

BROADCASTER INC  
Form SB-2  
November 13, 2006

As filed with the Securities and Exchange Commission on November 13, 2006.

Registration No. 333-\_\_\_\_\_

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM SB-2**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**BROADCASTER, INC.**

**(Formerly known as International Microcomputer Software, Inc.)**

(Name of Small Business Issuer in its charter)

|   |  |   |
|---|--|---|
| <b>California</b>   | <b>7372</b>  | <b>94-2862863</b>                       |
| (State or other jurisdiction of<br>incorporation or organization) | (Primary Standard Industrial<br>Classification Number)         | (I.R.S. Employer<br>Identification No.) |
|   | <b>9201 Oakdale Avenue, Suite 200<br/>Chatsworth, CA 91311</b> |   |

**(818) 206-9274**

(Address and Telephone Number of Principal Executive Offices)

**Martin R. Wade, III  
Chief Executive Officer  
Broadcaster, Inc.  
9201 Oakdale Avenue, Suite 200  
Chatsworth, CA 91311**

**(818) 206-9274**

(Name, Address and Telephone Number of Agent for Service)

*Copies to:*

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Approximate Date of Commencement of Proposed Sale to the Public: **As soon as practicable after this registration statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

**CALCULATION OF REGISTRATION FEE**

| <b>Title of Each Class of Securities to be Registered</b> | <b>Amount to be Registered (1)</b> | <b>Proposed Maximum Offering Price Per Share (2)</b> | <b>Proposed Maximum Aggregate Offering Price (2)</b> | <b>Amount of Registration Fee</b> |
|---|------------------------------------|--|--|-----------------------------------|
| Common Stock  | 36,605,310                         | \$1.25   | \$41,180,974   | \$4,407                           |

(1)

Includes up to 166,250 shares issuable upon the exercise of outstanding warrants.

(2)

Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act based on the average of the high and low prices for the registrant's common stock as reported on the OTC Bulletin Board on November 7, 2006. The proposed maximum aggregate offering price of the registrant's common stock was calculated with the proposed maximum offering price per share multiplied by the number of shares of the registrant's common stock.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part becomes effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED NOVEMBER 13, 2006**

**PROSPECTUS**

**BROADCASTER, INC.**

**36,605,310 Shares of Common Stock**

**TO BE OFFERED BY CERTAIN HOLDERS OF SECURITIES OF  
BROADCASTER, INC.**

This prospectus relates to the sale of up to an aggregate of 36,605,310 shares of our common stock by certain of our shareholders who are referred to as the Selling Shareholders, which includes up to an aggregate of 166,250 shares of our common stock issuable upon exercise of warrants. We are not selling any shares of common stock in this offering and therefore will not receive any of the proceeds from this offering, except nominal consideration upon exercise of warrants. All costs associated with this registration shall be borne by Broadcaster, Inc.

Our common stock is quoted on the OTC Bulletin Board under the symbol BCSR.OB. On November 7, 2006, the closing price of our common stock was \$1.23.

Our principal executive office is located at 9201 Oakdale Avenue, Suite 200, Chatsworth, California 91311, and our telephone number is (818) 206-9274. Additional information about Broadcaster is available on our website at [www.broadcaster.com](http://www.broadcaster.com), which does not constitute a part of this prospectus.

**Investing in our common stock is highly speculative and involves a high degree of risk. See the section entitled Risk Factors beginning on page 5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is \_\_\_\_\_.**

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**ABOUT THIS PROSPECTUS**

**You should rely only on the information contained in this prospectus. We have not, and the Selling Shareholders have not, authorized anyone to provide you with information different from that contained in this prospectus. The Selling Shareholders are offering to sell securities and seeking offers to buy securities only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date on their covers, regardless of the time of delivery of this prospectus or any accompanying prospectus supplement or any sale of the securities.**



## PROSPECTUS SUMMARY

*This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the information under Risk Factors and our financial statements and related notes before making an investment decision. Unless otherwise indicated, all references in this prospectus to Broadcaster, we, us and our refer to Broadcaster, Inc., a California corporation, and our subsidiaries. All references to the Merger refer to our June 1, 2006 acquisition of AccessMedia Networks, Inc.*

### **Our Business**

We historically operated as a software company. Prior to the acquisition of AccessMedia Networks, Inc. on June 1, 2006, we operated in two business segments: (i) computer aided design and precision engineering or our Precision Design business and (ii) house plans and architectural drawings or our Houseplans business. As discussed below, we subsequently disposed of our Precision Design business and, as a result, we now operate in the two business segments of AccessMedia and Houseplans.

In 2004, we began exploring various ways to enhance shareholder value, including the further migration of Broadcaster from a traditional or packaged software company to offering downloadable media and content over the Internet. We believe that the growth and reach of the Internet coupled with the predictability of recurring revenues should lead to enhanced Broadcaster shareholder value. As such, during 2005, we began discussions with AccessMedia, a developer of a platform for delivering real-time and interactive media over the Internet through its unique virtual set-top box technology. Concurrent with the completion of the acquisition of AccessMedia, we changed our name to Broadcaster, Inc.

We are now a global Internet entertainment network, providing consumers with access to online entertainment that is fast, easy, safe, fun, and of great value. We offer a wide variety of on-demand programming, including movies, music, television shows, viral videos, mobile media, games, news, sports, and other entertainment focused content, in one place that can be viewed or downloaded at anytime and on any device. Our proprietary virtual set-top box technology available at [www.AccessMedia.tv](http://www.AccessMedia.tv) puts Internet users in control of their entertainment experience allowing them to choose when and on which device they want to view media and content.

We provide users with delivery of both short and long form digital entertainment content – giving them the power to download content to their desktop computer, laptop, PSP, iPod or preferred mobile entertainment device. We enable consumers to easily find, organize, download, and enjoy the growing volumes of high quality content available online. Our capabilities span our proprietary media library, media under license, and media readily available on the Internet. We are also in discussions with major studios, cable and television networks, music labels, and game producers to become a gateway for the direct delivery of first run movies, popular television shows, music and online games.

Our multi-channel Internet entertainment network redefines the user experience on the Internet, putting more control into the hands of the user with the most advanced technologies including a Download Manager, Entertainment Meta Search, Content Manager, Mobile Transfer Capabilities, Peer-to-Peer Technology, Social Networking Tools, and Parental Lock functionality, among others. In addition, our entertainment meta search is one of the most advanced available on the Internet and is optimized for rich media content, allowing for advanced identification and indexing of media and content.

In addition to our Internet entertainment network, we are also a leading online distributor of stock architectural house plans. We have an extensive library of over 25,000 unique stock architectural house plans with more than 150,000 registered members. Our stock architectural house plans are sold to developers, builders, architects and individuals allowing our customers to substantially reduce upfront planning and building costs.





### **The Merger with AccessMedia**

We completed the Merger with AccessMedia on June 1, 2006 pursuant to which we issued 29,000,000 shares of our common stock and agreed to issue up to an additional 35,000,000 shares of our common stock upon achievement of certain revenue milestones to the former shareholders of AccessMedia. In addition, we issued 1,450,000 shares of our common stock to Baytree Capital Associates, LLC as an advisory fee related to the Merger, and an additional 1,000,000 shares to Baytree Capital for consulting services and agreed to reimburse Baytree for its reasonable expenses. In connection with the Merger, we changed our name from International Microcomputer Software, Inc. to Broadcaster, Inc. All of the shares issued as Merger consideration and to Baytree Capital are offered for sale by this prospectus.

AccessMedia is led by seasoned Internet entrepreneurs. This team has been one of the foremost innovators of technologies, marketing, and advertising strategies for Internet-based consumer media offerings, and until now this team has operated in a private company environment. Additionally, this team has been a leader in providing website development, traffic, database management and hosting for many of the largest worldwide media companies.

We believe that the Merger offers us an opportunity to enter into the highly scalable Internet media industry. The underlying growth in the Internet media industry, coupled with the potential for high margin product offerings, innovative marketing strategies, and exceptional management team, should combine to provide us with substantial growth and profit opportunities, creating significant shareholder value.

### **Acquisition of Weinmaster Homes, Ltd.**

On July 1, 2005, Houseplans, Inc, our wholly-owned subsidiary, completed the acquisition of all the stock of Weinmaster Homes, Ltd. The purchase price of approximately \$4,000,000 consisted of \$2,000,000 in cash, \$1,000,000 in a promissory note, which was fully paid in the third quarter of 2006, and \$1,000,000 of our unregistered common stock, or 826,583 shares, which stock is being offered for sale by this prospectus.

### **Sale of Precision Design**

In June 2006, we sold our legacy Precision Design software business as part of our overall strategy to position the company solely as an online business. We received a combination of \$6,500,000 in cash and an interest free note of \$1,500,000 which was paid in full on July 3, 2006. \$500,000 of the cash received is being held in escrow to secure our potential indemnification of the buyer for certain representations and warranties made pursuant to the sale agreement. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

A more detailed discussion regarding our business can be found under the heading **Business**.

**The Offering**

We have filed a registration statement on Form SB-2 with the Securities and Exchange Commission with respect to the common stock offered by this prospectus. Following the effective date of the registration statement, the Selling Shareholders listed in this prospectus and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, offer and sell up to an aggregate of 36,605,310 shares of our common stock on any stock exchange, market or trading facility on which the registered shares are traded or in private transactions. These sales may be at fixed prices which may be changed, at market prices at the time of sale, at prices related to market prices or at negotiated prices. However, the Selling Shareholders may choose not to sell any of their registered shares, and may have no intention of selling any securities offered pursuant to this prospectus in the near future. Additionally, we have no reason to believe that any Selling Shareholder has entered into an agreement, or made a commitment, to sell any securities offered in this prospectus.

|   |  |
|---|--|
| Number of shares of common stock offered by the Selling Shareholders            | 36,439,060   |
| Number of shares of common stock issuable upon exercise of outstanding warrants | 166,250  |
| Total shares of common stock offered by the Selling Shareholders                | 36,605,310   |
| Common stock outstanding as of November 7, 2006                                 | 64,983,844   |
| Use of proceeds   | Apart from nominal consideration to be received upon exercise of the warrants referenced in this prospectus, we will not receive any proceeds from the sale of common stock by the selling security holders pursuant to this prospectus. |
| Termination of the offering   | The offering will conclude when all of the 36,605,310 shares of common stock have been sold, the shares no longer need to be registered or we decide to terminate the registration of the shares.  |
| Terms of the offering   | The Selling Shareholders will determine when and how they will sell the common stock offered in this prospectus.   |
| OTC Bulletin Board symbol   | BCSR.OB  |

**INVESTING IN OUR COMMON STOCK IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. SEE THE SECTION ENTITLED RISK FACTORS BEGINNING ON PAGE 5.**

**SUMMARY FINANCIAL INFORMATION**

The following summary consolidated financial information should be read together with Broadcaster's historical consolidated financial statements and related notes, the audited financial statements of AccessMedia and the unaudited pro forma condensed consolidated financial statements and the discussion under the heading "Management's Discussion and Analysis or Plan of Operation" included elsewhere within this prospectus.

The unaudited pro forma condensed consolidated financial statements presented herein has been prepared based on the historical consolidated financial statements of Broadcaster, after giving effect to the acquisition of AccessMedia. The unaudited pro forma consolidated statement of operations for the year ended June 30, 2006 gives effect to the acquisition of AccessMedia and the disposal of Precision Design as if they had occurred at the beginning of each period.

The unaudited pro forma condensed consolidated financial statements have been prepared by Broadcaster for illustrative purposes only and are not necessarily indicative of the condensed consolidated financial position or results of operations in future periods, or the results that actually would have been realized had Broadcaster and AccessMedia been a combined company during the specified periods.

**(Tabular amounts shown in thousands of U.S. Dollars, except per share amounts)**

| <b>Statement of Operations Data:</b>      | <b>Broadcaster Historical</b> |                      | <b>Pro Forma</b>     |
|---|-------------------------------|----------------------|----------------------|
|   | <b>For the year ended</b>     |                      | <b>For the year</b>  |
|   | <b>June 30,</b>               |                      | <b>ended</b>         |
|   | <b>2006</b>                   | <b>2005</b>          | <b>June 30,</b>      |
|   |                               |                      | <b>2006</b>          |
| Net revenues                              | \$ 8,203                      | \$ 4,347             | \$ 13,594            |
| Gross profit                              | 5,029                         | 2,523                | 7,823                |
| Total operating expenses                  | 6,922                         | 2,896                | 11,868               |
| Operating loss                            | (1,893 )                      | (373 )               | (4,045 )             |
| Other expense                             | (1,004 )                      | (453 )               | (3,224 )             |
| Loss from discontinued operations         | (2,971 )                      | (3,311 )             | (2,971 )             |
| Gain from sale of discontinued operations | 4,834                         | 2,035                | 4,834                |
| Net income (loss)                         | 848                           | (1,754 )             | (1,372 )             |
| Net income (loss) per common share        | \$ 0.03                       | \$ (0.06 )           | \$ (0.02 )           |
| <b>Balance Sheet Data:</b>                |                               | <b>As of</b>         | <b>As of</b>         |
|   |                               | <b>June 30, 2006</b> | <b>June 30, 2005</b> |
| Cash                                      |                               | \$ 14,107            | \$ 4,347             |
| Current assets                            |                               | 16,741               | 23,122               |
| Total assets                              |                               | 65,945               | 26,415               |

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|                           |    |        |    |        |
|---------------------------|----|--------|----|--------|
| Long-term debt            |    | 178    |    | 230    |
| Current liabilities       |    | 6,314  |    | 7,955  |
| Total liabilities         |    | 13,794 |    | 8,185  |
| Total shareholders equity | \$ | 52,151 | \$ | 18,230 |

## RISK FACTORS

*An investment in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks described below, together with the other information contained in this prospectus, before making an investment decision. If any of the circumstances described in these risk factors actually occur, our business, financial condition, or results of operations could be materially adversely affected. In that event, the trading price of our shares could decline, and you may lose part or all of your investment.*

### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

**Because our operating results may fluctuate due to factors beyond our control, prior operating results may not be indicative of future ones.**

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of numerous factors, including:

- fluctuations in demand for our products and services;
- price and product competition;
- overall movement toward industry consolidation;
- variations in sales channels, product costs, or mix of products sold;
- fluctuations in our gross margins;
- our ability to achieve cost reductions;
- actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our condensed consolidated financial statements;
- how well we execute on our strategy and operating plans;
-

changes in accounting rules, such as recording expenses for employee stock option grants and changes in tax accounting principles;

- 

compliance expense including the costs of procedures required for Sarbanes-Oxley Section 404 reporting and the costs of procedure remediation, if any; and

- 

merger and acquisition activity.

As a consequence, operating results for a particular future period are difficult to predict. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition.

**Because our revenues for a particular period are difficult to predict, a shortfall in revenues or our inability to properly estimate operating expenses for a period may adversely impact our operating results.**

We plan our operating expense levels based primarily on forecasted revenues levels. These expenses and the impact of long-term commitments are relatively fixed in the short term. As a result of a variety of factors, our revenues for a particular quarter are difficult to predict. Our net sales may grow at a slower rate than in past periods, or may decline. Our ability to meet financial expectations could also be adversely affected by the timing and mix of individual sales. A shortfall in revenues could lead to operating results being below expectations because we may not be able to quickly reduce these fixed expenses in response to short-term business changes.

**Because our gross margins may fluctuate due to factors beyond our control, past gross margins may not be indicative of future ones.**

Our product gross margins may not be sustainable and may be adversely affected by numerous factors, including:

- changes in customer or product mix;
- introduction of new products;
- increased price competition;
- changes in distribution channels;
- how well we execute on our strategy and operating plans;
- inability to achieve targeted cost reductions;
- ability to generate license revenue from users who have installed specialized media software on their personal computers; and
- costs associated with litigation (please see the heading entitled `Legal Proceedings` for more details).

**We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.**

Our growth depends upon market growth, our ability to enhance our existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, technologies, products, and personnel of the acquired companies;
-



diversion of management's attention from normal daily operations of the business;

- 

potential difficulties in completing projects associated with in-process research and development;

- 

difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

- 

insufficient revenues to offset increased expenses associated with acquisitions; and

- 

the potential loss of key employees of the acquired companies.

Acquisitions may also cause us to:

- 

issue common stock that would dilute our current shareholders' percentage ownership;

- 

assume liabilities;

- 

record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;

- 

incur amortization expenses related to certain intangible assets;

- 

incur large and immediate write-offs and restructuring and other related expenses; and

- 

become subject to intellectual property or other litigation.



Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business, operating results, or financial condition.

**If pending litigation is adversely resolved against us, we may incur unexpected costs which may adversely affect our operating results and financial condition.**

Our wholly-owned subsidiary, AccessMedia, is presently a party to two recent lawsuits brought by regulators with regard to the operation of its business, one brought by the Federal Trade Commission, or FTC, and the other by the Washington State Attorney General (for details on the allegations of these suits, please see Legal Proceedings ). If either of these lawsuits is adversely determined against AccessMedia, it may, depending upon any court ruling, cause AccessMedia to incur unexpected costs or the loss of revenues which could adversely affect AccessMedia future operation results and financial condition and AccessMedia may be required to make changes to its business model. Because of the uncertainty of litigation and the early stage of these disputes, no reasonable estimate of whether they may have a material effect on our future revenues and operating income is available.

**If we incur unexpected network interruptions caused by system failures, natural disasters or unauthorized tampering with our computer systems, our operations could be disrupted and we could incur a loss of revenues.**

We rely on the Internet for our business. The continuous and uninterrupted performance of our systems is, therefore, critical to our success. We must protect these systems against damage from fire, power loss, water damage, earthquakes, telecommunications failures, viruses, vandalism and other malicious acts, and similar unexpected adverse events. Our operations depend upon our ability to maintain and protect our computer systems, data centers and server locations. Our corporate headquarters, data center and primary operations are located in California, an area susceptible to seismic activity and possible power outages. We cannot eliminate the risk of downtime caused by factors such as natural disasters and other events. Further, individuals may attempt to breach our network security, such as hackers, which could damage our network. The occurrence of any of these events could harm our business, operating results and financial condition.

**If we are not able to retain our executive officers and key personnel, we may not be able to maintain and expand our business if we are not able to retain, hire and integrate key management and operating personnel.**

The success of the AccessMedia acquisition depends on our ability to retain our management team and to attract, assimilate, and retain other highly qualified employees, including engineering, technology, marketing, sales and support personnel. There is substantial competition for highly skilled employees in our industry and due to California law AccessMedia's key employees are not bound by agreements preventing them from terminating their employment with us at any time. If we fail to attract and retain key AccessMedia employees, our business could be harmed.

**If we cannot manage our growth effectively, we may not be able to sustain or increase our profitability.**

As a result of our acquisition of AccessMedia, we anticipate that we may incur material growth. Businesses which grow rapidly often have difficulty managing their growth. If AccessMedia's business grows as we anticipate, we will need to expand our management by recruiting and employing experienced executives and key employees capable of providing the necessary support. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial, and management controls and our reporting systems and procedures. We cannot assure you that our management will be able to manage our growth effectively or successfully. Our failure to meet these challenges could cause us to lose money, and your investment could be lost.

**Because we have incurred significant costs associated with the acquisition of AccessMedia, if we are unable to successfully integrate the AccessMedia entities, our profitability may be adversely affected.**

We estimate that we have incurred indirect transaction costs of approximately \$ 3,690,000 associated with the AccessMedia acquisition, including direct costs of the acquisition as well as liabilities to be accrued in connection with the acquisition. There is no assurance that we will not incur additional material charges in

subsequent quarters to reflect additional costs associated with the acquisition. If the benefits of the acquisition do not exceed the costs of acquiring AccessMedia, our financial results may be adversely affected.

**Because AccessMedia's business model is unproven, it may not result in the generation of material revenues or profitability.**

Our business is substantially dependent upon AccessMedia's ability to generate license revenue from users who have installed specialized media software on their personal computers. This is a relatively new industry and product and there can be no assurances it will be accepted by potential customers. The revenue and income potential of this business is unproven.

**Because we license the software used in our AccessMedia business from third parties on a non-exclusive basis, the software could be licensed to an unlimited number of potential competitors thereby adversely affecting our business.**

The principal intellectual property that underlies AccessMedia's virtual set-top box technology used in distributing online media content is not owned by us but is licensed from third parties, generally on a non-exclusive basis. The third party licensors are free to exploit the intellectual property themselves or license it to an unlimited number of other competitors. This competition could result in price reductions, fewer customers and orders, reduced gross margins and loss of market share, any of which would materially adversely affect our business, operating results and financial condition. In addition, we are not in control of the protection or prevention of infringement of such intellectual property.

**Because we generally do not have the right to modify the licensed technology used in our AccessMedia business or receive updates or upgrades, our products may become obsolete.**

We generally do not have the right to modify the licensed technology used in our AccessMedia business, nor do we have the right to receive updates or upgrades or to obtain a copy of the source code for such technology. In the limited circumstances where we have the right to modify the licensed technology, the licensor owns such modifications. In acquiring AccessMedia, we acquired limited rights to technology that we may not have the rights to improve in the future to maintain a competitive offering or support existing products or service offerings.

**Because AccessMedia has incurred losses in the past, it may not be able to achieve profitability in the future.**

AccessMedia experienced startup losses in each quarterly and annual period from its inception through the first calendar quarter of 2006. AccessMedia may not be able to achieve or maintain profitability in the future. We expect that AccessMedia's operating expenses will continue to increase. We cannot assure you that AccessMedia will be able to generate sufficient revenues to achieve profitability, which failure would have a material adverse effect on our business.

**Because the online entertainment business is highly competitive, we may not be able to offer our services at prices which are profitable.**

The markets in which AccessMedia competes are intensely competitive, highly fragmented and characterized by rapidly changing technology and evolving standards. We expect that we will continue to experience vigorous competition from current competitors and new competitors, including Disney/ABC, NBC, CBS, Apple and others that may have significantly greater financial, technical, marketing and other resources than we do and may have large current customer bases and content agreements in place. Many other companies will compete in specific areas of our business. We expect additional competition as other established and emerging companies enter into our product market. This competition could result in price reductions, fewer customers and sales, reduced gross margins and loss of market share, any of which would materially adversely affect our business, operating results and financial

condition.

**If we are subject to intellectual property infringement claims, it could cause us to incur significant expenses, pay substantial damages and prevent service delivery.**

The license agreements that permit AccessMedia to use the licensed technology contain only limited representations and warranties of the licensor and limited rights to indemnification for claims of infringement. Third parties may claim that our products or services infringe or violate their intellectual property rights. Any such claims

could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and prevent us from using licensed technology that may be fundamental to our business service delivery. Even if AccessMedia were to prevail, any litigation regarding its intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business operations. AccessMedia may also be obligated to indemnify its business partners in any such litigation, which could further exhaust our resources. Furthermore, as a result of an intellectual property challenge, AccessMedia may be prevented from providing some or all of its services unless it enters into royalty, license or other agreements. AccessMedia may not be able to obtain such agreements at all or on terms acceptable to us, and as a result, AccessMedia may be precluded from offering most or all of its products and services.

**Because we are dependent upon a limited number of third parties for the support, distribution and development of our services, particularly Alchemy Communications, Inc., if they were unavailable, our future business may be materially and adversely harmed.**

We depend on agreements with a limited number of third parties, particularly Alchemy Communications, Inc. which is controlled by our principal shareholder. Alchemy provides office and operating space, staffing, technical services and consulting, bandwidth and hosting, network infrastructure, and other related services. Given the scope of the services provided by Alchemy, it is our most significant vendor relationship. If Alchemy were unable to provide appropriate levels of service as our business grows or our relationship proved to be unworkable and we are forced to seek new providers, our business could be materially and adversely harmed.

**Because we depend on Internet advertising to promote our services, if we are unable to purchase these advertisements on a cost-effective basis, our profitability could be adversely affected.**

We depend in part on the use of online advertisements purchased from third parties to attract new users by promoting our services. We believe that our business will continue to rely on this method for attracting our audience in the future. If online advertising becomes less effective or more expensive and our ability to attract new users is thereby impaired, our business could be harmed.

**If we fail to sustain and expand the number of users who install our software or fail to attract advertisers, we will not be able to sustain or increase revenue.**

Advertising is currently a significant part of our proposed revenues. The success of our business depends in part on our ability to offer our advertising customers access to a large audience, comprised of users who have downloaded our software products. As a result, it is critical to our success that we continually add substantial numbers of new users. In addition, we must attract users who respond to our ads by clicking through to advertisers' web pages or purchasing the advertisers' products, because these click through and conversion rates are critical to our ability to maintain and grow our advertising rates. If fewer users download our software, we would not be able to maintain or expand the number of active users.

**If our services do not perform as expected, our business may be harmed.**

If our services fail to perform properly, our customers and advertisers may discontinue their use of our products and services. Despite testing, our existing services may not perform as expected due to unforeseen problems. Any defects may cause us to incur significant expenses and divert the attention of our management and key personnel from other aspects of our business.

**If there are negative perceptions and adverse publicity concerning our business practices, it could damage our reputation and harm our business.**

The digital media distribution industry is vulnerable to negative public perception. Negative perception of our business practices or negative press reports linking our services to questionable business practices of other companies in our industry could damage our reputation, cause new users not to install or existing users to uninstall our software, or cause consumers to use technologies that impede our ability to deliver ads. This negative perception could also lead to increased regulation of our industry or other regulations that adversely affect our business practices. Any of these events could reduce the demand for our services among advertisers and significantly harm our business.



**Because our business depends upon the continued growth of the Internet and Internet-based systems, any slowdown in such growth could impair our ability to be profitable.**

Our business and revenues depend on growth of the Internet and on its use as a sales and distribution mechanism. To the extent that the Internet does not support this activity whether through changes in its use, lowered reliability or other factors, we could experience material harm to our business, operating results, and financial condition.

**Changes in industry structure and market conditions could lead to charges related to discontinuances of certain of our services or businesses and asset impairments.**

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of our products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, which may result in a charge to earnings.

**Because some of our competitors have substantially greater resources, in order to compete effectively we may have to offer our services at prices which would not be profitable.**

Our AccessMedia business revenues, customer base and operations are much smaller than certain other providers of entertainment and media products and services. Very large media companies continue to view online media as a channel for distribution of their existing products or as an area in which to expand their business. These competitors have substantially more resources and could adversely impact AccessMedia's business.

**If there are changes in laws and regulations relating to the Internet, it could affect our ability to offer our services or materially increase our operating costs and adversely affect our future results of operations and our financial condition.**

There are currently few laws or regulations that specifically regulate communications or commerce on the Internet. Laws and regulations may be adopted in the future, however, that address issues including content, copyrights, distribution, antitrust matters, user privacy, pricing, and the characteristics and quality of products and services. An increase in regulation or the application of existing laws to the Internet could significantly increase our costs of operations and harm our business, particularly our AccessMedia business. For example, the Communications Decency Act of 1996 sought to prohibit the transmission of certain types of information and content over the Internet. Additionally, several telecommunications companies have petitioned the Federal Communications Commission to regulate Internet service providers and online service providers in a manner similar to long distance telephone carriers and to impose access fees on these companies. Imposition of access fees could increase the cost of transmitting data over the Internet. Moreover, it may take years to determine the extent to which existing laws relating to issues such as property ownership, obscenity, libel and personal privacy are applicable to the Internet or the application of laws and regulations from jurisdictions whose laws do not currently apply to our business.

If the federal or state governments impose sales and use taxes on all Internet sales, this could curtail the use of the Internet as a commerce channel. Due to the global nature of the Internet, it is possible that multiple federal, state or foreign jurisdictions might inconsistently regulate Internet activities. Any of these developments could harm our business.

The regulatory environment with respect to online media and data privacy practices is also evolving. Electronic privacy is a public and governmental concern in the United States. The Federal Trade Commission has increasingly

focused on issues affecting online media, particularly online privacy and security issues. Please see the heading entitled Legal Proceedings for more detail with respect to our current litigation with the FTC and the Washington State Attorney General.

Foreign legislation has been enacted, and there is federal and state legislation pending that is aimed at regulating the collection and use of personal data from Internet users. For example, the European Union has adopted

directives to address privacy and electronic data collection concerns, which limit the manner in which the personal data of Internet users may be collected and processed. Our relationship with our customers will often involve the collection of personal data.

The enactment of new legislation, changes in the regulatory climate, or the expansion, enforcement or interpretation of existing laws could preclude us from offering some or all of our services or expose us to additional costs and expenses, require substantial changes to our business or otherwise substantially harm our business. Further, additional legislation or regulation could be proposed or enacted at any time in the future, which could materially and adversely affect our business.

**Because our market may undergo rapid technological change, our future success may depend on our ability to develop and launch products and services of interest to consumers.**

If new industry standards and practices emerge in the Internet and online media industry, our existing services, technology and systems may become obsolete. If we cannot address technological change in our industry in a timely fashion and develop new products and services, our future results of operations may be adversely affected.

**Because we have only recently introduced our products and services, there can be no assurances they will be accepted by potential customers.**

Our services are relatively new in their current form and we cannot rely upon historical customer acceptance. Our technology which involves peer-to-peer networking may not be acceptable to consumers or, if accepted, may fall from favor and require us to develop new products and services, both of which could adversely affect our ability to generate revenues.

**Because some of our products are related to the construction industry, our operating results may be adversely affected by unfavorable economic and market conditions in that industry.**

Because certain of our Houseplans products are associated with the construction industry, we are subject to negative trends affecting that industry. After years of robust growth in residential construction, the home construction market has trended down beginning in 2006. This trend can be expected to reduce future revenues from this business segment and adversely affect our future earnings.

## **RISKS RELATED TO OUR COMMON STOCK**

**Because we have changed the focus of our business from software to being an Internet media company, the stock markets may not be receptive to this change.**

Achieving the benefits of the acquisition of AccessMedia will depend in part on:

- the extent to which the public markets are receptive to our transformation from a software company to primarily to an Internet media company,

- the acceptance of AccessMedia's management team, technology and media library, and

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the success of AccessMedia's software.

If the stock market is not receptive to these changes, our business operations could be adversely affected.

**The sale of the common stock under this prospectus may cause our stock price to decline.**

We are seeking to register for sale up to an aggregate of 36,439,060 shares of our common stock and up to an aggregate of 166,250 shares of additional common stock that may be issued upon exercise of outstanding warrants. The Selling Shareholders have not engaged an underwriter in connection with this registration, and have indicated that they do not intend to do so. The three-month average daily volume of our stock between July and September 2006 was approximately 27,833 shares. The number of our shares available for resale in the public market as a result of this registration may therefore exceed the number of shares that purchasers wish to buy. This potential increase in the number of shares that may be available for public trading may dramatically and detrimentally reduce the price of our common stock on the basis of supply and demand alone.

**The large number of additional shares of common stock that may be issued in connection with the acquisition of AccessMedia or future acquisitions may substantially dilute the holdings of current shareholders.**

In connection with the acquisition of AccessMedia on June 1, 2006, we agreed to issue up to an additional 35,000,000 shares of our common stock to the former shareholders of AccessMedia upon the achievement of certain revenue milestones. The issuance of any such additional shares may result in a reduction of the book value or market price of the outstanding shares of our common stock, a reduction in the proportionate ownership and voting power of all other shareholders.

We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies, and personnel. These arrangements may involve the issuance of new shares of our common stock, which would in turn result in a dilution of the ownership interests of existing common shareholders and potentially reduce the book value or market price of our common stock.

**Our stock price may be volatile because of factors beyond our control and you may lose all or part of your investment.**

Any of the following factors could affect the market price of our common stock:

- our failure to generate increases in revenues,
- our failure to maintain profitability,
- actual or anticipated variations in our quarterly results of operations,
- announcements by us or our competitors of significant contracts, new products, acquisitions, commercial relationships, joint ventures or capital commitments,
- the loss of significant business relationships, or
- changes in market valuations of similar companies.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert our management's time and attention, which would otherwise be used to benefit our business.

**Since our common stock will be subject to the SEC's penny stock rules, you may experience substantial difficulty in selling our common stock ..**

Our common stock is a penny stock because it is not traded on a national securities exchange and sells at less than \$5.00 per share. The SEC has established penny stock rules, which limit the ability of a broker to solicit purchasers, which reduces liquidity. They also generally require a broker to deliver a standardized risk disclosure document prior to a transaction in a penny stock. The broker must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. These additional requirements may hinder your ability to sell your common stock.

**Because our common stock is not listed on a stock exchange, investors may be unable to resell their shares at publicly quoted prices.**

Our common stock is quoted on the OTC Bulletin Board, which is less liquid than the New York Stock Exchange, the American Stock Exchange or The Nasdaq Stock Market. This may hinder your ability to sell your common stock and result in you receiving a lower price than the quoted price when you sell your shares. Accordingly, investors may lose money due to this lack of liquidity.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this prospectus, including the statements under Prospectus Summary and elsewhere in this prospectus regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans, and objectives, are forward-looking statements. When used in this prospectus, the words will, believe, anticipate, plan, intend, estimate, expect, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we cannot assure you that these plans, intentions, or expectations will be achieved. Actual results may differ materially from those stated in these forward-looking statements as a result of a variety of factors, including those described under Risk Factors. All forward-looking statements speak only as of the date of this prospectus. Neither we nor any of the selling security holders undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**USE OF PROCEEDS**

The Selling Shareholders will receive all of the proceeds from the sale of the shares offered for sale by them under this prospectus. Apart from nominal consideration to be received upon exercise of the warrants, we will not receive any proceeds from the sale of common stock by the Selling Shareholders in connection with this prospectus.

**MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS****Market for Common Stock**

Broadcaster's common stock currently trades on the OTC Bulletin Board under the symbol BCSR.OB. The following table sets forth the quarterly high and low sales prices of our common stock for fiscal years 2006 and 2005, as quoted on the OTC Bulletin Board. This information represents prices between dealers and does not include retail mark-ups, markdowns or commissions and may not represent actual transactions. The information below was obtained from the OTC Bulletin Board for the respective periods.

|                         | <b>High</b> | <b>Low</b> |
|-------------------------|-------------|------------|
| <b>Fiscal Year 2005</b> |             |            |
| First Quarter           | \$1.30      | \$0.90     |
| Second Quarter          | \$1.21      | \$0.73     |
| Third Quarter           | \$1.46      | \$1.01     |
| Fourth Quarter          | \$1.50      | \$1.06     |
| <b>Fiscal Year 2006</b> |             |            |
| First Quarter           | \$1.55      | \$0.90     |
| Second Quarter          | \$1.19      | \$0.67     |
| Third Quarter           | \$1.34      | \$0.95     |
| Fourth Quarter          | \$1.94      | \$1.08     |

As of November 7, 2006, there were approximately 1,048 registered holders of record of the common stock. We believe that additional beneficial owners of our common stock hold shares in street names.

**Dividend Policy**

We have not paid any cash dividends on our common stock and do not plan to pay any such dividends in the foreseeable future. Our Board of Directors will determine our future dividend policy on the basis of many factors, including results of operations, capital requirements, and general business conditions.



**Equity Compensation Plan Information**

The following table summarizes the number of outstanding options granted to employees, service providers and directors, as well as the number of securities remaining available for future issuance, under Broadcaster's compensation plans as of the fiscal year ended June 30, 2006.

|  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (1)</b> |
|--|--|--|---|
| Equity compensation plans approved by security holders (2)     | 4,521,507  | \$1.19   | 6,689,419   |
| Equity compensation plans not approved by security holders (3) | 4,536,993  | \$1.42   | 0   |
| Total  | 9,058,500  | \$1.30   | 6,689,419   |

(1)

The amounts indicated in this column exclude securities listed in the column titled "Number of securities to be issued upon exercise of outstanding options, warrants and rights."

(2)

Consists of the 2004 Incentive Stock Option Plan and the 1993 Incentive Option Plan.

(3)

Represents outstanding warrants which have been granted from time to time in conjunction with Board of Directors and employee compensation and consulting arrangements. These warrants generally vest, and are exercisable, over periods ranging from one to four years from the date of grant. The exercise price of the warrants granted generally is equal to the closing price of our common stock on the grant date.

**CAPITALIZATION**

|   | <b>As of</b>  |
|---|---|
|   | <b>June 30, 2006</b>                                |
|   | <b>(in thousands,<br/>except share<br/>amounts)</b> |
| Cash and cash equivalents   | \$ 14,107   |
| Short-term debt(1)  | \$ 1,777  |
| Shareholders' equity  |   |
| Common stock, no par value, 300,000,000 shares authorized,<br>63,124,518 shares issued and outstanding(2) | 76,304  |
| Accumulated deficit   | (24,483 )   |
| Other comprehensive income  | 330   |
| Total shareholders' equity  | 52,151  |
| Total capitalization  | \$ 53,928   |

(1)

Includes \$1,725,000 short-term loan to a related party, \$50,000 to an unrelated party and a \$2,000 acquisition related obligation.

(2)

Gives effect to the issuance of 166,250 shares of our common stock issuable upon exercise of warrants which are offered for sale by this prospectus.

## BUSINESS

### History

We historically operated as a software company. Prior to the acquisition of AccessMedia on June 1, 2006, we operated in two business segments: (i) our Precision Design business and (ii) our Houseplans business.

We were incorporated in November 1982, and grew to become a developer and publisher of productivity software in the precision design, graphic design, and other related business applications fields over the following 16 years. We acquired TurboCAD in 1985, and developed and acquired numerous products and product categories through the years. By the end of 1998, we developed, marketed and distributed our products worldwide, primarily through the retail channel. Beginning in 1998, we made various acquisitions and dispositions of software and content products with the principal strategy of migrating from retail distribution to Internet-based distribution of such products.

In 2004, we began exploring various ways to enhance shareholder value, including our further migration from a traditional or packaged software company to offering downloadable media and content over the Internet. We believed that the growth and reach of the Internet coupled with the predictability of recurring revenues should lead to enhanced Broadcaster shareholder value. As such, during 2005 we began discussions with AccessMedia, a developer of a platform for delivering real-time and interactive media over the Internet through its unique virtual set-top box technology. We completed the Merger in June 2006, and changed our name to Broadcaster, Inc. We subsequently disposed of Precision Design and, as a result, we now operate in the two business segments of AccessMedia and Houseplans. The AccessMedia business is owned and operated by our wholly-owned subsidiary, AccessMedia, Inc. The Houseplans business is owned and operated through our wholly-owned subsidiary Houseplans, Inc.

### Our Internet Businesses

Our current primary focus is on our AccessMedia entertainment portal. We are a global Internet entertainment network, providing consumers with access to online entertainment that is fast, easy, safe, fun, and of great value. We provide users with delivery of both short and long form digital entertainment content – giving them the power to download content to their desktop computer, laptop, PSP, iPod or preferred mobile entertainment device. We enable consumers to easily find, organize, download, and enjoy the growing volumes of high quality content available online. Our capabilities span our proprietary media library, media under license, and media readily available on the Internet. We are also in discussions with major studios, cable and television networks, music labels, and game producers to become a gateway for the direct delivery of first run movies, popular television shows, music and online games.

Our wide variety of on-demand programming includes:

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**Movies** We have a large library of movies to which we are constantly adding. Members can watch anything from a horror movie to a western and everything in between, many in high definition.

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**Music** Whether a member is a fan of music from the 1980's or something more contemporary, our large music collection is likely to satisfy the need. Our website offers downloads across a wide swath of the music spectrum.

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**Television** Our library of television shows includes episodes from such classics such as The Lucy Show and The Beverly Hillbillies to more contemporary shows dealing with music, cooking, sports and more.

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News Members can both read articles and download videos concerning the issues of the day in entertainment, sports, business and more.

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Games Members have access to a variety of computer games including sports, role playing games and such classics as Tetris and pin ball.

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Viral videos The term viral video refers to video clip content usually produced by amateurs which gains widespread popularity through the process of Internet sharing. We feature on our site many of the most popular viral videos currently making the rounds on the Internet.

Our proprietary virtual set-top box technology available at [www.accessmedia.tv](http://www.accessmedia.tv) puts Internet users in control of their entertainment experience allowing them to choose when and on which device they want to view media and content. Other than a computer meeting certain required specifications and Internet connectivity, no additional hardware purchase is necessary.

Our AccessMedia business generates its revenue from the sale of software online. The software are tools that enable the consumer to download and manage content. The customer pays for the tools through a license, which is sold on a monthly or annual basis. Because of the nature of the sale, no single customer accounted for greater than 10% of our revenues in fiscal year 2006. AccessMedia also earns income from selling advertising based on unique visits and page views to its various sites.

Internet users can register online to become a member of AccessMedia.tv and obtain full access to our site offerings. Membership in AccessMedia.tv is free with the purchase of our Download Manager software. Once a member has downloaded the software, they can start adding titles to their library. The member can watch it immediately after download or at a later time at their convenience. Downloaded files can be viewed for as long as that person is a member of AccessMedia.tv.

In addition to the Download Manager software, we also provide Entertainment Meta Search, Content Manager, Mobile Transfer Capabilities, Peer-to-Peer Technology, Social Networking Tools, and Parental Lock functionality, among others. These tools allow users to improve their entertainment access and controls. Our Entertainment Meta Search is one of the most advanced search tools available on the Internet and is optimized for rich media content, allowing for advanced identification and indexing of media and content.

We are also a leading online distributor of stock architectural house plans. We have an extensive library of over 25,000 unique stock architectural house plans with more than 150,000 registered members. Our stock architectural house plans are sold to developers, builders, architects and individuals, allowing our customers to substantially reduce upfront planning and architectural costs. No single customer accounted for greater than 10% of our Houseplan revenues in fiscal year 2006 or 2005.

### **Competitive Business Conditions**

The Internet entertainment industry is experiencing tremendous growth and 2006 is the year that the public has recognized the value of using the Internet as a video entertainment medium. Because of this there are numerous start-ups that have been formed to seek viewers. Notably, the largest competitor is YouTube which was only started in 2005. In 2006 Google announced an agreement to acquire YouTube for \$1,650,000,000 and future consideration. Because of this acquisition and YouTube's popularity, we anticipate that the online entertainment space will continue to be crowded with competitors.

The Internet industry is highly competitive and characterized by several key factors:

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**Rapid changes in technology and customer requirement:** New opportunities for existing and new competitors can quickly render existing technologies less valuable.

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**Relatively low barriers to entry:** Start-up capital requirements for software companies can be very small, and distribution over the Internet is inexpensive and easily outsourced.

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**Significant price competition:** Direct distribution of competing products over the Internet may cause prices and margins to decrease in traditional sales channels.

These factors could have a material adverse effect on our future operating results, including reduced profit margins and potential loss of market share.

Our main products and their primary competition are listed in the following table:

| <b>Broadcaster Product Group</b> | <b>Competitor</b> |
|----------------------------------|-------------------|
| Houseplans                       | Hanley-Wood       |
|                                  | Move Inc.         |
| AccessMedia                      | RealOne           |
|                                  | Vongo             |
|                                  | Blinx.tv          |

## **Sales and Marketing**

We rely on Internet advertising we place on third-party websites to attract customers to our AccessMedia.tv website. Our Houseplans business attracts its customers from Internet advertising, primarily using search engines Google and Yahoo.

## **International Operations**

International operations comprise our Canadian subsidiary, Weinmaster Homes, Ltd., which is part of the Houseplans segment. We acquired Weinmaster in July 2005.

## **The Merger**

We completed the Merger with AccessMedia on June 1, 2006 pursuant to which we issued 29,000,000 shares of our common stock and agreed to issue up to an additional 35,000,000 shares of our common stock upon achievement of certain revenue milestones to the shareholders of AccessMedia. In addition, we issued 1,450,000 shares of our common stock to Baytree Capital Associates, LLC as an advisory fee related to the Merger, and an additional 1,000,000 shares to Baytree Capital for consulting services and agreed to reimburse Baytree for its reasonable expenses. In connection with the Merger, we changed our name from International Microcomputer Software, Inc. to Broadcaster, Inc.

AccessMedia is led by seasoned Internet entrepreneurs. This team has been one of the foremost innovators of technologies, marketing, and advertising strategies for Internet-based consumer media offerings, and until now, this team has operated in a private company environment. Additionally, this team has been a leader in providing website development, traffic, database management, and hosting for many of the largest worldwide media companies.

We believe that the Merger offers a unique opportunity to enter into the highly scalable Internet media industry. The underlying growth in the Internet media industry, coupled with high margin product offerings, innovative marketing strategies and exceptional management team, should combine to provide us with substantial growth and profit opportunities, creating significant shareholder value. We expect this substantial revenue growth and positive cash flow to begin almost immediately.

## **Sale of Precision Design**

In June, 2006, we sold our legacy Precision Design software business as part of our overall strategy to position the company solely as an online business. We received a combination of \$6,500,000 in cash of which \$500,000 was deposited in an escrow to secure our representations and warranties in the sale Agreement, and an interest free note of \$1,500,000 which was paid in full on July 3, 2006. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

## **Product Development**

The majority of development costs relating to the Internet content segment relate to development of websites and databases to host the content. All of our Internet development is internally developed by our team of six software designers.

Our research and development expenses consist primarily of salaries and benefits for research and development employees and payments to independent contractors. We spent approximately \$218,000 and \$68,000 on research and development in the years ended June 30, 2006 and 2005, respectively. We will continue to invest in existing and new products which reflects our commitment to developing our core products as well as maintaining strong relationships with our internal and contract development teams.

### **Proprietary Rights and Licenses**

We use the following trademarks and service marks in our business: Houseplans, Homeplan and AccessMedia. Our subsidiary, AccessMedia, holds non-exclusive licenses to certain software technologies that are key to its current business operations. All such licenses are in perpetuity and royalty free. Mr. Nolan Quan, our principal shareholder, is one of several inventors of these technologies and owns a controlling interest in Broadcaster, LLC, which provides a majority of the non-exclusive licenses to us.



We are in the process of acquiring the technologies which are subject to these licenses and new technologies which we plan to introduce on AccessMedia.tv. In the event we complete our acquisition of these technologies, we intend to further develop and exploit these technologies. We may in turn further license these technologies to third parties. The development costs associated with some of the technologies could be significant; however, we do not anticipate acquiring these rights and incurring further development costs unless the overall benefits to us outweigh such costs.

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. We take certain steps to protect our technology including:

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We rely on a combination of copyrights, patents, trademarks, trade secret laws, restrictions on disclosure, and transferring title and other methods.

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We enter into confidentiality or license agreements with our employees and consultants, and control access to and distribution of our documentation and other proprietary information.

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We provide our products to end users under non-exclusive licenses, which generally are non-transferable and have a perpetual term.

Software companies face a number of risks relating to proprietary rights and licenses. The greatest technology risk arises from the fact that we make source code available for some products. The provision of source code may increase the likelihood of misappropriation or other misuse of our intellectual property.

There can be no assurance that the steps taken by us will prevent misappropriation or infringement of our technology. In addition, litigation may be necessary to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation presents several additional risk factors to us:

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Litigation could result in substantial costs and diversion of resources that could have a material adverse effect on our business, operating results and financial condition.

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As the number of software products in the industry increases and the functionality of these products further overlaps, software developers and publishers may increasingly become subject to infringement claims.

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If any valid claims or actions were asserted against us, we might seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that under such circumstances a license would be available on commercially reasonable terms, or at all.

From time to time we have received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights. Although we investigate claims and respond as we deem appropriate and believe we do not infringe upon the intellectual property rights of others, there can be no assurance that infringement claims (or claims for

indemnification resulting from infringement claims) will not be asserted or prosecuted against us.

### **Employees**

As of October 31, 2006, we had 45 employees, of which 42 are full-time employees and three part-time employees, including 16 in sales and marketing, 17 in product development and 12 in administration and finance. All employees are located in North America. None of our employees are represented by a labor union and we have experienced no work stoppages. Our success depends to a significant extent upon the performance of our executive officers, key technical personnel, and other employees.

### **Properties**

Our principal offices are located in Chatsworth, California, occupying approximately 14,650 square feet of office space. The lease term expires in September 2007. We also occupy approximately 10,000 square feet of leased office space in Novato, California, approximately 5,000 square feet which is sub-leased to an unrelated third party on similar terms to those of the master lease. The lease expires in March 2007. We plan to vacate the Novato offices in late November 2006 and move our Novato employees to our Chatsworth offices.

We believe the space is adequate for our immediate needs. Additional space may be required as we expand our activities. However, we do not foresee any significant difficulties in obtaining any required additional facilities.

## LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

Our subsidiary, AccessMedia , was named as one of a number of co-defendants in a suit filed by the FTC on August 8, 2006 in the United States District Court for the Central District of California alleging a violation of Section 5 of the FTC Act arising from products known as Movieland.com, Moviepass.tv, and Popcorn.net. The complaint challenges the validity of the use of pop-up payment reminders for software licenses in conjunction with a free trial offer for the Movieland.com, Moviepass.tv and Popcorn.net products. A copy of the complaint may be viewed online at <http://www.ftc.gov/os/caselist/0623008/060808movielandcmplt.pdf>. A United States District Court judge denied the FTC's request to issue a temporary restraining order. The parties have entered into an interim consent order that allows the pop-up payment reminders to continue to issue at least until time of trial and on a reduced frequency per day. Trial on the merits of the case will be scheduled for a later time. Our management believes the claims are without merit and intends to defend the actions vigorously. While our management believes there is no legal basis for liability, due to the uncertainty surrounding the litigation process, no reasonable estimate of loss is available. In addition, AccessMedia was also named as one of a number of co-defendants in a suit filed by the Washington State Attorney General on or about August 8, 2006 in King County Superior Court, alleging violations of the Washington Spyware Act and Consumer Protection Act and arising from products known as Movieland.com, Moviepass.tv, and Popcorn.net. A copy of the Washington complaint can viewed online at <http://www.atg.wa.gov/releases/2006/Documents/MovielandComplaint8-14-06.pdf>. AccessMedia intends to vigorously defend the allegations. While management believes there is no legal basis for liability, due to the uncertainty surrounding the litigation process, no reasonable estimate of loss is available.

We are also subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### Forward Looking Statements

The following discussion should be read in conjunction with the financial statements and the related notes included elsewhere in this prospectus. This prospectus, and in particular this Management's Discussion and Analysis or Plan of Operation, may contain forward-looking statements regarding future events or our future performance, as well as historical information. These future events and future performance mentioned in forward-looking statements involve risks and uncertainties. Actual events or our actual future results could differ materially from those projected or assumed in such forward-looking statements. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. This analysis is not intended to serve as a basis for projection of future events.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States or GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

### Critical Accounting Policies

Those material accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition are discussed below.

Our significant accounting policies are more fully described in the notes to our consolidated financial statements. Two of these policies, discussed immediately below, are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management to determine the appropriate assumptions to be used in the determination of certain estimates.

#### *Revenue Recognition*

Revenue is recognized in accordance with American Institute of Certified Public Accountants Statement of Position or SOP 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions*. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), product or service has been delivered, the fee is fixed and determinable, and collection of the resulting account is probable.

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Revenue from packaged product sales to resellers and end users is recorded at the time of the sale net of estimated returns.

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Revenue from sales to distributors is recognized when the product sells through to retailers and end users. Sales to distributors permit limited rights of return according to the terms of the contract.

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For software and content delivered via the Internet, revenue is recorded when the customer downloads the software, activates the subscription account or is shipped the content. For online media, revenue is recorded when payment is collected.

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Revenue from post-contract customer support is recognized ratably over the contract period.

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Subscription revenue is recognized ratably over the contract period.

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We use the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date. If there is an undelivered element under the license arrangement, we defer revenue based on vendor-specific objective evidence of the fair value of the

undelivered element, as determined by the price charged when the element is sold separately. If vendor-specific objective evidence of fair value does not exist for all undelivered elements, we defer all revenue until sufficient evidence exists or all elements have been delivered.

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Non-refundable advanced payments received under license agreements with no defined terms are recognized as revenue when the customer accepts the delivered software.

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Revenue from software licensed to developers, including amounts in excess of non-refundable advanced payments, is recorded as the developers ship products containing the licensed software.

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Revenue from minimum guaranteed royalties in republishing agreements is recognized ratably over the term of the agreement. Royalties in excess of the guaranteed minimums are recognized when collected.

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Revenue from original equipment manufacturer contracts is recognized upon completion of our contractual obligations.

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Revenue related to the display of advertisements on its Internet properties is recognized as impressions (the number of times that an advertisement appears in pages viewed by users) are delivered, as long as no significant obligations remain at the end of the period. To the extent that significant obligations remain at the end of the period, Broadcaster defers recognition of the corresponding revenue until the remaining guaranteed amounts are achieved.

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Revenue from the display of text-based links to the websites of its advertisers is recognized as the click-throughs (the number of times a user clicks on an advertiser's listing) occur.

### ***Impairment***

Property, equipment, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenues. We account for the impairment and disposition of long-lived assets in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with SFAS 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

In accordance with SFAS No. 142, *Goodwill and Intangible Assets*, goodwill is being assessed for impairment annually or more frequently if circumstances indicate impairment.

### **Overview**

In 2004, we began exploring various ways to enhance shareholder value, including our further migration from a traditional or packaged software company to offering downloadable media and content over the Internet. We believe that the growth and reach of the Internet coupled with the predictability of recurring revenues should lead to enhanced Broadcaster shareholder value. As such, during 2005 we began discussions with AccessMedia, a developer of a platform for delivering real-time and interactive media over the Internet through its unique virtual set-top box technology. Concurrent with the completion of the acquisition of AccessMedia, we changed our name to Broadcaster, Inc.

We are now a global Internet entertainment network providing consumers with access to online entertainment that is fast, easy, safe, fun, and of great value. We offer a wide variety of on-demand programming including movies, music, television shows, viral videos, mobile media, games, news, sports, and other entertainment focused content, in one place that can be viewed or downloaded at anytime and on any device. Our proprietary virtual set-top box technology available at [www.broadcaster.com](http://www.broadcaster.com) puts Internet users in control of their entertainment experience allowing users to choose what, when and on which device they want to view media and content.

We provide users with delivery of both short and long form digital entertainment content – giving them the power to download content to their desktop computer, laptop, PSP, iPod or preferred mobile entertainment device. We enable consumers to easily find, organize, download and enjoy the growing volumes of high quality content

available online. Our capabilities span our proprietary media library, media under license, and media readily available on the Internet. We are also in discussions with major studios, cable and television networks, music labels, and game producers to become a gateway for the direct delivery of first run movies, popular television shows, music and online games.

Our multi-channel Internet entertainment network redefines the user experience on the Internet, putting more control into the hands of the user with the most advanced technologies including a Download Manager, Entertainment Meta Search, Content Manager, Mobile Transfer Capabilities, Peer-to-Peer Technology, Social Networking Tools and Parental Lock functionality, among others. In addition, our Entertainment Meta Search is one of the most advanced search tools on the Internet and is optimized for rich media content allowing for advanced identification and indexing of media and content.

In addition to our Internet entertainment network, we are also a leading online distributor of stock architectural house plans. We have an extensive library of over 25,000 unique stock architectural house plans with more than 150,000 registered members. Our stock architectural house plans are sold to developers, builders, architects and individuals allowing our customers to substantially reduce upfront planning and building costs.

### **Strategy and Growth**

We believe that consistent growth of both revenues and operating earnings can be achieved through internally developed products and services, and through acquisitions. Management believes that good value target companies are present in the marketplace and that business combinations with these entities would help us achieve our growth potential in addition to providing synergies that would improve profitability.

We had approximately \$14,100,000 cash or cash equivalents as of June 30, 2006. Our current cash and cash equivalents balance represents our largest balance on hand within the past two fiscal years.

### **Acquisitions and Dispositions**

#### ***Acquisition of Weinmaster Homes, Ltd.***

On July 1, 2005, Houseplans, our wholly owned subsidiary, consummated the acquisition of all the stock of Weinmaster Homes, Ltd., pursuant to a stock purchase agreement between Weinmaster Homes, Ltd., Bruce Weinmaster and Janice Weinmaster, and Houseplans, Inc. The purchase price of approximately \$4,000,000 consisted of \$2,000,000 in cash, \$1,000,000 in a promissory note, which was fully paid in the third quarter of 2006, and \$1,000,000 (based on the five-day trading average immediately preceding and including June 28, 2005) in Broadcaster's unregistered common stock, which we committed to register for resale and which shares are offered for sale by this prospectus.

#### ***Sale of Allume***

On July 1, 2005, we sold all of the issued and outstanding capital stock of Allume to Smith Micro for an aggregate sales price of \$12,800,000 made up as follows (in millions):

| <b>Description</b>  | <b>Amount</b>  |
|---|----------------|
| Cash  | \$ 11.0        |
| Fair value of 397,547 unregistered shares of our Smith Micro common stock | 1.8            |
| <b>Total</b>  | <b>\$ 12.8</b> |

The fair value of the common stock was based on the five-trading-day average price of Smith Micro's common stock surrounding the date the business combination was announced.



At closing an indemnity escrow was established to secure certain representations and warranties included in our stock purchase agreement with Smith Micro. The following sale proceeds were deposited into the escrow (in millions):

| <b>Description</b>  | <b>Amount</b> |
|---|---------------|
| Cash  | \$ 1.25       |
| 170,398 unregistered shares of our Smith Micro common stock | 0.784         |
| Total   | \$ 2.034      |

The value of the common stock was based on the date of closing.

On November 2, 2005, we replaced the shares of Smith Micro common stock in escrow with cash, as permitted by the escrow agreement.

On November 10, 2005, we sold 100% of our holdings of Smith Micro shares at a gain of \$923,000 which was included in Other Income as Realized Gain on Securities in the December quarter.

Pursuant to the stock purchase agreement, Smith Micro released \$500,000 plus interest of \$7,000 and \$750,000 plus interest of \$26,000 of the escrowed cash to us in December 2005 and March 2006, respectively. These amounts, when released, added to our calculation of gain or loss on the sale.

As a result of this sale, we have categorized the assets, liabilities, and operations of Allume as discontinued operations for the fiscal year ended June 30, 2005 and in the fiscal year ended June 30, 2006. We recorded a gain on the sale of discontinued operations of \$776,000, representing the amount released from escrow on March 31, 2006 plus accrued interest. The gain on the sale of Allume totaled \$302,000 as of March 31, 2006. This gain calculation does not consider the remaining cash held in escrow of approximately \$300,000 and is subject to change in future reporting periods depending upon the future release of cash from escrow. The escrow is expected to close on December 31, 2006.

#### ***Acquisition of AccessMedia***

We completed the Merger with AccessMedia on June 1, 2006 pursuant to which we issued 29,000,000 shares of our common stock and agreed to issue up to an additional 35,000,000 shares of our common stock upon achievement of certain revenue milestones to the former shareholders of AccessMedia. In connection with the Merger, we changed our name to Broadcaster, Inc.

We believe that the Merger offers us an opportunity to enter into the highly scalable Internet media industry. The underlying growth in the Internet media industry, coupled with the potential for high margin product offerings, innovative marketing strategies, and exceptional management team, should combine to provide us with substantial growth and profit opportunities, creating significant shareholder value.

#### ***Sale of Precision Design Business***

On June 9, 2006, we sold our legacy Precision Design software business as part of our overall strategy to position us solely as an online business. We received a combination of \$6,500,000 in cash of which \$500,000 was deposited in an escrow to back our representations and warranties in the sale Agreement, and an interest free note of \$1,500,000 which was paid in full on July 3, 2006. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

**Continuing Operations**

The following table sets forth our results of operations for the twelve months ended June 30, 2006 and 2005 in absolute dollars and as a percentage of net revenues. It also details the changes from the prior fiscal year in absolute dollars and in percentages.

**(Tabular amounts shown in thousands of U.S. Dollars, except percentage amounts)**

**Fiscal Year ended June 30,**

|  | 2006     |               | 2005     |               | \$ Change from previous year |         |
|--|----------|---------------|----------|---------------|------------------------------|---------|
|  | \$       | As % of sales | \$       | As % of sales | Variance                     | %       |
| Net revenues   | \$ 8,203 | 100%          | \$ 4,347 | 100%          | \$ 3,856                     | 89%     |
| Product cost   | 3,174    | 39%           | 1,824    | 42%           | 1,350                        | 74%     |
| Gross margin   | 5,029    | 61%           | 2,523    | 58%           | 2,506                        | 99%     |
| Operating expenses                                       |          |               |          |               |                              |         |
| Sales & marketing  | 2,944    | 36%           | 1,903    | 44%           | 1,041                        | 55%     |
| General & administrative                                 | 3,760    | 46%           | 925      | 21%           | 2,835                        | 306%    |
| Research & development                                   | 218      | 3%            | 68       | 2%            | 150                          | 221%    |
| Total operating expenses                                 | 6,922    | 85%           | 2,896    | 67%           | 4,026                        | 139%    |
| Operating loss   | (1,893 ) | -24%          | (373 )   | -9%           | (1,520 )                     | 407%    |
| Other income (expenses)                                  |          |               |          |               |                              |         |
| Interest and other, net                                  | 125      | 1%            | (91 )    | -2%           | 216                          | -237%   |
| Realized/unrealized gain (loss) on marketable securities | 765      | 9%            | (42 )    | -1%           | 807                          | -1,921% |
| Gain on sale of product line                             | (1 )     | 0%            | 53       | 1%            | (54 )                        | -102%   |
| Total other income (expenses)                            | 889      | 10%           | (80 )    | -2%           | 969                          | -1211%  |
| Loss before income tax                                   | (1,004 ) | -12%          | (453 )   | -11%          | (551 )                       | 122%    |
| Income tax provision                                     | (11 )    | -1%           | (25 )    | -1%           | 14                           | -56%    |

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|   |          |      |             |      |          |       |
|---|----------|------|-------------|------|----------|-------|
| Loss from continuing operations   | (1,015 ) | -12% | (478 )      | -12% | (537 )   | 112%  |
| (Loss) from discontinued operations, net of income tax                  | (2,971 ) | -36% | (3,311 )    | -76% | 340      | -10%  |
| Gain (loss) from the sale of discontinued operations, net of income tax | 4,834    | 59%  | 2,035       | 47%  | 2,799    | 138%  |
| Net Income (loss)   | \$ 848   | 8%   | \$ (1,754 ) | -39% | \$ 2,602 | -148% |

**BROADCASTER, INC. & ACCESSMEDIA, INC.****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED  
STATEMENTS OF OPERATIONS****For the Fiscal Year Ended June 30, 2006****(In thousands, except per share data)**

|  | <b>Broadcaster<br/>Twelve<br/>months ended<br/><br/>June 30,<br/><br/>2006</b> | <b>AccessMedia<br/>Eleven<br/>months ended<br/><br/>May 31,<br/><br/>2006</b> | <b>Pro Forma<br/><br/>Pro Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Twelve<br/>months ended<br/><br/>June 30,<br/><br/>2006</b> |
|--|--|---|---|--|
| Net revenues   | \$ 8,203   | \$ 5,391  |   | \$ 13,594  |
| Cost of net revenues                                   |  |   |   |  |
| Product costs  | 3,174  | 2,903   | (306 )  | 5,771  |
| Gross margin   | 5,029  | 2,488   | 306   | 7,823  |
| Operating expenses:                                    |  |   |   |  |
| Sales and marketing                                    | 2,944  | 2,676   |   | 5,620  |
| General and administrative                             | 3,760  | 3,208   | (1,184 )  | 5,784  |
| Research and development                               | 218  | 246   |   | 464  |
| Total operating expenses                               | 6,922  | 6,130   | (1,184 )  | 11,868   |
| Loss/(Income) from operations                          | (1,893 )   | (3,642 )  | 1,490   | (4,045 )   |
| Interest and other income<br>(expense), net            | 124  | (68 )   |   | 56   |
| Realized / unrealized loss on<br>marketable securities | 765  |   |   | 765  |
| Loss before income tax                                 | (1,004 )   | (3,710 )  | 1,490   | (3,224 )   |
| Income tax provision                                   | 11   |   |   | 11   |
| Loss from continuing operations                        | (1,015 )   | (3,710 )  | 1,490   | (3,235 )   |
| Loss/(Income) from discontinued<br>operations, net     | (2,971 )   |   |   | (2,971 )   |

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|   |          |             |          |            |
|---|----------|-------------|----------|------------|
| Gain/(loss) from the sale of discontinued operations, net | 4,834    |             |          | 4,834      |
| Net (loss) income   | 848      | (3,710 )    | 1,490    | (1,372 )   |
| Other comprehensive loss                                  |          |             |          |            |
| Foreign currency translation adjustments                  | 432      |             |          | 432        |
| Comprehensive income/(loss)                               | \$ 1,280 | \$ (3,710 ) | \$ 1,490 | \$ (940 )  |
| Net loss per share:                                       |          |             |          |            |
| Basic and diluted   | \$ 0.03  | \$ (0.12 )  |          | \$ (0.02 ) |
| Weighted average shares outstanding used to compute:      |          |             |          |            |
| Basic and diluted   | 32,645   | \$ 31,450   |          | 64,095     |

## **Revenues by Business Segment**

We have two business segments: AccessMedia and Houseplans.

Although it was only recently commercially launched, AccessMedia generated revenues of \$945,000 for the one month ended June 30, 2006. Revenue includes software sales, internet media advertising sales, and the sale of text-based internet links. Sales of downloaded products are recognized ratably over the term of the license sold. Sales of advertisements are recognized upon the delivery of the impressions guaranteed. Sales of click throughs are recognized upon delivery of the click throughs guaranteed. We anticipate that in fiscal year 2007, AccessMedia will represent a much larger percentage of our total revenues.

We acquired Houseplans (formerly, Planworks LLC) in November 2003, Abbisoft House Plans, Inc. in September 2004, and Weinmaster Homes, Ltd. in July 2005. We have grown this business to be the leading online seller of stock architectural house plans, targeting general contractors, consumers, and designers. Our websites include houseplans.com, homeplanfinder.com, houseplanguys.com, globalhouseplans.com, and weinmaster.com. Revenues generated by Houseplans grew substantially during the twelve months ended June 30, 2006 as compared to the same period in the previous fiscal year from \$4,347,000 to \$7,258,000, a 67% increase. Excluding the acquisition of Weinmaster, revenues grew from \$4,347,000 to \$5,021,000, a 15.6% increase.

## ***Gross Profit***

Our consolidated gross profit increased by approximately 100% from \$2,523,000 to \$5,029,000 for the twelve months ended June 30, 2005 and June 30, 2006, respectively. Gross margin increased from 58.02% to 61.3%, primarily as a result of improvements in Houseplans gross profits discussed below. On a pro forma basis, gross profit in fiscal year 2006 was \$7,963,000, reflecting a pro forma gross margin of 58%. The difference is due to AccessMedia's gross profit consolidated with Broadcaster's gross profit. AccessMedia's gross margins were impacted by its rollout expenses and ramp-up. As revenues increase, gross margin is expected to increase. Our plan is to emphasize growth opportunities in the AccessMedia business. The cost of revenues increased as a function of increasing activity over the periods and as result of amortization of assets acquired during 2005.

AccessMedia's cost of revenues consists of costs related to the products and services AccessMedia provides to customers. These costs include materials, salaries and related expenses for product support personnel, depreciation and maintenance of equipment used in providing services to customers and facilities expenses.

AccessMedia expects to become cash flow positive after a full product launch, when the overhead costs described above can be amortized over a larger revenue base. AccessMedia also expects its product offerings to expand and the mixture of sales to change. Because of its limited operating history, changes in revenue mix, recent exit from the development stage and evolving business model, AccessMedia believes that analysis of historical cost of revenues as a percentage of revenue is not meaningful.

Houseplans's gross profits increased by 79.0% from \$2,523,000 to \$4,510,000 for the twelve months ended June 30, 2005 and June 30, 2006 respectively. Gross margin increased from 58.0% to 62.1%, primarily as a result of more competitive royalty rates with our vendors, an increased collection of proprietary royalty-free content and the successful integration of acquisitions.

## ***Sales and Marketing***

Sales and marketing expenses increased by 54.6% from \$1,903,000 to \$2,944,000 for the twelve months ended June 30, 2005 and June 30, 2006, respectively. This increase was principally due to the merger with AccessMedia and the acquisition of Weinmaster. On a pro forma basis, sales and marketing expenses were \$5,620,000 for the twelve months ended June 30, 2006.

Sales and marketing expense for AccessMedia consists primarily of salaries and related expenses for sales, support and marketing personnel, commissions, costs and expenses for customer acquisition programs and referrals, a portion of facilities expenses and depreciation and amortization of equipment. AccessMedia's expense levels have increased because of staffing and costs involved in testing and prototyping programs for selling its software, advertising and text-based links. AccessMedia anticipates that sales and marketing expense will continue to increase in absolute dollars as AccessMedia adds sales and marketing personnel and increases its customer acquisition activities.



Sales and marketing expenses for Houseplans increased during the twelve months ended June 30, 2006 as compared to the same period from the previous fiscal year. This increase was mainly the result of the additional sales and marketing expenses related (i) to Weinmaster, our newly acquired business, (ii) to the increased direct marketing expenses, especially relating to advertising necessary to increase the traffic to our websites and (iii) to the increased payroll and related expenses from additional headcount. Despite the increase in sales and marketing expenses for this segment during the twelve months ended June 30, 2006 as compared to the same period from the previous fiscal year, we continue to integrate the acquisitions and we continue to implement savings and identify synergies among our business units.

### ***General and Administrative***

General and administrative expense consists primarily of salaries and related expenses for administrative, finance, legal, human resources, and executive personnel, fees for professional services and costs of accounting and internal control systems to support its operations. Expenses have increased primarily due to the addition of headcount in management and administration to support the increasing activity levels and as a result of amortization of assets acquired during 2006. Because of the changes in the direction of Broadcaster, the general administrative costs have increased from 21% of sales to 46% of sales. This is mainly a result of the severance and bonus costs and the costs related to the disposition of Precision Design and the acquisition of AccessMedia.

We anticipate that general and administrative expense for AccessMedia will continue to increase in absolute dollars as AccessMedia builds its management team and hires additional administrative personnel and incurs increased costs such as professional fees. AccessMedia expects to secure a number of services from a related party at a market rate.

We expect that general and administrative expense of Houseplans will remain at a consistent fixed percent of overhead. Due to the market conditions, Broadcaster does not foresee any unexpected costs that would increase the overall general and administrative cost of Houseplans.

### ***Research and Development***

Our research and development expenses consist primarily of salaries and benefits for research and development employees and payments to independent contractors, mainly our third party contract development teams. Our research and development expense was 3% and 2% of sales for the fiscal years 2006 and 2005, respectively. We do not expect that the overall cost of research and development will exceed 5% of sales for fiscal year 2007.

### ***Interest and Other, Net***

Interest and other, net, changed from a net expense of \$91,000 to a net gain of \$125,000 for the twelve months ended June 30, 2006 and June 30, 2005, respectively. The change was principally due to an increase in cash balances and a reduction in debt obligations resulting from the deployment of proceeds from the sale of Allume.

### ***Gain/(Loss) on Marketable Securities***

Gain/(Loss) on Marketable Securities increased from (\$42,000) to \$765,000 for the twelve months ended June 30, 2005 and June 30, 2006, respectively. The change was primarily due to the gain recorded on the sale of Smith Micro shares acquired as part of the consideration for the sale of Allume.

### ***Provision for State and Federal Income Taxes***

We recorded income tax expense of \$11,000 and \$25,000 for the twelve months ended June 30, 2006 and 2005, respectively. The tax expense for the twelve months ended June 30, 2006 primarily represented accrued federal and state income taxes resulting from the limitation of net operating loss carryforwards and accrued Canadian income

taxes. The current tax provision was offset by a deferred tax benefit resulting from the amortization of certain purchased intangibles assets. The tax expense for the twelve months ended June 30, 2006 includes state income taxes accrued where we have operations.

We have not recorded a tax benefit for domestic tax losses because of the uncertainty of realization. We adhere to SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Valuation allowances are established when necessary to reduce deferred

tax assets to the amount expected to be realized. Consistent with our past practice, we have recorded a full valuation allowance at June 30, 2006 as the realizeability of our net operating loss carry-forwards is not determinable.

## Discontinued Operations

### *Twelve months ended June 30, 2006: Sale of Allume*

On July 1, 2005, we sold all of the issued and outstanding capital stock of Allume to Smith Micro for an aggregate sales price of \$12,800,000 million consisting of \$11,000,000 cash and 397,547 unregistered shares of Smith Micro's common stock, with a fair value of approximately \$1,800,000.

The fair value of the common stock was based on the five-day trading average price of Smith Micro's common stock surrounding the date the business combination was announced.

At closing an indemnity escrow was established to secure certain representations and warranties included in our stock purchase agreement with Smith Micro. The following sale proceeds were deposited into the escrow (in millions):

| <b>Description</b>  | <b>Amount</b> |
|---|---------------|
| Cash  | \$ 1.25       |
| 170,398 unregistered shares of our Smith Micro common stock | 0.784         |
| Total   | \$ 2.034      |

The value of the common stock was based on the date of closing.

On November 2, 2005, we replaced the shares of Smith Micro common stock in escrow with cash, as permitted by the escrow agreement.

On November 10, 2005, we sold 100% of our holdings of Smith Micro shares at a gain of \$923,000 which was shown in Other Income as Realized Gain on Securities in the December 2005 quarter.

Pursuant to the stock purchase agreement, Smith Micro released \$500,000 plus interest of \$7,000 and \$750,000 plus interest of \$26,000 of the escrowed cash to us in December 2005 and March 2006, respectively. These amounts, when released, added to our calculation of gain or loss on the sale.

As a result of this sale, we have categorized the assets, liabilities and operations of Allume as discontinued operations for the fiscal year ended June 30, 2005 and in the fiscal year ended June 30, 2006 we recorded a gain on the sale of discontinued operations of \$776,000 representing the amount released from escrow on March 31, 2006 plus accrued interest. The gain on the sale of Allume totaled \$302,000 as of March 31, 2006. This gain calculation does not consider the remaining cash held in escrow of approximately \$300,000 and is subject to change in future reporting periods depending upon the future release of cash from escrow.

### *Twelve months ended June 30, 2006: Sale of Precision Design*

On June 9, 2006, Broadcaster sold substantially all of the assets used in the operation of the segment of our business referred to as the Precision Design business. The assets were sold to IMSI Design LLC, a California limited liability company, which was newly formed for the purpose of the acquisition.

In consideration for the transfer of the assets, IMSI Design LLC paid \$6,500,000 in cash, of which \$500,000 was deposited in an escrow to secure our representations and warranties in the sale agreement. We expect the escrow to close on December 20, 2006. IMSI Design LLC also delivered a promissory note in the principal amount of \$1,500,000, which was paid in full on July 3, 2006. In addition, IMSI Design LLC assumed certain liabilities, and

agreed to perform a number of contracts that were associated with the Precision Design business.

As a result of this sale, we have categorized the assets, liabilities, and operations of the Precision Design software segment as discontinued operations for the twelve months ended June 30, 2005 and in the twelve months ended June 30, 2006, we recorded a gain on the sale of discontinued operations of \$4,532,000. The gain on the sale of Allume for the twelve months ended June 30, 2006 totaled \$302,000.

Loss from discontinued operations totaling \$2,791,000 for the twelve months ended June 30, 2006 represents the pre-tax loss of the Precision Design segment.

## MANAGEMENT

## Board of Directors

The following table sets forth all of the members of the Board of Directors of Broadcaster, and certain information about them as of the date of this prospectus.

| Name                        | Age | Position                             | Director Since |
|-----------------------------|-----|--------------------------------------|----------------|
| Bruce Galloway (3)          | 49  | Chairman of the Board of Directors   | 2001           |
| Martin Wade, III (3)        | 57  | Chief Executive Officer and Director | 2001           |
| Evan Binn (1)(2)            | 67  | Director                             | 2001           |
| Donald Perlyn (1)           | 63  | Director                             | 2001           |
| Robert S. Falcone (2)       | 59  | Director                             | 2002           |
| Richard J. Berman (1)(2)(3) | 64  | Director                             | 2002           |
| Kathryn Felice              | 37  | Director                             | 2006           |

(1)

Member of the Compensation Committee.

(2)

Member of the Audit Committee.

(3)

Member of the Executive Committee.

**Bruce R. Galloway**, age 49. Mr. Galloway became Chairman of Broadcaster in August 2001, pursuant to the proposed merger agreement between Broadcaster and Digital Creative Development Corporation or Digital Creative signed on August 31, 2001. Mr. Galloway is currently the Founder and President of Galloway Capital Management, LLC based in New York. Galloway Capital Management is an investment firm focusing on investments in and turnaround initiatives for distressed companies. Prior to founding Galloway Capital Management, Mr. Galloway was a Managing Director at Burnham Securities, Inc., an investment bank and NASD Broker/Dealer based in New York. Prior to joining Burnham Securities, Inc., from 1991 to 1993, Mr. Galloway was a Senior Vice President at Oppenheimer & Company, an investment bank and NASD Broker/Dealer based in New York. He is currently the Chairman of Datametrics Corporation and Command Security Corp as well as a Director of Forward Industries, Inc., Waiter.com, Inc. and GVI Security Solutions, Inc. Mr. Galloway serves as the Chairman of the Board and Executive Committee.

**Martin R. Wade, III**, age 57. Mr. Wade became a director and Chief Executive Officer of Broadcaster in August 2001. He brings to us a proven track record in mergers and acquisitions and investment banking. Prior to joining Broadcaster, he served in several executive positions, including chief executive officer, with Digital Creative between 2000 and 2001. Mr. Wade served from 1998 to 2000 as a mergers and acquisitions investment banker at Prudential Securities and from 1996 to 1998 as a Managing Director in mergers and acquisitions at Salomon Brothers. From 1991 to 1996, Mr. Wade was National Head of Investment Banking at Price Waterhouse, LLC. Mr. Wade also spent six years in the mergers and acquisitions department at Bankers Trust and eight years at Lehman Brothers Kuhn

Loeb. Mr. Wade is credited with participating in over 200 mergers and acquisitions transactions involving various clients such as, Nike, Cornerstone National Gas Company, Landmark Graphics and Redken Laboratories, Inc. He also serves on the Boards of Directors for DiMon (NYSE: DMN), NexMed (OTC: NEXM) and Command Security Corp (OTC: CMMD).

***Evan Binn***, age 67. Mr. Binn became a director of Broadcaster in August 2001. Mr. Binn is a self employed Certified Public Accountant. Mr. Binn received his bachelor's degree from the University of California at Los Angeles and is a certified public accountant in California. He is a member of the California Society of Certified Public Accountants and has maintained a practice in Los Angeles, California for thirty-seven years.

***Donald Perlyn***, age 63. Mr. Perlyn became a director of Broadcaster in August 2001. Mr. Perlyn serves as Executive Vice President of Nathan's Famous, Inc. and President of its subsidiary Miami Subs Corporation. He was hired by Miami Subs in May 1989 and became its President in July of 1998. In October 1999 Miami Subs was acquired by Nathan's Famous Inc. Mr. Perlyn is also a member of the Board of Directors of Nathan's Famous, Inc. (NASDAQ: NATH). Mr. Perlyn is an attorney and a 32-year veteran of the restaurant industry.

**Robert S. Falcone**, age 59. Mr. Falcone became a director of Broadcaster in February 2002 and has over thirty-seven years of financial management and board experience. Mr. Falcone is currently President and Chief Executive Officer of Catalyst Acquisition Group, a private equity corporate buyout firm. From 2003 to 2004 he served as the Executive Vice President and Chief Financial Officer of BearingPoint, Inc. an international consulting firm serving Global 2000 companies, medium-sized businesses, government agencies and other organizations. From 2000 to 2002 he was chief financial officer for 800.com, a pioneer in consumer electronics Internet retailing. He served as Senior Vice President and Chief Financial Officer for Nike, Inc. from 1992 to 1998, a time when the company grew annual sales to nearly \$10 billion. He began his career at Price Waterhouse, LLP where he spent twenty-one years, eight of which as an audit partner. A graduate of Villanova University and a certified public accountant, Mr. Falcone serves on the boards of directors for RadioShack Corporation (NYSE: RSH), and The Nautilus Group (NYSE: NLS). Mr. Falcone serves as the Chairman of the Audit Committee and is the designated audit committee financial expert.

**Richard J. Berman**, age 64. Mr. Berman became a director of Broadcaster in February 2002. His business career spans over 35 years of venture capital, management and merger and acquisitions experience. In the last five years, Mr. Berman has served as a professional director and/or officer of about a dozen public and private companies. He is currently Chief Executive Officer of Nexmed, a small public biotech company; Chairman of National Investment Managers, a public company in pension administration and investment management; and Chairman of Candidate Resources, a private company delivering HR services over the web. The nine public companies that Mr. Berman is a director of are Dyadic International, Inc. (AMEX: DIL), Broadcaster, Inc, Internet Commerce Corporation (NASDAQ: ICCA), MediaBay, Inc. (NASDAQ: MBAY), NexMed, Inc. (NASDAQ: NEXM), GVI Security Solutions Inc. (OTC: GVIS.OB), National Investment Managers (OTC: NIVM.OB), Nayna Networks, Inc. (OTC: NAYN.OB) and Advaxis, Inc (OTC: ADXS.OB). From 1998 - 2000, he was employed by Internet Commerce Corporation as Chairman and CEO. Previously, Mr. Berman worked at Goldman Sachs; was Senior Vice President of Bankers Trust Company, where he started the mergers and acquisitions and Leveraged Buyout Departments; created the largest battery company in the world by merging Prestolite, General Battery and Exide to form Exide (NYSE); helped create what is now Soho (NYC) by developing five buildings; and advised on over \$4 billion of mergers and acquisitions transactions. He is a past Director of the Stern School of Business of NYU.

**Kathryn Felice**, age 37. Ms. Felice became a director of Broadcaster in May 2006. She has served as General Counsel of AccessMedia since May 2005. Before joining AccessMedia, Ms. Felice practiced commercial litigation in San Diego, California, representing various technology companies and venture capital groups. Immediately prior, Ms. Felice served as law clerk to the Honorable Louisa S. Porter in the United States District Court for the Southern District of California. During law school, Ms. Felice was a judicial extern to United States District Court Judge Thomas J. Whelan, served on The San Diego Law Review, was a contributing editor for The Journal of Contemporary Legal Issues, and a member of the National Moot Court Tax Team. Prior to attending law school, Ms. Felice served as a director in the West Coast Region of Kaplan Educational Centers, a wholly owned subsidiary of the Washington Post. Ms. Felice earned her Bachelor of Science degree from the University of California at Los Angeles and her law degree from the University of San Diego School of Law.

#### ***Audit Committee Financial Expert***

Our Board of Directors has determined that Robert Falcone qualifies as an audit committee financial expert as that term is defined in Item 401(e) of Regulation S-B. Mr. Falcone is independent, as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934.

#### ***Remuneration of Members of the Board of Directors***

For services in fiscal year 2007, in addition to reasonable expenses incurred in the performance of their duties as directors, including participation on the Board of Directors and its committees, we will compensate our non-management directors according to the following schedule, which became effective as of May 23, 2006:

- A monthly retainer for each non-management member of the board of directors in the amount of \$1,500.
- An additional monthly retainer for each non-management member of the Audit Committee in the amount of \$500.



- An additional monthly retainer for the Chairman of the Audit Committee in the amount of \$500.

- An additional monthly retainer for each non-management member of the Executive Committee in the amount of \$500.

- An additional monthly retainer for the Chairman of the Compensation Committee in the amount of \$500.

Effective as of May 23, 2006 for services in fiscal year 2007, in addition to the cash compensation detailed above, we grant options to purchase 75,000 common stock options to each non-management director.

All of such options have a vesting requirement over a period of one year from date of grant, which shall be the first day of the month after which the director accepts such position, with 25% of such options to vest as of the last day of each three- month period elapsing after the date of commencement of the director's term. The exercise price of such options shall be the market price of Broadcaster's common stock on the date of grant of the options.

The following table details such compensation received by our directors for their service on the Board or its committees during fiscal years ended June 30, 2005 and 2006.

| <b>Name</b>           | <b>Amount FY 05</b> | <b>Amount FY 06</b> |
|-----------------------|---------------------|---------------------|
| Richard J. Berman     | \$ 18,000           | \$ 21,000           |
| Evan Binn             | 18,000              | 21,000              |
| Robert S. Falcone     | 18,500              | 23,000              |
| Bruce R. Galloway (1) | 20,000              | 17,500              |
| Donald Perlyn         | 13,000              | 14,000              |
| Kathryn Felice (2)    |                     | 1,500               |
| Total                 | \$ 87,500           | \$ 98,000           |

(1)

Mr. Galloway also received consulting compensation through June 30, 2006. See the section entitled "Related Party Transactions" for more detail.

(2)

Ms. Felice's compensation reflects that she began serving as a director in the last month of fiscal year, ending June 2006.

The following table details the options received by our directors for their service on the Board, its committees or as employees during the years ended June 30, 2005 and 2006.

| <b>Name</b>       | <b>Amount FY 05</b> | <b>Amount FY 06</b> |
|-------------------|---------------------|---------------------|
| Richard J. Berman | 75,000              | 150,000             |

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|                         |         |         |
|-------------------------|---------|---------|
| Evan Binn               | 50,000  | 125,000 |
| Robert S. Falcone       | 75,000  | 150,000 |
| Bruce R. Galloway       | 100,000 | 175,000 |
| Robert Mayer (2)        | 25,000  | 45,000  |
| Donald Perlyn           | 50,000  | 125,000 |
| Martin R. Wade, III (1) |         |         |
| Kathryn Felice (3)      |         | 75,000  |
| Total                   | 375,000 | 845,000 |

(1)

Mr. Wade's compensation was as Chief Executive Officer. See the section entitled "Executive Compensation" for more detail. Does not include 200,000 vested options Mr. Wade received in September 2006 that he earned in connection with the closing of the Merger but issuance was delayed pending approval by the Board of Directors.

(2)

Mr. Mayer's compensation was as Executive Vice President. See the section entitled "Executive Compensation" for more detail. He ceased to serve on the Board of Directors effective the start of business of October 20, 2005. Following the sale of our Precision Design business to IMSI Design LLC, Mr. Mayer resigned as President of that subsidiary but remained on our payroll until June 30, 2006.

(3)

Does not include 150,000 10-year options issued to Ms. Felice, pursuant to her October 2006 employment agreement exercisable at \$1.35 per share vesting quarterly over the first year of grant.

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The following table outlines the outstanding warrants held as of June 30, 2006 by each member of the Board of Directors who has served as a member during the 2006 fiscal year. None of the persons listed below has exercised any warrants since the grant date.

| Name of Holder (2)  | Issue Date | Expiration Date         | Number of Warrants | Exercise Price |
|---------------------|------------|-------------------------|--------------------|----------------|
| Richard J. Berman   | 04/04/02   | 1 yr after termination  | 250,000            | \$0.81         |
| Evan Binn           | 04/04/02   | 1 yr after termination  | 50,000             | \$0.81         |
| Robert S. Falcone   | 04/04/02   | 1 yr after termination  | 250,000            | \$0.81         |
| Bruce R. Galloway   | 04/04/02   | 3 yrs after termination | 500,000            | \$0.81         |
| Donald Perlyn       | 04/04/02   | 1 yr after termination  | 50,000             | \$0.81         |
| Robert Mayer (1)    | 04/04/02   | 1 yr after termination  | 250,000            | \$0.81         |
| Martin R. Wade, III | 07/03/03   | 07/02/08                | 46,667             | \$0.75         |
| Kathryn Felice      |            |                         |                    |                |
| Total Outstanding   |            |                         | 1,396,667          |                |

(1)

Mr. Mayer ceased to serve on the Board of Directors effective the start of business of October 20, 2005.

(2)

Except as described in Executive Compensation below with regard to Mr. Wade's services as Chief Executive Officer and in Related Party Transactions regarding a Consulting Agreement with Mr. Galloway, no director is a party to any other arrangements pursuant to which such director was compensated by us during the fiscal years ended June 30, 2005 and 2006.

### Executive Officers and Significant Employee

**Martin R. Wade, III, Chief Executive Officer.** See the subsection entitled Board of Directors above.

**Blair Mills, Chief Financial Officer, age 42.** Mr. Mills joined us in June 2006 as Chief Financial Officer. Previously, he served as Chief Financial Officer of AccessMedia beginning in May 2004. Prior to that date, Mr. Mills served in various management positions at several Internet-based businesses, including most recently Longview Media, Inc. From September 2000 through July 2004, Mr. Mills was a Director, Secretary and Treasurer of Second Stage Ventures, Inc., now known as Dermisonics, Inc. Mr. Mills has also served as an independent consultant to small businesses and emerging growth companies. Mr. Mills is a Chartered Accountant in Canada and a Certified Public Accountant in Illinois.

**Kathryn Felice**, *General Counsel*. See the subsection entitled Board of Directors above.

**Marvin Mauer**, *President of Houseplans*, age 52. Mr. Mauer joined Broadcaster in 2002 and has held a variety of positions. In May 2005, he became President of Houseplans, Inc., our wholly-owned subsidiary. Prior to this time he was employed at Autodesk, Inc.

**Sanger Powell Robinson II**, *Vice President of Marketing and Business Development, AccessMedia*, age 38. Mr. Robinson has been employed by AccessMedia for more than five years. He was a founder and Chief Executive Officer of NetBroadcaster.com, Inc. Mr. Robinson has been important in the development of the AccessMedia software and advises AccessMedia on its marketing strategies and developing strategic relationships with online traffic aggregators and marketing companies. Before joining AccessMedia, he attended Boston University and worked for many years in the music industry.

### **Other Significant Relationships**

Mr. Nolan Quan is no longer an officer, director or a principal shareholder of AccessMedia, but is a principal shareholder of Broadcaster. He is our largest shareholder through four limited liability companies he controls. However, Mr. Quan is involved and provides advisory services to Broadcaster and recently agreed to enter into a part-time Consulting Agreement with Broadcaster. Mr. Quan has thirty years of business experience including twenty years of experience developing new businesses. Mr. Quan has co-founded a series of successful Internet-related companies which range from Internet infrastructure and service companies to entertainment portal companies, including Alchemy Communications, Inc. in 1995, LongView Media, Inc. in 1997, NetBroadcaster, Inc. in 1998, and AccessMedia in 2002. Mr. Quan has also held the position of: President of Metropolis Pictures, a film

production and distribution company whose list of clients included HBO, Showtime, Viewer's Choice, DirecTV, Universal Pictures and Orion. He has also held financial and operational positions at Touche Ross & Company, Getty Oil, ESPN, Mattel Electronics and Magnum Entertainment. Mr. Quan has a Bachelor of Science in Computer Science Engineering and an MBA from the University of California at Los Angeles.

### Executive Compensation

The following table sets forth all compensation awarded, earned or paid for services rendered to Broadcaster and its subsidiaries in all capacities during each of the fiscal years ended June 30, 2006, 2005, 2004, respectively to (i) our Chief Executive Officer during fiscal year 2006 and (ii) our four most highly compensated executive officers other than the Chief Executive Officer whose total annual salary and bonus exceeded \$100,000 for the year ended June 30, 2006.

#### SUMMARY COMPENSATION TABLE

| (a)<br><b>Name and<br/>Principal Position</b>                         | (b)<br><b>Year</b> | Annual Compensation      |                         |   | Long Term<br>Compensation  | (g)<br><b>All Other<br/>Compensation<br/>(\$)</b> |
|---|--------------------|--------------------------|-------------------------|---|--|---|
|   |                    | (c)<br><b>Salary(\$)</b> | (d)<br><b>Bonus(\$)</b> | (e)<br><b>Other<br/>Annual<br/>Compensation(\$)</b> | (f)<br><b>Securities<br/>Underlying<br/>Options/SARs<br/>(#)</b> |   |
| Martin R. Wade,<br>III(1)<br>Chief Executive<br>Officer               | 2006               | \$ 225,000               | \$ 415,000              | \$ 33,667   |  |   |
|   | 2005               | \$ 200,000               | \$ 255,000              | \$ 12,464   |  |   |
|   | 2004               | \$ 200,000               |                         | \$ 12,246   | 46,667   |   |
| Gordon Landies(3)<br>President  | 2006               | \$ 195,000               | \$ 655,250              | \$ 36,227   |  | \$390,000   |
|   | 2005               | \$ 198,750               | \$ 400,000              | \$ 12,464   | 350,000  |   |
|   | 2004               | \$ 180,000               |                         | \$ 12,264   | 150,000  |   |
| Robert Mayer(4)<br>Executive Vice<br>President of<br>Precision Design | 2006               | \$ 144,000               | \$ 108,550              | \$ 27,413   | 40,000   | \$78,810  |
|   | 2005               | \$ 138,000               | \$ 32,540               | \$ 12,358   | 45,000   |   |
|   | 2004               | \$ 133,500               | \$ 44,000               | \$ 16,465   |  |   |
| Marvin Mauer(6)<br>President of<br>Houseplans                         | 2006               | \$ 130,000               | \$ 127,100              | \$ 5,946  |  |   |
|   | 2005               | \$ 120,000               | \$ 20,705               | \$ 10,115   |  |   |
|   | 2004               | \$ 110,000               | \$ 26,250               | \$ 8,176  |  |   |
| Robert<br>O Callahan(5)   | 2006               | \$ 140,000               | \$ 137,500              | \$ 15,870   |  | \$44,437  |
|   | 2005               |                          |                         |   | 150,000  |   |

Chief Financial Officer                      2004

(1)

Amounts paid in fiscal year 2006 are based upon an annual salary of \$225,000 for Mr. Wade.

(2)

Includes payments of medical and dental insurance premiums by Broadcaster on behalf of the named officers dependents.

(3)

Mr. Landies ceased to serve as our President effective as of February 28, 2006 but remained on our payroll until June 30, 2006. Mr. Landies' salary in 2006 includes two years' severance as required by his Employment Agreement.

(4)

Following the sale of our Precision Design business, Mr. Mayer resigned as Executive Vice President as of February 28, 2006 but remained on our payroll through June 30, 2006.

(5)

Mr. O'Callahan ceased to serve as our Chief Financial Officer effective as of June 15, 2006. Mr. O'Callahan's options were fully vested.

(6)

Mr. Marvin Mauer became President of Houseplans on May 25, 2005.

**Options/SAR Grants in the 2006 Fiscal Year**

The following table provides the specified information concerning grants of options to purchase our common stock made during the fiscal year ended June 30, 2006, to the persons named in the Summary Compensation Table. No stock appreciation rights were granted during fiscal year 2006.

| Name              | Option Grants/Warrant Issuances in Last Fiscal Year<br>Individual Grants |  |                                    |                 | Potential Realized  |          |
|-------------------|--|--|------------------------------------|-----------------|---|----------|
|                   | Number of Securities Underlying Options Granted(1)                       | % of Total Options Granted to Employees in Fiscal Year | Exercise or Base Price (\$/Sh) (2) | Expiration Date | Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)<br>5% | 10%      |
| Gordon Landies(4) | 20,000   | 1.27%  | \$1.45                             | 08/08/2015      | \$18,238  | \$46,219 |
| Robert Mayer(5)   | 25,000   | 1.29%  | \$1.08                             | 02/23/2016      | \$16,980  | \$43,031 |
| Marvin Mauer      | 40,000   | 2.54%  | \$1.45                             | 08/08/2015      | \$36,476  | \$92,437 |
|                   | 25,000   | 1.59%  | \$1.08                             | 02/23/2016      | \$16,980  | \$43,031 |

(1)

All options granted in the year ended June 30, 2006 were granted pursuant to our 2004 Stock Incentive Option Plan. These options, which typically have a four-year vesting period, become exercisable over time based on continuous employment with Broadcaster, and, in certain cases, are subject to various performance criteria or vest in full immediately. Does not include 3,750,000 options to purchase our common stock granted to Mr. Martin Wade, III effective September 12, 2006 at an exercise price of \$0.95. Of the options, 200,000 are fully vested and the remaining options will vest if revenue milestones are achieved by AccessMedia. Mr. Wade's Employment Agreement provided he would get the options at the closing of the Merger, but because the board of directors did not authorize the grant by the time of the closing, it was not effective until September 12, 2006, the following fiscal year.

(2)

All options in this table have exercise prices equal to the fair market value on the date of grant.

(3)

Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only, based on the SEC rules. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock, overall market conditions and the option holder's continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved. If there is no appreciation, there is no potential realizable value.

(4)

Mr. Landies ceased to serve as our President effective as of February 28, 2006, but remained on our payroll until June 30, 2006.

(5)

Mr. Mayer ceased to serve as an employee as of July 1, 2006.



**Aggregate Option Exercises in 2006 Fiscal Year and Year-End Value**

The following table sets forth information on the option exercises during the last fiscal year by each of the named executive officers and the number of shares covered by both exercisable and non-exercisable stock options held by them as of June 30, 2006. Also reported are the values for in-the-money options, which represent the positive spread between the exercise price of any such existing stock option and the fiscal year-end price of the common stock. No stock appreciation rights were held or exercised by the named executive officers during fiscal year 2006.

**Aggregated Option/SAR Exercises In Last Fiscal Year and FY-End Option/SAR Values**

| Name           | Exercise # | Value Realized(\$) | Value of Unexercised In-The-Money Options At June 30, 2006(\$)(1) |                             |
|----------------|------------|--------------------|---|-----------------------------|
|                |            |                    | Number of Unexercised Options / SARs At June 30, 2006             | Exercisable / Unexercisable |
| Gordon Landies | 30,025     | \$16,516           | 350,000 /   | \$157,500 /                 |
| Robert Mayer   | 57,500     | \$96,175           | 120,000 /   | \$65,600 /                  |
| Marvin Mauer   | 40,000     | \$43,200           | 156,250 / 28,750  | \$48,437 / \$9813           |

(1)

Based on the difference between the market price of the common stock at June 30, 2006 (\$1.55 per share) and the aggregate exercise prices of the options.

**Employment Contracts and Termination of Employment and Change-In-Control Arrangements**

In December 2005, Mr. Martin R. Wade, III, our Chief Executive Officer, entered into an Employment Agreement pursuant to which Mr. Wade receives an annual base salary of \$225,000. In fiscal year 2007, he was granted options to purchase 3,750,000 shares of Broadcaster common stock of which 200,000 shares were vested and 3,550,000 shares vest upon AccessMedia's achievement of certain revenue milestones. Under his Employment Agreement, Mr. Wade was to receive the options upon the closing of the Merger; due to an oversight, the grant was not approved by the Board of Directors until September 12, 2006. As a result, the exercise price increased to \$0.95 per share from \$0.86 per share. Mr. Wade also gets a \$100,000 cash bonus upon AccessMedia's achievement of certain revenue milestones. In addition, Mr. Wade receives a 2% bonus of the net sale price upon the completion of sale of certain Broadcaster assets. This agreement is for a term of three years unless terminated for cause, death, or disability.

Mr. Gordon Landies, our former President, resigned as of February 28, 2006 but remained on our payroll until June 30, 2006. Pursuant to his Employment Agreement, Mr. Landies was provided a severance package equal to two years of full compensation based on an annual salary of \$195,000, acceleration of options, and full benefits beginning June 30, 2006. In addition, Mr. Landies received a bonus in the amount of \$150,000 as a result of the closing of the acquisition of AccessMedia.

In June 2005, we entered into an Employment Agreement with Mr. Robert Mayer, our former director and Executive Vice President of Precision Design. Mr. Mayer ceased to serve on the Board of Directors effective the start of business of October 20, 2005. Mr. Mayer's agreement provided for the payment of a \$144,000 minimum base annual salary and

bonuses of up to \$60,000 annually. During fiscal year 2006, Mr. Mayer was paid a cash bonus of \$75,000 for the sale of assets and product lines associated with the Precision Design business. Mr. Mayer resigned as Executive Vice President as of February 28, 2006 but remained on our payroll until June 30, 2006. He received a severance package equal to six months base salary and benefits coverage for six months.

In June 2005, we entered into an Employment Agreement with Mr. Robert O Callahan, our former Chief Financial Officer. Mr. O Callahan's agreement provided for the payment to Mr. O Callahan of a \$140,000 minimum base annual salary and an annual bonus of up to \$80,000. Mr. O Callahan was granted an option under the 2004 Option Plan to purchase 150,000 shares of our common stock at the closing price of the stock as of the date of grant. Pursuant to the terms of his Employment Agreement, Mr. O Callahan was paid a bonus in the amount of \$125,000 in connection with the closing of the acquisition of AccessMedia Merger. Mr. O Callahan's termination date was June 15, 2006, and he received a severance package equal to three months base salary and benefits coverage.

In June 2006, we entered into a three-year Employment Agreement with Mr. Blair Mills, our Chief Financial Officer. Mr. Mills' s agreement provides for the payment to Mr. Mills of a \$150,000 minimum base annual salary and quarterly bonuses of up to \$15,000. Mr. Mills also received 150,000 10-year options exercisable at \$.95 per share which were approved by the Board on September 12, 2006. The options vest quarterly over one year subject to continued employment on the applicable vesting dates.

In October 2006, we entered into a three-year Employment Agreement with Kathryn Felice, Esq., our General Counsel. Ms. Felice' s agreement provides for the payment to her of a \$150,000 minimum base annual salary and quarterly bonuses of up to \$15,000. In October 2006 Ms. Felice also received 150,000 10-year options exercisable at \$1.35 per share. The options vest quarterly over one year subject to continued employment on the applicable vesting dates.

On May 25, 2005 we entered into an Employment Agreement with Mr. Marvin Mauer, President of Houseplans. His agreement provides he will receive a salary of \$10,833 per month and quarterly bonuses of up to \$15,000. Additionally, he is eligible to received bonuses of \$30,000 upon the sale of assets or similar transactions of Houseplans in excess of \$10,000,000, and \$65,000, if Houseplans merges into another company resulting in a net share amount greater than \$1.50.

**PRINCIPAL SHAREHOLDERS**

The following table sets forth, as of the date of this prospectus, the beneficial ownership of Broadcaster's common stock by:

- 

Each director or nominee;

- 

Each other executive officer named in the Summary Compensation Table;

- 

All directors and executive officers as a group; and

- 

Each person who is known by Broadcaster to own of record or beneficially more than five percent (5%) of Broadcaster's common stock.

Except as otherwise indicated, the shareholders listed in the table have sole voting and dispositive power with respect to the shares indicated, subject to community property laws where applicable.

| <b>Title of Class</b>                    | <b>Name and Address of Beneficial Owner</b>                             | <b>Amount and Nature of Beneficial Owner(1)</b> | <b>Percent of Class (1)</b> |
|--|---|---|-----------------------------|
| <b>Directors and Executive Officers:</b> |   |   |                             |
| Common Stock                             | Bruce Galloway, 9201 Oakdale Avenue, Suite 200, Chatsworth, CA 91311(2) | 1,299,650                                       | 2.0%                        |
| Common Stock                             | Gordon Landies, 100 Rowland Way, Suite 300, Novato, CA 94945(3)         | 799,560   | 1.2%                        |
| Common Stock                             | Robert Mayer, 100 Rowland Way, Suite 300, Novato CA 94945(4)            | 535,206   | *                           |
| Common Stock                             | Robert Falcone, 9201 Oakdale Avenue, Suite 200, Chatsworth, CA 91311(5) | 393,750   | *                           |
| Common Stock                             | Richard Berman, 9201 Oakdale Avenue, Suite 200, Chatsworth, CA 91311(6) | 378,750   | *                           |
| Common Stock                             | Donald Perlyn, 9201 Oakdale Avenue, Suite 200, Chatsworth, CA 91311(7)  | 351,250   | *                           |

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|                         |   |            |       |
|-------------------------|---|------------|-------|
| Common Stock            | Evan Binn, 9201 Oakdale Avenue,<br>Suite 200, Chatsworth, CA 91311(8)           | 171,250    | *     |
| Common Stock            | Robert O Callahan, 100 Rowland<br>Way, Suite 300, Novato CA<br>94945(9)(15)     | 150,000    | *     |
| Common Stock            | Kathryn Felice, 9201 Oakdale<br>Avenue, Suite 200, Chatsworth, CA<br>91311(16)  | 37,500     | *     |
| Common Stock            | Martin Wade, 9201 Oakdale Avenue,<br>Suite 200, Chatsworth, CA<br>91311(10)(11) | 38,946,725 | 59.7% |
| Common Stock            | Blair Mills, 9201 Oakdale Avenue,<br>Suite 200, Chatsworth, CA 91311(17)        | 75,000     | *     |
| Common Stock            | Marvin Mauer, 9201 Oakdale<br>Avenue, Suite 200, Chatsworth, CA<br>91311(18)    | 6,250      | *     |
| Common Stock            | All directors and executive officers<br>as a group (12 persons)                 | 43,144,891 | 63.2% |
| <b>5% Shareholders:</b> |   |            |       |
| Common Stock            | Michael Gardner(11)(12)   | 38,946,725 | 59.7% |
| Common Stock            | Nolan Quan(11)(13)  | 38,946,725 | 59.7% |
| Common Stock            | Digital Creative Development<br>Corporation(14)                                 | 38,946,725 | 59.7% |

(1)

Applicable percentages are based on 64,983,844 shares outstanding on November 7, 2006 adjusted as required by rules of the SEC. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants

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and convertible notes currently exercisable or convertible, or exercisable or convertible within 60 days after November 7, 2006 are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person. Unless otherwise indicated in the footnotes to this table and subject to any applicable community property laws, Broadcaster believes that each of the shareholders named in the table have sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by them. The symbol \* represents holdings which are less than 1% of the outstanding common stock of Broadcaster.

(2)

Includes 666,250 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(3)

Includes 750,000 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(4)

Includes 125,000 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(5)

Includes 378,750 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(6)

Includes 378,750 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(7)

Includes 341,250 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(8)

Includes 141,250 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(9)

Includes 150,000 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(10)

Includes 246,667 shares issuable upon exercise of options to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(11)

Based upon a Schedule 13D filed by Mr. Gardner and Mr. Quan with the SEC on September 14, 2006. As a result of two voting agreements entered into prior to the Merger, a Parent Voting Agreement among AccessMedia, Mr. Wade, Baytree Capital, a company controlled by Mr. Michael Gardner, and Digital Creative, and a Company Voting Agreement among the former shareholders of AccessMedia consisting of Mr. Gardner and four limited liability companies controlled by Mr. Nolan Quan, each of Mr. Quan and the four limited liability companies, Mr. Gardner, Baytree Capital, Mr. Wade and Digital Creative are deemed to be the beneficial owners of each others shares of common stock. The actual numbers used in computing this sum are:

- Mr. Quan 20,880,000 shares;
- Mr. Gardner 10,694,300 shares, including 2,450,000 shares held by Baytree Capital;
- Mr. Wade 246,667 shares issuable upon exercise of vested options; and
- Digital Creative 7,125,758 shares.

The numbers owned of record and beneficially by Mr. Gardner do not include Mr. Gardner's beneficial interest in 3,089,188 shares of our common stock owned by MBYI Liquidating Trust, which is a Selling Shareholder. Mr. Gardner cannot determine the actual number without unreasonable expense. Notwithstanding the fact that each of the above persons is deemed to be the beneficial owner of each others shares of common stock, each disclaims beneficial ownership of all shares owned by the other parties, except that Mr. Gardner is the beneficial owner of shares of common stock owned by Baytree Capital and Mr. Quan is the beneficial owner of common stock owned by the four limited liability companies.

(12)

Mr. Gardner's address is 40 Wall Street, 58th Floor, New York, NY 10005.

(13)

Mr. Quan's address is 9201 Oakdale Avenue, Suite 200, Chatsworth, CA 91311.

(14)

The 7,125,758 shares owned by Digital Creative are based on a Schedule 13D/A filed by it with the Securities and Exchange Commission on March 9, 2006. Digital Creative's address is 200 East 82<sup>nd</sup> Street, New York, NY 10028.

(15)

Mr. O'Callahan ceased to serve as our Chief Financial Officer effective as of June 15, 2006.

(16)

Includes 37,500 shares issuable upon exercise of options and/or warrants to purchase shares of common stock of Broadcaster that are currently exercisable or will become exercisable within 60 days after November 7, 2006.

(17)

Includes 75,000 shares issuable upon exercise of options to purchase shares of common stock of Broadcaster that will become exercisable within 60 days after November 7, 2006.

(18)

Includes 6,750 shares issuable upon exercise of options to purchase shares of common stock of Broadcaster that will become exercisable within 60 days after November 7, 2006.

## **RELATED PARTY TRANSACTIONS**

### **Service Agreement with Alchemy Communications, Inc.**

Prior to the Merger, AccessMedia, our wholly-owned subsidiary, entered into an operating agreement with Alchemy Communications, Inc., pursuant to which Alchemy provides office and operating space, staffing, technical services and consulting, bandwidth and hosting, network infrastructure and other related services. During the one month ended June 30, 2006, we incurred approximately \$180,749 in costs associated with employee benefits, administrative space and operating costs. Mr. Nolan Quan owns, either directly or indirectly, approximately 27% of Alchemy.

### **Technology and Content Licensing Agreements**

MyVod Inc., our wholly-owned indirect subsidiary, has entered into various licensing agreements with Broadcaster LLC, in consideration of a one-time license fee of one dollar for each license. The licenses provide certain key technologies, including digital rights management and content distribution systems, in connection with our AccessMedia business. The licenses are nonexclusive and are granted in perpetuity. However, we generally do not have the right to modify the licensed technologies used in our AccessMedia business, nor do we have the right to receive updates or upgrades or to obtain a copy of the source code for such technologies. Mr. Nolan Quan, who is our



principal shareholder and one of several inventors of some of the licensed technologies, holds a majority interest in Broadcaster LLC. We are in the process of acquiring the technologies which are subject to these licenses and new technologies which we plan to introduce on AccessMedia.tv. See **Proprietary Rights and Licenses** in the section of this prospectus entitled **Business**.

**Note Receivable from Related Party Digital Creative Development Corporation 15% Note**

In September 2003, we lent Digital Creative, a corporation of which our Chairman of the Board, Mr. Bruce Galloway, was President, \$350,000 and received a one-year note together with 15% interest. The note was secured by 400,000 shares of our common stock owned by Digital Creative. In September 2004, the note was extended to May 31, 2005 in exchange for full payment of accrued interest and a \$25,000 reduction in the principal of the note. On January 31, 2005, we sold the Digital Creative note to a third party for \$343,000, representing the principal balance then due together with accrued interest. We received payment on February 10, 2005.

**Note Payable to Related Party**

AccessMedia owes \$1,725,000 to Mr. Nolan Quan, who is our principal shareholder. The notes pay annual interests of 4% and are collateralized by the assets of AccessMedia. The notes are payable on demand.

**Consulting Agreements**

Mr. Nolan Quan recently agreed to enter into a Consulting Agreement with AccessMedia in exchange for \$1,000 per month, reimbursement of expenses and certain indemnification. Mr. Quan will provide strategic advisory services on a part-time basis to our Chief Executive Officer and AccessMedia shareholders.

On May 1, 2003, we entered into a Consulting Agreement with Mr. Bruce Galloway, Chairman of our Board of Directors, to provide services to Broadcaster related to potential acquisitions and divestitures. In return for his services, Mr. Galloway could be entitled to a fee from zero to \$200,000 for each such transaction dependent on his involvement and the consideration received or paid by us as a result of the transactions. Mr. Galloway was not compensated under this agreement in fiscal year 2004 or 2005 or through December 31, 2005 and the agreement was terminated on December 12, 2005. At that time, we entered into a new Consulting Agreement with Mr. Galloway to provide services to Broadcaster related to investor introductions and relationships. In return for his services through June 30, 2006, Mr. Galloway was paid \$10,000 per month. The Agreement expired on June 30, 2006.

On June 20, 2005, we entered into a Consulting Agreement with Baytree Capital, a company controlled by Mr. Michael Gardner, one of our principal shareholders. Baytree Capital agreed to act as our exclusive financial advisor in connection with the Merger. We agreed to pay Baytree Capital a fee equal to 5% of the consideration payable to the AccessMedia shareholders who included Mr. Gardner. Accordingly, at the closing, we issued Baytree Capital 1,450,000 shares of common stock. Additionally, we issued Baytree Capital 1,000,000 shares of our common stock for consulting services and agreed to reimburse Baytree for its reasonable expenses. For accounting purposes, all 2,450,000 shares were treated as merger-related costs. Over the past two years, we have not paid Baytree Capital any other fees. Under the terms of our agreement with Baytree Capital, to the extent we issue former AccessMedia shareholders additional shares of our common stock as Merger Consideration based upon meeting future revenue milestones, we are obligated to pay Baytree Capital a fee equal to 5% of the shares issued.

#### **Parent Voting Agreement**

On December 16, 2005, Mr. Wade, Digital Creative and Baytree Capital entered into a certain Parent Voting Agreement with AccessMedia. Under this agreement, Mr. Wade, Digital Creative and Baytree Capital agreed to vote the shares of our common stock beneficially owned by them, following the Merger, in favor of electing Mr. Wade and each individual nominated by the representative of the AccessMedia shareholders to become a member of the Board of Directors and in favor of electing a sufficient number of individuals to our Board of Directors nominated by the representative of the AccessMedia shareholders such that such individuals would represent a majority of our Board of Directors after the date upon which AccessMedia achieves revenue of \$20,000,000.

The Parent Voting Agreement was subsequently amended as of September 18, 2006, pursuant to which the obligations under this agreement terminate on the earlier to occur of (i) December 31, 2010 and (ii) the date on which the aggregate number of shares issued pursuant to the Merger Agreement to the former shareholders of AccessMedia, exclusive of any shares issued in connection with any banking, consulting, broker or other fees or arrangements related to the Merger, represent a majority of the outstanding shares of common stock of Broadcaster.

#### **Company Voting Agreement**

On December 16, 2005, each of Mr. Michael Gardner and Mr. Nolan Quan entered into a Company Voting Agreement with Broadcaster, whereby each agreed to vote their shares of our common stock for the election of directors to our Board of Directors, following the Merger, in favor of Mr. Wade and each other individual nominated by Broadcaster (subject to Mr. Quan's right to have certain individuals designated by their representative pursuant to the terms of the Merger Agreement).

The Company Voting Agreement was subsequently amended as of September 18, 2006 pursuant to which the obligations under this agreement terminate on the earlier to occur of (i) December 31, 2010 and (ii) the date on which the aggregate number of shares issued pursuant to the Merger Agreement to the former shareholders of AccessMedia, exclusive of any shares issued in connection with any banking, consulting, broker or other fees or arrangements related to the Merger, represent a majority of the outstanding shares of common stock of Broadcaster.

#### **Severance Arrangements**

Mr. Gordon Landies served as our President until the sale of our Precision Design business as of February 28, 2006. He remained on our payroll through June 30, 2006. Under this Employment Agreement, he received two years of severance or \$390,000 and full benefits and his 350,000 unvested stock options vested as of June 30, 2006. Mr. Robert O Callahan served as our Chief Financial Officer until June 15, 2006. He received three months' severance or \$37,500. Mr. Robert Mayer served as our Executive Vice President until the sale of the Precision Design business as of February 28, 2006. He remained on our payroll through June 30, 2006 and received severance consisting of six months' base salary or \$72,000 and benefits.

**SELLING SHAREHOLDERS**

The Selling Shareholders include those persons who received the shares offered under this prospectus as part of the Merger consideration and certain other shareholders who have registration rights. The Selling Shareholders may, from time to time, offer and sell pursuant to this prospectus up to an aggregate of 36,605,310 shares of our common shares now owned by them, and up to an aggregate of 166,250 shares of our common stock issuable to certain Selling Shareholders upon the exercise of warrants held by them. The Selling Shareholders may, from time to time, offer and sell any or all of the shares that are registered under this prospectus. The following table sets forth, with respect to each Selling Shareholder: (i) the number of shares of common stock beneficially owned as of the date of this prospectus and prior to the offering contemplated hereby, (ii) the number of shares of common stock issuable upon conversion of warrants beneficially owned as of the date of this prospectus and prior to the offering contemplated hereby, (iii) the number of shares of common stock eligible for resale by such Selling Shareholder pursuant to this prospectus, (iv) the number of shares beneficially owned by such Selling Shareholder after the offering contemplated hereby assuming that all shares eligible for resale pursuant to this prospectus actually are sold, and (v) the percentage of shares of common stock owned by such Selling Shareholder after the offering contemplated hereby.

|   | <b>Number of securities beneficially owned before offering</b> | <b>Number of securities issuable upon conversion of warrants beneficially owned before offering</b> | <b>Number of securities to be offered</b> | <b>Number of securities beneficially owned after offering</b> | <b>Percentage of securities beneficially owned after offering</b> |
|---|--|---|---|---|---|
| Software People LLC(1)(8)   | 4,640,000  |   | 4,640,000                                 | 0   | 0%  |
| Trans Global Media LLC(1)(8)  | 4,640,000  |   | 4,640,000                                 | 0   | 0%  |
| Broadcaster LLC(1)(8)   | 9,280,000  |   | 9,280,000                                 | 0   | 0%  |
| Access Media Technologies LLC(1)(8)                                 | 2,320,000  |   | 2,320,000                                 | 0   | 0%  |
| Michael Gardner(1)(9)   | 8,244,300  |   | 8,244,300                                 | 0   | 0%  |
| Baytree Capital Associates LLC(1)(9)                                | 2,450,000  |   | 2,450,000                                 | 0   | 0%  |
| MBYI Liquidating Trust (formerly, Aladdin System Holdings, Inc.)(4) | 3,089,188  |   | 3,089,188                                 | 0   | 0%  |
| America's Biggest, Inc.(6)  | 1,000,000  |   | 1,000,000                                 | 0   |   |
| Bruce Weinmaster(2)   | 525,142  |   | 525,142                                   | 0   | 0%  |
| Jeff Spring(3)  | 136,000  |   | 136,000                                   | 0   | 0%  |
| Upperspace Corporation(5)   | 68,966   |   | 68,966                                    | 0   | 0%  |
| Dorothy Westall(5)  | 25,344   |   | 25,344                                    | 0   | 0%  |
| John Zampino P.C.(7)  | 15,120   |   | 15,120                                    | 0   | 0%  |

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|  |        |        |   |    |
|--|--------|--------|---|----|
| CADalog, Inc.(5)   | 5,000  | 5,000  | 0 | 0% |
| Remington Partners,<br>Inc.  | 39,594 | 39,594 | 0 | 0% |
| Waldman Management<br>Group Inc.   | 16,664 | 16,664 | 0 | 0% |
| Joe Abrams   | 8,332  | 8,332  | 0 | 0% |
| Eisenberg Family<br>Investors, an IL<br>partnership                            | 8,332  | 8,332  | 0 | 0% |
| Mary L. Stuckey  | 4,166  | 4,166  | 0 | 0% |
| Jeanne Hammers &<br>Roger Hammers<br>Trustees, Jeanne<br>Hammers Trust 4/16/02 | 4,166  | 4,166  | 0 | 0% |

|  | <b>Number of securities beneficially owned before offering</b> | <b>Number of securities issuable upon conversion of warrants beneficially owned before offering</b> | <b>Number of securities to be offered</b> | <b>Number of securities beneficially owned after offering</b> | <b>Percentage of securities beneficially owned after offering</b> |
|--|--|---|---|---|---|
| Casa Madrona, Inc.<br>Warren Yost and Gail<br>Yost, Trustees,<br>WP&GA Yost Trust UA<br>DTD 3/9/88 |  | 4,166   | 4,166                                     | 0   | 0%  |
| Fast Funding Profit<br>Sharing Trust   |  | 4,166   | 4,166                                     | 0   | 0%  |
| Walter Bilofsky  |  | 4,166   | 4,166                                     | 0   | 0%  |
| Lorraine Lusted  |  | 2,083   | 2,083                                     | 0   | 0%  |
| Pensco Trust fbo Vern<br>Bueman IRA  |  | 2,083   | 2,083                                     | 0   | 0%  |
| Robert Babbin  |  | 2,083   | 2,083                                     | 0   | 0%  |
| Stella Rubin   |  | 2,083   | 2,083                                     | 0   | 0%  |
| Bruce Weinmaster   |  | 20,000  | 20,000                                    | 0   | 0%  |
| Gerd Koenig  |  | 40,000  | 40,000                                    | 0   | 0%  |
| <b>Total</b>   | <b>36,439,060</b>  | <b>166,250</b>  | <b>36,605,310</b>                         | <b>0</b>  | <b>0%</b>   |

(1)

The shares were issued pursuant to the merger with AccessMedia, except for 124,300 shares purchased by Mr. Gardner on the open market.

(2)

These shares were issued in connection with the acquisition of Weinmaster Homes, Ltd.

(3)

These shares were issued in connection with the acquisition of Planworks, LLC.

(4)

These shares were issued in connection with the acquisition of Aladdin Systems, Inc. Mr. Gardner owns an undetermined number of these shares as a beneficiary of the trust.

(5)

These shares were issued in connection with various product acquisitions.

(6)

These shares were issued in connection with the asset purchase of America's Biggest, Inc.

(7)

These shares were issued for services rendered.

(8)

Each of these limited liability companies is controlled by Nolan Quan. The nature of beneficial ownership interests in these shares is described in more detail in footnote 11 under the heading Principal Shareholders. Mr. Quan is the managing member of Software People LLC, Trans Global Media LLC, Broadcaster LLC and AccessMedia Technologies LLC.

(9)

Baytree Capital is controlled by Michael Gardner. The nature of beneficial ownership interests in these shares is described in more detail in footnote 11 under the heading Principal Shareholders. Mr. Gardner is also the managing member and sole equity owner of Baytree Capital Associates LLC.

**PLAN OF DISTRIBUTION**

We are registering the shares of our common stock covered by this prospectus for the Selling Shareholders. The Selling Shareholders and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board or any stock exchange, market or trading facility on which the shares are traded or in private transactions, subject to certain lock-up agreements. These sales may be at fixed prices which may be changed, at market prices at the time of sale, at prices related to market prices or at negotiated prices. The Selling Shareholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the Selling Shareholders to sell a specified number of such shares at a stipulated price per share;
- writing of options on the shares;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.



The Selling Shareholders may also sell shares under Rule 144 under the Securities Act of 1933, if available, rather than under this prospectus.

The Selling Shareholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a Selling Shareholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

The Selling Shareholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades. They may not deliver any of the shares of common stock offered by this prospectus in order to cover a short position.

The Selling Shareholders or their respective pledgees, donees, transferees or other successors in interest may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the Selling Shareholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a Selling Shareholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. The Selling Shareholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be underwriters as that term is defined under the Securities Act of 1933 or the rules thereunder. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The Selling Shareholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No Selling Shareholder has entered into any agreement with a prospective underwriter and the Selling Shareholders have advised us that they have no plans to enter into any such agreement.

The Selling Shareholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934 and the rules thereunder, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the Selling Shareholders or any other such person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

We have agreed to indemnify the Selling Shareholders, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act or to contribute to payments the Selling Shareholders or their respective pledgees, donees, transferees or other successors in interest, may be required to make in respect of such liabilities.

If the Selling Shareholders notify us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the Selling Shareholders and the broker-dealer.

The following Selling Shareholders, Software People LLC, Trans Global Media LLC, Broadcaster LLC, AccessMedia Technologies LLC, Digital Creative Development Corp., and Martin Wade have executed a lock-up agreement pursuant to which each such Selling Shareholder for a period of 12 months following the closing of the Merger agrees to not sell more than two percent (2%) of our common stock held by them in any two-month period, unless a greater amount is permitted by Baytree Capital, based on Baytree Capital's determination of the lack of an adverse effect of any such increase on the trading of our common stock in the public market.

We are required to pay all fees and expenses incident to the registration of the shares, excluding fees and disbursements of counsel to the Selling Shareholders, brokerage commissions and underwriter discounts.

## DESCRIPTION OF SECURITIES

### Common Stock

Pursuant to our Articles of Incorporation, as amended, we are authorized to issue 300,000,000 shares of common stock, no par value per share. The following is a description of our common stock, shares of which are being offered in this prospectus:

Holders of the common stock are entitled to one vote for each share held by them of record on the books of Broadcaster in all matters to be voted on by the shareholders. Holders of common stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors out of funds legally available, and in the event of liquidation, dissolution, or winding up of Broadcaster, to share ratably in all assets remaining after payment of liabilities. Declaration of dividends on common stock is subject to the discretion of the Board of Directors and will depend upon a number of factors, including the future earnings, capital requirements, and financial condition of Broadcaster. We have not declared dividends on our common stock in the past and our management currently anticipates that retained earnings, if any, in the future will be applied to our expansion and development rather than the payment of dividends.

The holders of common stock have no preemptive or conversions rights, and are not subject to further calls or assessments by Broadcaster. There are no redemption or sinking fund provisions applicable to the common stock. The Articles of Incorporation require the approval of the holders of a majority of our common stock for certain fundamental corporate actions, such as mergers and sales of substantial assets, or for an amendment to the Articles of Incorporation, other than an amendment to designate one or more series of preferred stock, as described below. There exists no provision in the Articles of Incorporation or the Bylaws that would delay, defer, or prevent a change in control of Broadcaster.

### Preferred Stock

Our Articles of Incorporation further authorize our Board of Directors, subject to any limitations prescribed by law and without further shareholder approval, to issue from time to time up to 20,000,000 shares of preferred stock in one or more series. Our Articles also authorize our Board of Directors, subject to the limitations prescribed by California law, to establish the number of shares to be included in each series and to fix the voting powers, preferences, qualifications, and special or relative rights or privileges of each series; and to issue preferred stock with voting, conversion, and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock.

The purpose of authorizing our Board of Directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a shareholder vote on specific issuances. The issuance of preferred stock or of rights to purchase preferred stock, however, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding common stock.

As of the date hereof, there were no series of preferred stock designated, and we have no current plans to issue any preferred stock.

### Transfer Agent and Registrar

The transfer agent and registrar of our common stock is American Stock Transfer and Trust, 59 Maiden Lane, New York, NY 10038.

### Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol BCSR.OB.

### **LEGAL MATTERS**

The validity of the shares of common stock offered in this prospectus has been passed upon for us by Harris Cramer LLP, West Palm Beach, Florida. An employee of this firm owns 10,000 shares of our common stock.

## EXPERTS

Burr, Pilger & Mayer LLP, an independent registered public accounting firm, has audited the financial statements of Broadcaster for fiscal years ended June 30, 2006 and June 30, 2005, respectively. The financial statements are included in reliance on such reports given upon the authority of Burr, Pilger & Mayer LLP. Burr, Pilger & Mayer LLP does not have any ownership interest in Broadcaster.

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

### Appointment of Burr, Pilger & Mayer LLP

Burr, Pilger & Mayer LLP was retained pursuant to their engagement letter dated January 10, 2005, and has been appointed to audit our financial statements for the fiscal year ending June 30, 2006. As of the date of this prospectus, there were no disagreements with Burr, Pilger & Mayer LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Burr, Pilger & Mayer LLP, would have caused Burr, Pilger & Mayer LLP to make reference to the subject matter of the disagreement in connection with its reports.

### Grant Thornton LLP Resignation

Grant Thornton LLP audited our financial statements for the fiscal year ended on June 30, 2004 and for the preceding five fiscal years. As previously disclosed in our filing on Form 8-K, filed with the Securities and Exchange Commission on November 12, 2004, the Audit Committee of our Board of Directors was notified on November 10, 2004 that Grant Thornton LLP resigned effective as of November 11, 2004.

The last two reports issued by Grant Thornton LLP on our financial statements for fiscal years ended June 30, 2004 and 2003 did not contain any adverse opinion or a disclaimer of opinion, or any qualification or modification as to uncertainty, audit scope, or accounting principles.

During our fiscal years ended June 30, 2004 and 2003 and through November 11, 2004, there were no disagreements with Grant Thornton LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Grant Thornton LLP, would have caused Grant Thornton LLP to make reference to the subject matter of the disagreement in connection with its reports.

As required by Item 304(a)(3) of Regulation S-B, we furnished Grant Thornton LLP with the disclosures contained in the Form 8-K report and Grant Thornton LLP furnished us with a letter addressed to the Securities and Exchange Commission which stated that it agreed with the statements made by us. A copy of Grant Thornton LLP's letter, dated November 11, 2004, was included as Exhibit 16 to the Form 8-K filed with the Securities and Exchange Commission on November 12, 2004.

## DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

**Indemnification.** Our Bylaws and Section 317 of the California Corporations Code allow, and in some cases require, the indemnification of directors and officers to the fullest extent permitted by law for all expenses relating to civil, criminal, administrative or investigative procedures to which they are a party (i) by reason of the fact that they are or were directors or officers of Broadcaster or (ii) by reason of the fact that, while they are or were directors or officers of Broadcaster, they are or were serving at the request of Broadcaster as a director, officer or employee of another

enterprise.

**SEC Position on Securities Act Liabilities.** Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission or SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act for the common stock offered by this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information in the registration statement and the exhibits filed with it, portions of which have been omitted as permitted by SEC rules and regulations. For further information concerning us and the securities offered by this prospectus, please refer to the registration statement and to the exhibits filed with it. Statements contained in this prospectus as to the content of any contract or other document referred to are not necessarily complete. In each instance, we refer you to the copy of the contracts and/or other documents filed as exhibits to the registration statement and these statements are qualified in their entirety by reference to the contract or document.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The registration statement, including all exhibits, as well as these reports, proxy statements and other information, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the public reference facilities. The SEC also maintains a website at <http://www.sec.gov>, which contains reports and other information regarding us that file electronically with the SEC, including Broadcaster.

You may also request a copy of our filings at no cost by writing or telephoning us at:

**Broadcaster, Inc.**

**9201 Oakdale Avenue, Suite 200**

**Chatsworth, CA 91311**

**Attn: Kathryn Felice**

**(818) 206-9274**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Broadcaster, Inc.

We have audited the accompanying consolidated balance sheet of Broadcaster, Inc. and subsidiaries (the Company) as of June 30, 2006 and 2005 and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadcaster, Inc. and subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr, Pilger & Mayer LLP

October 5, 2006

San Francisco, California

**BROADCASTER INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

|  | <b>June 30,<br/>2006</b> | <b>June 30,<br/>2005</b> |
|--|--------------------------|--------------------------|
| <b>ASSETS</b>  |                          |                          |
| Current assets:  |                          |                          |
| Cash and cash equivalents  | \$ 14,107                | \$ 4,347                 |
| Investment in marketable securities  |                          | 714                      |
| Receivables, less allowances for doubtful accounts, discounts and returns of \$0 in 2006 and \$0 in 2005 | 254                      | 251                      |
| Inventories  |                          | 16                       |
| Notes Receivable   | 1,604                    | 2,000                    |
| Receivables, other   | 175                      | 30                       |
| Other current assets   | 420                      | 342                      |
| Assets related to discontinued operations  | 181                      | 15,422                   |
| Total current assets   | 16,741                   | 23,122                   |
| <br>   |                          |                          |
| Fixed assets, net  | 306                      | 319                      |
| <br>   |                          |                          |
| Intangible Assets  |                          |                          |
| Goodwill   | 30,198                   | 1,648                    |
| Other intangible assets, net   | 18,700                   | 1,326                    |
| Total intangible assets  | 48,898                   | 2,974                    |
| <br>   |                          |                          |
| Total assets   | \$ 65,945                | \$ 26,415                |

**LIABILITIES AND SHAREHOLDERS EQUITY**

|  |       |       |
|--|-------|-------|
| Current liabilities:                           |       |       |
| Short term debt                                | 52    | 2,670 |
| Short term debt related party                  | 1,725 |       |
| Trade accounts payable                         | 1,928 | 772   |
| Accrued and other liabilities                  | 1,846 | 1,651 |
| Liabilities related to discontinued operations | 89    | 2,862 |
| Deferred revenues                              | 674   |       |

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|   |           |           |
|---|-----------|-----------|
| Total current liabilities   | 6,314     | 7,955     |
| Long-term debt and other obligations  | 178       | 230       |
| Unearned contract fees  | 122       |           |
| Deferred Tax  | 7,180     |           |
| Total liabilities   | 13,794    | 8,185     |
| Shareholders' Equity  |           |           |
| Common stock, no par value; authorized 300,000,000 shares; issued and outstanding 63,124,518 shares in 2006 and 28,796,886 shares in 2005 | 76,304    | 43,663    |
| Accumulated deficit   | (24,483 ) | (25,331 ) |
| Accumulated Other comprehensive income (loss)   | 330       | (102 )    |
| Total shareholders' equity  | 52,151    | 18,230    |
| Total liabilities and shareholders' equity  | \$ 65,945 | \$ 26,415 |

See Notes to Consolidated Financial Statements

F-3

**BROADCASTER, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share amounts)**

|  | <b>Fiscal Year ended June 30,</b> |             |
|--|-----------------------------------|-------------|
|  | <b>2006</b>                       | <b>2005</b> |
| Net revenues   | \$ 8,203                          | \$ 4,347    |
| Product costs  | 3,174                             | 1,824       |
| Gross margin   | 5,029                             | 2,523       |
| Costs and expenses   |                                   |             |
| Sales and marketing  | 2,944                             | 1,903       |
| General and administrative                                       | 3,760                             | 925         |
| Research and development   | 218                               | 68          |
| Total operating expenses   | 6,922                             | 2,896       |
| Operating loss   | (1,893 )                          | (373 )      |
| Other income and (expense)                                       |                                   |             |
| Interest and other, net  | 125                               | (91 )       |
| Realized / unrealized gain (loss) on marketable securities       | 765                               | (42 )       |
| (Loss) gain on sale of product line                              | (1 )                              | 53          |
| Loss before income tax   | (1,004 )                          | (453 )      |
| Income tax provision   | 11                                | 25          |
| Loss from continuing operations                                  | (1,015 )                          | (478 )      |
| Loss from discontinued operations, net of income tax             | (2,971 )                          | (3,311 )    |
| Gain from the sale of discontinued operations, net of income tax | 4,834                             | 2,035       |
| Net income (loss)  | 848                               | (1,754 )    |
| Other comprehensive loss   |                                   |             |
| Foreign currency translation adjustments                         | 432                               | (32 )       |

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|  |    |         |    |          |
|--|----|---------|----|----------|
| Comprehensive income (loss)                                      | \$ | 1,280   | \$ | (1,786 ) |
| Basic earnings (loss) per share                                  |    |         |    |          |
| Loss from continuing operations                                  | \$ | (0.03 ) | \$ | (0.02 )  |
| Loss from discontinued operations, net of income tax             | \$ | (0.09 ) | \$ | (0.12 )  |
| Gain from the sale of discontinued operations, net of income tax | \$ | 0.15    | \$ | 0.08     |
| Net income (loss)  | \$ | 0.03    | \$ | (0.06 )  |
| Diluted earnings (loss) per share                                |    |         |    |          |
| Loss from continuing operations                                  | \$ | (0.03 ) | \$ | (0.02 )  |
| Loss from discontinued operations, net of income tax             | \$ | (0.09 ) | \$ | (0.12 )  |
| Gain from the sale of discontinued operations, net of income tax | \$ | 0.15    | \$ | 0.08     |
| Net income (loss)  | \$ | 0.03    | \$ | (0.06 )  |
| Shares used in computing basic earnings (loss) per share         |    | 32,645  |    | 27,694   |
| Shares used in computing diluted earnings (loss) per share       |    | 32,645  |    | 27,694   |

See Notes to Consolidated Financial Statements

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## BROADCASTER, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years ended June 30, 2006 and 2005

(In thousands, except share amounts)

|   | Common Stock |           | Accumulated<br>deficit | Accumulated<br>other<br>comprehensive<br>loss | Total     |
|---|--------------|-----------|------------------------|---|-----------|
|   | Shares       | Amount    |                        |   |           |
| Balance at<br>July 1, 2005                            | 26,261,829   | \$ 41,512 | \$ (23,577 )           | \$ (70 )                                      | \$ 17,865 |
| Issuance of<br>common stock<br>related to:            |              |           |                        |   |           |
| Warrants<br>exercised                                 | 422,934      | 37        |                        |   | 37        |
| Stock options<br>exercised                            | 309,179      | 177       |                        |   | 177       |
| Acquisitions  | 1,802,944    | 1,791     |                        |   | 1,791     |
| Issuance of<br>warrants<br>related to:                |              |           |                        |   |           |
| Consulting<br>services<br>rendered                    |              | 26        |                        |   | 26        |
| Acquisitions  |              | 8         |                        |   | 8         |
| Issuance of<br>common stock<br>options<br>related to: |              |           |                        |   |           |
| Consulting<br>services<br>rendered                    |              | 4         |                        |   | 4         |
| Acquisitions  |              | 108       |                        |   | 108       |
| Net loss  |              |           | (1,754 )               |   | (1,754 )  |
| Foreign<br>currency                                   |              |           |                        | (32 )   | (32 )     |

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|   |            |    |        |    |           |     |                  |
|---|------------|----|--------|----|-----------|-----|------------------|
| translation<br>adjustment,<br>net of income<br>tax                        |            |    |        |    |           |     |                  |
| Balance at<br>June 30, 2005   | 28,796,886 | \$ | 43,663 | \$ | (25,331 ) | \$  | (102 ) \$ 18,230 |
| Issuance of<br>common stock<br>related to:                                |            |    |        |    |           |     |                  |
| Warrants<br>exercised   | 1,153,634  |    |        |    |           |     |                  |
| Stock options<br>exercised  | 904,688    |    | 701    |    |           |     | 701              |
| Acquisitions  | 32,276,583 |    | 31,842 |    |           |     | 31,842           |
| Finders fee<br>related to<br>acquisitions                                 | 20,000     |    | 25     |    |           |     | 25               |
| Issuance of<br>warrants<br>related to:                                    |            |    |        |    |           |     |                  |
| Acquisitions  |            |    | 6      |    |           |     | 6                |
| Procurement<br>of short term<br>debt                                      |            |    | 68     |    |           |     | 68               |
| Issuance of<br>common stock<br>options<br>related to:                     |            |    |        |    |           |     |                  |
| Consulting<br>services<br>rendered  |            |    | 24     |    |           |     | 24               |
| Variable<br>accounting<br>adjustment                                      |            |    | 5      |    |           |     | 5                |
| Stock buy<br>back   | (27,273 )  |    | (30 )  |    |           |     | (30 )            |
| Net income  |            |    |        |    | 848       |     | 848              |
| Foreign<br>currency<br>translation<br>adjustment,<br>net of income<br>tax |            |    |        |    |           | 432 | 432              |
| Balance at<br>June 30, 2006   | 63,124,518 | \$ | 76,304 | \$ | (24,483 ) | \$  | 330 \$ 52,151    |





**BROADCASTER, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

|   | <b>Fiscal Year ended June 30,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2006</b>                       | <b>2005</b> |
| Cash flows from operating activities:   |                                   |             |
| Net income (loss)   | \$ 848                            | \$ (1,754 ) |
| Adjustments to reconcile net income to net cash used by operating activities: |                                   |             |
| Depreciation and amortization   | 1,692                             | 418         |
| Net provision for bad debt  | 98                                | 172         |
| Net provision for returns and price discounts                                 |                                   | (390 )      |
| Net provision for inventory obsolescence                                      |                                   | (39 )       |
| Loss from discontinued operations   | 2,971                             | 3,311       |
| Gain on the sale of discontinued operations                                   | (4,834 )                          | (2,035 )    |
| Loss (gain) on sale of product line   | 1                                 | (53 )       |
| Stock based compensation charges  | 97                                | 30          |
| Changes in assets and liabilities:  |                                   |             |
| Marketable securities   | 714                               | 3,210       |
| Receivables   | 418                               | (123 )      |
| Receivables Other   | 256                               | 987         |
| Inventories   | 16                                | 21          |
| Other current assets  | 114                               | (84 )       |
| Trade accounts payable  | (180 )                            | 253         |
| Accrued and other liabilities   | (132 )                            | 785         |
| Deferred revenue  | (61 )                             |             |
| Operating cash (used in) discontinued operations                              | (3,091 )                          | (366 )      |
| Net cash (used in) provided by operating activities                           | (1,073 )                          | 4,343       |
| Cash flows from investing activities:   |                                   |             |
| Proceeds from sale of discontinued operations                                 | 16,688                            | 258         |
| Acquisition of product lines  |                                   | (43 )       |
| Acquisition of subsidiaries   | (2,979 )                          | (1,328 )    |
| Purchases of equipment  | (21 )                             | (120 )      |

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|  |           |          |
|--|-----------|----------|
| Software development costs and in-process technologies           |           | (64 )    |
| Purchase of domain names   |           | (9 )     |
| Purchase of trademark  |           | (1 )     |
| Note to related party  |           | 371      |
| Cash provided by discontinued operations in investing activities |           | 471      |
| Net cash provided by (used in) investing activities              | 13,688    | (465 )   |
| Cash flows from financing activities:                            |           |          |
| Proceeds from borrowings   | 850       | 400      |
| Repayments of notes  | (4,570 )  | (1,837 ) |
| Proceeds from warrants and options exercised                     | 701       | 214      |
| Stock buyback  | (30 )     |          |
| Cash used in discontinued operations in financing activities     |           | (1,016 ) |
| Net cash used in financing activities                            | (3,049 )  | (2,239 ) |
| Effect of exchange rate change on cash and cash equivalents      | 194       | (32 )    |
| Net increase in cash and cash equivalents                        | 9,760     | 1,607    |
| Cash and cash equivalents at beginning of year                   | 4,347     | 2,740    |
| Cash and cash equivalents at end of the year                     | \$ 14,107 | \$ 4,347 |

See Notes to Consolidated Financial Statements

**BROADCASTER, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(In thousands)

|   | <b>Fiscal Year ended June 30,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2006</b>                       | <b>2005</b> |
| <b>Supplemental disclosure of cash flow information</b>         |                                   |             |
| Interest paid   | \$ 129                            | \$ 225      |
| Income tax paid   | 66                                | 2           |
| <b>Supplemental disclosure of non-cash financing activities</b> |                                   |             |
| Cashless warrant exercise                                       |                                   |             |
| Notes payable incurred in conjunction with acquisitions         | 2,775                             | 645         |
| Capital stock issued in conjunction with acquisitions           | 31,867                            | 1,791       |
| Warrants issued in conjunction with acquisitions                | 6                                 | 8           |
| Cashless stock options issued in conjunction with acquisitions  | \$                                | \$ 108      |

See Notes to Consolidated Financial Statements

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**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization, Operations and Liquidity**

The Company was incorporated in California in November 1982. Broadcaster operates a subscription based internet entertainment network and promotes and sells house plans and other services to consumers and builders over the Internet. Prior to the disposal of the Precision Design business, the Company also developed and published CAD software and similar products targeted to small to medium-size businesses, professionals, and consumers. The Company's strategy to reposition itself as an online business has been achieved via the acquisitions of AccessMedia Networks Inc (2006), Weinmaster Homes Ltd. (2005) and Houseplans Inc (2004), and by the divestiture of the Precision Design business (2006). As consideration for the sale of Precision Design, we received a combination of \$6.5 million in cash and an interest free note of \$1.5 million which was paid in full on July 3, 2006. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

Historically, we have financed our working capital and capital expenditure requirements primarily from short-term and long-term notes and bank borrowings, capitalized leases and sales of common stock. We may also seek additional equity and/or debt financing to sustain our growth strategy. However, we believe that we have sufficient funds to support our operations at least for the next twelve months, based on our current cash position, equity sources and borrowing capacity. We believe that we will be able to obtain any additional financing required on competitive terms. In addition, we will continue to seek opportunities and discussions with third parties concerning the sale or license of certain product lines and/or the sale or license of a portion of our assets.

To achieve our growth objectives, we are considering different strategies, including growth through mergers and/or acquisitions. As a result, we are evaluating and we will continue to evaluate other companies and businesses for potential synergies that would add value to our existing operations.

The forecast period of time through which our financial resources will be adequate to support working capital and capital expenditure requirements is a forward-looking statement that involves risks and uncertainties, and actual results could vary. Furthermore, any additional equity financing may be dilutive to shareholders, and debt financing may involve restrictive covenants.

We are subject to the risks associated with similar companies in a comparable stage of growth and expansion. These risks include, but are not limited to, fluctuations in operating results, seasonality, competition, dependence on key individuals, dependence on international operations, foreign currency exchange rate fluctuations, product concentration, and the ability to adequately finance its ongoing operations.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Broadcaster and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Our principal operating subsidiaries were Houseplans as of June 30, 2005 and AccessMedia Networks Inc, Houseplans Inc and Weinmaster Homes Ltd as of June 30, 2006.

### **Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition**

Revenue is recognized in accordance with American Institute of Certified Public Accountants Statement of Position SOP 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions*. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), product has been delivered, the fee is fixed and determinable, and collection of the resulting account is probable.

•

Revenue from packaged product sales to resellers and end users is recorded at the time of the sale net of estimated returns.

•

Revenue from sales to distributors is recognized when the product sells through to retailers and end users. Sales to distributors permit limited rights of return according to the terms of the contract.

•

For software and content delivered via the Internet, revenue is recorded when the customer downloads the software, activates the subscription account or is shipped the content. For online media revenue when payment is collected

•

Revenue from post contract customer support (PCS) is recognized ratably over the contract period.

•

Subscription revenue is recognized ratably over the contract period.

•

We use the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date. If there is an undelivered element under the license arrangement, we defer revenue based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered element, as determined by the price charged when the element is sold separately. If VSOE of fair value does not exist for all undelivered elements, we defer all revenue until sufficient evidence exists or all elements have been delivered.

•

Non-refundable advanced payments received under license agreements with no defined terms are recognized as revenue when the customer accepts the delivered software.

•

Revenue from software licensed to developers, including amounts in excess of non-refundable advanced payments, is recorded as the developers ship products containing the licensed software.

•

Revenue from minimum guaranteed royalties in republishing agreements is recognized ratably over the term of the agreement. Royalties in excess of the guaranteed minimums are recognized when collected.

•

Revenue from original equipment manufacturer (OEM) contracts is recognized upon completion of our contractual obligations.

•

Revenue related to the display of advertisements on its Internet properties as impressions (the number of times that an advertisement appears in pages viewed by users) are delivered, as long as no significant obligations remain at the end of the period. To the extent that significant obligations remain at the end of the period, the Company defers recognition of the corresponding revenue until the remaining guaranteed amounts are achieved.

•

Revenue from the display of text-based links to the websites of its advertisers is recognized as the click-throughs (the number of times a user clicks on an advertiser's listing) occur.

### **Concentrations**

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents and receivables. At times, cash balances held at financial institutions are in excess of federally insured limits.

No single customer accounted for greater than 10% of our gross revenues in any period presented.



**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Royalty Agreements**

We have entered into agreements whereby we are obligated to pay royalties on content published. We generally pay royalties based on a percentage of sales on respective products or on a fee per unit sold basis. We expense royalties as product costs during the period in which the related revenues are recorded.

**Cash and Cash Equivalents**

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of June 30, 2006, approximately \$548,203 of our cash was held in foreign financial institutions for the benefit of our foreign subsidiaries.

**Marketable Securities**

Some of the excess funds not needed for current operations are used to invest in marketable securities. All investments in securities are bought and sold through a registered broker; and, held principally for the purpose of selling them in the near term. Every month, we buy and sell security investments, thus continually changing our stock positions. Therefore, the investments in securities are classified as *trading securities* as defined in paragraph 12.a. of Statement of Financial Accounting Standards No. 115 ( FAS 115 ). The unrealized holding gains and losses of these securities have been included in earnings in accordance with paragraph 13 of FAS 115.

Marketable securities are stated at fair value. Marketable securities maturing within one year that are classified as current assets. We carry all of our marketable securities at fair value. During the year ended June 30, 2006, all our holdings of marketable securities were liquidated.

**Fair Value of Financial Instruments**

The fair value of cash and cash equivalents, trade receivables, trade payables and debt approximates carrying value due to the short maturity of such instruments.

As of June 30, 2006 we had no holdings of marketable securities.

**Inventories**

Inventories, consisting primarily of CD-ROMs, manuals, packaging, freight in, production costs and packing supplies, are valued at the lower of cost or market and are accounted for on the first-in, first-out basis. Management performs periodic assessments to determine the existence of obsolete, slow moving and non-salable inventories, and records necessary provisions to reduce such inventories to net realizable value. We recognize all inventory reserves as a component of product costs. Following the discontinuance of the Precision Design business, the Company determined

that any remaining inventory was obsolete.

### **Fixed Assets**

Fixed assets are stated at cost. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful lives of the respective assets of 3 to 5 years. Depreciation of software and computer equipment is computed using the straight-line method over an estimated useful life of 3 years.

### **Software Development Costs and License Fees**

Costs incurred in the initial design phase of software development are expensed as incurred in research and development. Once the point of technological feasibility is reached, direct production costs are capitalized in compliance with Statement of Financial Accounting Standards SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. We cease capitalizing computer software costs when the product is available for general release to customers. Costs associated with acquired completed software are capitalized.

**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

We amortize capitalized software development costs and visual content license fees on a product-by-product basis. The amortization for each product is the greater of the amount computed using (a) the ratio of current gross revenues to the total of current and anticipated future gross revenues for the product or (b) 18, 36, or 60 months, depending on the product. Broadcaster evaluates the net realizable value of each software product at each balance sheet date and records write-downs to net realizable value for any products for which the carrying value is in excess of the estimated net realizable value.

**Other Intangible Assets**

Other intangible assets other than goodwill represent Internet domain names, acquired customer lists and contracts, distribution rights and relationships, trade names and trademarks and media content. These assets are amortized using the straight-line method over the estimated useful lives, generally five to thirty years.

**Goodwill**

In accordance with SFAS No. 142, *Goodwill and Intangible Assets*, goodwill is being assessed for impairment annually (in our first fiscal quarter) or more frequently if circumstances indicate impairment. We have not recognized any impairment related to goodwill in either fiscal 2006 or fiscal 2005.

**Impairment of Long Lived Assets**

We review long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. We did not recognize any impairment loss for long-lived assets in either fiscal 2006 or fiscal 2005.

**Advertising Costs**

We expense advertising costs as they are incurred. Advertising and related promotion expenses for the fiscal year ended June 30, 2006 and June 30, 2005 were \$1,234,000 and \$950,000, respectively.

**Income Taxes**

Income taxes are accounted for using an asset and liability approach for financial reporting. We recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amount and the tax basis of assets and liabilities and net operating loss and tax credit carry forwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

### **Foreign Currency Translation**

The asset and liability accounts of foreign subsidiaries are translated from their respective functional currencies at the rates in effect at the balance sheet date, and revenue and expense accounts are translated at weighted average rates during the periods. Foreign currency translation adjustments are included in other comprehensive income. Foreign currency transaction gains and losses are included in the statement of operations.

### **Stock Based Awards**

We account for stock-based compensation plans in accordance with Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, under which no compensation cost is recognized in the financial statements for employee stock arrangements when grants are made at fair market value. We have adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock Based Compensation* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*.

**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 1.****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In February 2000, we canceled approximately 870,000 common stock options held by existing employees and replaced those options with new options with a revised expiration date. The canceled options had a weighted average exercise price of \$3.51 per share, and the reissued options are exercisable at \$0.75 per share. This cancellation and re-grant meets the definition of a re-pricing under FIN 44, and the reissued options are being accounted for as variable plan accounting. Under variable plan accounting, we recognize an expense or benefit equal to the per share change in the share value until the underlying option expires or is exercised. During fiscal year 2006 and 2005, we recognized a \$5,000 benefit and a \$0 expense respectively related to stock options.

Had compensation cost for the stock-based compensation plans been determined based upon the fair value at grant dates for awards under those plans consistent with the method prescribed by SFAS 123, net income would have been charged the pro forma amounts indicated below. The pro forma consolidated financial information should be read in conjunction with the related historical information and is not necessarily indicative of actual results.

| (In thousands, except per share amounts)                | <b>Fiscal Year ended June 30,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2006</b>                       | <b>2005</b> |
| Net income (loss), as reported                          | \$ 848                            | \$ (1,754 ) |
| Intrinsic compensation charge recorded under APB 25     | 5                                 |             |
| Pro Forma compensation charge under SAS 123, net of tax | (338 )                            | (684 )      |
| Pro Forma net income (loss)                             | 515                               | (2,438 )    |
| Earnings Per Share:                                     |                                   |             |
| Basic as reported                                       | \$ 0.03                           | \$ (0.06 )  |
| Basic pro forma   | \$ 0.02                           | \$ (0.09 )  |
| Diluted as reported                                     | \$ 0.03                           | \$ (0.06 )  |
| Diluted pro forma                                       | \$ 0.02                           | \$ (0.09 )  |

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

|                          | <b>Fiscal Year ended June 30,</b> |             |
|--------------------------|-----------------------------------|-------------|
|                          | <b>2006</b>                       | <b>2005</b> |
| Risk-free interest rates | 5.10 %                            | 4.19 %      |

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|                                 |        |      |
|---------------------------------|--------|------|
| Expected dividend yields        | 0 %    | 0 %  |
| Expected volatility             | 72.4 % | 66 % |
| Expected option life (in years) | 10     | 10   |

The weighted average fair values as of the grant date for grants made in fiscal 2006 and 2005 were \$0.94 and \$.84, respectively.

We have granted options and warrants to certain key consultants which resulted in non-cash expenses recognized as of June 30, 2006. Non-cash expenses for grants to non-employees were recorded at the time of options and warrant grants, and calculated using the Black-Scholes method of valuation. The non-cash expense for stock based compensation has been as follows:

| (In thousands)             | Fiscal Year ended June 30, |       |
|----------------------------|----------------------------|-------|
|                            | 2006                       | 2005  |
| Sales Adjustments          | \$                         | \$ 21 |
| General and Administrative | 24                         | 5     |
| Research and Development   |                            | 4     |
| Total charge to earnings   | \$ 24                      | \$ 30 |

**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements**

**Postretirement Benefits** - In September 2006, the FASB issued Statement of Financial Accounting Standards 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 158 ). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective for financial statements issued for fiscal years ending after December 15, 2006. We are currently assessing the potential impact that adoption of SFAS 158 will have on our financial statements.

**Fair Value Measurements** - In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently assessing the potential impact that adoption of SFAS 157 will have on our financial statements.

**Accounting for Uncertainty in Income Taxes** - In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires recognition of tax benefits that satisfy a greater than 50% probability threshold. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for us beginning July 1, 2007. We are assessing the potential impact that the adoption of FIN No. 48 will have on our financial statements.

**Accounting Changes and Error Corrections** - In June 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ( SFAS 154) . SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and FAS No. 3, *Reporting Accounting Changes in Interim Financial Statement* . SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle. SFAS 154 also requires that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed a restatement . SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The

implementation of SFAS 154 is not expected to have a material impact on the Company's consolidated financial statements.

***Share-Based Payment - revision of SFAS 123, Accounting for Stock-Based Compensation*** - In December 2004, FASB issued Statement of Financial Accounting Standards SFAS No. 123 (Revised 2004), *Share-Based Payment* ( SFAS 123(R) ). The new pronouncement replaces the existing requirements under SFAS 123 and APB 25. According to SFAS 123(R), all forms of share-based payments to employees, including employee stock options and employee stock purchase plans, would be treated the same as any other form of compensation by recognizing the related cost in the Statement of Operations. This pronouncement eliminates the ability to account for stock-based compensation transactions using APB No. 25 and generally would require instead that such transactions be accounted for using a fair-value based method. FASB concluded that, for small business issuers, SFAS 123(R) is effective for awards and stock options granted, modified or settled in cash in annual periods beginning after December 15, 2005. SFAS 123(R) provides transition alternatives for public companies to restate prior interim periods or prior years. We are in the process of evaluating the impact of this standard on our Statement of Operations.



**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

The amounts reported for fiscal 2006 and 2005 present the results of operations for the Software segment as discontinued operations due to the sale of Precision Design on June 9, 2006.

**NOTE 2.**

**DISCONTINUED OPERATIONS**

**Sale of Precision Design**

In June, 2006, we sold Precision Design, our legacy software business as part of our overall strategy to position the company solely as an on-line business. We received a combination of \$6.5 million in cash of which \$0.5 million was deposited in an escrow to back our representations and warranties in the sale Agreement, and an interest free note of \$1.5 million which was paid in full on July 3, 2006. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

The sale of Precision Design is expected reduce our operating expenses for fiscal year 2007 by approximately \$5 million. Additionally, our increased cash positions us to grow our Internet entertainment business and to take advantage of future opportunities.

**Sale of Allume**

On July 1, 2005, we sold 100% of the issued and outstanding capital stock of Allume to Smith Micro Software, Inc. for \$11 million cash and 397,547 unregistered shares of its common stock, having a market value (based on a ten day trading average covering \$4.40) of \$1.75 million. A portion of the purchase price, including \$1.25 million cash and shares of common stock having a closing date market value of \$750,000 was deposited in an indemnity escrow to secure certain representations and warranties included in the stock purchase agreement. At June 30<sup>th</sup>, 2006, an amount of \$312,000 was still held in the indemnity escrow account. The gain on sale of Allume is approximately \$302,000 but this is subject to change based upon the release of the remaining escrowed consideration.

**Sale of ArtToday**

As previously disclosed in our annual report on Form 10-KSB for the fiscal year ended June 30, 2003, we sold ArtToday, Inc, our wholly-owned subsidiary based in Arizona, to Jupitermedia Corporation in June 2003.

During the fourth quarter of fiscal 2005 we recorded a gain of \$2.0 million from the sale of discontinued operations representing the successful achievement of the third earn-out from the sale of ArtToday. The full amount of the \$2.0 million was paid by Jupitermedia per the stock purchase agreement on August 15, 2005.

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In addition, during the second and fourth quarters of fiscal 2004, we recorded gains of \$1.0 million and \$1.0 million, respectively from the sale of discontinued operations representing the successful achievement of the first and second earn-outs from the sale of ArtToday to Jupitermedia Corporation in June 2003.

Operating results of the Precision Design and Allume businesses, which were formerly included in the Software Segment are as follows:

| (In thousands) | Fiscal Year ended June 30, |           |
|----------------|----------------------------|-----------|
|                | 2006                       | 2005      |
| Net revenues   | \$ 8,191                   | \$ 19,376 |
| Pre-tax loss   | (2,971 )                   | (3,311 )  |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 3.****PRODUCT LINE AND OTHER ACQUISITIONS****The Weinmaster Homes, Ltd. acquisition**

On July 1, 2005, Houseplans, Inc, our wholly owned subsidiary consummated the acquisition of all the stock of Weinmaster Homes, Ltd. ( WHL ), pursuant to a Stock Purchase Agreement, dated July 1, 2005, between Weinmaster Homes, Ltd., Bruce Weinmaster and Janice Weinmaster and Houseplans, Inc.

The purchase price of approximately \$4.2 million was comprised as follows:

| <b>Description</b>         | <b>Amount</b> |
|----------------------------|---------------|
| (In thousands)             |               |
| Fair value of common stock | \$ 1,021      |
| Cash                       | 2,000         |
| Promissory note            | 1,000         |
| Expenses                   | 146           |
| Total                      | \$ 4,167      |

The fair value of our common stock was determined based on 826,583 shares issued and priced using the average market price of our common stock over the five day period immediately preceding and including June 28, 2005.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values was as follows:

| <b>Description</b>                  | <b>Amounts</b>     |
|-------------------------------------|--------------------|
| (In thousands)                      | <b>(unaudited)</b> |
| Cash acquired                       | \$ 297             |
| Other tangible assets acquired      | 115                |
| Amortizable intangible assets       |                    |
| Domain names                        | 640                |
| Designer agreements / relationships | 1,100              |
| Trademarks                          | 20                 |
| Proprietary plans                   | 610                |
| Customer lists                      | 40                 |
| Goodwill                            | 2,499              |
| Liabilities assumed                 | (160 )             |
| Deferred tax liability              | (994 )             |

Total \$ 4,167

The assets will be amortized or depreciated over a period of years shown on the following table:

| <b>Description</b>                      | <b>Estimated<br/>remaining<br/>life (years)</b> |
|---|---|
| Tangible assets                         |   |
| Furniture and equipments                | 3 5   |
| Software and computer equipment         | 3   |
| Amortizable intangible assets           |   |
| Trade names / trademarks / domain names | 5 8   |
| Designer agreements / relationships     | 5 8   |
| Broker agreements / relationships       | 5 8   |
| Proprietary plans                       | 15 20   |
| Customer lists                          | 1 2   |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 3.****PRODUCT LINE AND OTHER ACQUISITIONS (CONTINUED)**

\$2,499,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually.

The following attributes of the combination of the WHL and Houseplans businesses were considered significant factors to the establishment of the purchase price, resulting in the recognition of goodwill:

WHL is the operator of the #2 Google ranked globalHouseplans.com website as well as the Canadian focused Weinmaster.com. WHL, one of the leading marketers of stock house plans in Canada, has operated its plans business in the United States and Canada for more than twenty-five years, and is one of the leading innovators in the market. In addition to more than 14,800 plans available to customers, which includes over 500 proprietary Weinmaster plans, WHL has an impressive array of content and tools to help homeowners and their builders economically build their dream homes. Potential operating synergies are anticipated to arise and are more likely to include sales growth from joint marketing programs, utilization of best practices developed in each organization, shared content and reduced common product development costs and limited reductions in administrative costs.

**AccessMedia acquisition**

On December 16, 2005, Broadcaster and AccessMedia entered into a definitive agreement whereby Broadcaster agreed to acquire 100% of the outstanding capital stock of AccessMedia. The acquisition was completed on June 1, 2006. Broadcaster accounted for the business combination as a purchase.

The purchase price of approximately \$32.1 million was comprised as follows:

| <b>Description</b>         | <b>Amount</b> |
|----------------------------|---------------|
| (In thousands)             |               |
| Fair value of common stock | \$ 28,420     |
| Direct transaction costs   | 3,690         |
| Total                      | \$ 32,110     |

The calculation is based on the issuance of 29,000,000 shares of Broadcaster common stock to the shareholders of AccessMedia measured as of the date of the definitive merger agreement using a five-trading-day average price of Broadcaster's common stock. 2,450,000 shares of Broadcaster common stock valued at \$2,401,000 were included as merger-related costs. The definitive merger agreement was announced on December 16, 2005.

The value of AccessMedia's net tangible and intangible assets are based upon their estimated fair value as of the date of the completion of the business combination. The estimated fair value is independent of the preliminary values historically recorded on the books and records of AccessMedia. The allocation of the purchase price to the assets

acquired and liabilities assumed based on their estimated fair values was as follows:

| <b>Description</b>             | <b>Amounts</b> |
|--------------------------------|----------------|
| (In thousands)                 | (unaudited)    |
| Cash acquired                  | \$ 134         |
| Other tangible assets acquired | 719            |
| Amortizable intangible assets  |                |
| Software                       | 9,800          |
| Domain names                   | 80             |
| Media content                  | 5,800          |
| Goodwill                       | 25,901         |
| Liabilities assumed            | (3,943 )       |
| Deferred tax liability         | (6,381 )       |
| Total                          | \$ 32,110      |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 3.****PRODUCT LINE AND OTHER ACQUISITIONS (CONTINUED)**

\$15,680,000 has been allocated to amortizable intangible assets with useful lives ranging from ten to thirty years as follows: software - ten years, domain names and content - thirty years.

The residual purchase price of \$25,901,000 has been recorded as goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill will not be amortized and will be tested for impairment at least annually. The agreement provides that 35 million additional shares may be earned and awarded to the current stockholders of AccessMedia. Any additional shares earned would be a future addition to goodwill.

AccessMedia's acquired technology includes certain additional products with market opportunities. These opportunities were significant contributing factors to the establishment of the purchase price, resulting in the recognition of a significant amount of goodwill. In addition, the acquisition provides an experienced workforce, development of certain technology assets permitting the company to deliver content to consumers over the Internet, existing business knowledge and practice supporting the proposed products and services, marketing programs and a base level of customers.

**Proforma Information**

The following proforma financial information for the fiscal year ended June 30<sup>th</sup>, 2005 gives effect to the acquisitions of Weinmaster and AccessMedia as if those acquisitions had occurred on the first day of the fiscal year.

|                    | <b>Fiscal Year ended June, 30 2005 (unaudited)</b> |                   |                    |                 |
|--------------------|--|-------------------|--------------------|-----------------|
|                    | <b>As Originally Stated</b>                        | <b>Weinmaster</b> | <b>AccessMedia</b> | <b>Proforma</b> |
| Net revenues       | \$ 4,347   | \$ 623            | \$ 458             | \$ 5,428        |
| Net Income         | (1,754 )   | 3                 | (1,456 )           | (3,207 )        |
| Earnings per share | (0.06 )  |                   | (0.05 )            | (0.11 )         |

The following proforma financial information for the fiscal year ended June 30<sup>th</sup>, 2006 gives effect to the acquisition of AccessMedia as if that acquisitions had occurred on the first day of the fiscal year

|  | <b>Fiscal Year ended June, 30 2006 (unaudited)</b> |                    |                 |
|--|--|--------------------|-----------------|
|  | <b>As Originally Stated</b>                        | <b>AccessMedia</b> | <b>Proforma</b> |

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|                    |    |       |    |          |    |          |
|--------------------|----|-------|----|----------|----|----------|
| Net revenues       | \$ | 8,203 | \$ | 5,391    | \$ | 13,594   |
| Net Income         |    | 848   |    | (3,716 ) |    | (2,868 ) |
| Earnings per share |    | 0.03  |    | (0.12 )  |    | (0.09 )  |

The unaudited proforma financial information has been prepared by Broadcaster for illustrative purposes only and is not necessarily indicative of the condensed combined consolidated financial position or results of operations in future periods, or the results that actually would have been realized had Broadcaster, AccessMedia and Weinmaster been a combined company during the specified periods.

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 4.****FIXED ASSETS**

Fixed assets consist of the following:

| (In thousands)                | <b>June 30,<br/>2006</b> | <b>June 30,<br/>2005</b> |
|-------------------------------|--------------------------|--------------------------|
| Computer and office equipment | \$ 701                   | \$ 570                   |
| Software                      | 522                      | 509                      |
| Building improvements         | 118                      | 119                      |
| Subtotal                      | \$ 1,341                 | \$ 1,198                 |
| Accumulated depreciation      | (1,035 )                 | (879 )                   |
| Fixed assets, net             | \$ 306                   | \$ 319                   |

We incurred depreciation expenses of \$156,000 and \$163,000 for the fiscal years ended June 30, 2006 and 2005 respectively.

**NOTE 5.****INTANGIBLE ASSETS****Goodwill**

In accordance with SFAS No. 142, *Goodwill and Intangible Assets*, goodwill is being assessed for impairment annually (in our first fiscal quarter) or more frequently if circumstances indicate impairment. We had goodwill in the amount of \$30,198,000 as of June 30, 2006. We have not recognized any impairment related to goodwill in either fiscal 2006 or fiscal 2005.

**Other intangible assets, net**

Other intangible assets, consist of the following:

|   | <b>June 30,<br/>2006</b> | <b>June 30,<br/>2005</b> |
|---|--------------------------|--------------------------|
| Acquired cost                               |                          |                          |
| Software development costs and license fees | \$ 10,106                | \$ 293                   |
| Domain names                                | 1,827                    | 1,122                    |
| Distribution rights                         | 668                      |                          |
| Customer lists                              | 1,650                    | 403                      |

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|   |           |          |
|---|-----------|----------|
| Licensed media content                      | 5,800     |          |
| Trademarks                                  | 18        |          |
|   | 20,069    | 1,818    |
| Accumulated amortization                    |           |          |
| Software development costs and license fees | (199 )    | (117)    |
| Domain names                                | (625 )    | (258 )   |
| Distribution rights                         | (45 )     |          |
| Customer lists                              | (484 )    | (117 )   |
| Licensed media content                      | (16 )     |          |
| Other intangible assets, net                | \$ 18,700 | \$ 1,326 |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 5.****INTANGIBLE ASSETS (CONTINUED)****Amortization Expense**

The following table summarizes the actual and estimated amortization expense for our intangible assets for the periods indicated (in thousands):

| (In thousands)                  | Fiscal Year ending June 30, |          |          |          |          |          |          |
|---------------------------------|-----------------------------|----------|----------|----------|----------|----------|----------|
|                                 | 2005                        | 2006     | 2007     | 2008     | 2009     | 2010     | 2011     |
|                                 | Actual                      |          |          | Estimate |          |          |          |
| Capitalized Software            | \$ 438                      | \$ 433   | \$ 688   | \$ 596   | \$ 593   | \$ 593   | \$ 593   |
| Capitalized Domain Names        | 408                         | 560      | 368      | 367      | 303      | 175      | 3        |
| Capitalized Distribution Rights | 36                          | 76       | 45       | 45       | 45       | 45       | 45       |
| Capitalized Customer Names      | 131                         | 402      | 344      | 285      | 285      | 252      |          |
| Licensed media content          |                             | 65       | 789      | 789      | 789      | 789      | 789      |
| Total amortization expense      | \$ 1,013                    | \$ 1,536 | \$ 2,234 | \$ 2,082 | \$ 2,015 | \$ 1,854 | \$ 1,430 |

**NOTE 6.****DEBT**

The following table details our outstanding debt as of June 30, 2006:

| (In thousands)                            | June 30,<br>2006 | June 30,<br>2005 |
|---|------------------|------------------|
| Short-Term                                |                  |                  |
| Acquisition related obligations           | \$               | \$               |
| Monterey Bay Tech, Inc. ( MBYI )          |                  | 2,667            |
| All other acquisition related obligations | 2                | 3                |
| Demand notes payable related party        | 1,775            |                  |
| Subtotal Short-Term                       | \$ 1,777         | \$ 2,670         |

|   |    |       |        |
|---|----|-------|--------|
| Weighted average short term interest rate |    | 3.9 % | 2.9%   |
| Long-Term                                 |    |       |        |
| Acquisition related obligations           | \$ |       | \$     |
| All other acquisition related obligations |    | 178   | 230    |
| Subtotal Long Term                        | \$ | 178   | \$ 230 |

The MBYI obligation in 2005 consisted of a 4% secured promissory note amounting to \$2.0 million and a non-interest bearing note amounting to \$667,000. These obligations were incurred in relation to the acquisition of Allume and were repaid in full following the sale of Allume. All other short term acquisition related obligations were non-interest bearing. Demand notes payable consisted of a 4% secured note payable to a related party in amounting to \$1,725,000 and a 10% unsecured note payable to a non-related party amounting to \$50,000. The related party note is secured on the assets of a subsidiary company. See Note Payable to Related Party under Note 11.

Long term debt consists of non-interest bearing obligations related to the acquisition of product lines.

The following table details the repayments of the debt detailed above over the next five years ending June 30, 2011:

| (In thousands)   | Fiscal Year ending June 30, |       |       |       | 2011<br>and<br>beyond |
|------------------|-----------------------------|-------|-------|-------|-----------------------|
|                  | 2007                        | 2008  | 2009  | 2010  |                       |
| Short Term Debt  | \$ 1,777                    | \$    | \$    | \$    | \$                    |
| Long Term Debt   |                             | 25    | 50    | 50    | 53                    |
| Total Repayments | \$ 1,777                    | \$ 25 | \$ 50 | \$ 50 | \$ 53                 |

**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 7.****ACCRUED AND OTHER LIABILITIES**

Accrued and other liabilities consist of the following:

| (In thousands)                    | <b>June 30,<br/>2006</b> | <b>June 30,<br/>2005</b> |
|-----------------------------------|--------------------------|--------------------------|
| Accrued & other liabilities       |                          |                          |
| Severance                         | \$ 969                   | \$                       |
| Bonuses                           | 133                      | 912                      |
| Payroll & benefits                | 167                      | 182                      |
| Audit & legal                     | 269                      | 208                      |
| Lease termination                 |                          | 156                      |
| Income taxes payable              | 119                      |                          |
| Payroll taxes                     |                          | 81                       |
| Other                             | 189                      | 112                      |
| Total accrued & other liabilities | \$ 1,846                 | \$ 1,651                 |

**NOTE 8.****REALIZED/UNREALIZED GAIN ON MARKETABLE SECURITIES**

The following table details the net gains and losses we recognized during fiscal years 2006 and 2005.

| <b>Gain (loss) on marketable securities for the fiscal year ended June 30, 2006</b> |                 |  |   |   |              |
|---|-----------------|--|---|---|--------------|
| (In thousands)  | <b>Realized</b> |  | <b>Unrealized</b>   |   | <b>Total</b> |
| <b>Description</b>  |                 | <b>Reversal of<br/>unrealized<br/>gain or<br/>loss<br/>recognized<br/>in<br/>prior<br/>periods</b> | <b>Unrealized<br/>gain or<br/>loss for the<br/>year<br/>ended<br/>June 30,<br/>2006</b> | <b>Sub total<br/>Unrealized<br/>gain / (loss)</b> |              |
| Smith Micro<br>common stock   | \$ 923          |  |   |   | \$ 923       |
|   | \$ (234 )       | \$ 90  | \$ (14 )  | 76  | \$ (158 )    |

Other stock in  
investment  
portfolio

Total                   \$   689    \$           90    \$           (14 )    \$           76    \$   765

**Gain (loss) on marketable securities for the fiscal year ended June 30, 2005**

| Description                               | Realized |  | Unrealized |  | Sub total<br>Unrealized<br>gain / (loss) | Total |
|---|----------|--|------------|--|--|-------|
|   |          | Reversal of<br>unrealized<br>gain or<br>loss<br>recognized<br>in<br>prior<br>periods |            | Unrealized<br>gain or<br>loss for the<br>year<br>ended<br>June 30,<br>2005 |  |       |
| Jupitermedia<br>common stock              | \$ 2,094 | \$ (2,146 )  | \$ 212     | \$ (1,934 )  | \$ 160                                   |       |
| Other Stock in<br>investment<br>portfolio | (33 )    | 148  | (317 )     | (169 )   | (202 )                                   |       |
| Total                                     | \$ 2,061 | \$ (1,998 )  | \$ (105 )  | \$ (2,103 )  | \$ (42 )                                 |       |

**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 9.****MARKETABLE SECURITIES ACTIVITY**

| (In thousands)                                 | Fiscal Year ended June 30, |             |
|--|----------------------------|-------------|
|  | 2006                       | 2005        |
| Purchases                                      | \$                         | \$ (3,926 ) |
| Proceeds from sales of securities              | 1,832                      | 7,965       |
| Realized gain                                  | (689 )                     | (2,061 )    |
| Unrealized (gain) loss                         | (76 )                      | 2,103       |
| Increase to cash held by brokerage firm        |                            | (25 )       |
| Borrowings from (repayment of ) margin account | (355 )                     | (882 )      |
| Interest and dividends earned                  | 2                          | (1 )        |
| Margin interest paid                           |                            | 37          |
| Total  | \$ 714                     | \$ 3,210    |

**NOTE 10.****INTEREST AND OTHER, NET**

Interest and other expense, net, include interest expense, interest income, foreign currency transaction gains and losses, and other non-recurring items. The following table summarizes the components of interest and other, net for fiscal 2006 and 2005:

| (In thousands)              | Fiscal Year ended June 30, |           |
|-----------------------------|----------------------------|-----------|
|                             | 2006                       | 2005      |
| Interest & Other, net       |                            |           |
| Interest expense            | \$ (129 )                  | \$ (225 ) |
| Interest income             | 217                        | 104       |
| Foreign exchange gain       | 37                         | 30        |
| Total Interest & Other, Net | \$ 125                     | \$ (91 )  |

The reduction in interest expense for fiscal 2006 was mainly the result of a reduction in the interest we incurred on the acquisitions-related notes and interest incurred on our short term financing activities.

The increase in interest income during fiscal 2006 is primarily due to higher cash balances arising from operations and proceeds from the disposal of businesses.

**NOTE 11.**

**RELATED PARTY TRANSACTIONS**

**Note Receivable from Related Party - Digital Creative Development Corporation ( DCDC ) 15% Note**

On January 31, 2005, we sold the DCDC 15% Note to Mag Multi Corp (Mag Multi), a New York corporation for \$343,000, representing the principal balance and all accrued interest as of the date of the transfer. This amount was received in its entirety on February 10, 2005. The DCDC note was a 15% one-year note we received on September 18, 2003 from DCDC upon extending a loan to them in the amount of \$350,000. This note was secured by 400,000 shares of Broadcaster's stock held by DCDC and was originally due on September 18, 2004. The maturity of this note was subsequently extended to May 31, 2005 in exchange for a full payment of the then accrued interest, a payment of \$25,000 against the principal amount and an increase in the collateral securing the note.

**Note Payable to Related Party**

AccessMedia Networks, Inc., our wholly-owned subsidiary, has an obligation amounting to approximately \$1,725,000 under various promissory notes payable to Mr. Nolan Quan, a beneficial owner of more than 5% of our outstanding voting shares of common stock. The promissory notes carry an annual interest rate of 4% and are collateralized by the assets of AccessMedia Networks, Inc. The promissory notes are payable on demand at anytime.



**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 11.**

**RELATED PARTY TRANSACTIONS (CONTINUED)**

**Service Agreement with Alchemy Communications, Inc.**

AccessMedia Networks, Inc., our wholly-owned subsidiary, has entered into an operating agreement with Alchemy Communications, Inc., pursuant to which Alchemy provides office and operating space, staffing, technical services and consulting, bandwidth and hosting, network infrastructure and other related services. During the one month ended June 30, 2006, we incurred approximately \$180,749 in costs associated with employee benefits, administrative space and operating costs. Mr. Nolan Quan owns either directly or indirectly a 10% or greater ownership interest in Alchemy Communications, Inc.

**Technology and Content Licensing Agreements**

MyVod Inc., our wholly-owned indirect subsidiary, has entered into various licensing agreements with Broadcaster LLC, in consideration of a one-time license fee of one dollar for each license. The licenses provide certain key technologies, including digital rights management and content distribution systems, in connection with our AccessMedia business. The licenses are nonexclusive and are granted in perpetuity. However, we generally do not have the right to modify the licensed technologies used in our AccessMedia business, nor do we have the right to receive updates or upgrades or to obtain a copy of the source code for such technologies. Mr. Nolan Quan owns, either directly or indirectly, a 10% or greater ownership interest in Broadcaster LLC.

**Consulting Agreements**

On May 1, 2003, we entered into a consulting agreement with Mr. Bruce Galloway, Chairman of our Board of Directors, to provide services to the Company related to potential acquisitions and divestitures. In return for his services, Mr. Galloway could be entitled to a fee from zero to \$200,000 for each such transaction dependent on his involvement and the consideration received or paid by us as a result of the transactions. Mr. Galloway was not compensated under this agreement in fiscal year 2004 or 2005 or through December 31, 2005 in fiscal year 2006.

On December 12, 2005, we entered into a consulting agreement with Mr. Galloway, to provide services to the Company related to investor introductions and relationships. In return for his services through June 30, 2006, Mr. Galloway was paid \$10,000 a month.

On June 20, 2005, we entered into an engagement letter with Baytree Capital Associates LLC ( Baytree ). Under the terms of its engagement, we agreed to pay Baytree, as a result of the Merger, a fee of 5% of the aggregate value of the consideration to be paid to the former AccessMedia stockholders, payable in our shares, for services delivered in connection with the Merger. We have agreed to reimburse Baytree for its reasonable expenses, including fees and disbursements of counsel, and to indemnify Baytree and related parties against liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement. In addition, we agreed to pay to Baytree 1.0 million shares of our common stock upon consummation of the Merger. Over the past two years, we have not paid to Baytree any other fees for banking and related services. Mr Michael Gardner is the sole managing member of

Baytree.

**NOTE 12.**

**LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

The Company's subsidiary Accessmedia Networks, Inc. was named as one of a number of co-defendants in a suit filed by the FTC in the Central District of California alleging a violation of Section 5 of the FTC Act arising from products known as Movieland.com, Moviepass.TV, and Popcorn.net. A U.S. district court judge denied the FTC's request to issue a temporary restraining order. Trial on the merits of the case will be scheduled for a later time. Management believes the claims are without merit and the Company intends to defend the actions vigorously. While management believes there is no legal basis for liability, due to the uncertainty surrounding the litigation process, no reasonable estimate of loss is available. Accesmedia Networks, Inc was also named as one of a number of co-defendants in a suit filed by the Washington State Attorney General alleging violations of the Washington

**BROADCASTER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 12.**

**LEGAL PROCEEDINGS (CONTINUED)**

Spyware Act and Consumer Protection Act arising from products known as Movieland.com, Moviepass.TV, and Popcorn.net. The Company intends to vigorously defend the allegations. While management believes there is no legal basis for liability, due to the uncertainty surrounding the litigation process, no reasonable estimate of loss is available.

In addition, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

**NOTE 13.**

**EMPLOYEE BENEFIT PLAN**

We have a defined contribution plan, which qualifies under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. The plan allows eligible employees to contribute up to the annual maximum as defined by the Internal Revenue Service to include catch-up contribution for individuals age 50 or older. At the discretion of the board of directors, Broadcaster may also make contributions each year for the benefit of all eligible employees under the plan. Discretionary contributions for the years ended June 30, 2006 and 2005 were \$0 and \$71,000, respectively.

**NOTE 14.**

**EMPLOYEE STOCK INCENTIVE PLANS AND EQUITY RELATED TRANSACTIONS**

**Stock Options**

During fiscal 2004, we adopted a new stock option plan The 2004 Incentive Stock Option Plan (the 2004 Plan ). Our Board of Directors and shareholders adopted the predecessor to the 2004 Plan, the 1993 Incentive Option Plan on June 30, 1993 (the 1993 Plan ). The purpose of the 2004 and the 1993 Plans was to further the growth and general prosperity of Broadcaster by enabling our employees to acquire our common stock, increasing their personal involvement in the Company and thereby enabling Broadcaster to attract and retain our employees.

Under existing federal tax laws, certain benefits are not applicable to stock options granted under plans adopted more than ten years prior. In particular, options granted more than ten years after adoption of the 1993 Plan are not eligible for incentive stock option treatment within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. Broadcaster believes that the ability to grant incentive stock options to its employees is critically important. We hope to offer incentive compensation to such employees on par with those provided by our competition and others

in the high-tech industry. In addition, tax laws and incentive compensation policies have changed since adoption of the 1993 Plan. As a result, our Board of Directors has adopted and our shareholders approved the 2004 Plan to permit Broadcaster to offer a wide range of incentives, including incentive and non-statutory stock options and stock purchase rights.

The 2004 Plan provides for the granting of options to purchase up to an aggregate of 10,500,000 common shares to employees, directors and other service providers of Broadcaster. Any options that expire prior to exercise will become available for new grants from the pool of ungranted options. Options that are granted under the 2004 Plan may be either options that qualify as incentive stock options under the Internal Revenue Code ( Incentive Options ), or those that do not qualify as such incentive stock options ( Non-Qualified Incentive Options ).

The 2004 Incentive Options may not be granted at a purchase price less than the fair market value of the Common Shares on the date of the grant (or, for an option granted to a person holding more than 10% of the Company's voting stock, at less than 110% of fair market value) and Non-Qualified Incentive Options may not be granted at a purchase price less than 85% of fair market value on the date of grant.

**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 14.****EMPLOYEE STOCK INCENTIVE PLANS AND EQUITY RELATED TRANSACTIONS (CONTINUED)**

The term of each option, under the 2004 plan, which is fixed at the date of grant, may not exceed ten years from the date the option is granted (by law, an Incentive Option granted to a person holding more than 10% of the Company's voting stock may be exercisable only for five years). At June 30, 2006, 6,500,000 options were available for future grants under the 2004 plan. The 6,500,000 shares were approved by Broadcaster shareholders at the Annual Meeting held in May 2006.

The 1993 Employee Incentive Plan, as amended, permitted us to grant options to purchase up to 2,925,000 shares of common stock to employees, directors and consultants at prices not less than the fair market value at date of grant for incentive stock options and not less than 85% of fair market value for non-statutory stock options. These options generally expire 10 years from the date of grant and become exercisable ratably over a 3 to 5-year period. The plan expired on June 30, 2003. At June 30, 2006, no shares were available for future grants under the 1993 plan.

Option activity under the 2004 and 1993 Plans are as follows:

|                            | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|----------------------------|-----------------------------|--|
| Outstanding, June 30, 2004 | 3,168,245                   | \$ 1.05  |
| Granted                    | 1,855,864                   | 1.10   |
| Exercised                  | (309,179 )                  | 0.57   |
| Cancelled                  | (207,001 )                  | 1.24   |
| Outstanding, June 30, 2005 | 4,507,929                   | \$ 1.10  |
| Granted                    | 1,575,500                   | 1.33   |
| Exercised                  | (904,688 )                  | 0.74   |
| Cancelled                  | (657,234 )                  | 1.23   |
| Outstanding, June 30, 2006 | 4,521,507                   | \$ 1.19  |

**Warrants**

Warrants have been granted from time to time in conjunction with financings, debt settlements, Board of Directors and employee compensation and consulting arrangements. Warrant activity is as follows:

| <b>Number of<br/>Warrants</b> | <b>Average<br/>Exercise</b> |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

|                            |              |    | <b>Price</b> |
|----------------------------|--------------|----|--------------|
| Outstanding, June 30, 2004 | 6,958,244    | \$ | 1.30         |
| Granted                    | 245,000      |    | 1.13         |
| Exercised                  | (95,000 )    |    | 0.39         |
| Exercised - cashless       | (560,000 )   |    |              |
| Expired                    | (150,000 )   |    | 0.45         |
| Outstanding, June 30, 2005 | 6,398,244    | \$ | 1.40         |
| Granted                    | 126,250      |    | 1.13         |
| Exercised                  |              |    |              |
| Exercised - cashless       | (1,987,501 ) |    |              |
| Expired                    |              |    |              |
| Outstanding, June 30, 2006 | 4,536,993    | \$ | 1.72         |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 14.****EMPLOYEE STOCK INCENTIVE PLANS AND EQUITY RELATED TRANSACTIONS (CONTINUED)****Other Information Regarding Stock Options and Warrants**

Additional information regarding common stock options and warrants outstanding as of June 30, 2006 is as follows:

| Range of Exercise Prices | Options Outstanding |                             |                              | Options Exercisable |                              |
|--------------------------|---------------------|-----------------------------|------------------------------|---------------------|------------------------------|
|                          | Number Outstanding  | Weighted Avg Remaining Life | Weighted Avg. Exercise Price | Number Exercisable  | Weighted Avg. Exercise Price |
| \$0.20-\$0.60            | 163,500             | 6.98                        | 0.43                         | 163,500             | 0.43                         |
| \$0.61-\$0.71            | 319,426             | 6.78                        | 0.68                         | 319,426             | 0.68                         |
| \$0.72-\$1.06            | 975,197             | 8.11                        | 0.90                         | 799,697             | 0.90                         |
| \$1.07-\$1.44            | 2,053,834           | 8.67                        | 1.20                         | 1,775,893           | 1.21                         |
| \$1.45-\$4.17            | 1,009,550           | 8.96                        | 1.75                         | 474,423             | 1.66                         |
|                          | 4,521,507           |                             | 1.19                         | 3,532,939           | 1.11                         |

| Range of Exercise Prices | Warrants Outstanding |                              | Warrants Exercisable |                              |
|--------------------------|----------------------|------------------------------|----------------------|------------------------------|
|                          | Number Outstanding   | Weighted Avg. Exercise Price | Number Exercisable   | Weighted Avg. Exercise Price |
| \$0.20                   | 150,000              | 0.20                         | 150,000              | 0.20                         |
| \$0.21 - \$0.75          | 361,952              | 0.56                         | 361,952              | 0.56                         |
| \$0.81                   | 1,887,500            | 0.81                         | 1,887,500            | 0.81                         |
| \$0.90                   | 147,000              | 0.90                         | 147,000              | 0.90                         |
| \$1.03 - \$1.26          | 996,250              | 1.15                         | 981,250              | 1.15                         |
| \$1.65 - \$2.30          | 600,000              | 1.98                         | 600,000              | 1.98                         |
| \$5.00 - \$14.85         | 394,291              | 9.05                         | 394,291              | 9.05                         |
|                          | 4,536,993            |                              | 4,521,993            |                              |

**NOTE 15.**

**COMMITMENTS**

Future minimum payments for operating leases are as follows:

| (In thousands)         | <b>Fiscal Year</b> | <b>Operating<br/>Leases</b> |
|------------------------|--------------------|-----------------------------|
|                        | 2007               | \$ 502                      |
|                        | 2008               | 90                          |
|                        | 2009               | 12                          |
|                        | 2010               |                             |
|                        | 2011 and after     |                             |
| Total minimum payments |                    | \$ 604                      |

For the twelve months ending June 30, 2006 and 2005 we recognized \$390,000 and \$363,000, respectively, as rental expense related to operating leases.



**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 16.****INCOME TAXES**

The provision (benefit) for taxes on income was comprised of the following:

|                     | <b>Fiscal Year<br/>Ended</b> | <b>Fiscal Year<br/>Ended</b> |
|---------------------|------------------------------|------------------------------|
|                     | <b>June 30,<br/>2006</b>     | <b>June 30,<br/>2005</b>     |
| (In thousands)      |                              |                              |
| Current:            |                              |                              |
| Federal             | \$ 96                        | \$                           |
| State               | 32                           | 25                           |
| Foreign             | 79                           |                              |
| Total Current       | 207                          | 25                           |
| Deferred:           |                              |                              |
| Federal             | (22 )                        |                              |
| State               | (5 )                         |                              |
| Foreign             | (169 )                       |                              |
| Total Deferred      | (196 )                       |                              |
| Total tax provision | \$ 11                        | \$ 25                        |

Deferred tax balances consist of the following:

|   | <b>June 30,<br/>2006</b> | <b>June 30,<br/>2005</b> |
|---|--------------------------|--------------------------|
| (In thousands)                              |                          |                          |
| Deferred tax assets                         |                          |                          |
| Net operating loss carry forward            | \$ 13,625                | \$ 14,313                |
| Tax credits                                 | 525                      | 441                      |
| Purchased intangibles                       | 208                      | 2,974                    |
| Allowance for doubtful accounts and returns | 51                       | 99                       |
| Inventory reserve                           | 55                       | 366                      |
| Accrued expenses                            | 398                      | 98                       |
| Unrealized appreciation                     | 20                       | 53                       |
| Fixed assets                                |                          | 77                       |
| Valuation allowance                         | (14,408 )                | (17,113 )                |
|   | 474                      | 1,308                    |

|                                       |             |        |
|---------------------------------------|-------------|--------|
| Deferred tax liabilities              |             |        |
| Purchased intangibles                 | (7,180 )    |        |
| State taxes                           | (463 )      | (724 ) |
| Fixed assets                          | (2 )        |        |
| Installment receivables               | (9 )        | (584 ) |
| Net deferred tax assets (liabilities) | \$ (7,180 ) | \$     |

At June 30, 2006, Broadcaster had an operating loss carry forward of approximately \$35,720,000 for federal tax purposes and approximately \$12,707,000 for state tax purposes, which expire in various amounts through 2026.

Approximately \$3,600,000 of the valuation allowance is related to deferred tax assets of acquired entities, and accordingly, any subsequently recognized tax benefits related to these assets will be allocated to reduce goodwill.

The federal net and state net operating losses begin to expire in 2119, and 2009 respectively. Use of the net operating losses may be limited in the event of an ownership change as defined by the Internal Revenue Code. Management believes that there may be some limitation due to an ownership change during the year, as defined by the Internal Revenue Code. We are currently in the process of quantifying such limitation.

**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 16.****INCOME TAXES (CONTINUED)**

Net income (loss) before tax expense for fiscal 2006, from domestic operations was approximately \$1,536,000 and from foreign operations was approximately (\$677,000).

Net income (loss) before tax expense for fiscal 2005, from domestic operations was approximately (\$1,503,000) and from foreign operations was approximately (\$226,000).

The effective tax rate differs from the federal statutory rate for the years ended June 30, 2006 and 2005 as follows:

|   | <b>Fiscal Year<br/>Ended<br/>June 30,<br/>2006</b> | <b>Fiscal Year<br/>Ended<br/>June 30,<br/>2005</b> |
|---|--|--|
| (In thousands)                              |  |  |
| Federal tax at 35% statutory rate           | \$ 301   | \$ (545 )  |
| State tax provision, net of federal benefit | 508  | (82 )  |
| Change in valuation allowance               | (2,705 )   | 54   |
| Effect of intangible assets                 | 2,766  |  |
| Other                                       | (859 )   | 598  |
| Total income tax provision (benefit)        | \$ 11  | \$ 25  |

The components of the provision related to continuing operations and discontinued operations are as follows:

|                         | <b>Fiscal Year<br/>Ended<br/>June 30,<br/>2006</b> | <b>Fiscal Year<br/>Ended<br/>June 30,<br/>2005</b> |
|-------------------------|--|--|
| Continuing operations   | \$ 11  | \$ 25  |
| Discontinued operations |  |  |
| Total tax provision     | \$ 11  | \$ 25  |

**NOTE 17.****EARNINGS PER SHARE - POTENTIALLY DILUTIVE SECURITIES**

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common

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shares issuable upon on exercise of stock options and warrants (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. The following table summarizes the weighted average shares outstanding:

|   | <b>Fiscal Year ended June 30</b> |              |
|---|----------------------------------|--------------|
|   | <b>2006</b>                      | <b>2005</b>  |
| Basic Weighted Average Shares Outstanding     | 32,644,639                       | 27,694,435   |
| Total Stock Options Outstanding               | 4,521,507                        | 4,647,624    |
| Less: Anti Dilutive Stock Options due to loss | (4,521,507 )                     | (4,647,624 ) |
| Total Warrants Outstanding                    | 4,536,993                        | 6,398,244    |
| Less: Anti Dilutive Warrants due to loss      | (4,536,993 )                     | (6,398,244 ) |
| Diluted Weighted Average Shares Outstanding   | 32,644,639                       | 27,694,435   |

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**BROADCASTER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 18.****SEGMENT INFORMATION**

We have two reportable operating segments which are based on our product families that generate revenues and incur expenses related to the sale of our AccessMedia and Houseplans. All inter-company amounts are eliminated through consolidation. Certain general and administrative expenses are allocated among our different segments based on each segment's contribution to total revenue.

| (In thousands) | Fiscal Year ended June, 30 2006 |            |             | Fiscal Year ended June, 30 2005 |            |           |
|----------------|---------------------------------|------------|-------------|---------------------------------|------------|-----------|
|                | AccessMedia                     | Houseplans | Total       | AccessMedia                     | Houseplans | Total     |
| Net revenues   | \$ 945                          | \$ 7,258   | \$ 8,203    | \$ 4,347                        | \$ 4,347   | \$ 4,347  |
| Gross margin   | 519                             | 4,510      | \$ 5,029    | 2,523                           | \$ 2,523   | \$ 2,523  |
| Operating loss | (88 )                           | (1,805 )   | \$ (1,893 ) | (373 )                          | \$ (373 )  | \$ (373 ) |
| Total Assets   | \$ 41,854                       | \$ 23,910  | \$ 65,764   | \$ 10,993                       | \$ 10,993  | \$ 10,993 |

The following table details the geographical breakdown in our net revenues and total assets by geographic location. The international column includes revenues relating to our wholly owned subsidiaries, Weinmaster Homes Ltd., in Canada.

| (In thousands) | Fiscal Year ended June, 30 2006 |               |           | Fiscal Year ended June, 30 2005 |               |           |
|----------------|---------------------------------|---------------|-----------|---------------------------------|---------------|-----------|
|                | Domestic                        | International | Total     | Domestic                        | International | Total     |
| Net revenues   | \$ 5,967                        | \$ 2,236      | \$ 8,203  | \$ 4,347                        | \$ 4,347      | \$ 4,347  |
| Total Assets   | \$ 59,952                       | \$ 5,812      | \$ 65,764 | \$ 10,993                       | \$ 10,993     | \$ 10,993 |

**NOTE 19.****SUBSEQUENT EVENTS****Acquisition of America's Biggest, Inc.**

On September 29, 2006, Broadcaster, Inc. completed the acquisition of 100% of the assets of America's Biggest, Inc. The consideration paid to America's Biggest consisted of 1,000,000 shares of Broadcaster stock and \$500,000 in cash. America's Biggest is an online grassroots talent showcase for actors, comedians, dancers, models as well as bands and musicians. America's Biggest empower its artist membership with technology and business tools to enable them to build their own brand and fan base independent of big labels.

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**INDEPENDENT AUDITORS REPORT**

Board of Directors

AccessMedia Networks, Inc.

Newark, Delaware

We have audited the accompanying consolidated balance sheets of AccessMedia Networks, Inc. and Subsidiaries (the Company ) as of December 31, 2005 and 2004 and the related consolidated statements of operations and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AccessMedia Networks, Inc. as of December 31, 2005 and 2004, and the results of its operations, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Los Angeles, California

March 3, 2006





## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

| <b>ASSETS</b>  | <b>2005</b>   | <b>2004</b> |
|--|---------------|-------------|
| <b>CURRENT ASSETS:</b>                                   |               |             |
| Cash (Note A)  | \$ 175,465    | \$ 518,755  |
| Accounts receivable, net of allowance (Note A)           | 195,821       | 149,364     |
| Total current assets                                     | 371,286       | 668,119     |
| <b>PROPERTY and EQUIPMENT:</b>                           |               |             |
| Computers (Note A)                                       | 11,012        |             |
| Less: accumulated depreciation                           | (338 )        |             |
| Net property and equipment                               | 10,674        |             |
| <b>OTHER ASSETS:</b>                                     |               |             |
| Media content, net of amortization (Note A)              | 5,738,333     | 180,000     |
| Intangible assets, net of amortization (Note A)          | 8,670,000     |             |
| Deferred development cost, net of amortization (Note A)  | 187,627       | 70,604      |
| Net other assets   | 14,595,960    | 250,604     |
| Total assets   | \$ 14,977,920 | \$ 918,723  |
| <b>LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIENCY)</b> |               |             |
| <b>CURRENT LIABILITIES:</b>                              |               |             |
| Accounts payable   | \$ 679,078    | \$ 22,219   |
| Accrued expenses   | 79,515        | 25,504      |
| Unearned contract fees                                   | 54,050        | 54,050      |

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|  |               |            |
|--|---------------|------------|
| Customer deposit   |               | 100,000    |
| Deferred revenue (Note A)  | 759,367       |            |
| Notes payable (Note F)   | 1,775,000     | 775,000    |
| Total current liabilities  | 3,347,010     | 976,773    |
| NONCURRENT LIABILITIES:  |               |            |
| Unearned contract fees, net of current   | 148,640       | 202,687    |
| Total liabilities  | 3,495,650     | 1,179,460  |
| STOCKHOLDER S EQUITY (DEFICIENCY):   |               |            |
| Common stock, no par value - 1,500 shares authorized;<br>1,250 shares issued and outstanding | 1,250         | 400        |
| Additional paid in capital   | 14,776,526    | 1,100      |
| Accumulated deficit  | (3,295,506 )  | (262,237 ) |
| Total stockholder s equity (deficiency)  | 11,482,270    | (260,737 ) |
| Total liabilities and stockholder s equity (deficiency)                                      | \$ 14,977,920 | \$ 918,723 |

See auditors report and accompanying notes to the financial statements.

## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

## FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

|  | <b>2005</b>     | <b>2004</b>   |
|--|-----------------|---------------|
| Net revenues                               | \$ 1,688,099    | \$ 101,432    |
| Cost of revenues                           | 1,398,004       | 61,186        |
| Gross profit                               | 290,095         | 40,246        |
| Operating expenses:                        |                 |               |
| Selling expenses                           | 1,278,079       | 11,605        |
| General and administrative expenses        | 1,988,597       | 261,800       |
| Total operating expenses                   | 3,266,676       | 273,405       |
| Loss from operations                       | (2,976,581 )    | (233,159 )    |
| Other expense :                            |                 |               |
| Interest expense (Note G)                  | 55,088          | 16,000        |
| Net loss before provision for income taxes | (3,031,669 )    | (249,159 )    |
| Provision for income tax                   | 1,600           |               |
| Net loss                                   | (3,033,269 )    | (249,159 )    |
| Accumulated deficit, beginning             | (262,237 )      | (13,078 )     |
| Accumulated deficit, ending                | \$ (3,295,506 ) | \$ (262,237 ) |

See auditors report and accompanying notes to the financial statements.

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## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

|  | <b>2005</b>     | <b>2004</b>   |
|--|-----------------|---------------|
| Cash flows from operating activities:  |                 |               |
| Net loss   | \$ (3,033,269 ) | \$ (249,159 ) |
| Adjustments to reconcile net loss to net cash provided<br>by (used in) operating activities: |                 |               |
| Amortization and depreciation  | 1,288,055       | 4,153         |
| (Increase) in:   |                 |               |
| Accounts receivable  | (22,310 )       | (149,364 )    |
| Increase (decrease) in:  |                 |               |
| Accounts payable   | 638,710         | (209,652 )    |
| Accrued expenses   | 54,011          | 23,752        |
| Customer deposit   | (100,000 )      | 100,000       |
| Unearned contract fees   | (54,047 )       | 256,738       |
| Deferred revenue   | 759,367         |               |
| Total adjustments  | 2,563,786       | 25,627        |
| Net cash used in operating activities  | (469,483 )      | (223,532 )    |
| Cash flows from investing activities:  |                 |               |
| Purchase of property and equipment   | (11,012 )       |               |
| Deferred development cost  | (232,072 )      | (24,539)      |
| Cash used in investing activities  | (243,084 )      | (24,539)      |
| Cash flows from financing activities:  |                 |               |
| Proceeds from short-term debt  | 200,000         | 675,000       |
| Cash provided by financing activities  | 200,000         | 675,000       |

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|                                 |            |            |
|---------------------------------|------------|------------|
| Net increase (decrease) in cash | (512,567 ) | 426,929    |
| Cash, beginning                 | 518,755    |            |
| Cash from acquisitions          | 169,277    | 91,826     |
| Cash, ending                    | \$ 175,465 | \$ 518,755 |

See auditors report and accompanying notes to the financial statements.

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**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|  | <b>2005</b>   | <b>2004</b> |
|--|---------------|-------------|
| <b>Supplemental schedule of non-cash investment activities</b> |               |             |
| Acquisitions   |               |             |
| Fair value of non-cash assets acquired                         | \$ 15,425,147 | \$          |
| Fair value of liabilities assumed                              | 818,148       |             |
| Purchase price of acquisitions                                 | 14,776,276    |             |
| <br><b>Supplemental information</b>                            |               |             |
| Cash paid during the years for:                                |               |             |
| Interest (Note G)  | \$ 55,088     | \$ 16,000   |

See auditors report and accompanying notes to the financial statements.

**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

**NOTE A.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Business**

AccessMedia Networks, Inc. (the Company) is involved in an Internet-based multi-channel strategy that allows the delivery of content and entertainment on demand and enables end-users to readily organize and access significant volumes of quality content, utilizing its broad-based search capabilities. These capabilities span AccessMedia's proprietary media library, media under license, and media readily available on the Internet. The Company's revenues are primarily derived from the sale of its downloadable software to individuals, the sale of advertising space on its website, and the additional up-sells of merchandise, subscriptions, and media downloads to purchase. The Company was incorporated on January 9, 2002, under the laws of the State of Delaware.

In January, 2005, the sole stockholder of the Company sold 100% of his shares in the Company to Broadcaster, LLC.

In May, 2005, the Company acquired 100% of the outstanding stock of Media Zone, Ltd. (MZ) and its wholly-owned subsidiary, Value Investments, Inc. (VI) in a tax-free exchange for 450 shares of the Company's common stock. MZ and VI develop software programs for delivering real-time interactive media over the Internet. The Company acquired MZ to expand its Internet media technology.

In July, 2005, the Company acquired 100% of the outstanding stock of two additional corporations, PeopleCaster, Inc. (PC) and MyVod, Inc. (MV), in tax-free exchanges for 200 shares each of the Company's common stock. PC and MV own technology licenses for Internet programs relating to advertising and media content manipulation. The Company acquired PC and MV to enhance its Internet media delivery systems.

In August, 2005, the Company announced plans to merge with International Microcomputer Software, Inc. (IMSI), a public company traded on the Over the Counter Exchange.

**Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our consolidated financial statements would be affected to the extent there are material differences between these estimates and actual



results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

### **Cash**

The Company considers all checking, savings accounts and all highly liquid debt instruments purchased to be cash equivalents.

### **Fair Value of Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and a demand note payable. The carrying amounts of cash, accounts receivables and accounts payables approximate fair value because of the short-term nature of these items. The carrying amount of the demand notes payable approximates fair value as the borrowing bears interest reflecting below current market rates.

**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2005 AND 2004**

**NOTE A.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company maintains its cash accounts with a high quality financial institution. As of December 31, 2005 and 2004, the Company had cash balances of approximately \$174,000 and \$218,000, respectively, in excess of the Federal Deposit Insurance Corporation Limit of \$100,000 per institutions. However, the Company does not anticipate non-performance by the counter-parties.

**Advertising**

The Company expenses advertising costs and includes them in selling expense as incurred. Advertising and traffic buys for the years ended December 31, 2005 and 2004 were \$942,832 and \$3,840, respectively.

**Accounts Receivable**

Allowance for returns is computed under the allowance method, based on the Company's historical experience and management's analysis of possible returns. The allowance for returns was \$170,025 and \$1,156 at December 31, 2005 and 2004, respectively.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciable property is depreciated using the straight-line method for accounting purposes over their estimated useful lives. Depreciation expense for the year ended December 31, 2005 was \$338.

**Intangible Assets**

***Software Development Costs and License Fees***

Costs incurred in the initial design phase of software development are expensed as incurred in research and development. Once the point of technological feasibility is reached, direct production costs are capitalized in compliance with Statements of Financial Accounting Standards ( SFAS ) No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. We cease capitalizing computer software costs when the product is available for general release to customers. Costs associated with acquired completed software are capitalized.

The Company amortizes capitalized software development costs and visual content license fees on a product-by-product basis. The amortization for each product is the greater of the amount computed using (a) the ratio of current gross revenues to the total of current and anticipated future gross revenues for the product or (b) 18, 36 or 60 months, depending on the product. The Company evaluates the net realizable value of each software product at each balance sheet date and records write-downs to net realizable value for any products for which the carrying value is in excess of the estimated net realizable value.

The Company started amortizing capitalized software development costs when the product became available for general release to customers, which occurred on November 1, 2004. The amortization period was over 36 months. For the years ended December 31, 2005 and 2004, the total amortization expense was \$116,050 and \$4,153, respectively. The Company also started amortizing the intangible assets acquired through the merger with PC and MV over a period of 60 months. For the year ended December 31, 2005, total amortization expense was \$930,000.

***Other Intangible Assets***

The Company also capitalized the cost of media content acquired during the year ended December 31, 2005 in the amount of \$5,800,000. The Company started amortizing content acquired from MV in August of 2005. For the year ended December 31, 2005 the total amortization expense was \$241,667.

**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2005 AND 2004**

**NOTE A.**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long Lived Assets**

The Company reviews long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. The Company did not recognize any impairment loss for long-lived assets for the years ended December 31, 2005 and 2004.

**Revenue Recognition**

The Company records revenue related to the sale of software when the customer downloads the software via the Internet and a payment is collected. Sales of subscription products are recognized ratably over the period the services are rendered.

The Company recognizes revenue related to the display of advertisements on its Internet properties as impressions (the number of times that an advertisement appears in pages viewed by users) are delivered, as long as no significant obligations remain at the end of the period. To the extent that significant obligations remain at the end of the period, the Company defers recognition of the corresponding revenue until the remaining guaranteed amounts are achieved.

The Company generates revenue from the display of text-based links to the websites of its advertisers. These links are placed on the Company's Internet properties as well as on the websites of third party entities who have integrated the Company's sponsored search offerings into their websites. The Company recognizes revenue from these arrangements as click-throughs (the number of times a user clicks on an advertiser's listing) occur.

**Consolidation Policy**

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material inter-company accounts and transactions are eliminated in consolidation.

**Financial Statement Reclassification**

Certain accounts have been reclassified for ease of comparison on the financial statements. This resulted in no change to the consolidated balance sheet, net loss, or accumulate deficit of the Company.

**NOTE B.**

**INCOME TAXES**

At December 31, the composition of the Company's net deferred income tax assets was as follows:

|                                | <b>2005</b>  | <b>2004</b> |
|--------------------------------|--------------|-------------|
| Deferred income tax assets     | \$ 1,411,795 | \$ 112,342  |
| Valuation allowances           | (1,411,795 ) | (112,342 )  |
| Net deferred income tax assets | \$           | \$          |

Deferred income tax assets principally resulted from certain costs and expenses incurred for financial reporting purposes not currently deductible for income tax purposes and from net operating loss carryforwards. At December 31, 2005, the Company had federal net operating loss carryforwards of approximately \$3,296,000 which will expire in the years 2023 through 2025.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences

**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2005 AND 2004**

**NOTE B.**

**INCOME TAXES (CONTINUED)**

become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that most of the deferred tax assets will not be realized.

The valuation allowance has increased by \$1,299,453 in 2005.

**NOTE C.**

**RECENT ACCOUNTING PRONOUNCEMENTS**

In November 2004, the FASB issued SFAS No. 151 *Inventory Costs - An Amendment of ARB No. 43, Chapter 4* ( SFAS 151 ). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of *so abnormal* as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect that the adoption of SFAS 151 will have on its results of operations and financial condition but does not expect it to have a material impact.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* ( SFAS 153 ). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition, but does not expect it to have a material impact.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes* ( SFAS 154 ), and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* ( FASB 3 ). The new statement changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those

provisions should be followed. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

**NOTE D.**

**ACQUISITIONS**

**Acquisition of Media Zone, Ltd.**

In May, 2005, the Company acquired 100% of the outstanding stock of Media Zone, Ltd. (MZ) and its wholly-owned subsidiary, Value Investments, Inc. (VI) in a tax-free exchange for 450 shares of the Company's common stock. MZ and VI develop software programs for delivering real-time interactive media over the Internet. The Company acquired MZ to expand its Internet media technology. The result of operations of MZ from May 13, 2005 to December 31, 2005 was included in the Company's consolidated statement of operations.

## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

## NOTE D.

## ACQUISITIONS (CONTINUED)

The purchase price of approximately \$3.3 million was comprised as follows:

(In millions)

| <b>Description</b> | <b>Amount</b> |
|--------------------|---------------|
| Stock              | \$3.3         |
| Total              | \$3.3         |

The fair value of our common stock was determined based on 450 shares issued and priced using management estimates which considered the work of valuation experts.

The acquired assets and assumed liabilities were recorded at their estimated fair value on the consolidated books of the Company. The preliminary determination of fair value of intangible assets was made by management using the income approach methodology and the cost approach using the principle of substitution. The preliminary fair values of MZ tangible assets and liabilities are historical values. The Company assumed liabilities of approximately \$818,000 in the acquisition, including \$800,000 in demand notes, of which \$750,000 is payable to a related party.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values are as follows:

(In millions)

| <b>Description</b>  | <b>Amount<br/>(unaudited)</b> |
|---------------------|-------------------------------|
| Tangible assets     | \$0.2                         |
| Intangible assets   | 3.9                           |
| Assumed liabilities | (0.8)                         |
| Total               | \$3.3                         |

The assets will be amortized or depreciated over a period of years shown on the following table:

| <b>Description</b> | <b>Estimated<br/>remaining<br/>life (years)</b> |
|--------------------|---|
| Intangible assets  | 5   |

**Acquisition of PeopleCaster, Inc. and MyVod, Inc.**



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In July, 2005, the Company acquired 100% of the outstanding stock of two corporations, PeopleCaster, Inc. ( PC ) and MyVod, Inc. ( MV ), in tax free-exchanges for 200 shares each of the Company s common stock. PC and MV own technology licenses for Internet programs relating to advertising and media content manipulation. The Company acquired PC and MV to enhance its Internet media delivery systems. The result of operations of PC and MV from July 22, 2005 to December 31, 2005 was included in the Company s consolidated statement of operations.

The purchase price of approximately \$11.5 million was comprised as follows:

(In millions)

| <b>Description</b> | <b>Amount PC</b> | <b>Amount MV</b> |
|--------------------|------------------|------------------|
| Stock              | \$5.7            | \$5.8            |
| Total              | \$5.7            | \$5.8            |

The fair value of our common stock was determined based on 400 shares issued and priced using the management estimates which considered the work of valuation experts.

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## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

## NOTE D.

## ACQUISITIONS (CONTINUED)

The acquired assets and assumed liabilities were recorded at their estimated fair value on the consolidated books of the Company. The preliminary determination of fair value was made by management. The preliminary determination of fair value of intangible assets was made by management using the income approach methodology and the cost approach using the principle of substitution for technology, and estimated replacement cost for media content. The preliminary fair values of PC and MV tangible assets and liabilities are historical values. The Company did not assume any material liabilities in the acquisition.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values are as follows:

(In millions)

| <b>Description</b>             | <b>Amount PC<br/>(unaudited)</b> | <b>Amount MV<br/>(unaudited)</b> |
|--------------------------------|----------------------------------|----------------------------------|
| Tangible assets                | \$                               | \$                               |
| Intangible assets - technology | 5.7                              |                                  |
| Intangible assets - content    |                                  | 5.8                              |
| Total                          | \$5.7                            | \$5.8                            |

The assets will be amortized or depreciated over a period of years shown on the following table:

| <b>Description</b> | <b>Estimated<br/>remaining<br/>life (years)</b> |
|--------------------|---|
| Intangible assets  | 5   |
| Media content      | 10  |

The unaudited pro forma information below represents the consolidated key balance sheet items and the results of operations as of and for the year ended December 31, 2005 as if the acquisition of MZ, PC and MV had occurred on January 1, 2005. The unaudited pro forma information has been included for comparative purposes and is not indicative of the results of operations of the consolidated Company had the acquisition of MZ, PC and MV had occurred on January 1, 2005, nor is it necessarily indicative of future results.

**Balance Sheet Items**

|             |    |         |
|-------------|----|---------|
| Cash        | \$ | 175,465 |
| Receivables |    | 195,821 |

|  |              |
|--|--------------|
| Intangible assets, net of amortization | 7,680,000    |
| Media content, net of amortization     | 5,400,002    |
| Accounts payable                       | 679,078      |
| Notes payable                          | 1,775,000    |
| Deferred revenue                       | 759,367      |
| <b>Result of Operations</b>            |              |
| Net revenues                           | \$ 1,701,501 |
| Product costs                          | 1,171,975    |
| Selling expense                        | 1,278,079    |
| General and administrative expenses    | 974,958      |
| Amortization and depreciation          | 2,643,195    |
| Net loss                               | (4,428,850 ) |
| <b>Losses Per Share</b>                |              |
| Basic as reported                      | \$ (2,427 )  |
| Basic pro forma                        | \$ (3,543 )  |

## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

**NOTE E.****PLAN OF MERGER WITH IMSI**

On December 16, 2005, the Company, its stockholders, ACCM Acquisition Corp., a Delaware corporation and IMSI's subsidiary ( Merger Sub ) and IMSI, entered into an agreement and plan of merger ( Agreement ), under which Merger Sub will be merged with and into AccessMedia, with AccessMedia continuing after the merger as the surviving corporation and our wholly-owned subsidiary.

Under the Agreement, IMSI will issue 29 million shares of its common stock to AccessMedia's stockholders at the closing of this transaction, representing approximately 49% of IMSI's outstanding stock at such time. Following the closing, IMSI may issue up to 35 million additional shares of its common stock to AccessMedia's stockholders if AccessMedia achieves certain revenue goals prior to December 31, 2008 (subject to certain extensions as provided in the Agreement). The closing of the transaction is anticipated to occur in the second calendar quarter of 2006. As part of the closing, IMSI will change its name to Broadcaster, Inc.

The Agreement has been approved by both AccessMedia's and IMSI's Boards of Directors, and the transactions contemplated thereby are subject to customary closing conditions.

Concurrently with the execution of the Agreement, the Company entered into a joint operating agreement with IMSI, under which IMSI agreed to loan AccessMedia up to \$3.0 million prior to the closing of the merger pursuant to a joint operating plan and an operating budget to be delivered to a joint operating committee comprised of representatives of AccessMedia and IMSI. In addition, IMSI agreed to fund up to an additional \$7.0 million of net working capital needs of the surviving entity if certain operating milestones are achieved, as outlined in the joint operating agreement. The Company has not yet requested funding under this arrangement.

**NOTE F.****NOTES PAYABLE**

The Company had the following demand notes payable as of December 31.

|   | <b>2005</b>  | <b>2004</b> |
|---|--------------|-------------|
| On-demand note payable to a related party bearing interest at 4% per annum. Interest is paid monthly. The note is secured by substantially all assets of the Company including hereafter acquired assets. | \$ 1,725,000 | \$ 775,000  |
| Unsecured on-demand note bearing interest at 10% per annum. Interest is paid monthly.   | 50,000       |             |

\$ 1,775,000 \$ 775,000

**NOTE G.**

**RELATED PARTY TRANSACTIONS**

During 2005 and 2004, an individual loaned the Company \$1,725,000 and \$775,000, respectively. The Company paid interest to the individual in the amounts of \$50,088 and \$16,000 for the years ended December 31, 2005 and 2004, respectively.

During 2005 and 2004, the Company accrued expenses involving a related party for costs incurred for employee benefits, administrative space, and operating costs amounting to \$733,441 and \$15,247, respectively.

**ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULES OF REVENUES AND COST OF REVENUES**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|                               | <b>2005</b>  | <b>2004</b> |
|-------------------------------|--------------|-------------|
| <b>Revenues:</b>              |              |             |
| Advertising income            | \$ 551,924   | \$          |
| Consulting income             | 54,048       | 80,187      |
| Software sales                | 1,273,091    | 24,278      |
| Less : Returns and allowances | (190,964 )   | (3,033 )    |
| Net revenues                  | \$ 1,688,099 | \$ 101,432  |
| <b>Cost of revenues:</b>      |              |             |
| Amortization                  | \$ 241,667   | \$          |
| Agency fees                   | 23,928       | 192         |
| Commissions                   | 11,559       |             |
| Content                       | 2,083        |             |
| Hosting                       | 159,443      |             |
| Processing fees               | 367,858      | 22,075      |
| Production                    | 323,215      | 38,919      |
| Programming                   | 268,251      |             |
| Total cost of revenues        | \$ 1,398,004 | \$ 61,186   |

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## ACCESSMEDIA NETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED SCHEDULES OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

## FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

|   | 2005         | 2004       |
|---|--------------|------------|
| <b>Selling Expenses:</b>                    |              |            |
| Advertising                                 | \$ 3,470     | \$         |
| Marketing promotions                        | 53,076       | 424        |
| Salaries and wages                          | 259,774      | 7,146      |
| Traffic buy                                 | 939,362      | 3,840      |
| Payroll tax                                 | 22,397       | 195        |
| Total                                       | \$ 1,278,079 | \$ 11,605  |
| <b>General and Administrative Expenses:</b> |              |            |
| Amortization and depreciation               | \$ 1,046,388 | \$ 4,153   |
| Bad debts                                   | 47,692       |            |
| Bank fees                                   | 4,241        | 2,812      |
| Consulting service                          | 6,850        | 6,000      |
| Insurance                                   | 82,903       | 12,091     |
| License and taxes                           | 1,287        | 524        |
| Office expense                              | 40,846       | 4,904      |
| Outside services                            | 170,658      | 5,515      |
| Professional fees                           | 33,064       |            |
| Rent  | 235,621      |            |
| Salaries and wages                          | 280,734      | 208,142    |
| Payroll tax                                 | 26,220       | 17,395     |
| Telecommunications                          | 12,093       | 264        |
| Total                                       | \$ 1,988,597 | \$ 261,800 |

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**BROADCASTER, INC. & ACCESSMEDIA, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED  
STATEMENTS OF OPERATIONS****For the Fiscal Year Ended June 30, 2006****(In thousands, except per share data)**

|  | <b>Broadcaster<br/>Twelve<br/>months ended<br/><br/>June 30,<br/><br/>2006</b> | <b>AccessMedia<br/>Eleven<br/>months ended<br/><br/>May 31,<br/><br/>2006</b> | <b>Pro Forma<br/><br/>Pro Forma<br/><br/>Adjustments</b> | <b>Pro Forma<br/>Twelve<br/>months ended<br/><br/>June 30,<br/><br/>2006</b> |
|--|--|---|--|--|
| Net revenues   | \$ 8,203   | \$ 5,391  |  | \$ 13,594  |
| Cost of net revenues                                   |  |   |  |  |
| Product costs  | 3,174  | 2,903   | (306 )   | 5,771  |
| Gross margin   | 5,029  | 2,488   | 306  | 7,823  |
| Operating expenses:                                    |  |   |  |  |
| Sales and marketing                                    | 2,944  | 2,676   |  | 5,620  |
| General and administrative                             | 3,760  | 3,208   | (1,184 )   | 5,784  |
| Research and development                               | 218  | 246   |  | 464  |
| Total operating expenses                               | 6,922  | 6,130   | (1,184 )   | 11,868   |
| Loss/(Income) from operations                          | (1,893 )   | (3,642 )  | 1,490  | (4,045 )   |
| Interest and other income<br>(expense), net            | 124  | (68 )   |  | 56   |
| Realized / unrealized loss on<br>marketable securities | 765  |   |  | 765  |
| Loss before income tax                                 | (1,004 )   | (3,710 )  | 1,490  | (3,224 )   |
| Income tax provision                                   | 11   |   |  | 11   |

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|   |          |             |          |            |
|---|----------|-------------|----------|------------|
| Loss from continuing operations                           | (1,015 ) | (3,710 )    | 1,490    | (3,235 )   |
| Loss/(Income) from discontinued operations, net           | (2,971 ) |             |          | (2,971 )   |
| Gain/(loss) from the sale of discontinued operations, net | 4,834    |             |          | 4,834      |
| Net (loss) income   | 848      | (3,710 )    | 1,490    | (1,372 )   |
| Other comprehensive loss                                  |          |             |          |            |
| Foreign currency translation adjustments                  | 432      |             |          | 432        |
| Comprehensive income/(loss)                               | \$ 1,280 | \$ (3,710 ) | \$ 1,490 | \$ (940 )  |
| Net loss per share:                                       |          |             |          |            |
| Basic and diluted   | \$ 0.03  | \$ (0.12 )  |          | \$ (0.02 ) |
| Weighted average shares outstanding used to compute:      |          |             |          |            |
| Basic and diluted   | 32,645   | \$ 31,450   |          | 64,095     |

See notes to unaudited pro forma condensed combined consolidated financial statements.

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED  
CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1.**

**BASIS OF PRO FORMA PRESENTATION**

On December 16, 2005, Broadcaster and AccessMedia entered into a definitive agreement whereby Broadcaster agreed to acquire 100% of the outstanding capital stock of AccessMedia. The acquisition was completed on June 1, 2006. Broadcaster accounted for the business combination as a purchase. At the closing, ACCM Acquisition Corp., a newly formed, wholly-owned subsidiary of Broadcaster merged with AccessMedia, with AccessMedia surviving the merger as a wholly-owned subsidiary of Broadcaster.

On May 13, 2005, AccessMedia completed the acquisition of substantially all of the assets of Media Zone Ltd. On July 22, 2005, AccessMedia completed the acquisition of substantially all of the assets of Peoplecaster, Inc. and Myvod, Inc. These transactions were accounted for as a purchase. AccessMedia acquired all of the operating assets of Media Zone, Ltd., Peoplecaster, Inc. and Myvod, Inc. in a share for share exchange.

The unaudited pro forma condensed consolidated statements of operations for the year ended June 30, 2006 give effect to the proposed business combination as if it had occurred on July 1, 2005.

**NOTE 2.**

**PRO FORMA ADJUSTMENTS**

There were no intercompany balances or transactions between Broadcaster and AccessMedia other than the Joint Operating Agreement.

The accompanying unaudited pro forma combined statement of operations has been prepared as if the business combination was completed on July 1, 2005 and reflects the following pro forma adjustments:

(A)

To establish amortizable intangible assets and non-amortizable goodwill resulting from the proposed business combination.

(B)

To record estimated direct transaction costs of approximately \$3.5 million to be incurred by Broadcaster related to the proposed business combination. Actual amounts could differ significantly upon close of the proposed business combination.

(C)

To reflect amortization of the amortizable intangible assets on a straight-line basis resulting from the proposed business combination.

(D)

Basic net loss per share is calculated by dividing the net loss for the period by the weighted average common stock outstanding for the period, inclusive of the 29.0 million shares of Broadcaster common stock estimated to be issued in the proposed business combination and 2.45 million shares issued as direct transaction costs. As the pro forma combined condensed statement of operations for all periods presented shows a net loss, weighted average basic and diluted shares are the same.

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## **PART II INFORMATION NOT REQUIRED IN PROSPECTUS**

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

#### **Liability and Indemnification of Directors and Officers; Limitation on Liability of Directors**

Our Bylaws and Sections 204(a) and 317 of the California Corporations Code allow, and in some cases require, the indemnification of directors and officers to the fullest extent permitted by law for all expenses relating to civil, criminal, administrative or investigative procedures to which they are a party (i) by reason of the fact that they are or were directors or officers of Broadcaster or (ii) by reason of the fact that, while they are or were directors or officers of Broadcaster, they are or were serving at the request of Broadcaster as a director, officer or employee of another enterprise. Our Bylaws further provide that an advancement for any such expenses shall only be made upon delivery to Broadcaster by the indemnitee of an undertaking to repay all amounts so advanced if it is ultimately determined that such indemnitee is not entitled to be indemnified by Broadcaster.

Pursuant to authority conferred by Sections 204(a) and 317 of the California Corporations Code, Article II, Section 5 of our Bylaws ( Section 5 ) eliminates the personal liability of our directors to Broadcaster or our shareholders for monetary damages for breach of fiduciary duty as a director, except to the extent that such exemption from liability or limitation thereof is not permitted under the California Corporations Code as currently in effect or as it may hereafter be amended.

Under Section 204(a)(10) of the California Corporations Code as in effect on the date hereof, our directors remain liable for: (i) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director, (iii) any transaction from which a director derived an improper personal benefit, (iv) acts or omissions that show a reckless disregard for the director's duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the corporation or its shareholders, (v) acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its shareholders, (vi) improper transactions between the director and the corporation, or (vii) improper distributions to shareholders, and improper loans to officers and directors. Section 5 provides that the rights granted therein may not be altered with respect to any present or former director or officer without that person's written consent.

#### **Indemnification Agreements**

We have agreed to indemnify our directors and officers to the fullest extent provided under our Bylaws and the California Corporations Code. We maintain Directors and Officers insurance to provide for any losses incurred as a result of those agreements.

### **OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

We will pay all expenses in connection with the registration and sale of our common stock. The estimated expenses of issuance and distribution are set forth below:

| <b>Type of Expense</b> | <b>Amount</b> |
|------------------------|---------------|
|------------------------|---------------|

|                              |    |         |
|------------------------------|----|---------|
| Registration Fee             | \$ | 4,896   |
| Costs of Printing (estimate) |    |         |
| Legal Fees (estimate)        |    | 100,000 |
| Accounting Fees (estimate)   |    | 10,000  |
| Total                        | \$ |         |

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**RECENT SALES OF UNREGISTERED SECURITIES**

We sold the following securities in the past three years in transactions not registered under the Securities Act of 1933:

| <b>Date Securities Issued</b>                              | <b>Securities Title</b> | <b>Issued to</b>                | <b>Number of Securities Issued</b> | <b>Consideration(1)</b>   | <b>Footnotes</b> |
|--|-------------------------|---------------------------------|------------------------------------|---------------------------|------------------|
| <b>Common Stock Issuances</b>                              |                         |                                 |                                    |                           |                  |
| 10/20/06   | Common Stock            | John Zampino                    | 15,120                             | legal fees                | (5)              |
| 09/29/06   | Common Stock            | America's Biggest, Inc.         | 1,000,000                          | acquisition consideration | (2)              |
| 06/01/06   | Common Stock            | Baytree Capital Associates, LLC | 2,450,000                          | consulting fee            | (5)              |
| 06/01/06   | Common Stock            | Michael Gardner                 | 7,700,000                          | merger consideration      | (2)              |
| 06/01/06   | Common Stock            | Broadcaster LLC                 | 9,280,000                          | merger consideration      | (2)              |
| 06/01/06   | Common Stock            | AccessMedia Technology, LLC     | 2,320,000                          | merger consideration      | (2)              |
| 06/01/06   | Common Stock            | Trans Global Media LLC          | 4,640,000                          | merger consideration      | (2)              |
| 06/01/06   | Common Stock            | Software People LLC             | 4,640,000                          | merger consideration      | (2)              |
| 06/01/05   | Common Stock            | Bruce & Janice Weinmaster       | 826,583\$                          | 1,020,830                 | (2)              |
| 09/28/04   | Common Stock            | Ken Katuin                      | 500,000                            | \$505,000                 | (2)              |
| 09/02/04   | Common Stock            | Aladdin Systems Holdings, Inc.  | 1,065,807                          | \$1,033,333               | (2)              |
| 06/09/04   | Common Stock            | CADalog, Inc.                   | 5,000                              | \$6,100                   | (2)              |
| 05/11/04   | Common Stock            | DevDepot LLC                    | 112,000                            | \$130,550                 | (2)              |
| 05/08/04   | Common Stock            | Upperspace Corporation          | 68,966                             | \$100,000                 | (2)              |
| 04/19/04   | Common Stock            | Aladdin Systems Holdings, Inc.  | 2,317,881                          | \$3,894,040               | (2)              |
| 11/26/03   | Common Stock            | Marc Crone                      | 15,000                             | \$15,360                  | (2)              |
| 11/18/03   | Common Stock            | Jeff Spring                     | 85,000                             | \$76,840                  | (2)              |
| <b>Common Stock Issued as a Result of Warrant Exercise</b> |                         |                                 |                                    |                           |                  |
| 09/23/04   | Common Stock            | Jeffrey Morgan                  | 35,000                             | \$11,200                  | (6)              |
| 08/09/04   | Common Stock            | Americ Disc, Inc.               | 28,070                             | \$25,000                  | (6)              |
| 07/29/04   | Common Stock            | Jeffrey Morgan                  | 10,000                             | \$3,200                   | (6)              |

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|          |              |                |         |          |     |
|----------|--------------|----------------|---------|----------|-----|
| 06/29/04 | Common Stock | Adam Shaffer   | 4,132   | \$25,250 | (6) |
| 03/04/04 | Common Stock | Joseph Abrams  | 84,337  | \$26,000 | (6) |
| 03/03/04 | Common Stock | Paul Jakab     | 100,000 | \$26,000 | (6) |
| 02/18/04 | Common Stock | Jeffrey Morgan | 15,000  | \$4,800  | (6) |
| 11/05/03 | Common Stock | Avi Suriel     | 55,165  | \$24,000 | (6) |

(1)

Considered received as cash except where noted.

(2)

Stock issued pursuant to an acquisition agreement or amendment to acquisition agreement.

(3)

Stock issued in connection with financing activities.

(4)

Stock issued in settlement of an outstanding liability.

(5)

Stock issued for services rendered.

(6)

Stock issued as the result of warrant exercise.

All of the issuances listed above were exempt from registration under Section 4(2) of the Securities Act and Rule 506 thereunder.



## UNDERTAKINGS

(a)

The undersigned registrant hereby undertakes:

1.

To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i)

Include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii)

Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii)

Include any additional or changed material information on the plan of distribution.

2.

For determining liability under the Securities Act of 1933, treat each post-effective amendment as a new registration statement relating to the securities offered therein, and the offering of the securities at that time to be the initial bona fide offering thereof.

3.

To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of offering.

(b)

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or

controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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**SIGNATURES**

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned.

**BROADCASTER, INC.**

Chatsworth, California

Dated: November 13, 2006

By: /s/ MARTIN R. WADE III  
 Martin R. Wade III  
 Chief Executive Officer

(Principal Executive Officer)

KNOW ALL MEN BY THESE PRESENTS, that the persons whose signatures appear below constitute and appoint Martin R. Wade, Blair Mills and Kathryn Felice, and each of them individually, as their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for them and in their names, places and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to sign any subsequent registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933 and any and all amendments thereto, and to file the same, with all exhibits thereto, and the other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitutes, may lawfully do or cause to be done by virtue thereof.

In accordance with the requirements of the Securities Act of 1933, this registration Statement was signed by the following persons in the capacities and on the dates stated.

| <b>Signature</b>                             | <b>Title</b>  | <b>Date</b>       |
|--|---|-------------------|
| /s/ MARTIN R. WADE III<br>Martin R. Wade III | Director  | November 13, 2006 |
| /s/ BLAIR MILLS<br>Blair Mills               | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | November 13, 2006 |
| /s/ BRUCE R. GALLOWAY<br>Bruce R. Galloway   | Chairman of the Board of Directors                                      | November 13, 2006 |

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|                                      |          |                   |
|--------------------------------------|----------|-------------------|
| /s/ RICHARD BERMAN<br>Richard Berman | Director | November 13, 2006 |
|--------------------------------------|----------|-------------------|

|                            |          |                   |
|----------------------------|----------|-------------------|
| /s/ EVAN BINN<br>Evan Binn | Director | November 13, 2006 |
|----------------------------|----------|-------------------|

|                   |          |  |
|-------------------|----------|--|
| Robert S. Falcone | Director |  |
|-------------------|----------|--|

|                                      |          |                   |
|--------------------------------------|----------|-------------------|
| /s/ KATHRYN FELICE<br>Kathryn Felice | Director | November 13, 2006 |
|--------------------------------------|----------|-------------------|

|               |          |  |
|---------------|----------|--|
| Donald Perlyn | Director |  |
|---------------|----------|--|

**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>  |
|-----------------------|--|
| 2.1                   | Amended and Restated Agreement and Plan of Merger, dated March 24, 2006, by and among Broadcaster, Broadcaster, Inc., ACCM Acquisition Corp., AccessMedia Networks, Inc. and the shareholders of AccessMedia Networks, Inc.(1) |
| 2.2                   | Asset Purchase Agreement, dated June 9, 2006, by and between Broadcaster and IMSI Design LLC.(2)   |
| 3.1                   | Amended and Restated Articles of Incorporation.(3)   |
| 3.2                   | Amendment to Amended and Restated Articles of Incorporation.(4)  |
| 3.3                   | Amended and Restated Bylaws.(5)  |
| <u>5.1</u>            | Opinion of Harris Cramer LLP.*   |
| 10.1                  | 1993 Incentive Option Plan.(6)   |
| 10.2                  | 2004 Incentive Stock Option Plan.(7)   |
| 10.3                  | 2004 Warrant Plan.(7)  |
| 10.4                  | Amendment to 2004 Incentive Stock Option Plan.(8)  |
| 10.5                  | Employment Agreement, dated June 15, 2005, by and between Broadcaster and Robert O Callahan.(9)  |
| 10.6                  | Amended and Restated Executive Employment Agreement, dated September 1, 2001, by and between Broadcaster and Gordon A. Landies.(9)   |
| 10.7                  | Amendment to Executive Employment Agreement, dated June 30, 2005, by and between Broadcaster and Gordon A. Landies.(9)   |
| 10.8                  | Executive Employment Agreement, dated June 1, 2005, by and between Broadcaster and Robert Mayer.(9)  |
| 10.9                  | Amended and Restated Employment Agreement, dated September 12, 2006, by and between Broadcaster and Martin R. Wade, III.(10)   |
| 10.10                 | Employment Agreement, dated May 1, 2005, by and between Houseplans, Inc. and Marvin Mauer*   |
| 10.11                 | Consulting Agreement, dated May 1, 2003, by and between Broadcaster and Bruce Galloway.(11)  |
| 10.12                 | Form of Stock Purchase Warrant.(2)   |
| 10.13                 | Joint Operating Agreement, dated August 8, 2005, by and between Broadcaster and AccessMedia Networks, Inc.(12)   |
| 10.14                 | Form of Parent Voting Agreement,(13)   |
| 10.15                 | Amendment No. 1 to Parent Voting Agreement, dated September 18, 2006, by and between AccessMedia Networks, Inc. and certain shareholders of Broadcaster.(2)  |
| 10.16                 | Company Voting Agreement, dated December 16, 2005, by and among Broadcaster and certain shareholders of AccessMedia Networks, Inc.(14)   |
| 10.17                 |  |

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Amendment No. 1 to Company Voting Agreement, dated September 18, 2006, by and between Broadcaster, Broadcaster Networks, Inc. and certain former shareholders of AccessMedia Networks, Inc.(2)

- 10.18 Engagement Letter, dated June 20, 2005, by and between Broadcaster and Baytree Capital Associates LLC.(2)
  - 10.19 Billing System Software Technology Licensing Agreement, dated April 1, 2005, by and between MicroBilling Systems Ltd. and Camnation, Inc.(2)
  - 10.20 Digital Asset Creation Software Technology Licensing Agreement, dated April 1, 2005, by and between Broadcaster LLC and MyVod, Inc.(2)
  - 10.21 DRM Software Technology Licensing Agreement, dated April 1, 2005, by and between Broadcaster LLC and MyVod, Inc.(2)
-

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 10.22          | Desktop Notifier Technology Licensing Agreement, dated April 1, 2005, by and between Media Zone Ltd. and Camnation, Inc.(2)                                   |
| 10.23          | Telco Billing Software Technology Licensing Agreement, dated April 1, 2005, by and between Media Charger LLC and Camnation, Inc.(2)                           |
| 10.24          | Content Management Software Technology Licensing Agreement, dated April 1, 2005, by and between Broadcaster LLC and MyVod, Inc.(2)                            |
| 10.25          | Digital Content Distribution Technology Licensing Agreement, dated April 1, 2005, by and between Broadcaster LLC and MyVod, Inc.(2)                           |
| 10.26          | Promissory Note in connection with the Asset Purchase Agreement, dated June 9, 2006, by IMSI Design LLC.(2)   |
| 10.27          | Stock Purchase Agreement, dated July 1, 2005, by and among Broadcaster, Houseplans, Inc., Weinmaster Homes, Ltd., Bruce Weinmaster and Janice Weinmaster.(15) |
| 10.28          | Stock Purchase Agreement, dated July 1, 2005, by and between Broadcaster and Smith Micro Software, Inc.(16)   |
| 16.1           | Letter from Grant Thornton.(17)   |
| 21.1           | List of Subsidiaries.(2)  |
| <u>23.1</u>    | Consent of Burr, Pilger & Mayer LLP.*   |
| <u>23.2</u>    | Consent of Harris Cramer LLP (as set forth in Exhibit 5.1).*  |
| <u>23.3</u>    | Consent of Choi, Kim, Park.*  |
| <u>24.1</u>    | Power of Attorney (as set forth on signature page of the registration statement).*  |

**Notes**

- \* Filed herewith.
- (1) Incorporated by reference to Exhibit 2.1 to Broadcaster's Current Report on Form 8-K filed on March 29, 2006.
- (2) Incorporated by reference to the exhibits to Broadcaster's Annual Report on Form 10-KSB filed on October 13, 2006.
- (3) Incorporated by reference to Exhibits to Broadcaster's Registration Statement on Form S-3 filed on September 22, 1993.
- (4)

- Incorporated by reference to Exhibit 3.1 to Broadcaster's Current Report on Form 8-K filed on June 8, 2006.
- (5) Incorporated by reference to Exhibit 5.03 to Broadcaster's Current Report on Form 8-K filed on January 18, 2005.
- (6) Incorporated by reference to Exhibit 4.1 to Broadcaster's Registration Statement on Form S-8 filed on August 11, 1993.
- (7) Incorporated by reference to the exhibits to Broadcaster's Registration Statement on Form S-8 filed on March 25, 2004.
- (8) Incorporated by reference to Annex G to Broadcaster's Definitive Proxy Statement on Schedule 14A filed on May 5, 2006.
- (9) Incorporated by reference to the exhibits to Broadcaster's Annual Report on Form 10-KSB filed on September 28, 2005.
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**Notes**

- (10) Incorporated by reference to Exhibit 1.01 to Broadcaster's Current Report on Form 8-K filed on September 22, 2006.
- (11) Incorporated by reference to Exhibit 99.2 to Broadcaster's Current Report on Form 10-KSB filed on September 25, 2003.
- (12) Incorporated by reference to Exhibit 2.2 to Broadcaster's Current Report on Form 8-K filed on August 9, 2005.
- (13) Incorporated by reference to Exhibit B to 2.1 to Broadcaster's Current Report on Form 8-K filed on December 19, 2005. Parenthetical references following the description of each document relate to the exhibit number under which such exhibit was initially filed.
- (14) Incorporated by reference to Exhibit 10.1 to Broadcaster's Current Report on Form 8-K filed on May 5, 2006.
- (15) Incorporated by reference to Exhibit 2.1 to Broadcaster's Current Report on Form 8-K filed on July 7, 2005.
- (16) Incorporated by reference to Exhibit 2.2 to Broadcaster's Current Report on Form 8-K filed on July 7, 2005.
- (17) Incorporated by reference to Exhibit 16 to Broadcaster's Current Report on Form 8-K filed on November 12, 2004.