock options exercisable for 640,000 shares of common stock expired during 2005 (weighted average exercise price $.16 per share).

Outstanding common stock purchase warrants and certain stock options issued to non-employees outstanding at December 31, 2006 are as follows:

Number of shares	Exercise price	Expiration year
6,000	.12	2007
20,000	.05	2007
50,000	.01	2008
275,000	1.00	2009
70,000	.13	2009
220,000	.01	2009
14,000	.10	2012
12,000	.08	2012
667,000		

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The following table summarizes the Company s common stock purchase warrant and certain stock option activity for the years ended December 31, 2006 and 2005:

	2006	Weighted Average Exercise Price	2005	Weighted Average Exercise Price
Warrants and certain stock options outstanding, beginning of year	1,479,306	$ .82	2,119,306	$ .62
Warrants and certain stock options issued during the year		.09		
Warrants and certain stock options exercised during the year	(18,000)	.01		
Warrants and certain stock options expired during the year	(794,306)	1.16	(640,000)	.16
Warrants and certain stock options outstanding, end of year	667,000	$ .44	1,479,306	$ .82

11. Advertising

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the years ended December 31, 2006 and 2005 was $33,361 and $50,189, respectively.

12. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

13. Recently Issued Accounting Standards

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* that amended FASB Statements No. 133 and 140. This Statement permits fair value re-measurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation, and broadens a Qualified Special Purpose Entity s (QSPE) permitted holdings to include passive derivative financial instruments that pertain to other derivative financial instruments. This Statement is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring after the beginning of an entity s first fiscal year beginning after September 15, 2006. This Statement has no current applicability to the Company s financial statements. Management plans to adopt this Statement on January 1, 2007 and it is anticipated that the initial adoption of this Statement will not have a material impact on the Company s financial position, results of operations, or cash flows.

In June 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. This Statement has no current applicability to the Company s financial statements. Management plans to adopt this Statement on January 1, 2007 and it is anticipated that the initial adoption of FIN 48 will not have a material impact on the Company s financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* that addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. generally accepted accounting principles. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of this Statement.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* , an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer s statement of financial position, (b) measurement of the funded status as of the employer s fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive

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income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. This Statement has no current applicability to the Company s financial statements. Management plans to adopted this Statement on December 31, 2006 and the adoption of SFAS No. 158 did not have a material impact to the Company s financial position, results of operations, or cash flows.

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB No. 108). SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings and disclose the nature and amount of each individual error being corrected in the cumulative adjustment. SAB No. 108 will be effective beginning January 1, 2007 and it is anticipated that the initial adoption of SAB No. 108 will not have a material impact on the Company s financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* that permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

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14. Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

NOTE C PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2006	2005
Computers and equipment	$ 1,340,246	$ 1,296,856
Leasehold improvements	962,861	940,032
Software	57,337	56,512
Furniture and fixtures	28,521	19,153
	2,388,965	2,312,553
Less accumulated depreciation	(1,689,837)	(1,423,596)
	$ 699,128	$ 888,957

At December 31, 2005 $13,032 ($52,128 cost less $39,096 accumulated depreciation) of equipment was moved to property held for sale, which is reflected in Other Assets on the Balance Sheet. Depreciation expense for the years ended December 31, 2006 and 2005 was $266,241 and $274,261, respectively.

NOTE D INTANGIBLE ASSETS

Intangible assets consist primarily of acquired customer bases and covenants not to compete and relate to the purchases of certain business operations as follows:

	December 31,	
	2006	2005
InterCorp acquisition	$ 4,119	$
Talihina acquisition	20,107	12,813
CWIS acquisition	105,638	101,548
LAWTONNET acquisition	65,000	65,000
SONET acquisition	42,547	42,547
IPDatacom acquisition	137,849	137,849
FOT acquisition	93,649	93,649
FOB acquisition	194,780	194,780
FON acquisition	139,650	139,650
Harvest merger	2,009,858	2,009,858
Animus acquisition	318,597	318,597
Tulsa acquisition	70,000	70,000
	3,201,794	3,186,291
Less accumulated amortization	(3,154,069)	(3,110,417)
	$ 47,725	$ 75,874

The Company s previously recognized intangible assets consist primarily of customer bases and covenants not to compete relating to those customer bases. Upon initial application of SFAS No. 142 as of January 1, 2002, the Company reassessed useful lives and began amortizing these intangible assets over their estimated useful lives and in direct relation to any decreases in the acquired customer bases to which they relate. Management believes that such amortization reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used.

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Amortization expense for the years ended December 31, 2006 and 2005 relating to intangible assets was $43,652 and $157,054, respectively.

NOTE E NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2006	December 31, 2005
Notes payable to a bank, payable in monthly installments of $8,768, including interest of 9.5%, maturing September 2008; collateralized by property and equipment, accounts receivable and Company common stock owned by the founder and CEO of the Company; guaranteed by the founder and CEO of the Company; partially guaranteed by the Small Business Administration	$ 77,297	$ 170,080
Interim loan from a related party, interest at 10%, requires payments equal to 50% of the net proceeds received by the Company from its private placement of convertible promissory notes, matured December 2001; unsecured (1)	320,000	320,000
Convertible promissory notes; interest at 12.5% of face amount, payable quarterly; these notes are unsecured and are matured at December 31, 2005 (convertible into approximately 1,003,659 shares at December 31, 2006 and December 31, 2005) (2)	510,636	510,636
Other notes payable	5,000	5,000
	912,933	1,005,716
Less current portion	912,933	914,804
	$	$ 90,912

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(1) This loan and accrued interest of $184,197 was past due on December 31, 2006; the Company has not made payment or negotiated an extension of the loan and the lender has not made any demands.
(2) During 2000 and 2001, the Company issued 11% convertible promissory notes or converted other notes payable or accounts payable to convertible promissory notes in an amount totaling $2,257,624. The terms of the Notes were 36 months with limited prepayment provisions. Each of the Notes may be converted by the holder at any time at $1.00 per common stock share and by the Company upon registration and when the closing price of the Company s common stock has been at or above $3.00 per share for three consecutive trading days. Additionally, the Notes were accompanied by warrants exercisable for the purchase of the number of shares of Companys common stock equal to the number obtained by dividing 25% of the face amount of the Notes purchased by $1.00. These warrants were exercisable at any time during the five years following issuance at an exercise price of $.01 per share. Under the terms of the Notes, the Company was required to register the common stock underlying both the Notes and the detached warrants by filing a registration statement with the Securities and Exchange Commission within 45 days following the Final Expiration Date of the Offering (March 31, 2001). On May 31, 2001, the Company exchanged 2,064,528 shares of its common stock and warrants (exercisable for the purchase of 436,748 shares of common stock at $2.00 per share) for convertible promissory notes in the principal amount of $1,746,988 (recorded at $1,283,893) plus accrued interest of $123,414. The warrants expired on May 31, 2006. This exchange was accounted for as an induced debt conversion and a debt conversion expense of $370,308 was recorded.
Pursuant to the provisions of the convertible promissory notes, the conversion price was reduced from $1.00 per share on January 15, 2001 to $.49 per share on December 31, 2003 for failure to register under the Securities Act of 1933, as amended, the common stock underlying the convertible promissory notes and underlying warrants on February 15, 2001. Reductions in conversion price were recognized at the date of reduction by an increase to additional paid-in capital and an increase in the discount on the convertible promissory notes. Furthermore, the interest rate was increased to 12.5% per annum from 11% per annum because the registration statement was not filed before March 1, 2001. At December 31, 2006, the outstanding principal and interest of the convertible promissory notes was $803,242.
On January 1, 2002, the Company recorded 11,815 shares of common stock issuable in payment of $11,815 accrued interest on a portion of the Company s convertible promissory notes.
In November and December 2003 and March 2004, $455,000, $50,000 and $5,636, respectively, of these convertible promissory notes matured. The Company has not made payment or negotiated an extension of these notes, and the lenders have not made any demands. The Company is currently developing a plan to satisfy these notes subject to the approval of each individual note holder.
Aggregate future maturities of notes payable at December 31, 2006 are as follows:

Year ending December 31	
2007	$ 912,933
2008 and thereafter	
	$ 912,933

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NOTE F COMMITMENTS

Operating Leases

The Company leases certain office facilities used in its operations under non-cancelable operating leases expiring in 2009. Future minimum lease payments required at December 31, 2006 under non-cancelable operating leases that have initial lease terms exceeding one year are presented in the following table:

Year ending December 31	
2007	$ 183,330
2008	189,853
2009	196,376
2010	
	$ 569,559

Rental expense for all operating leases for the years ended December 31, 2006 and 2005 was approximately $176,807 and $170,284, respectively.

The Company s long-term non-cancelable operating lease includes scheduled base rental increases over the term of the lease. The total amount of the base rental payments is charged to expense on the straight-line method over the term of the lease. The Company has recorded a deferred credit of $70,411 and $80,827 at December 31, 2006 and 2005, respectively, which is reflected in Other Long-term Liabilities on the Balance Sheet to reflect the net excess of rental expense over cash payments since inception of the lease. In addition to the base rent payments the Company pays a monthly allocation of the building s operating expenses.

NOTE G INCOME TAXES

The Company s effective income tax rate on net loss differed from the federal statutory rate of 34% as follows at December 31:

	2006	2005
Income taxes at federal statutory rate	$ (163,000)	$ 25,000
State income taxes	(22,000)	3,000
Change in valuation allowance	202,000	(30,000)
Nondeductible expenses	2,000	2,000
Other	(19,000)	
Total tax expense	$	$

The components of deferred income tax assets were as follows at December 31:

	2006	2005
Deferred income tax assets		
Basis difference in property and equipment and intangible assets	$ 302,000	$ 301,000
Deferred revenue	42,000	46,000
Net operating loss	1,037,000	894,000
Deferred compensation and other	375,000	313,000
Valuation allowance	(1,756,000)	(1,554,000)
Net deferred income tax asset		
Change in valuation allowance	$ 202,000	$ (30,000)

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2005, the Company has a net operating loss carry forward of approximately $2,700,000 that will expire at various dates through 2022. As such carry forward can only be used to offset future taxable income of the Company, management has provided a valuation allowance until it is more likely than not that taxable income will be generated.

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NOTE H STOCKHOLDERS DEFICIT

Common Stock Warrants for 18,000 shares of the Company s common stock were exercised in January 2006 for $180.

NOTE I RELATED PARTY TRANSACTIONS

The Company is in default on an operating lease for certain equipment which is leased from one of its significant shareholders who also holds a $320,000 interim loan that is also in default (see Note E Notes Payable). The original lease was dated November 21, 2001 and the terms were $6,088 per month for 12 months with a fair market purchase option at the end of the lease. Upon default on the lease, the Company was allowed to continue leasing the equipment on a month-to-month basis at the same monthly rate as the original lease. The Company has been unable to make the month-to-month payments. In January and November 2006, the Company agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for the lessor in return for a credit of $17,960 and $3,940, respectively, on the operating lease. At December 31, 2006 the Company had recorded $270,142 in unpaid lease payments. The lessor has not made any demands for payment or threatened to terminate the month-to-month lease arrangement.

On August 2, 2000, the Company obtained a short-term loan of $100,000 from its founder and CEO through the issuance of a 14% promissory note. The terms of the financing additionally provided for the issuance of five-year warrants exercisable for the purchase of 50,000 shares of the Company s common stock at $.01 per share, and provided for certain registration rights. The promissory note required monthly interest payments, matured on the earlier of (i) the date which is within five days of receipt of funds by the Company of any offering raising gross proceeds to the Company of at least $1,000,000 or (ii) in three months, and was extendible for two 90-day periods upon issuance of additional warrants exercisable for the purchase of 50,000 shares of the Company s common stock exercisable at $.01 per share for each extension. In the fourth quarter of 2000, the Company s founder and CEO agreed to reduce the interest rate on the promissory note to 9% and waive the warrant provisions relating to extensions of the loan. The Company repaid $50,000 on this note during 2000 and the note was due in May 2001. In May 2001 the Company s founder and CEO agreed to a replacement note with an interest rate of 8.5% with monthly principal and interest payments. This note was fully paid in 2005.

NOTE J SIGNIFICANT CUSTOMER

During the year ended December 31, 2005, the Company had one customer that comprised approximately 27% of total revenues. The customer s service contract expired on December 31, 2005 without renewal or extension. Consequently, the Company experienced a loss of this revenue commencing in 2006 without a corresponding reduction in expenses.

NOTE K CREDITOR SETTLEMENTS AND DEBT FORGIVENESS

During the year ended December 31, 2006, the Company negotiated and settled the following liabilities for less than their carrying values. The basic and diluted per share amount of the aggregate gain on debt forgiveness for the year ended December 31, 2006 was zero.

	Carrying Value	Settlement Amount	Gain
Accounts payable	$ 21,380	$ 1,455	$ 19,925

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During the year ended December 31, 2005, the Company negotiated and settled the following liabilities for less than their carrying values. The basic and diluted per share amount of the aggregate gain on debt forgiveness for the year ended December 31, 2005 was zero.

	Carrying Value	Settlement Amount	Gain
Accounts payable	$ 27,634	$ 11,000	$ 16,634

NOTE L ACQUISITION

On July 30, 2004, the Company purchased approximately 1,300 of the dial-up Internet access customers of CWIS Internet Services, Inc. (CWIS), an Oklahoma corporation. In addition to paying $25,000 at closing, the Company paid CWIS an amount based upon the future collected revenues received from all active CWIS customers transferred at the time of closing for eighteen months following the closing. The aggregate purchase price has been allocated to the underlying net assets purchased, including an intangible asset, which consists of the acquired customer base, based on their estimated fair values at the acquisition date. The intangible asset is being amortized based on decreases of the acquired customer base. As of December 31, 2006 an additional $95,115 had been paid based on collected revenues and was recorded as an increase to the intangible asset.

NOTE M CONTINGENCIES

During September 2005, the Company received a back billing from AT&T (formerly SBC) of approximately $230,000. Since then, the Company has received a number of additional back billings from AT&T that total in excess of $7,000,000. The Company believes AT&T has no basis for these charges, is currently reviewing these billings with its attorneys and plans to vigorously dispute the charges. Therefore, the Company has not recorded any expense or liability related to these billings.

As a telecommunications company, the Company is affected by regulatory proceedings in the ordinary course of its business at the state and federal levels. These include proceedings before both the Federal Communications Commission and the Oklahoma Corporation Commission (OCC). In addition, in its operations the Company relies on obtaining many of its underlying telecommunications services and/or facilities from incumbent local exchange carriers or other carriers pursuant to interconnection or other agreements or arrangements. In January, 2007, the Company concluded a regulatory proceeding pursuant to the Federal Telecommunications Act of 1996 before the OCC relating to the terms of its interconnection agreement with Southwestern Bell Telephone, L.P. d/b/a AT&T, which succeeds a prior interconnection agreement. Approval of the agreement by the OCC is expected by the end of April, 2007. The agreement may be affected by regulatory proceedings at the federal and state levels, with possible adverse impacts on the Company. The Company is unable to accurately predict the outcomes of such regulatory proceedings at this time, but an unfavorable outcome could have a material adverse effect on the Company s business, financial condition or results of operations.