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NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Javalution Coffee Company, Inc. (the "Company"), is a Florida corporation which conducts business from its offices in Miami and Ft. Lauderdale, Florida. The Company was incorporated on February 18, 2003 as Image Nutrition, Inc., and changed its name to Javalution Coffee Company on September 26, 2003. The Company develops and markets a unique line of nutritionally enhanced coffee products. In September 2007, the Company purchased a 50% stake in CLR Roasters LLC ("CLR"), a Florida Limited Liability Company. CLR is a coffee roasting company. In October 2008, the Company purchased an additional 10% stake in CLR. In June 2009, the Company acquired an additional 25% interest in CLR and the remaining 15% interest was acquired in September 2009. Accordingly, the accompanying consolidated financial statements include the accounts of Javalution and its wholly-owned subsidiary, CLR. All material inter-company balances and transactions have been eliminated in consolidation.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued ASC 810-10-65, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51," ("SFAS No. 160"). This statement clarifies that a noncontrolling (minority) interest in a subsidiary is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and noncontrolling interest, with disclosure on the face of the consolidated income statement of the amounts attributed to the parent and to the noncontrolling interest. This statement is effective for fiscal years beginning after December 15, 2008, with presentation and disclosure requirements applied retrospectively to comparative financial statements. The Company followed the requirements of ASC 810-10-65 in the preparation of the accompanying consolidated financial statements which resulted in the retrospective reclassification of minority interest to equity (deficit).

ASB Accounting Standards Codification

The issuance by the FASB of the Accounting Standards Codification™ (the "Codification") on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that GAAP is referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The change affects the way the Company refers to GAAP in financial statements and in its accounting policies. All existing standards that were used to create the Codification became superseded. Instead, references to standards consist solely of the number used in the Codification's structural organization.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the year then ended. Actual results may differ significantly from those estimates. Significant estimates in 2009 and 2008 include the allowance for doubtful accounts, stock-based compensation, valuation of stock warrants, the useful life of property and equipment and intangible assets, and assumptions used in assessing impairment of long-term assets and valuation of deferred tax assets.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company has a policy of reserving for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. At December 31, 2009 and 2008, management has determined that an allowance is not necessary. During the years ended December 31, 2009 and 2008, the Company wrote-off $4,647 and $0, respectively of uncollectible accounts receivable.

Inventories

Inventories are stated at the lower of cost or market and consist of raw materials used to make coffee products, finished goods, and packaging materials. The Company writes down inventory for estimated obsolescence or unmarketable inventory based upon assumptions and estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

In accordance with ASC 360-10-35-15, *"Impairment or Disposal of Long-Lived Assets"*, "Accounting for the Impairment or Disposal of Long-Lived Assets," The Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges during the years ended December 31, 2009 and 2008.

Income Taxes

Income taxes are accounted for under the asset and liability method as prescribed by ASC Topic 740: Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance, when in the Company's opinion it is likely that some portion or the entire deferred tax asset will not be realized.

Pursuant to ASC Topic 740-10: Income Taxes related to the accounting for uncertainty in income taxes, the evaluation of a tax position is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50% likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. The accounting standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The adoption had no effect on the Company's consolidated financial statements.

Revenue Recognition

The Company follows the guidance of the FASB ASC 605-10-S99 "Revenue Recognition Overall – SEC Materials. The Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following policies reflect specific criteria for the revenues stream of the Company:

The Company generates revenue from the sale of its coffee products. Revenues from the sale of these items are recognized upon delivery of the product to the customer.

Consideration given by the Company to a customer (including a reseller of the Company's products) such as slotting fees is accounted for as a reduction of revenue when recognized in the Company's income statement. For the years ended December 31, 2009 and 2008, slotting fees were deemed to be not material.

Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted FASB ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of December 31, 2009 and 2008, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

The carrying amounts reported in the balance sheets for cash, accounts receivable, notes payable, accounts payable and accrued expenses, factoring payables and amounts due to related parties approximate their fair market value based on the short-term maturity of these instruments and their market interest rates.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and Development

Research and development costs are expensed as incurred. These costs primarily consist of fees paid for product testing and clinical studies. For the years ended December 31, 2009 and 2008, research and development were deemed to be not material.

Advertising

Advertising is expensed as incurred. Advertising expenses for the years ended December 31, 2009 and 2008 totaled approximately $364,322 and $155,061, respectively.

Shipping costs

Shipping costs are included in cost of goods sold and totaled $9,393 and $21,464 for the years ended December 31, 2009 and 2008, respectively.

Loss per Common Share

Loss per common share are calculated in accordance with ASC Topic 260: Earnings Per Share (“ASC 260”). The accounting standard requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. The computation of diluted net loss per common share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The Company’s common stock equivalents at December 31, 2009 and 2008 include the following:

	December 31, 2009	December 31, 2008
Options	1,360,000	1,360,000
Warrants	16,465,195	22,180,313
	17,825,195	23,540,313

Subsequent Events

In May 2009, the FASB issued ASC Topic 855: Subsequent Events (“ASC855”), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. For purposes of determining whether a post-balance sheet event should be evaluated to determine whether it has an effect on the financial statements for the year ended December 31, 2009, subsequent events were evaluated by the Company as of March 30, 2010, the date on which the unaudited consolidated financial statements at and for the year ended December 31, 2009, were available to be issued.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation

In December 2004, the Financial Accounting Standards Board, or FASB, issued FASB ASC Topic 718: Compensation – Stock Compensation (“ASC 718”). Under ASC 718, companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under ASC 718. Upon adoption of ASC 718, the Company elected to value employee stock options using the Black-Scholes option valuation method that uses assumptions that relate to the expected volatility of the Company’s common stock, the expected dividend yield of our stock, the expected life of the options and the risk free interest rate. Such compensation amounts, if any, are amortized over the respective vesting periods or period of service of the option grant.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and notes payable. The Company’s cash and cash equivalents accounts are held at financial institutions and are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $100,000 between January 2007 and October 2008 and $250,000 for interest-bearing accounts and an unlimited amount for noninterest-bearing accounts after October 2008. During the year ended December 31, 2009, the Company has reached bank balances exceeding the FDIC insurance limit. While the Company periodically evaluates the credit quality of the financial institutions in which it holds deposits, it cannot reasonably alleviate the risk associated with the sudden failure of such financial institutions. The Company's investment policy is to invest in low risk, highly liquid investments. The Company does not believe it is exposed to any significant credit risk in its cash investment.

The Company performs on-going credit evaluations of its customer base including those included in accounts receivable at December 31, 2009 and 2008, and, generally, does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management’s expectations.

NOTE 2 – GOING CONCERN CONSIDERATIONS

The accompanying consolidated financial statements are prepared assuming the Company will continue as a going concern. At December 31, 2009, the Company had an accumulated deficit of $16,347,708, and a working capital deficit of $1,352,788. Additionally, for the year ended December 31, 2009, the Company incurred net losses of $4,384,925, and had negative cash flows from operations in the amount of $1,296,790. The ability of the Company to continue as a going concern is dependent upon increasing sales and obtaining additional capital and financing. While the Company is attempting to increase revenues, the growth has not been significant enough to support the Company's daily operations. During the year ended December 31, 2009, the Company received proceeds from convertible debentures of $1,190,000 and proceeds from exercise of stock warrants of $593,844. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to increase sales volume and in its ability to raise additional funds, there can be no assurances to that effect. The Company's limited financial resources have prevented the Company from aggressively advertising its products and services to achieve consumer recognition.

NOTE 3 - INVENTORIES

At December 31, 2009 and 2008, inventories consist of the following:

Raw materials	$ 26,830	$ 28,605
Finished goods	13,666	58,154
Packaging and other supplies	100,070	70,340
	$ 140,566	$ 157,099

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2009 and 2008, property and equipment consisted of the following:

	Estimated life	December 31, 2009	December 31, 2008
Computer equipment and office equipment	5 to 7 years	$120,254	$105,752
Manufacturing and production equipment	5 years	807,188	728,207
Displays and tradeshow equipment	5 years	13,230	13,230
		940,672	847,189
Less: Accumulated depreciation		(326,807)	(138,999)
		$ 613,865	$ 708,190

For the years ended December 31, 2009 and 2008, depreciation expense amounted to $187,808 and $59,658, of which $162,923 and $38,104 is included in cost of sales, respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets which were acquired from the acquisition by the Company of CLR consist of the following:

	Useful Life	December 31, 2009	December 31, 2008
Customer list	5 Years	$ 72,298	$ 72,298
Less: accumulated amortization		(22,748)	(4,344)
		$ 49,550	$ 67,954

Amortization expense attributable to future periods is as follows:

Period ending December 31:	
2010	18,404
2011	18,404
2012	12,742
	$ 49,550

For the years ended December 31, 2009 and 2008, amortization expense amounted to $18,404 and $4,344, respectively.

NOTE 5 – ACQUISITION OF CLR ROASTERS LLC

In September 2007, the Company purchased a 50% stake in CLR Roasters LLC (“CLR”), its current coffee roasting company. The purchase price was $269,000. In addition to the purchase price, the Company contributed an aggregate working capital of $256,000 of which $190,000 was contributed during fiscal 2007 and the balance of $66,000 has been contributed during fiscal 2008. During 2008, the Company contributed additional working capital of $86,900. Prior to October 10, 2008, the Company followed the equity method accounting, whereby the investment was originally recorded at the price paid to acquire the investment and subsequently adjusted by the Company’s share of CLR’s net income/loss and recorded to the Company’s income statement as Equity in investee’s income/loss. Accordingly, during the year ended December 31, 2008, the Company has recorded a loss on investment of $173,564, which represents the equity method pick up from investment prior to consolidating with the Company’s subsidiary, CLR, on October 10, 2008.

On October 10, 2008, the Company acquired an additional 10% equity interest in CLR for $100. As a result, CLR is no longer an unconsolidated affiliate, but rather was a majority owned subsidiary resulting to consolidating the results of CLR after October 10, 2008 rather than recording equity in earnings of CLR. As required by generally accepted accounting principles, the Company adopted ASC 805-10-65, “Business Combinations,” on January 1, 2009. In accordance with ASC 805-10-65, the acquisition of the additional 10% of CLR was treated as a step acquisition. This FASB issued guidance requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the guidance.

NOTE 5 – ACQUISITION OF CLR ROASTERS LLC (continued)

ASC 805-10-65 also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with ASC 805-10-65). This guidance requires the acquirer to recognize goodwill or a gain from a bargain purchase as of the acquisition date which is measured as a residual of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair values of the identifiable net assets acquired.

Accordingly, the Company remeasured its previously held equity interest in CLR to fair value, in the amount of $329,434, and recorded a loss on step acquisition of $37,245 on October 10, 2008, which is included in other income (expense), net in the Consolidated Statement of Operations for fiscal year 2008.

The following table summarizes the consideration paid for CLR, gain from bargain purchase and the allocation of the fair value of CLR to the fair values of assets acquired and liabilities assumed at October 10, 2008.

Consideration		
Cash paid for 10% equity interest in CLR	$	100
Fair value of Javalution's 50% equity interest in CLR before the business combination		329,434
Total	$	329,534
Recognized amounts of identifiable assets acquired and liabilities assumed		
Current assets	$	256,074
Property and equipment at net book value		632,127
Intangible assets		72,298
Other assets		27,159
Total assets		987,658
Liabilities assumed		328,790
Total identifiable net assets of CLR		658,868
Less: Fair value of noncontrolling interest in CLR		263,547
Fair value of identifiable net assets acquired	$	395,321
Gain on bargain purchase	$	65,787

The gain on bargain purchase of the 60% interest in CLR is included in other income (expense), net in the Consolidated Statement of Operations for fiscal year 2008.

NOTE 5 – ACQUISITION OF CLR ROASTERS LLC (continued)

On June 1, 2009, the Company purchased noncontrolling interest of 25% interest in CLR for $450,000 thereby increased the Company's ownership to 85%. The acquisition price included $75,000 in cash and a $375,000 secured promissory note. The Company accounted for this transaction in accordance with ASC 810-10-65, "Noncontrolling Interests in Consolidated Financial Statements". This FASB issued guidance requires that changes in a parent's ownership interest in a subsidiary in which the parent retains its controlling financial interest be accounted for as equity transactions. Under ASC 810-10-65, the Company accounted for the purchased of noncontrolling interests as equity transactions, and recognized the $345,749 difference between the purchase prices and the carrying values of the noncontrolling interests acquired as a decrease to the Company's consolidated paid-in capital.

On September 1, 2009, the Company purchased the remaining 15% interest in CLR in exchanged for 1,000,000 shares of the Company thereby increasing the Company's ownership to 100% and thus became a wholly owned subsidiary of the Company. The Company accounted for this transaction in accordance with ASC 810-10-65, "Noncontrolling Interests in Consolidated Financial Statements". This FASB issued guidance requires that changes in a parent's ownership interest in a subsidiary in which the parent retains its controlling financial interest be accounted for as equity transactions. Under ASC 810-10-65, the Company accounted for the purchased of noncontrolling interests as equity transactions, and recognized the $3,214 difference between the purchase prices and the carrying values of the noncontrolling interests acquired as a decrease to the Company's consolidated paid-in capital.

NOTE 6 – NOTES PAYABLE

In September 2007, the Company issued an unsecured note payable amounting to $349,000. The note payable originally bore 10% interest per annum and was due on March 5, 2008. The Company paid a loan origination fee of $26,175 in connection with this note payable. Accordingly, the Company recorded debt issuance cost of $26,175 which is being amortized over the term of the note. In April 2008, the Company amended and restated the terms and provisions of this note whereby the maturity date was changed to September 15, 2008. In August 2008, the Company amended and restated the terms and provisions of this note. Under the terms of the second amendment, the principal and any outstanding accrued interest thereon was to mature March 20, 2009 and the interest rate changed from 10% to 12% per annum. Additionally, on August 20, 2008, the Company issued an additional unsecured note payable amounting to $300,000 from the same note holder. The $300,000 note payable bears 12% interest per annum and was due on March 20, 2009. In March 2009, the Company had amended and restated the terms and provisions of these notes. Under the terms of the third amendment, the principal and any outstanding accrued interest thereon matured on December 31, 2009. Furthermore, if Mr. David Briskie, Chief Executive Officer of the Company, should no longer be the Chief Executive Officer of the Company, the holder may call the note by providing 30 days notice. In January 2010, the Company and the note holder entered into an agreement extending the maturity date to December 31, 2010. As of December 31, 2009 and 2008, accrued interest on these notes amounted to $28,472 and $28,259, respectively.

NOTE 6 – NOTES PAYABLE (continued)

For the years ended December 31, 2009 and 2008, amortization of debt issuance cost amounted to $0 and $8,725, respectively. In connection with these notes, the Company entered into a pledge agreement with the Chief Executive Officer of the Company whereby all shares/interest in CLR currently owned and shares/interest to be acquired in the future are hereby pledge to its Chief Executive Officer. These notes are personally guaranteed by the Chief Executive Officer of the Company.

In August 2008, the Company issued an unsecured note payable amounting to $100,000. The note payable bears 12% interest per annum and was due on November 27, 2008 with a 90 day extension. In March 2009, the Company had amended and restated the terms and provisions of this note. Under the terms of the amendment, the principal and any outstanding accrued interest thereon was due on August 27, 2009. As of December 31, 2009 and 2008, accrued interest on this note amounted to $4,298 and $4,118, respectively. On August 27, 2009, the Company entered into an extension agreement with the note holder whereby the due date of this note was extended to December 31, 2009. The Company is currently in negotiations with the note holder to convert the balance into common stock or to extend the maturity date of this note.

In August 2008, the Company issued an unsecured note payable amounting to $25,000. The note payable bears 12% interest per annum and was due on November 30, 2008, with a 90 day extension. The Company granted warrants to purchase 25,000 shares of common stock at an exercise price of $0.10 per share. These warrants are exercisable for the entire period of the note. These warrants were treated as a discount on the unsecured note payable and were valued at $4,023 to be amortized over the note payable term. For the years ended December 31, 2009 and 2008, amortization of the debt discount amounted to $1,341 and $2,682, respectively, and is included in interest expense. As of December 31, 2009 and 2008, accrued interest on this note amounted to $1,641 and $1,000, respectively. In March 2009, the Company amended and restated the terms and provisions of this note. The Company issued a secured 12% 12-month convertible debentures amounting to $25,000 under the terms of the amendment in exchanged for this note payable. Thus the Company reclassified this note as a convertible debenture. The principal and any outstanding accrued interest thereon is due in March 2010 and is convertible at a conversion rate of $0.045 per share. The Company also granted warrants to purchase 2,500 shares of common stock exercisable at a price of $0.25 per share expiring on December 31, 2014.

On May 29, 2009, the Company issued a secured note payable amounting to $375,000 in connection with the acquisition of an additional 25% interest in CLR Roasters LLC. The note payable bears 3% interest per annum and shall be payable in forty-four equal monthly payments of $9,011 beginning on May 29, 2009 thru December 15, 2013. This note is secured by a first priority security interest in certain equipment of CLR Roasters LLC. As of December 31, 2009, the current and long term portion of this note amounted to $99,707 and $226,548, respectively.

Future maturities of long-term debt are as follows:

Year ended December 31:		
2010 (current liability)	$	99,707
2011		102,739
2012		105,863
2013		17,946
	$	326,255

NOTE 7 – CONVERTIBLE DEBENTURES

Between February 2009 and July 2009, the Company issued in aggregate 12% 12-month convertible debentures amounting to $1,190,000. In the event that the Company's common stock is traded on an Exchange or listed for trading on an electronic quotation system (a "Trading Company"), then in that event, either the Company or the Holder, in their sole and absolute discretion, may convert all or any portion thereof of the outstanding principal amount of the Debenture, plus all accrued interest into shares of the Company's Common Stock at the conversion rate of $0.045 per share.

In March 2009, the Company amended and restated the terms and provisions of an unsecured note payable amounting to $25,000 (see Note 6). The Company issued a secured 12% 12-month convertible debentures amounting to $25,000 under the terms of the amendment in exchanged for this note payable. Thus the Company reclassified this note from a note payable to a convertible debenture. The principal and any outstanding accrued interest thereon is due in March 2010 and is convertible at a conversion rate of $0.045 per share. The Company also granted warrants to purchase 2,500 shares of common stock exercisable at a price of $0.25 per share. The purchase warrants expire on December 31, 2014.

In accordance with ASC 470-20-25, the convertible debentures were considered to have an embedded beneficial conversion feature (BCF) because the effective conversion price was less than the fair value of the Company's common stock. These convertible debentures were fully convertible at the issuance date, therefore the portion of proceeds allocated to the convertible debentures of $1,190,700 was determined to be the value of the beneficial conversion feature and was recorded as a debt discount and is being amortized over the 12-months term. Additionally, the Company evaluated whether or not the convertible debt contains embedded conversion options, which meet the definition of derivatives under ASC 815-15 "Accounting for Derivative Instruments and Hedging Activities" and related interpretations. The Company concluded that since the convertible debt has a fixed conversion price of $0.045, the convertible debt is not a derivative.

In connection with the issuance of these debentures, the Company granted warrants to purchase 121,500 shares of common stock exercisable at a price of $0.25 per share. The purchase warrants expire on December 31, 2014. These warrants were treated as a discount on the secured debentures and were valued at $24,300 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 106%; risk-free interest rate of 2.50% and an expected holding period of five years.

In September 2009, the Company issued 28,407,013 shares in connection with the conversion of 12% Convertible debentures with an aggregate principal amount of $1,215,000 and accrued interest of $60,315. The fair value of such shares issued amounted to approximately $0.045 per share which was the fixed conversion price of these convertible debentures. As of December 31, 2009, amortization of debt discount amounted to $1,215,000 and is included in interest expense.

NOTE 8 – DIVIDENDS PAYABLE

The Series A convertible preferred stock pays cumulative dividends at the specified rate of 8% per annum. Dividends shall be payable in cash however the Company may, at its option, pay any or all such dividends into number of shares of common stock valued at $0.25 per share. Each share of preferred stock is convertible to four shares of common stock. The Series A convertible preferred shares do not have voting rights. As December 31, 2009 and 2008, dividends payable amounted to $252,956 and $121,202, respectively.

NOTE 9 – FACTORING LINE OF CREDIT

In fiscal 2008, the Company entered into an agreement with a factoring company. Under the terms of the agreement, the Company would receive 80 percent of the purchase price up front and 20 percent would be held in reserves until the receivables are collected. The term of the agreement is two years. A discount charge of one percent is charged, with increases based upon a time frame of receivables outstanding. Receivables over 90 days are returned to the Company. This factoring line of credit has been treated as a secured financing arrangement. Pursuant to the factoring agreement, the Company has granted the factoring company a lien and security interest in all of CLR’s inventories and equipment. Furthermore, this line of credit is personally guaranteed by the Chief Executive Officer of the Company.

As of December 31, 2009 and 2008, the company had recorded a liability of $98,546 and $106,168, respectively. Factoring fees or discounts provided during the factoring of the accounts receivable have been expensed on the accompanying Statements of Operations and is included in interest expense.

NOTE 10 - RELATED PARTY TRANSACTIONS

<u>Due to related parties</u>

During 2003, two of the Company’s principal officers loaned the Company a total of $50,000. These debts carried no stated interest rate and were to mature on December 30, 2006. In the event of default, the interest rate shall increase to 12% per annum. In September 2007, the Company amended and restated the terms and provisions of these notes payable. Under the terms of the amendment, these loan bears interest at 10% and the principal and any outstanding accrued interest thereon is to mature on September 5, 2008. During fiscal year 2009, the Company has paid off the total principal amount of these notes payable in cash. The principal amount due to the principal officers at December 31, 2009 and 2008 was $0 and $50,000, respectively. At December 31, 2009 and 2008, accrued interest due on these loans amounted to $5,066 and $6,301, respectively.

The Chief Executive Officer of the Company, from time to time, provided advances to the Company for operating expenses. At December 31, 2009 and 2008, the Company had a payable to the Chief Executive Officer of the Company amounting to $44,044 and $28,626, respectively. These advances are short-term in nature and non-interest bearing.

The Company had accrued salaries payable to the Chief Executive Officer and President of the Company as of December 31, 2009 and 2008 totaling to $61,123 and $123,800, respectively and has been included in accrued salaries.

NOTE 11 - SHAREHOLDERS' DEFICIENCY

Preferred Stock

The Company has authorized 10,000,000 shares of preferred stock at no par value. The terms such as liquidation, distribution preference, and voting rights of the preferred stock may be set from time to time by the actions of the Board of Directors. During fiscal 2007, the Board of Directors authorized to issue 10,000,000 shares of Series A convertible preferred stock at no par value and is entitled to receive cumulative dividends at the specified rate of 8% per annum. Dividends shall be payable in cash however the Company may, at its option, pay any or all such dividends into number of shares of common stock valued at $0.25 per share. Each share of preferred stock is convertible to four shares of common stock. The Series A convertible preferred shares do not have voting rights. As December 31, 2009 and 2008, dividends payable amounted to $252,956 and $121,202, respectively.

During fiscal 2008, the Company sold 718,700 shares at $1.00 per share of Series A convertible preferred stock pursuant to a private placement for net proceeds of approximately $668,000. In connection with this sale, the Company granted 718,700 warrants to investors exercisable at a price of $0.25 per share. The purchase warrants expire in five years from the date of the warrant. The placement agents received 42,870 warrants to purchase Series A convertible preferred stock as compensation for serving as placement agents which are exercisable at a price of $1.00 per share and expire in five years from the date of the warrant. In accordance with ASC 470-20-25, the Series A Convertible Preferred Stock was considered to have an embedded beneficial conversion feature (ECF) because the conversion price was less than the fair value of the Company's common stock.

This Series A Convertible Preferred Stock was fully convertible at the issuance date, therefore a portion of proceeds allocated to the Series A Convertible Preferred Stock was determined to be the value of the beneficial conversion feature and was recorded as a deemed dividend. In connection with the initial sales of the Series A Preferred Stock, the initial estimated fair values allocated to the ECF were $143,740 and the fair value allocated to the warrants of $143,740 was recorded as a deemed dividend.

The assumptions used valuing the warrants include:

Risk free interest rate (annual)........	3.50%
Expected volatility	250%
Expected life	5 Years
Assumed dividends	none

Common Stock

In September 2009, the Company issued 28,407,013 shares in connection with the conversion of 12% Convertible debentures with an aggregate principal amount of $1,215,000 and accrued interest of $60,315. The fair value of such shares issued amounted to approximately $0.045 per share which was the fixed conversion price of these convertible debentures.

NOTE 11 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

During fiscal 2009, a former officer of the Company contributed 1,000,000 shares of common stock owned by him to the Company. The Company valued these common shares at the fair market value on the date of grant at $0.045 per share or $45,000 based on the recent selling price of the Company's common stock which has been recognize as contributed capital and is included in paid in capital. On September 1, 2009, the Company used the contributed 1,000,000 shares of common stock to purchase the remaining 15% interest in CLR thereby increasing the Company's ownership to 100%.

The Company has reduced all common stock warrants with an exercise price of $0.25 per share to $0.10 per share at a limited time period from October 1, 2009 to December 1, 2009. The exercise price of such common stock warrants will revert back to its original price on December 1, 2009. The Company valued the re-priced warrants utilizing the Black-Scholes option pricing model using the following assumptions: estimated volatility of 104%, risk-free interest rate of 0.10%, no dividend yield, and an expected life of two months, and recorded approximately $35,600 as interest expense during the year ended December 31, 2009. Between October 2009 and November 2009, in connection with the exercise of re-priced stock warrants, the Company issued 5,938,436 shares of common stock for net proceeds of $593,844.

In December 2009, the Company issued in aggregate 10,489,032 shares of common stock to the Chief Executive Officer and President of the Company in connection with their employment agreements. The fair value of such shares amounted to approximately $1,520,910 or $0.145 per share. The Company has recognized stock based compensation expense of approximately $1,520,910 during the year ended December 31, 2009.

In December 2009, the Company issued in aggregate 90,000 shares of common stock to various employees of the Company for services rendered. The fair value of such shares amounted to $13,050 or $0.145 per share. The Company has recognized stock based compensation expense of $13,050 during the year ended December 31, 2009.

In December 2009, the Company issued 100,000 shares of common stock to a consultant for services rendered. The fair value of such shares amounted to $14,500 or $0.145 per share. The Company has recognized stock based consulting expense of $14,500 during the year ended December 31, 2009.

<u>Preferred Stock Warrants</u>

During fiscal 2008, Joseph Stevens & Company, Inc. and Skyebanc served as placement agents and received a placement agent cash fee of $51,120. The placement agents also received 42,870 warrants to purchase Series A convertible preferred stock as additional compensation for serving as placement agent which are exercisable at a price of $1.00 per share and expire in five years from the date of the warrant.

NOTE 11 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

Common Stock Warrants

During fiscal 2008, in connection with the sale of the Series A convertible preferred stock the Company granted 718,700 warrants to investors exercisable at a price of $0.25 per share. The purchase warrants expire in five years from the date of the warrant. In connection with the initial sales of the Series A Preferred Stock, the fair value allocated to the warrants of $ 143,740 was recorded as a deemed dividend. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 250%; risk-free interest rate of 3.50% and an expected holding period of five years.

In connection with a 12% note payable issued in August 2008, the Company granted warrants to purchase 25,000 shares of common stock at an exercise price of $0.10 per share. These warrants are exercisable for the entire period of the note. These warrants were treated as a discount on the unsecured note payable and were valued at $4,000 to be amortized over the note payable term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 125%; risk-free interest rate of 1.97% and an expected holding period of six months.

In connection with the 12% convertible debentures issued between February 2009 and July 2009, the Company granted warrants to purchase 121,500 shares of common stock at an exercise price of $0.25 per share. The purchase warrants expire on December 31, 2014. These warrants were treated as a discount on the secured debentures and were valued at $24,300 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 106%; risk-free interest rate of 2.50% and an expected holding period of five years.

In March 2009, the Company amended and restated the terms and provisions of an unsecured note payable amounting to $25,000 (see Note 6). The Company issued a secured 12% 12-month convertible debentures amounting to $25,000 under the terms of the amendment. The Company granted warrants to purchase 2,500 shares of common stock exercisable at a price of $0.25 per share. The purchase warrants expire on December 31, 2014. These warrants were treated as a discount on the secured debentures and were valued at $500 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 106%; risk-free interest rate of 2.50% and an expected holding period of five years.

NOTE 11 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

A summary of the status of the Company's outstanding stock warrants as of December 31, 2009 and 2008 and changes during the periods then ended is as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance at December 31, 2007	22,668,431	$	0.21
Granted	743,700		0.24
Exercised/Forfeited	-		-
Balance at December 31, 2008	23,412,131	$	0.21
Granted	121,500		0.25
Exercised	(5,938,436)		0.25
Forfeited	(1,130,000)		0.11
Balance at December 31, 2009	16,465,195	$	0.20
Warrants exercisable at end of period	16,465,195	$	0.20
Weighted average fair value of options granted during the year		$	0.25

The following table summarizes the Company's stock warrants outstanding at December 31, 2009:

Warrants Outstanding						Warrants Exercisable		
	Range of Exercise Price	Number Outstanding at December 31, 2009	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable at December 31, 2009		Weighted Average Exercise Price
$	0.10	120,000	1.95 Years	$	0.10	120,000	$	0.10
	0.015	3,684,140	3.65 Years		0.015	3,684,140		0.015
	0.25	12,428,055	3.55 Years		0.25	12,428,055		0.25
	0.40	233,000	0.63 Years		0.40	233,000		0.40
		16,465,195		$	0.20	16,465,195	$	0.20

The following table summarizes information about stock warrants outstanding at December 31, 2008:

Warrants Outstanding						Warrants Exercisable		
	Range of Exercise Price	Number Outstanding at December 31, 2008	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable at December 31, 2008		Weighted Average Exercise Price
$	0.10	1,145,000	2.65 Years	$	0.10	1,145,000	$	0.10
	0.015	3,684,140	4.65 Years		0.015	3,684,140		0.015
	0.25	17,093,173	5.50 Years		0.25	17,093,173		0.25
	0.40	258,000	1.55 Years		0.40	258,000		0.40
		22,180,313		$	0.205	22,180,313	$	0.205

NOTE 11 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

Common Stock Options

Stock option activity for the years ended December 31, 2009 and 2008 is summarized as follows:

	Number of shares	Weighted average exercise price
Outstanding at December 31, 2007	1,360,000	0.29
Granted....................	-	-
Exercised	-	-
Cancelled	-	-
Outstanding at December 31, 2008	1,360,000	$0.29
Granted.......................	-	-
Exercised	-	-
Cancelled	-	-
Outstanding at December 31, 2009	1,360,000	$0.29

The following table summarizes the Company's stock options outstanding at December 31, 2009:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.50	210,000	0.90 Years	$ 0.50	210,000	$ 0.50
0.25	1,150,000	2.90 Years	0.25	1,150,000	0.25
	1,360,000		$ 0.30	1,360,000	$ 0.30

The following table summarizes the Company's stock options outstanding at December 31, 2008:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.50	210,000	1.90 Years	$ 0.50	210,000	$ 0.50
0.25	1,150,000	3.90 Years	0.25	1,150,000	0.25
	1,360,000		$ 0.30	1,360,000	$ 0.30

NOTE 12 - COMMITMENTS

Operating Lease

The Company leases an office space in Fort Lauderdale, Florida on a month-to-month basis.

The Company has an office space in Miami, Florida under operating leases that expire in January 2013 and contains certain renewal options.

Future minimum rental payments required under this operating lease are as follows:

Year Ended December 31, 2010	110,575
Year Ended December 31, 2011	114,998
Year Ended December 31, 2012 and thereafter	119,598
Total	$345,171

Total rent expense for the years ended December 31, 2009 and 2008 was $163,049 and $42,221, respectively.

Capital Leases

The Company has entered into various leasing arrangements for certain manufacturing equipments that require these assets to be capitalized The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 2009:

Year Ending December 31, 2010		62,340
Year Ending December 31, 2011		62,340
Year Ending December 31, 2012		62,340
Year Ending December 31, 2013		42,861
Net minimum lease payments		229,881
Less: Amount representing interest		(43,562)
Present value of net minimum lease payments	$	186,319

Employment Agreements

Currently, Mr. Briskie, Chief Executive Officer of the Company and Mr. Pumper, President of the Company, are parties to identical employment agreements that run through December 31, 2012. Their current salaries are $126,000 per year. They will also participate in a pooled bonus program that will pay out a total 1.5% of the gross revenues (less returns and allowances) generated from the sale of Javalution and CLR products, 2.5% of gross margins, as well as participation in an incentive bonus pool for meeting the companies net profit objectives. In addition, each is entitled to be awarded Stock Options as outlined in their employment agreement. The Company also provides health insurance coverage for each of the above and each receives a car allowance of $800 per month.

NOTE 13 – SUBSEQUENT EVENTS

In February 2010, the Company entered into an agreement with a factoring company. Under the terms of the agreement, the Company would receive 80 percent of the purchase price up front and 20 percent would be held in reserves until the receivables are collected. The term of the agreement is three years. A factoring commission of one and one-half percent is charged, with increases based upon a time frame of receivables outstanding. This factoring line of credit has been treated as a secured financing arrangement. Pursuant to the factoring agreement, the Company has granted the factoring company a lien and security interest in all of the Company's property as defined in the agreement. Furthermore, this line of credit is personally guaranteed by the Chief Executive Officer and President of the Company.