

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2007

Commission file number 333-94797

HUDSON'S GRILL INTERNATIONAL, INC.

(Name of small business issuer as specified in its charter)

Texas

(State or other jurisdiction of incorporation)

75-2738727

(IRS Employer Identification Number)

16970 Dallas Parkway, Suite 402, Dallas, Texas 75248

(Address of Principal Executive Offices)

Issuer's telephone number, including area code:

(972) 931-9237

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No ☒ X

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

7,643,986 shares of Class A Common Stock outstanding as of December 4, 2007.

Transitional Small Business Disclosure Format (Check one): Yes No ☒ X

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

See the attached statements at the end of this Form 10-QSB.

Item 2. Management's Discussion and Analysis or Plan of Operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND OTHER PORTIONS OF THIS REPORT CONTAIN FORWARD-LOOKING INFORMATION THAT INVOLVES RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED BY THE FORWARD-LOOKING INFORMATION. FACTORS THAT MAY CAUSE SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, AVAILABILITY OF FINANCIAL RESOURCES FOR LONG TERM NEEDS, PRODUCT DEMAND, MARKET ACCEPTANCE AND OTHER FACTORS DISCUSSED ELSEWHERE IN THIS REPORT. THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE RELATED NOTES INCLUDED ELSEWHERE IN THIS REPORT.

Material changes in the consolidated financial condition of the Company and its subsidiary and in the results of their operations since the end of its last fiscal year and their results from the comparable period in their last fiscal year include the following:

Consolidated Balances as of September 30, 2007, Compared to December 31, 2006

The Company's cash balance at September 30, 2007 ("Q3") was \$3,847, which is \$3,847 more than it was at December 31, 2006 ("FYE"), when it was \$0. Accounts receivable decreased \$3,663 because the Company has two fewer franchises compared to FYE. The Company feels, nevertheless, that all of these will be collected, and thus, no allowance for reserves is currently deemed necessary. The Company has offered for sale its Oshkosh building and land. A former franchisee operated from this location, but ceased operations on July 31, 2007. The Company has put the property up for sale in August 2007. The assets associated with the discontinued operations are now classified as current assets. These assets decreased by \$24,261 in Q3 to \$1,228,242 from \$1,252,503 at FYE mainly as a result of depreciation. Other current assets increased \$1,491; thus, current assets decreased \$22,586.

Net property and equipment decreased from FYE because of depreciation. Consequently, net property and equipment decreased by \$1,572, which is the amount accumulated depreciation increased since FYE. Other assets remained the same; and as a result, total assets at Q3 decreased by \$24,158 to \$1,459,276 from \$1,483,434 at FYE.

Current liabilities increased by \$31,150 to \$1,223,910 at Q3 from \$1,192,760 at FYE. Accounts payable and accrued expenses decreased by \$20,955. At the same time, accounts payable to related parties has increased to \$65,191 from \$25,828 at FYE. This reflects the Company's current policy of paying its third party vendors instead of paying related parties. The notes and liabilities related to the original purchase of the land for the franchisee at Oshkosh are now classified as current liabilities of discontinued operations since the building and property are for sale. The liabilities of discontinued operations have increased by \$12,742 since FYE. As a result of lower current assets and an increase in current liabilities, the Company's working capital decreased from \$103,395 at FYE to working capital of \$49,659 at Q3.

The Three Months Ended September 30, 2007, Compared to September 30, 2006

Significant changes in the results of operations for the three months ended September 30, 2007 ("Q3") compared to the third quarter of 2006 ("Q06") include the following: revenues from continuing operations decreased from \$95,065 in Q06 to \$70,299 in Q3. Significant decreases in franchise fees from Oshkosh, De Pere and Appleton, Wisconsin (all of which closed since Q06), were only partially offset by new royalties from Plover, Wisconsin.

Operating costs decreased by \$38,552 during Q3 to \$62,308 from \$100,860 during Q06. General and administrative costs decreased by \$38,552. This was largely the result of decreases in legal and accounting costs (\$7,402), which had been higher in Q06 because of the opening of Oshkosh, bad debts (\$4,635), consulting expenses with its former Midwest representative, Jim Stabile (\$12,931), and executive stock compensation (\$8,385).

As a result, income from operations increased \$13,786 during Q3, when compared

to Q06. Other income (expense) remained about the same; they decreased only \$42 in Q3. No income tax benefit was recorded in Q3 because the Company has had losses the last several quarters, although an income tax benefit of \$14,371 was recorded in Q06. The Company has elected to cease recording any income tax benefit from losses until it sustains profitable operations. The net income from continuing operations was \$7,991 in Q3, which is an increase of \$11,616 from Q06, which had a loss of \$3,625. The loss on discontinued operations net of income tax benefits at the Oshkosh location was (\$26,450) in Q3, which was an increase in loss of \$5,016, when compared to a loss in Q06 of (\$21,434). Thus, net loss for Q3 was (\$18,459) compared to a net loss in Q06 of (\$25,059).

Loss per basic and diluted common share for continuing operations, discontinued operations and all operations was \$.00 per share for Q3 and \$.00 for Q06.

The Nine Months Ended September 30, 2007, Compared to September 30, 2006

Significant changes in the results of operations for the nine months ended September 30, 2007 ("YTD07") compared to the first nine months of 2006 ("YTD06") include the following: franchise fees decreased by \$78,508 from \$283,781 in YTD06 to \$205,273 in YTD07. Significant decreases in franchise fees from Santa Maria and Simi Valley, California, and De Pere, Oshkosh and Appleton, Wisconsin (all of which closed since YTD06), were only partially offset by new royalties from Plover, Wisconsin. A franchise opened in YTD06 in Escanaba, Michigan, and paid a franchise fee of \$25,000; no new franchises opened in YTD07, and thus, initial franchise fees decreased by \$25,000 in YTD07 compared to YTD06. As a result, total revenues from continuing operations in YTD07 declined from YTD06 by \$103,508 and were \$205,273 in YTD07.

Operating costs decreased by \$112,666 during YTD07 to \$209,726 from \$322,392 during YTD06. General and administrative costs decreased by \$112,666. This was largely the result of decreases in legal and accounting expenses (\$17,461), travel (\$11,229), due to opening the Oshkosh franchise in YTD06, consulting expenses with the Company's former Midwest representative, Jim Stabile (\$39,941), who was terminated in YTD06, and executive stock compensation (\$32,895), which was discontinued in YTD07.

As a result, loss from operations decreased \$9,158 during YTD07, when compared to YTD06, to loss of (\$4,453). Other expense decreased, too, by \$25,231 from (\$25,231) in YTD06 to \$0 in YTD07. This was as a result of a write off of a note receivable in YTD06 (\$26,081), associated with the closing of Hornblowers in YTD06. No income tax benefit was recorded in YTD07, and \$14,371 was recorded in YTD06. The Company has elected to cease recording any income tax benefit from losses until it sustains profitable operations. Consequently, net loss from continuing operations after income tax benefits decreased by \$20,018 when compared to YTD06 to a loss of (\$4,453) in YTD07. The loss on discontinued operations at the Oshkosh location, net of income tax benefits, was (\$63,755) in YTD07, which was an increase in loss of \$13,494, when compared to a loss in YTD06 of (\$50,261). Thus, net loss for YTD07 was (\$68,208) compared to a net loss in YTD06 of (\$74,732).

Loss per basic and diluted common share for continuing operations was \$.00 per share for YTD06 and \$.00 for YTD06. Loss per basic and diluted common share for discontinued operations and for all operations was (\$.01) per share for YTD06 and (\$.01) for YTD06.

Liquidity and Capital Resources

Normally, changes in the Company's liquidity and capital will depend primarily on continuing royalty fees received from franchisees using the Company's trademark and restaurant concept. This in turn will be reflective of the general economies in the areas where Hudson's Grill restaurants are located. The Company does not currently plan to raise any capital or borrow funds to meet liquidity needs, and thus, will rely solely on cash flows from operations or from funds or services provided by its directors. The Company's subsidiary HGIO, however, borrowed money to buy real property in Oshkosh, Wisconsin, that was modified to be a Hudson's Grill and had been leased to a new franchisee. This has affected the Company's liquidity since then, including Q3, since the Company paid and has been paying for major expenses and interest related to the restaurant facilities that HGIO was leasing out in Oshkosh, which has since closed, and is classified as discontinued operations. Currently, the Company's shortfall in cash flow has been covered by increased payables to related parties.

The Company has scheduled payments with its creditors, including the related party creditors, to fit within its cash flow constraints, but as of August 1, 2007, the Company has suspended the mortgage payments on the Oshkosh property because the most recent Oshkosh franchisee closed down its operations there on July 31, 2007, due to poor sales and has ceased making any rent payments.

The mortgagee of the Oshkosh property is currently working with the Company and is waiting for the Company to sell the property. The Company has listed the property for sale, but no offers have been received to date. In the mean time, the Company has tentatively agreed on a forbearance agreement with the mortgagee to be signed by the end of November 2007 to pay a reduced interest rate of 5.25% and to pay interest only each month. This will be effective November 2007 and will give the Company until July 1, 2008, to sell the property. If the Company is not able to find a buyer by the end of the forbearance period and it cannot get an extension from the mortgagee, it will risk losing the property to foreclosure. It may not have sufficient cash flow to make mortgage payments without borrowing from related parties.

Three franchisees that closed in 2006 and three that closed in 2007 have decreased the Company's royalty streams; these losses have only partially been offset by the Company's new franchise in Plover, Wisconsin. The Company's cash balance of \$3,847 at September 30, 2007, was \$3,847 more than at the year ended December 31, 2006. The increase was the result of reduced costs and increased payables to related parties.

The Company does not sustain much seasonal volatility in revenues since its franchisees are dispersed geographically and climactically. Additionally, it does not have

any material commitments for capital expenditures and doesn't plan any in the foreseeable future.

Item 3. Disclosures; Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the President concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

(b) Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls during the quarter ended September 30, 2007.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any legal proceedings and knows of no matters that have been threatened against the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no unregistered sales of equity securities during the quarter.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) The following exhibits are filed herewith:

Exhibit No.	Description	Page Number
(31.1)	Certification Pursuant to Sarbanes-Oxley Act Sec. 302	attached
(32.1)	Certification Pursuant to Sarbanes-Oxley Act Sec. 906	attached

SIGNATURES

I, David L. Osborn, the President of Hudson's Grill International, Inc., certify that: (i) this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Hudson's Grill International, Inc.

(Registrant)
HUDSON'S GRILL INTERNATIONAL,
INC.

By: s/s David L. Osborn
David L. Osborn, President

Date: December 4, 2007

HUDSON'S GRILL INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	ASSETS	
	<u>Sept. 30, 2007</u> (Unaudited)	<u>Dec. 31, 2006</u> (Audited)
Current assets:		
Cash and cash equivalents	\$ 3,847	\$ -
Accounts receivable	35,637	39,300
Other current assets	5,843	4,352
Assets of discontinued operations	<u>1,228,242</u>	<u>1,252,503</u>
Total current assets	1,273,569	1,296,155
Property and equipment, at cost:		
Furniture and office equipment	25,637	25,637
Accumulated depreciation	<u>(23,684)</u>	<u>(22,112)</u>
Property and equipment, net	1,953	3,525
Other assets:		
Deferred tax assets, net	183,754	183,754
TOTAL ASSETS	<u><u>\$ 1,459,276</u></u>	<u><u>\$ 1,483,434</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$ 7,737	\$ 28,692
Accounts payable to related parties	65,191	25,828
Liabilities of discontinued operations (see notes 5 & 6)	1,104,908	1,092,165
Liabilities of discontinued operations-related party (see notes 5 & 6)	<u>46,074</u>	<u>46,075</u>
Total current liabilities	1,223,910	1,192,760
Stockholders' equity:		
Common stock, Class A, no par value, 100,000,000 shares authorized, 7,643,986 and 7,514,986 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	179,955	167,055
Common stock, Class B, no par value, 15,000,000 shares authorized, no shares issued and outstanding	-	-
Retained earnings	<u>55,411</u>	<u>123,619</u>
Total stockholders' equity	235,366	290,674
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 1,459,276</u></u>	<u><u>\$ 1,483,434</u></u>

See accompanying notes to financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Franchise fees	\$ 70,299	\$ 95,065	\$ 205,273	\$ 283,781
Initial franchise fees	-	-	-	25,000
Total revenues	<u>70,299</u>	<u>95,065</u>	<u>205,273</u>	<u>308,781</u>
Operating costs:				
General and administrative	61,784	100,336	208,154	320,820
Depreciation	<u>524</u>	<u>524</u>	<u>1,572</u>	<u>1,572</u>
Total operating costs	<u>62,308</u>	<u>100,860</u>	<u>209,726</u>	<u>322,392</u>
Income (loss) from operations	7,991	(5,795)	(4,453)	(13,611)
Other income (expense):				
Interest income	-	42	-	850
Write-off note receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,081)</u>
Total other income (expense)	<u>-</u>	<u>42</u>	<u>-</u>	<u>(25,231)</u>
Income (loss) from continuing operations before income tax	7,991	(5,753)	(4,453)	(38,842)
Income tax benefit	<u>-</u>	<u>2,128</u>	<u>-</u>	<u>14,371</u>
Income (loss) from continuing operations	7,991	(3,625)	(4,453)	(24,471)
Discontinued operations (see notes 5 and 6)				
Loss on discontinued operations (net of tax benefit of \$12,589 and \$29,519 for three and nine month periods ended September 30, 2007 and 2006, respectively)	<u>(26,450)</u>	<u>(21,434)</u>	<u>(63,755)</u>	<u>(50,261)</u>
Net loss	<u>\$ (18,459)</u>	<u>\$ (25,059)</u>	<u>\$ (68,208)</u>	<u>\$ (74,732)</u>

Net income (loss) per share-
basic and diluted

See accompanying notes to financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Nine Months Ended	
	September 30, 2007	September 30, 2006
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net loss	\$ (68,208)	\$ (74,732)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of loan origination costs	1,428	-
Depreciation	24,405	10,136
Amortization of deferred revenue	-	(8,043)
Stock based compensation	-	32,895
Write-off note receivable	-	26,081
Deferred tax assets	-	(43,890)
Interest converted to principal	-	6,241
Changes in operating assets and liabilities:		
Accounts receivable	3,663	(11,205)
Other current assets	(1,491)	(3,170)
Accounts payable and accrued expenses	2,058	37,797
Accounts payable to related parties	39,363	20,311
Deferred rent income	-	10,000
Deferred franchise fees	-	15,000
Net cash provided by operating activities	<u>1,218</u>	<u>17,421</u>
Cash Flows From Investing Activities:		
Royalty receivable, net	-	(22,696)
Purchase of property and equipment	-	(1,229,927)
Net cash used in investing activities	<u>-</u>	<u>(1,252,623)</u>
Cash Flows From Financing Activities:		
Proceeds from issuance of note payable	-	1,125,000
Repayment of notes payable	<u>2,629</u>	<u>(1,754)</u>
Net cash provided by financing activities	<u>2,629</u>	<u>1,123,246</u>
Net Increase (Decrease) In Cash	3,847	(111,956)
Cash, beginning of period	<u>-</u>	<u>125,803</u>
Cash, end of period	<u><u>\$ 3,847</u></u>	<u><u>\$ 13,847</u></u>
Supplemental Disclosures:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 57,562	\$ 32,050
Non-cash Transaction:		
Accrued compensation paid with stock	\$ 12,900	\$ -

See accompanying notes to financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. UNAUDITED INFORMATION

The consolidated balance sheet of Hudson's Grill International, Inc. (the "Company") as of September 30, 2007, and the consolidated statements of operations for the three and nine month periods ended September 30, 2007 and 2006, have not been audited. However, in the opinion of management, such information includes all adjustments (consisting only of normal recurring adjustments) which are necessary to properly reflect the financial position of the Company as of September 30, 2007, and the results of operations for the three and nine months ended September 30, 2007 and 2006.

Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although management believes that the disclosures are adequate to make the information presented not misleading. Interim period results are not necessarily indicative of the results to be achieved for an entire year. These financial statements should be read in conjunction with the financial statements and notes to financial statements included in the Company's consolidated financial statements as filed on Form 10-KSB for the year ended December 31, 2006.

As noted in the Company's consolidated financial statements as filed on Form 10-KSB, one of the Company's directors owns one franchise that does not pay any franchise fees. This is the result of a previous agreement with the Company prior to the director's involvement with the Company; the Company is not required to perform any services for the franchise owned by the director.

2. ACCOUNTING CHANGES

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest, and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 as of January 1, 2007, and the adoption did not have a material impact to the Company's consolidated financial statements or effective tax rate and did not result in any unrecognized tax benefits. Interest costs and penalties related to income taxes are classified as interest expense and general and administrative costs, respectively, in the Company's consolidated financial statements. For the three and nine months ended September 30, 2007 and 2006, the Company did not recognize any interest or penalty expense related to income taxes. The Company believes that is not reasonably possible for the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months. The Company

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

is currently subject to a three year statute of limitations by major tax jurisdictions. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction.

3. STOCK GRANTS

Beginning January 1, 2006, the Company adopted a stock plan in which stock was issued on January 2nd and July 1st of each year to its officers and directors. Each semi-annual grant consisted of the following amount of shares of common stock being issued: (1) 54,000 to the president; (2) 15,000 to the secretary; and (3) 30,000 to each of the non-officer directors. The first grant occurred January 17, 2006, and a second grant occurred on July 12, 2006, resulting in \$7,740 and \$16,770, respectively, of additional general and administrative expenses. A third grant occurred January 16, 2007. The Company has decided to suspend its stock plan effective January 15, 2007. In the last half of 2006, \$12,900 was accrued as General and Administrative expense, and Shareholder Equity was increased by this amount when the stock was actually issued in January 2007.

4. EARNINGS PER SHARE

Basic earnings per share are calculated on the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding for the period. Common stock equivalents are excluded from the computation if such inclusion would have an anti-dilutive effect.

5. DISCONTINUED OPERATIONS

On June 9, 2006, HGI-Oshkosh LLC ("HGIO"), a Texas limited liability company and wholly owned subsidiary of the Company, purchased a building and land in Oshkosh, Wisconsin, for \$1,115,000. It also purchased furniture and equipment for \$114,927, which was used to finish out the building as a Hudson's Grill. HGIO borrowed \$1,075,000 on a twenty year note from the Upper Peninsula State Bank in Escanaba, Michigan, and \$50,000 from the Company, to buy the building, land, furniture and equipment; the Company borrowed the \$50,000 that it loaned to HGIO from Border City Ale House, Inc. ("BCAH"), a company owned by Anthony B. Duncan, one of the Company's directors. The Upper Peninsula State Bank note had a variable interest rate of 1.5% over the prime rate as quoted by the *Wall Street Journal*; the monthly payments were \$10,178. HGIO originally leased the building, land, furniture and equipment to Service Solutions of Oshkosh, Inc., a former franchisee of the Company. On May 1, 2007, it leased the property to Are We There Yet, LLC, a new franchisee of the Company, which has subsequently ceased operations at the Oshkosh location on July 31, 2007. The property is currently vacant and has been for sale since August 2007. Effective November 1, 2007, pursuant to a proposed forbearance agreement to be signed by the end of November 2007, the interest rate on the State Bank

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

note will be adjusted to 5.25%, and the monthly payments shall be interest only until July 1, 2008, when the forbearance agreement expires, and the mortgagee will have the power to file a deed in lieu of foreclosure. The BCAH note has a variable interest rate of 1.0% over the prime rate as quoted by the *Wall Street Journal*. The Company is currently paying interest only on the BCAH note. The unpaid balance of the BCAH note is due on May 23, 2008, if the building is sold by then, but if not, it has been extended until the building is sold.

The BCAH note has been classified as a current liability as "Liabilities from discontinued operations - related party" since it must be paid off as part of the sale of the land and building. The bank note is classified as a current liability as "Liabilities from discontinued operations" since the note secures the land and building that is for sale, and it must be paid off when the land and building are sold. Pursuant to EITF Issue Number 87-24, the Company has allocated all of the interest on the bank note and the BCAH note to the discontinued operations because the proceeds from these notes were used solely to purchase the building and land, and the notes must be paid off when the building and land are sold.

The operations of the Company related to its ownership of the building and land have been accounted for as discontinued operations under generally accepted accounting principles, and therefore, the results of operations related to the building and land have been reflected separately from the Company's results from continuing operations for all periods presented in the accompanying financial statements.

6. SUBSEQUENT EVENTS

The mortgagee of the Oshkosh property is currently working with the Company and has orally agreed to a forbearance agreement that will expire July 1, 2008, and is waiting for the Company to sell the property. This forbearance agreement is to be signed by the end of November 2007. The mortgagee and the Company have not yet signed the agreement, but have orally agreed to all of its terms. The Company has listed the property for sale, but no offers have been received to date. If the Company is not able to find a buyer soon, it will risk losing the property to the mortgagee. Further, it may not have sufficient cash flow to make the reduced mortgage payments without borrowing from related parties.