

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-QSB**

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the quarterly period ended March 31, 2007**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number** \_\_\_\_\_

**EP Global Communications, Inc.**

(Exact name of small Business Issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**14-1818396**

(IRS Employer Identification No.)

**c/o Exceptional Parent Magazine  
416 Main Street, Johnstown, PA**

(Address of principal executive offices)

**15901**

(Postal or Zip Code)

**(814) 361-3860**

Issuer's telephone number, including area code

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer 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

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

136,545,818 shares of \$0.0001 par value common stock outstanding as of May 10, 2007.

Transitional Small Business Disclosure Format  Yes  No

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**EP GLOBAL COMMUNICATIONS, INC.**  
**CONSOLIDATED BALANCE SHEET**

	March 31, 2007
Current Assets:	
Cash	\$ 217,138
Accounts receivable, less allowance for doubtful accounts of \$68,437	671,801
Inventory	47,557
Prepaid expenses and other current assets	178,751
Total Current Assets	<u>1,115,247</u>
Property and equipment	480,376
Less: Accumulated depreciation	<u>(357,720)</u>
	<u>122,656</u>
Deferred financing costs, less accumulated amortization of \$176,611	299,389
Security deposits	<u>6,500</u>
Total Assets	<u>\$ 1,543,792</u>

See accompanying footnotes to financial statements

**EP GLOBAL COMMUNICATIONS, INC.  
CONSOLIDATED BALANCE SHEET**

	March 31, 2007
<b>Current Liabilities:</b>	
Current portion of long-term debt	\$ 238,184
Short-term debt	12,760
Accounts payable	104,679
Accrued expenses	101,142
Due to shareholders	272,298
Deferred subscriptions and other revenues	1,146,717
Total Current Liabilities	1,875,780
 <b>Long-Term Liabilities:</b>	
Long-term debt	4,518,830
Deferred subscriptions and other revenues	21,298
Total Long-Term Liabilities	4,540,128
Total Liabilities	6,415,908
 Commitments and contingencies - see Note 9	
 <b>Stockholders' Deficiency:</b>	
 Preferred stock:	
Series A, \$.01 par value; authorized 5,000,000 shares; issued and outstanding 3,333 shares	33
Series B, \$1.00 par value; authorized 5,000,000 shares; issued and outstanding 309 shares	309
Common stock, \$.0001 par value; authorized 500,000,000 shares; issued and outstanding 112,505,818 shares	11,251
Additional paid in capital	2,432,007
Deficit	(7,315,715)
Total Stockholders' Deficiency	(4,872,115)
 Total Liabilities and Stockholders' Deficiency	\$ 1,543,792

See accompanying footnotes to financial statements

**EP GLOBAL COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Quarters Ended March 31,	
	2007	2006
Revenue:		
Advertising revenue	\$ 445,899	\$ 531,152
Subscription revenue	196,092	87,114
On line seminars	-	25,500
Book sales	20,854	12,386
Special projects	252,142	316,400
Other revenue	84,463	5,270
Revenues	999,450	977,822
Cost of sales	427,096	363,520
Selling, general and administrative expenses	471,402	587,492
Costs and expenses	898,498	951,012
Income from operations	100,952	26,810
Other expense:		
Depreciation and amortization	(59,833)	(41,355)
Interest expense	(94,173)	(64,207)
Other expenses	(154,006)	(105,562)
(Loss) before provision for income tax	(53,054)	(78,752)
Income tax provision	-	-
Net (loss)	\$ (53,054)	\$ (78,752)
(Loss) per common share - basic	\$ (0.00)	\$ (0.00)
(Loss) per common share - diluted	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding - basic	78,192,707	23,183,707
Weighted average common shares outstanding - diluted	78,192,707	23,183,707

See accompanying footnotes to financial statements

**EP GLOBAL COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY**

	<u>Series A Preferred Stock</u>		<u>Series B Preferred Stock</u>		<u>Common Stock</u>		Additional Paid-In Capital	Deficit	
	<u>Total</u>	<u>Number of Shares</u>	<u>Value of Shares</u>	<u>Number of Shares</u>	<u>Value of Shares</u>	<u>Number of Shares</u>			<u>Value of Shares</u>
Balance at January 1, 2007	\$ (4,899,087)	3,333	\$ 33	309	\$ 309	51,245,818	\$ 5,125	\$ 2,358,107	\$ (7,262,661)
Issuance of Common Stock in connection with reduction of convertible debt (average of \$.001 per share)	80,026	-	-	-	-	61,260,000	\$ 6,126	\$ 73,900	-
Net Loss	(53,054)	-	-	-	-	-	-	-	(53,054)
Balance at March 31, 2007	<u>\$ (4,872,115)</u>	<u>3,333</u>	<u>\$ 33</u>	<u>309</u>	<u>\$ 309</u>	<u>112,505,818</u>	<u>\$ 11,251</u>	<u>\$ 2,432,007</u>	<u>\$ (7,315,715)</u>

See accompanying footnotes to financial statements

**EP GLOBAL COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Quarters Ended March 31,	
	2007	2006
Net (loss)	\$ (53,054)	\$ (78,752)
Adjustment to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	59,833	41,355
Accretion of interest expense on long-term debt	87,200	54,264
Retirement of common stock in connection with litigation settlement	-	(10,638)
Non-cash services	15,866	7,500
(Increase) decrease in operating assets:		
Accounts receivable	(438,424)	5,553
Inventory	428	(74,455)
Prepaid expenses and other current assets	(147,351)	(11,046)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	31,580	(120,690)
Deferred subscriptions and other revenues	437,037	(84,577)
Net cash used in operating activities	(2,763)	(271,486)
Cash flows from investing activities:		
Acquisition of property and equipment	(26,444)	(25,446)
Net cash used in investing activities	(26,444)	(25,446)

statement continued next page

**EP GLOBAL COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Quarters Ended March 31,	
	2007	2006
	<u>                    </u>	<u>                    </u>
Cash flows from financing activities:		
Proceeds from borrowings	300,000	1,000,000
Payments on debt	(98,323)	(308,365)
Increase in deferred financing costs	(24,000)	(80,000)
Conversion of accrued liability to equity	-	9,888
Issuance of common stock	-	2,500
Repayments to shareholder	(69,490)	(174,709)
Net cash flows provided by financing activities	<u>108,187</u>	<u>449,314</u>
Net increase in cash	78,980	152,382
Cash - beginning of year	<u>138,158</u>	<u>11,160</u>
Cash - end of quarter	<u>\$ 217,138</u>	<u>\$ 163,542</u>
Cash paid for interest	<u>\$ 1,537</u>	<u>\$ 63,425</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Supplementary disclosure of non-cash investing and financing activities:		
Common stock issued for services	<u>\$ 15,866</u>	<u>\$ 7,500</u>
Conversion of an accrued liability to equity	<u>\$ -</u>	<u>\$ 2,500</u>
Retirement of common stock in connection with litigation settlement	<u>\$ -</u>	<u>\$ (10,638)</u>

See accompanying footnotes to financial statements

**EP Global Communications, Inc. And Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**March 31, 2007**

**1. Description Of Business And Summary Of Significant Accounting Policies**

Basis of Presentation

On November 28, 2003, East Coast Airlines, Inc. ("East Coast") entered into a share exchange agreement with Psy-Ed Corporation. In connection with the share exchange, East Coast acquired the assets and assumed the liabilities of Psy-Ed Corporation. For accounting purposes, the share exchange agreement has been treated as a recapitalization of Psy-Ed Corporation as the acquirer.

Organization

EP Global Communications, Inc., formerly East Coast Airlines, Inc., and Subsidiaries ("EP" or the "Company"), operates its primary business through its subsidiary, Psy-Ed Corporation (d/b/a Exceptional Parent Magazine). In late 2004 and early 2005, EP entered into a joint venture, which has been consolidated in the Company's financial statements, to promote on line educational seminars, using a web based medium presenting topics that relate to the care of special needs individuals.

EP publishes and distributes *Exceptional Parent Magazine*, an international publication, designed to serve the informational needs of families and professionals who are involved in the care and development of children and adults with disabilities and special health care needs. EP also develops and implements online accredited Continued Medical Education Programs; has its own library of over 2000 disability book titles and publishes clinical monographs which are disseminated to physicians, researchers and allied health care professionals as well as families and caregivers all over the world.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated.

## Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Cash

Cash includes cash in banks, deposits with financial institutions, and all highly liquid investments with a maturity of three months or less.

## Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables.

The Company's cash and cash equivalents are concentrated primarily in two banks in the United States. At times, such deposits could be in excess of insured limits. Management believes that the financial institutions that hold the Company's financial instruments are financially sound and, accordingly, minimal credit risk is believed to exist with respect to these financial instruments.

The Company grants credit primarily to advertisers based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on these receivables is principally dependent on each customer's financial condition. A majority of the subscription income is received in advance and presents little risk to the Company. The Company controls its exposure to credit risk through monitoring procedures and establishes appropriate allowances for anticipated losses.

The Company has a major customer that comprised 16% of the Company's revenue in the quarters ended March 31, 2007 and 2006. A second major customer comprised 14% of the Company's revenue in the quarter ended March 31, 2007. There were no other customers that comprised greater than 10% of the total company revenues in those quarters.

## Provision for Losses on Uncollectible Receivables

The provisions for losses on uncollectible trade receivables are determined principally on the basis of specific identification and past collection experiences. The allowance for doubtful accounts on accounts receivable balances was \$68,437 at March 31, 2007.

## Inventories

Inventories, consisting primarily of books, are stated at the lower of cost or market, determined on the first-in, first-out (FIFO) method.

## Revenue Recognition

The Company recognizes revenue in accordance with the guidance contained in SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"), and Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB104"). Under these pronouncements, revenue is recognized when persuasive evidence of an arrangement exists, delivery of services and/or products has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

Advertising revenue, which consists predominantly of graphic and text displays, is recorded in the period corresponding to the presentation in the publication. Online services advertising revenues, primarily derived from the sale of banner advertisements and sponsorships on the Company's web sites, is recognized in the period the advertising is displayed. The costs to develop this internet income are period costs and are expensed when incurred. Print publication advertising and circulation revenues are recognized, net of agency commissions and estimated returns and allowances, when publications are issued. List rental income is recognized, net of commission, when a list is sold or rented.

Subscription income generated by both the private sector and the military is recognized based upon the monthly pro-ration of income within the reporting period for a given subscription.

Deferred subscription income, net of agency commission, is recorded when subscription orders are received. The Company uses a fulfillment house, which calculates the revenue to be recorded for all periods. Customers generally subscribe to the magazine for three years. Deferred subscription income represents the portion of the prepaid subscription not earned by the Company and paid for in advance of fulfillment by the Company to the customer.

Revenue from the production of online educational seminars, for both the private sector and the military, is recorded at the time the seminar is conducted.

Book orders are received over the internet and via the mail; revenue is recognized after the order has been fulfilled and shipped.

Special project revenue recognition occurs at the time of delivery of the product or service that constitutes the special project. Special projects include such undertakings as custom communications as well as the Company's "Disability Awareness Night" program.

### Cost of Sales

Cost of sales consist of those costs that are associated with the production of income for a given business activity.

### Depreciation and Amortization

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease.

### Stock-Option Plan

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. A key provision of this statement is the requirement of a public entity to measure the cost of employee and non-employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period or vesting period). This standard becomes effective on January 1, 2006 for small business issuers. The Company adopted SFAS 123R beginning in the Company's first fiscal quarter of 2006.

No compensatory options or warrants were granted during the quarters ended March 31, 2007 or 2006. See Note 4 for discussion of warrants issued during 2006 in connection with a debt financing.

## Income Taxes

The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are recognized by applying enacted tax rates applicable to future years to the differences between the financial statement carrying amounts and the tax bases of reported assets and liabilities.

The principal items giving rise to deferred taxes are certain expenses which have been deducted for financial reporting purposes which are not currently deductible for income tax purposes and the future tax benefit of certain net operating loss carryforward.

## Evaluation of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with guidance in SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." If the carrying value of the long-lived asset exceeds the present value of the related estimated future cash flows, the asset would be adjusted to its fair value and an impairment loss would be charged to operations in the period identified.

## (Loss) Per Share

Basic (loss) per common share is computed by dividing net (loss) by the weighted average number of common shares outstanding during the year. Diluted (loss) per common share is computed by dividing net (loss) by the weighted average number of common shares and potential common shares outstanding during the year. The basic weighted average shares were used in calculating quarter ended March 31, 2007 and 2006 diluted (loss) per share, as inclusion of the incremental shares shown in this calculation would be antidilutive. Potential common shares used in computing diluted (loss) per share at March 31, 2007 relate to common stock warrants convertible into 3,338,000 shares of common stock and convertible preferred stock convertible into 719,801 shares of common stock.

## Fair Value of Financial Instruments

For financial instruments including cash, accounts payable, accrued expenses and notes payable, it was assumed that the carrying amount approximated fair value because of the short maturities of such instruments.

## New Financial Accounting Standards

In December 2004, the Financial Accounting Standard Board (“FASB”) issued Statement on Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment” (revised), that will require compensation costs related to share-based payment transactions to be recognized in the financial statements.

With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the reward. The statement also amends SFAS No. 95, “Statement of Cash Flows”, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) is effective as to the Company as of the beginning of the first interim period that begins after December 15, 2005. The adoption of SFAS 123(R) had no material effect on the Company's reported results of operations.

In December 2004, the FASB issued SFAS No. 153 an amendment of APB Opinion No. 29 “Exchanges of Nonmonetary Assets”. SFAS No. 153 amends APB Opinion No. 29 by eliminating the exception under APB No. 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. 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 No. 153 is effective for periods beginning after June 15, 2005. The adoption of SFAS No. 153 had no material effect on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.” This Statement amended FASB Statements No. 133, “Accounting for Derivative Instruments and Hedging Activities”, and No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. This pronouncement had no material effect on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” This Statement amended FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This pronouncement had no material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. The effective date of this interpretation is for fiscal years beginning after December 15, 2006. We are currently in the process of evaluating the impact of this interpretation on its consolidated financial statements.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." 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. This pronouncement had no material effect on the Company's financial position or results of operations.

In September 2006, the SEC issued SAB No. 108 in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. In SAB No. 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. SAB No. 108 is effective for fiscal years ending after November 15, 2006. SAB No. 108 did not have an impact to our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of the adoption of SFAS No. 157 may have on our consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115". This statement permits companies to choose to measure many financial

instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement of accounting for financial instruments. The fair value option established by this statement permits all entities to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently assessing the impact that adoption of SFAS No. 159 may have on our consolidated financial statements.

### Basis of Presentation

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the settlement of its liabilities in the normal course of conducting business.

In the two most recent years, the Company has obtained cash from various debt financings to fund existing operations. From September 2005 through January 2006, the Company used proceeds from a \$3.0 million loan to repay a substantial portion of its debt and to provide for continuing operations through the third quarter of calendar year 2006. In the third quarter of calendar 2006, the Company entered into another loan arrangement to provide proceeds of \$2.0 million in the aggregate through November 2007. (See Note 4.)

In the fourth quarter, 2006, the Company entered into an agreement with the United States Army for a U.S. Army Research Project entitled Exceptional Family Training and Transitioning Program, focusing on education and training in the developmental and special health care needs arena. The contract, which is worth over \$800,000, is paid in installments and will be effective from December 1, 2006 through December 31, 2007.

The Company is continuing initiatives to produce significant increases in revenues and to enact cost reduction programs.

### Reclassifications

Certain amounts reported for 2006 have been reclassified to conform to the 2007 presentation. Such reclassifications had no effect on reported income.

## 2. Property and Equipment

Property and equipment at March 31, 2007 consists of the following:

	Furniture & Fixtures	Equipment	Computer Equipment	Other
Property and equipment	\$ 173,573	\$ 51,001	\$ 225,420	\$ 30,382
Less: Accumulated depreciation	(148,961)	(37,044)	(146,724)	(24,991)
	<u>\$ 24,612</u>	<u>\$ 13,957</u>	<u>\$ 78,696</u>	<u>\$ 5,391</u>

Depreciation expense for the quarters ended March 31, 2007 and 2006 was \$21,500 and \$15,244, respectively.

## 3. Accrued Expenses

Accrued expenses at March 31, 2007 consist of the following:

Commissions	\$ 7,658
Directors' expenses	3,200
Interest	32,045
Accrued vacation	8,139
Other	50,100
	<u>\$ 101,142</u>

## 4. Debt

Long-Term Debt

Long-term debt at March 31, 2007 consisted of the following:

Note payable - the Company will issue up to \$3,720,000 in callable convertible notes. The notes are convertible into shares of our common stock. The convertible debt instrument bears interest at 8% per annum. See further discussion below.	\$ 3,211,756
Note payable - the Company will issue up to \$2,600,000 in callable convertible notes. The notes are convertible into shares of our common stock. The convertible debt instrument bears interest at 10% per annum. See further discussion below.	1,252,029
Note payable to the City of Johnstown, interest at 3%, due November 2011. This note is collateralized by equipment owned by the Company. Principal and interest payments of \$1,321 per month.	68,979
Amount payable to vendor under an extension of credit up to \$369,250, non-interest bearing. Payments of \$30,000 in January 2007 and monthly payments of \$20,000 in February through September 2007. Thereafter, the note shall convert to an open account payable with the vendor.	224,250
	<hr/>
	4,757,014
Less: Current portion	(238,184)
	<hr/> <u>\$ 4,518,830</u>

The following are maturities of long-term debt:

12 Months Ended March 31,	
2008	\$ 238,184
2009	2,181,958
2010	2,286,981
2011	39,245
2012	<u>10,646</u>
	<u>\$ 4,757,014</u>

On September 23, 2005, the Company completed financing agreements by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC.

Under the securities purchase agreement, the Company will issue up to \$3,720,000 in callable secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the lesser of \$0.12 or the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. In addition, our Chief Executive Officer individually pledged 3,371,093 shares of common stock.

In addition, the Company is to issue 5,000,000 stock purchase warrants convertible into shares of our common stock on a one for one basis. The exercise price is \$.15 and the term of the warrants is 5 years. As of December 31, 2005, 3,338,000 warrants had been issued. The remainder was issued in January, 2006.

A private investment firm received a commission of \$240,000 (8% of the aggregate net proceeds of \$3,000,000) for arranging for this financing.

Through December 31, 2005, the Company received net proceeds of \$2,000,000 under the terms of the securities purchase agreement. The Company also received \$1,000,000 on January 29, 2006 immediately following the effectiveness of a registration statement filed by the Company with the SEC.

The convertible debt instrument bears interest at 8% per annum and is due September 23, 2008.

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the convertible debt. The calculated fair value of the convertible debt of \$3,211,756 was recorded as a long term liability as of March 31, 2007. The convertible debt will be accreted to its face value of \$3.7 million under the interest method until it is either

converted or matures. As of March 31, 2007, the accretion was \$342,032, of which \$63,917 was recorded in calendar year 2007.

If the obligation had been settled on March 31, 2007, the Company would have issued 3,148,780,423 shares of its common stock (with a fair value, based solely on the quoted market price per share as of March 31, 2007, of \$5,352,927). However, under the terms of the agreement, the maximum number of shares that could be required to be issued is 206,666,666.

Provided the Company is not in default under the financing documents, it has a sufficient number of authorized shares of its common stock reserved for issuance upon full conversion of the promissory notes and its common stock is trading at or below \$.15 per share, the Company shall have the right, exercisable on not less than 10 trading days prior written notice to the holders of the promissory notes, to prepay all of the outstanding promissory notes. If the Company exercises its right to prepay the promissory notes, it shall make payment to the holders of an amount in cash equal to either (i) 125% (for prepayments occurring within 30 days of the issue date of the promissory notes), (ii) 130% for

prepayments occurring between 31 and 60 days of the issue date of the promissory notes, or (iii) 140% (for prepayments occurring after the 60th day following the issue date of the promissory notes, multiplied by the sum of the then outstanding principal amount of the promissory notes plus default interest.

On August 15, 2006, the Company completed a second financing agreement by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC.

Under the second securities purchase agreement, the Company will issue up to \$2,600,000 in callable secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the lesser of \$0.05 or the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. In addition, the Company issued 5,000,000 stock purchase warrants convertible into shares of our common stock on a one for one basis. The exercise price is \$.01 per share and the term of the warrants is seven years.

Through March 31, 2007, the Company received proceeds of \$1,200,000 under the terms of the securities purchase agreement. The funds were received in the amount of \$500,000 upon signing the definitive investment agreements and \$100,000 monthly thereafter.

A private investment firm is receiving 8% of the amount loaned as the funds are received. There was also an origination fee to the lender of \$20,000, which has been paid.

The convertible debt instrument bears interest at 10% per annum and is due beginning in August, 2009.

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the convertible debt. The calculated fair value of the convertible debt of \$1,252,029 was recorded as a long term liability as of March 31, 2007. The convertible debt will be accreted to its face value of \$2.6 million under the interest method until it is either converted or matures. As of March 31, 2007, the cumulative accretion was \$52,029, of which \$23,283 was recorded in calendar year 2007.

If the obligation had been settled on March 31, 2007, under the formula for conversion, the Company would issue approximately 1,227,479,807 shares of its common stock (with a fair value, based solely on the quoted market price per share as of March 31, 2007, of \$2,086,716). However, under the terms of the agreement, the maximum number of shares that could be required to be issued is 206,666,666, and the maximum number of shares of common stock that are authorized to be issued by the Company is 500,000,000.

In connection with the notes payable to AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC, described above, the Company has deferred financing costs and fees, that are amortized over 36 months, as follows:

		Activity in calendar year	
	<u>Total</u>	<u>2007</u>	<u>Prior</u>
Financing fees (8% of financing)	\$ 336,000	\$ 24,000	\$ 312,000
Other financing fees - lender	90,000	-	90,000
Legal fees	50,000	-	50,000
Total deferred fees	<u>476,000</u>	<u>24,000</u>	<u>452,000</u>
Less: Amortization	<u>(176,611)</u>	<u>(38,333)</u>	<u>(138,278)</u>
	<u>\$ 299,389</u>	<u>\$ (14,333)</u>	<u>\$ 313,722</u>

## Short-Term debt

Short-term bank obligations at March 31, 2007, consist of an unsecured line of credit with MBNA in the amount of \$12,760, interest at 24.5%.

## 5. Related Party Transactions

Amounts due to shareholders at March 31, 2007 consist of the following:

Notes Payable to Officers / Directors	
Note payable to Chief Executive Officer, due on demand, interest at 9.74%	\$ 148,212
Amount payable to former Chief Operating Officer, due on demand.	929
	<hr/>
	\$ 149,141
Other amounts due to Officers / Directors / Shareholders	
Deferred compensation payable to the Chief Executive Officer	\$ 102,798
Deferred compensation payable to former Chief Operating Officer	20,360
	<hr/>
	123,158
	<hr/>
	\$ 272,298

The deferred compensation amounts due the Chief Executive Officer and former Chief Operating Officer represent unpaid compensation due each individual based upon their normal annual compensation that remains unpaid at the quarter ended March, 31, 2007. These balances are non-interest bearing.

Also, see Note 7 for information regarding common stock issued for services.

## 6. Income Taxes

The liability method, prescribed by SFAS No. 109, "Accounting for Income Taxes", is used by the Company in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of

assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Through March 31, 2007, the Company recorded a deferred tax asset associated with its net operating loss (“NOL”) carryforwards of approximately \$1,739,566 that was fully offset by a valuation allowance due to the determination that it was more likely than not that the Company would be unable to utilize these benefits in the foreseeable future. The Company’s NOL carryforward expires beginning in 2010 through 2018.

There is no provision for income taxes for the quarters ended March 31, 2007 and 2006, as there was no taxable income in either quarter.

The types of temporary differences between tax basis of assets and liabilities and their financial reporting amounts that give rise to the deferred tax liability and deferred tax asset and their approximate tax effects are as follows:

	March 31, 2007	
	Temporary Difference	Tax Effect
Net operating loss carryforward	\$ 5,090,100	\$ 1,730,634
Less: Valuation account	(5,090,100)	(1,730,634)
	<u>\$ -</u>	<u>\$ -</u>

The provision for income taxes on earnings differs from the amount computed using the federal statutory rate of 34% as a result of the following:

	March 31,	
	2007	2006
Net Loss	<u>\$ (53,054)</u>	<u>\$ (78,752)</u>
Federal taxes at statutory rate - 34%	(20,400)	\$ (26,776)
State income taxes net of federal benefit	(1,250)	(5,000)
Unused net operating losses	<u>21,650</u>	<u>31,776</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

See Note 1 regarding the Company's business combination pursuant to a share acquisition agreement. The business combination was a tax-free merger pursuant to Internal Revenue Code Section 368. Accordingly, in connection with this merger, the Company's ultimate recognition of its NOL became subject to Internal Revenue Code Section 382

The general tax principle underlying Code Section 382 is that losses incurred by a corporation may be utilized by offsetting income it later generates, as long as its separate existence and the identity of its major shareholders are basically unchanged. However, significant limitations to the use of the Company's NOL may apply if there is an ownership change. The testing period is defined as the three-year period ending on the day of any shift involving a five-percent shareholder or the equity structure.

While the Company does not believe the ultimate realization of its NOL carryforward will be impacted by the merger, it can give no assurance that limitations that may exist under the prevailing, or future, Code Section 382 will not apply.

## **7. Stock Issued for Services**

For the quarter ended March 31, 2007, the Company did not issue any of its common stock except in connection with conversion of its debt (see Note 4).

For quarter ended March 31, 2006, the Company issued 225,000 shares of the Company's common stock to employees and non-employees as stock-based compensation in the amount of \$7,500, that has been recorded as an expense in the Company's financial statements.

The Company accounts for the services using the fair market value of the services rendered.

## **8. Stockholders' Deficiency**

### Common Stock

The Company is authorized to issue 500,000,000 shares of \$.0001 par value common stock. All the outstanding Common Stock is fully paid and non-assessable.

### Preferred Stock – Series A

The Company is authorized to issue 5,000,000 shares of \$ .01 par value Preferred Stock – Series A. All the outstanding Preferred Stock is fully paid and non-assessable. Each share of the Preferred Stock is convertible, at the option of the holder at any time, into 190 shares of the Company's Common Stock. The holders of Series A preferred Stock have the following rights.

#### Dividends:

If any dividend is declared on the Company's Common Stock in any fiscal year, the holders of the Series A Preferred Stock first shall be entitled to receive a dividend of \$200 per share in preference to the payment of any dividends on the Company's Common Stock.

#### Liquidation Preference:

In the event of any liquidation or winding up of the Company, if the funds available for liquidation are less than \$4,000,000 the holders of the Series A Preferred Stock shall be entitled to receive in full, prior to any other distribution made on the Company's Common Stock, cash dividends in an amount of \$25.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares), on an equal basis with any distribution to be made to the holders of the Series B Preferred Stock.

After this preferred amount, if any, has been paid in full, any of the Company's remaining funds and assets legally available for distribution to shareholders will be distributed on an as-converted basis to the holders of the shares of Series A and Series B Preferred Stock and our Common Stock. If the funds available for distribution to stockholders on liquidation is greater than \$4,000,000, then such funds will be distributed to the holders of the Series A Preferred Stock and Series B Preferred Stock (on a pro rata basis based on the number of shares of common stock into which all such shares of preferred stock are convertible) and the holders of the Company's Common Stock.

#### Redemption:

Upon the sale by the Company of its capital stock which results in 51% of capital stock being held by persons other than those who held its capital stock on September 30, 1995 then the Company must offer to redeem the Series A Preferred Stock at a price equal to two times the conversion price of the Series A Preferred Stock (currently \$25 per share). Notwithstanding the foregoing, if the Company does not have sufficient funds to redeem the Series A Preferred Stock without causing a material adverse effect on the Company's ability to carry out its business, only the funds that are available that will not cause such material adverse effect shall be used to redeem the Series A Preferred Stock. This redemption requirement will continue until such time as all of the shares of Series A Preferred Stock have been redeemed.

#### Conversion:

Each share of Series A Preferred Stock is convertible into 190 shares of Common Stock (subject to adjustment) at any time at the option of the holder. The Preferred Stock automatically converts into the Company's Common Stock upon the consummation of a public offering by the Company with aggregate proceeds or fair market value in excess of \$4,000,000. All rights incident to a share of Series A Preferred Stock will terminate automatically upon any conversion of such shares into Common Stock. The conversion rate will be subject to appropriate adjustment upon any stock split, reverse stock split or stock dividend or similar transaction.

#### Anti-dilution Adjustments:

The Series A Preferred Stock provides for proportional adjustments to the conversion rate for stock splits, dividends, recapitalizations and similar transactions.

#### Voting Rights

Holders of the Series A Preferred Stock are entitled to vote on all matters submitted to the Company's shareholders for a vote or consent. Each share of Series A Preferred Stock has voting rights equal to the number of shares of Common Stock into which it converts (presently 190 for 1). Except when a separate class vote is required by law, the Series A Preferred Stock will vote with the Common Stock as a single class.

#### Preferred Stock – Series B

The Company is authorized to issue 5,000,000 shares of \$1.00 par value cumulative Preferred Stock – Series B. All the outstanding Preferred Stock is fully paid and non-assessable. Each share of the Preferred Stock is convertible, at the option of the holder at any time, into 277 shares of the Company's Common Stock.

Holders of the Series B Preferred Stock are entitled to 10% cumulative dividend if declared by the Board of Directors. This class of stock holds liquidation preferences and is redeemable in December 2005 for face value plus accrued dividends.

#### Dividends:

The holders of the Series B Preferred Stock shall be entitled to cumulative dividends of 10% per share prior to the Company paying any dividends on the Series A Preferred Stock or its Common Stock.

**Liquidation Preference:**

In the event of any liquidation or winding up of the Company, if the funds available for liquidation are less than \$4,000,000 the holders of the Series B Preferred Stock shall be entitled to receive in full, prior to any other distribution made on the Company's Common Stock, cash dividends in an amount of \$61.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares), plus all accumulated and unpaid dividends, on an equal basis with any distribution to be made to the holders of the Series B Preferred Stock.

After this preferred amount has been paid in full, any of the Company's remaining funds and assets legally available for distribution to shareholders will be distributed on an as-converted basis to the holders of the shares of Series A and Series B Preferred Stock and our Common Stock.

If the funds available for distribution to stockholders on liquidation is greater than \$4,000,000, then such funds will be distributed to the holders of the Series A Preferred Stock and Series B Preferred Stock (on a pro rata basis based on the number of shares of common stock into which all such shares of preferred stock are convertible) and the holders of Company's Common Stock on a pro rata basis.

**Redemption:**

Upon the sale by the Company of its capital stock which results in 51% of capital stock being held by persons other than those who held its capital stock on September 30, 1995 then the Company must redeem the Series A Preferred Stock at a price equal to two times the conversion price of the Series A Preferred Stock (currently \$61 per share). In addition, the Series B Preferred Stock is redeemable by the Company in December 2005 for its issue price of \$61 per share plus accrued dividends. Notwithstanding the foregoing, if the Company does not have sufficient funds to redeem the Series B Preferred Stock without causing a material adverse effect on the Company's ability to carry out its business, only the funds that are available that will not cause such material adverse effect shall be used to redeem the Series B Preferred Stock. This redemption requirement will continue until such time as all of the shares of Series B Preferred Stock have been redeemed.

#### Conversion:

Each share of Series B Preferred Stock is convertible into 277 shares of Common Stock (subject to adjustment) at any time at the option of the holder. The Series B Preferred Stock automatically converts into the Company's Common Stock upon the consummation of a public offering by the Company with aggregate proceeds or fair market value in excess of \$4,000,000. All rights incident to a share of Series B Preferred Stock will terminate automatically upon any conversion of such shares into Common Stock. The conversion rate will be subject to appropriate adjustment upon any stock split, reverse stock split or stock dividend or similar transaction.

#### Anti-dilution Adjustments:

The Series B Preferred Stock provides for proportional adjustments to the conversion rate for stock splits, dividends, recapitalizations and similar transactions.

#### Voting Rights:

Holders of the Series B Preferred Stock are entitled to vote on all matters submitted to the Company's shareholders for a vote or consent. Each Share of Series B Preferred Stock has voting rights equal to the number of shares of Common Stock into which it converts (presently 277 for 1). Except when a separate class vote is required by law, the Series B Preferred Stock will vote with the Common Stock as a single class.

## **9. Commitments and Contingencies**

### Operating Leases

The Company has operating leases for office space and temporary living space expiring in 2009 and 2007, and for office equipment expiring in 2007. Total operating lease expense amounted to \$115,600 and \$148,814 in 2006 and 2005, respectively. Subsequent operating lease payments are \$40,340 in 2007, \$47,340 in 2008, and \$48,540 in 2009.

### Legal Proceedings

Joseph Braumstein, Chapter 7 Trustee of The McCabe Group versus Joseph M. Valenzano, Jr. and Psy-Ed Corporation et al. Adversary proceeding No 06-01351. When The McCabe Group (TMG) ceased business operations in October 2004, it entered into a Chapter 7 liquidation proceeding, under the terms of Title 11 of the U.S. Code (Bankruptcy). The Chapter 7 Trustee of TMG, Joseph Braumstein in June 2006 brought a lawsuit in the U.S. Bankruptcy Court alleging that the Company and its President and CEO, jointly and severally, owed approximately \$53,000 for legal fees and expenses to TMG. The Company and its CEO are vigorously defending this complaint. The Company and Counsel believes

that further litigation should result in the ultimate dismissal of this Chapter 7 Trustee Claim. The Company has made all timely filings with the court and to date has heard nothing further with regard to the position of the court.

Psy-Ed Corporation, d/b/a Exceptional Parent, Plaintiff v. Stanley D. Klein and Kimberly Schive, Superior Court in and for the County of Middlesex, in the Commonwealth of Massachusetts, Civil Action No. 99-6140; Counterclaims Brought by Klein Against Plaintiffs and Third-Party Directors (Kenneth Rossano, David Hirsch, MD, Robert Striano, Donald S. Chadwick, C. Kenneth Mehrling and Robert K. Hopkins, Jr.) of Exceptional Parent in Civ. No. 99-6140. This case was commenced on December 17, 1999. Psy-Ed is the plaintiff and counter-claimants in this case. The Company and its president were previously successful in defending an action taken by Ms. Schive in 1996 for wrongful termination, and successfully defended itself in three separate appeals made by Ms. Schive. At present, most of the claims by Kimberly Schive have been dismissed and are no longer pending, either in any court proceeding or before the MCAD. Still pending are her claims for abuse of process and retaliation. The company and its attorney's feel that further litigation should result in the ultimate dismissal of her claims

The employment of Stanley D. Klein, a former officer, director and shareholder of the company was terminated for cause in August of 1997. He filed a complaint with the Massachusetts Commission Against Discrimination in 2000 alleging that the Company, which had brought an action against him in December 1999 for misconduct, fraud and defamation causing damage to the Company, had retaliated against him because of his support for Kimberly Schive.

Mr. Klein filed an action against the Company and Mr. Valenzano in the Superior Court for Middlesex County, Massachusetts in December 2002 seeking payment of unspecified damages. That lawsuit was dismissed in 2005. Mr. Klein then filed an action seeking precisely the same relief in a state court in New Jersey which action was summarily dismissed by Superior Court in Bergen County New Jersey. At the time of filing both of these actions, Mr. Klein was a defendant in an action brought by the Company against him in 1999.

During the non-jury trial held in June of 2006, eight of Klein's ten claims against the Company were dismissed. The Company was found liable by the judge with respect to abuse of process in the Schive case and tortious interference with respect to a promissory note. The balance on that note was approximately \$124,000. The Company intends to rigorously defend against the decision and to date no decision with regard to any award of damages has been made. It is the Company's position that it will prevail with respect to any adverse findings although it is impossible to assert at this time that there is any certainty with respect to this position.

Other than noted above, there is no litigation pending or threatened by or against us.

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

In this section, "Management's Discussion and Analysis of Plan of Operation," references to "we," "us," "our," and "ours" refer to EP Global Communications, Inc. (EPGL), and its consolidated subsidiaries.

### Critical Accounting Policies:

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities and expenses, and related disclosure of contingent assets and liabilities. We based our estimates on historical experience and on other various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Plan of Operation:

EPGL is on the brink of its most expansive growth in its 36-year history, with never-before streams of revenue and innovative projects under way that have the potential for significantly and positively impacting, far into the future, the kind of proprietary, need-to-have information and support for people with disabilities and special needs, and for the physicians, allied health care professionals, teachers, families, and other caregivers involved in their care and development. We believe that a key result of these initiatives will be the continued worldwide evolution of the awareness of the abilities and potential of people with disabilities and special needs. We anticipate that EP's cutting-edge education outreach and multiple forums for communication (e.g.: **EP LiveOnline**<sup>™</sup>; and Search & Respond in *EP* magazine and on the new, expanded EP Web site, <http://www.eparent.com>, to be launched in May 2007) will continue to establish links among families and professionals to enhance knowledge bases regarding chronic disabilities and to provide the most up-to-date strategies for optimizing individual lives and well-being.

Management intends to expand EP's 36-year heritage of providing "Information That Matters from People Who Care" to the community of those with disabilities and special needs. Our award-winning *EP* magazine represents the foundation of all that we do. Most of our efforts and investment up to the beginning of 2007 have been directed to this purpose. Our focus is entirely in the arena of chronic long-term conditions, not disease states. The significance of this is that diseases for the most part can be cured with various medical interventions and surgery. Chronic life-long conditions are different. There are no cures for these and so the challenge is to improve upon the quality of life and assist people with special needs to develop into the very best they can be and help make them contributing members of our society. A corollary to this is to increase awareness of all Americans that we will become a stronger nation and a better people when we learn to regard those with special needs as people to be respected, not problems to be confronted. That is an underpinning of everything that EP does.

In 2006, we completed the investment, building, and implementation of a dynamic growth strategy to increase revenues and profitability for 2007 and beyond, with a three-point initiative:

1. We are emphasizing our core publishing operations, including advertising, subscription growth, and the development of our custom communications and special project capabilities. We have augmented our staff with this purpose in mind, and have begun a considerable commitment to expanding our existing database as well as building new credible databases in the medical, education, financial services, mobility, and augmentative communications fields.

2. We have increased the growth and strength of our Joint Venture with Vemics, Inc., called **EP LiveOnline™**, diversifying from the clinical and medical arenas into financial planning, education, assistive technology, and augmentative communications and mobility, as well as human resource management. We have expanded the network of sites we have been building and diversified into other areas besides healthcare. Included in our expansion is the U.S. Military as a major focus of our activities. Efforts and services are currently under way with the Army, and will expand under an approved initiative to the Air Force in 2007. Proposals have been submitted to the Navy and Marine Corps as well as to the National Guard and Reserves and the Coast Guard.
3. Leverage our strength in key Web-based communication programs such as the development of specific disability topics directed to specific disability organizations: e.g. – EP on CP (Cerebral Palsy); EP on Epilepsy; EP on Mobility; etc. Because of our unique, time-tested, and strong relationships with key disability-related organizations and our reputation with medical thought and opinion leaders in the field, we believe this will be a natural course for us to follow, once we implement our new, expanded Web site, scheduled for launch in May 2007.

The first-quarter 2007 operating results reflect comparable revenues to 2006 as well as a significant improvement in profitability. Indeed, revenues in 2007 include only a portion of the revenues for our Disability Awareness Night™ (DAN™) Program. We are in receipt of a signed contract and payment from our lead national sponsor, MassMutual, for the 2007 DAN Program, but a substantial portion of these revenues and costs will be posted in the second and third quarters of 2007. Management forecasts significant growth beginning in the second quarter of 2007 for EP's core services, consisting of ad revenue, custom communications, and EPGL special project segments, as well as our innovative, online, interactive educational programs. Examples of our growth to date and future plans follow:

#### Special Projects:

##### Disability Awareness Night™ (DAN™)

The Disability Awareness Night campaign has grown substantially since its launch in 2002. In 2002, we started with two teams, the New York Yankees and the Boston Red Sox. In 2003, participation expanded to 14 teams. In 2004, we grew to 27 teams, and in 2005, we held DAN events in 31 stadiums, including the Hall of Fame Game in Cooperstown, New York. In 2005 and 2006, we experienced the participation of our lead sponsor Massachusetts Mutual Life Insurance Company whose *SpecialCare* program has made a significant contribution to the field of disabilities and whose financial commitment to the DAN Program has been substantial. We also benefited from additional sponsorship provided by other international corporations such as Genzyme, Shire Pharmaceuticals, CVS, and Volvo. In 2007, we have already secured the contractual participation of our national Dan sponsor, Massachusetts Mutual Life Insurance and three regional sponsors, and we believe we will surpass revenues achieved in prior years. In addition, we have contracted for and received sponsorship for a racing event to be held on Sunday, July 1, 2007, at the New Hampshire International Speedway in Loudon, New Hampshire. This event will also be featured as a Day of Military Distinction, during which we will honor wounded soldiers who are recovering from injuries sustained in Iraq and Afghanistan. These soldiers will be flown to this new DAN event by our sponsor MassMutual and honored on the track just prior to the NASCAR Nextel Cup Race. It is anticipated that General Staff Officers and other military dignitaries from Walter Reed Army Medical Center will be on hand for these ceremonies.

### Educational Online Programming

Beginning in December 2005 and through 2006, we launched over twelve live, online, interactive, TV-quality educational programs under unrestricted educational grants from major pharmaceutical companies and other sources. In 2007, we have contracted to implement a minimum of six programs on spasticity management plus several others dealing with topics such as Epilepsy, Hyperbaric Oxygen Therapy, Attention Deficit Disorder/Attention Deficit Hyperactivity Disorder (ADD/ADHD), Autism Spectrum Disorders, Respite Care, Asthma, and Expanded Newborn Screening utilizing Tandem Mass Spectrometry (MS/MS). Further growth and additional topics are planned for the third and fourth quarters.

### United States. Military: Exceptional Family Transition Training (EFTT) Program

In late 2006, we executed a U.S. Army Cooperative Research Agreement entitled the Exceptional Family Transition Training (EFTT) Program for an appropriation of \$830,650, the bulk of which has already been received in 2007. These funds are being used to provide education and informational programs for military families caring for loved ones with disabilities and special needs on selected bases around the world, as well as for the delivery of Continuing Medical Education (CME) credits, via accredited online, interactive programs, to Army Medical Corps physicians and Continuing Education Units (CEU) to allied healthcare professionals. The Company has received the first three payments under this agreement, with the fourth and final payment scheduled for July 2007. The funds are being used to deliver three measurable efforts on behalf of Army families and healthcare professionals caring for children and adults with disabilities and special needs, including soldiers returning from Iraq and Afghanistan with limb loss and other disabling conditions. These efforts include the following:

- Work is underway toward the development of very specific educational content used for training purposes of Army Medical Corps Staff – physicians, nurses, occupational and physical therapists, speech and language pathologists – and families and caregivers in the arena of developmental disabilities. This curriculum, which will include six programs delivered to eight major Army Base Installations with significant teaching hospital facilities, will be facilitated by EP's contacts in science and medicine, and education and training, as well as parents throughout the country. The programs will also be offered in collaboration with accreditation entities provided by various major medical schools and professional medical societies such as the American Academy of Developmental Medicine and Dentistry (AADMD). We expect the first of these programs to begin in July 2007, and run consecutively until the end of calendar year 2007. We will deliver online, interactive content via our Joint Venture with Vemics, Inc., entitled **EP LiveOnline™**. Of course, civilians will also benefit from this effort, as the programs will be distributed simultaneously to all interested individuals, organizations, professional medical societies, and various other entities with whom EP works. The content remains the proprietary content of EPGL and will be disseminated simultaneously to our various networks built over the past year. It will then be stored for access on the EP Web site at <http://www.eparent.com>.
- Base Librarians at our target installations have been contacted, and the available EP Bookstore List has been disseminated for their selection process of books to be shipped to each facility. We expect to receive all requests by the end of May 2007. Shipments have already begun for orders received to date. Exceptional Family Member Program (EFMP) Managers, the points of contact for families with a loved one with a disability or special need on each installation, will be able to select a specific dollar amount of books and use these to begin the process of setting up a disability library on the installation for access by military families caring for loved ones with special needs.

- EP's January 2007 Annual Resource Guide includes a Special Army Section entitled Community of One ~ From Our Families...To Your Families. In addition, the 2007 Annual Resource Guide was the largest issue/reference tool ever published by EP, and included tabs and special advertising-supported inserts. Most importantly, Dr. Margaret Giannini, Director of the Office on Disabilities for Health and Human Services (HHS), specifically requested that EP print and publish a Consumer Edition of the People's Piece of the Surgeon General's Call to Action to Improve the Health and Wellness of Persons with Disabilities. We did exactly that with funding from MassMutual. Beginning in February 2007, EP launched its special Military Insert that appears in each issue of the magazine and will appear through calendar year 2007.

Our accredited online, interactive seminar capability as well as our print and publishing capabilities will be used for the EFTT program throughout all of 2007. The project also includes a continuation of the program in 2007, at a funding level of \$799,000, for expansion to the Air Force. Based on the success of our programs to date, expansion of this initiative is possible to the other branches of the service (Navy and Marine Corps, National Guard and Reserves, as well as Civilian Employees of the U.S. Military), and we are actively pursuing this expansion.

#### Strategic Initiatives:

Our platform for growth is due in part to a number of marketing joint initiatives that have been entered into that allow EPGL to address target markets in a concentrated manner. Listed below are the key relationships we now have that are intended to result in additional revenue for the Company.

#### American Academy of Developmental Medicine and Dentistry (AADMD)

Further internal growth is expected to result from *Exceptional Parent (EP)* magazine being designated as the official publication of the American Academy of Developmental Medicine and Dentistry (AADMD), a professional medical society and national organization of doctors and dentists who have dedicated their efforts to providing "best practices" advice to caregivers on how to medically and dentally care for the special needs individual. Beginning with the July 2005 issue of *EP* magazine and continuing to the present, AADMD is providing peer-reviewed articles for the magazine and the opportunity for physicians to secure up to 2 credit hours of Continuing Medical Education (CME) per issue by completing a test that follows each designated article. Management believes that *EP* magazine is the first special-interest consumer publication in America to ever offer CME credits to physicians. Our relationship with the AADMD is in addition to relationships we enjoy with numerous disabilities groups throughout the United States as well as with medical societies such as the Child Neurology Society (CNS).

It should also be noted that the AADMD and EPGL have an agreement to co-produce online seminars in 2006 and 2007. No other entity has this opportunity. The AADMD fully endorses the work of EPGL and of EPGL and Vemics, Inc., in their Joint Venture, relating to technology exclusivity in health care.

Of additional significance is that our chief executive officer and director, Joseph M. Valenzano, Jr., is the only non-physician to hold a board seat on the AADMD. Mr. Valenzano currently chairs the Executive Advisory Board of the AADMD.

#### United States. Military: Exceptional Family Transition Training (EFTT) Program

Funds received from the EFTT Program Appropriation have been used to provide ongoing education for military families and physicians caring for children with disabilities and special health care needs. We have hired veterans and civilian staff to assist in the implementation of this project and expect expansion into other areas of the military with funding requests already approved for the Air Force and an expanded

program submitted for 2008 for the Navy-Marine Corps, National Guard and Reserves. Preliminary discussions are also underway with the U.S. Coast Guard, which falls under the Office of Homeland Security.

It is our intent with the EFTT Program to build upon our existing relationships within the military community to bring timely and meaningful educational content both in print and on a Web-based delivery system to families and also to the physicians charged with their care. In this regard, we have already begun the process of exploring ways in which we can deliver high-quality educational content focused in the chronic disability and special needs area in cooperation with eight military installations, all of which have large-scale teaching hospitals and medical facilities. These facilities include Dewitt Hospital, at Fort Belvoir, Virginia; Brooke Army Medical Center, at Fort Sam Houston, Texas; Madigan Army Medical Center, at Fort Lewis, Washington; Blanchfield Army Community Hospital, at Fort Campbell, Kentucky; Womack Army Medical Center, at Fort Bragg, North Carolina; Schofield Barracks, in Honolulu, Oahu, Hawaii; Kaiserslautern, in Germany; and several medical centers at Fort Drum, New York, along with the Uniformed Medical Services School in Bethesda, Maryland. This initiative represents a Cooperative Agreement with the U.S. Army in the amount of \$830,650, and such revenues would be recognized in accordance with the Company's existing accounting policy, which is to identify revenue streams consistent with our core services: subscriptions, page advertising, and special projects/custom communications and online Web-based programming.

We have recently hired new sales staff capable of marketing the complete package of services the company now offers, both via print and online. These new sales personnel are receiving ongoing training to implement effective sales strategies and outcomes for EP. One of our new sales representatives is covering the Southwestern Sales territory and is based in Dallas, Texas. Our other new sales representative is covering the Northeastern and Southeastern territories and is based in Laurys Station, Pennsylvania.

To improve efficiency and allow for greater promotion of our magazine to stimulate subscription income, we have outsourced our entire circulation management to a firm specializing in this arena, ProCirc, based in Miami, Florida. The incremental cost of doing this is not material in relation to the costs to date. Previously, circulation management had been handled internally by our existing staff. Our business, with its multiple product lines and multimedia approach to publishing and communications, suggests that we might best be able to grow our existing paid circulation base under the direction of an experienced and professional circulation management team. This team can also oversee the shift to a smaller, more effective fulfillment firm, one more suited to the nature of our business, which is heavily involved in medical and healthcare-related activities. Accordingly, we are shifting compensation and related expenses to outside professional circulation services that have experience in both consumer as well as medical/professional publishing. The cost differential associated with this shift, as noted, is negligible but the potential for significant increases in paid circulation and related development activities, such as bundled advertising and sponsored bulk distribution of the monthly magazine, should yield higher revenue performance for us.

The agreement with ProCirc has been renewed, with refocused direction and effort. There are incentives built into the agreement to reward performance. It is important to note that increases in unit circulation will also result in increases in advertising, as we will be reaching a larger audience, which should justify increases in ad page sales from a larger number of ad page sales as well as ad page rate increases.

In 2007, we have expanded our Disabilities Awareness Night™ (DAN™) programs, principally conducted in major league baseball parks, from 2002 to 2006, and continuing in 2007. Prior to this time, our programs were taking place in a limited number of National Basketball Association venues, minor league baseball parks and minor league hockey arenas. On May 23, 2005, and again in May 2006, in conjunction with the National Baseball Hall of Fame in Cooperstown, New York, we hosted prior to the annual Hall of Fame Game a ceremony honoring returning disabled veterans from Iraq and Afghanistan. This was done in conjunction with Walter Reed Army Medical Center and its Commanding General, who presented awards to returning veterans and their families selected for the honor. Also at that event, one of the honorees received his Purple Heart for wounds received in Iraq. In July 2007, we will hold our first DAN event at a racetrack, at New Hampshire International Speedway, in Loudon, New Hampshire, prior to the

NASCAR Nextel Cup Race. Massachusetts Mutual Life is sponsoring the DAN event. This event will include a Day of Military Distinction, and will involve returning wounded Soldiers, Sailors, Airmen, and Marines from Walter Reed Army Medical Center. We plan to continue this DAN expansion to race tracks associated with NASCAR, and are test-marketing programs with two NBA teams as well as evaluating the feasibility of expanding into other sports venues such as NCAA Basketball.

We continue to provide education regarding Assistive Technology for people with disabilities, both physical and intellectual (e.g.: cerebral palsy and autism spectrum disorders). This includes the launch of our Consumer's Guide to Assistive Technology, written by leading authorities in the field.

We continue to publish monthly in *EP* magazine and on our Web site valuable information regarding Financial and Estate Planning for people with special needs and for families caring for children and adults with disabilities.

We continue to provide education regarding Mobility, including via the National Mobility Equipment Dealers Association (NMEDA) Guide to Mobility Products, which we publish each year. NMEDA is the leading national authority on mobility products and services.

Our revenues are generated from the following activities:

#### Sale of Advertising Space in Exceptional Parent Magazine

This is driven by a number of factors, including our editorial content and focus. Our customers consist of large Fortune 500 companies: Ford, Chrysler, Kimberly Clark, Novartis Pharmaceuticals, Johnson & Johnson, Massachusetts Mutual Life Insurance Company, Verizon and Merrill Lynch. All purchase ad space in our publications to enhance awareness and image for their products and services and brand recognition for their names. Historically, revenues generated from the sale of advertising space have ranged from approximately \$1.6 million to as high as \$2.2 million in the past (1998).

#### Disability Awareness Night™ (DAN™) Programs at Major and Minor League Baseball Stadiums

This program generates revenue. Each of the DAN events is sponsored on a national basis by a leading sponsor, MassMutual Financial Group, followed by regional and local sponsorships. In 2006, for example, total revenues from this effort aggregated approximately \$400,000. We have already signed the sponsorship agreement with our lead sponsor for 2007, and have commitments from other sponsors that will yield revenues well in excess of \$400,000 in 2007. This does not include any sponsorship revenues from other venues such as NBA games, NHL and Minor League Hockey games, nor any added venues associated with NASCAR, which are still under discussion.

#### EP Bookstore

The EP Bookstore houses approximately 2,000 disability specific books, video and tapes dealing with a wide range of disability topics. We have been building this base for quite some time and are now poised to leverage its growth with some targeted marketing to specific market segments such as military bases and libraries across the nation.

The bulk of our bookstore has been built through negotiating with third party publishers such as Baker and Taylor and McGraw Hill. This has been done over a period of years and with great selectivity and sensitivity. We evaluate the extensive titles published by other book publishing companies and inquire about their sales. Based on the intelligence we obtain, we approach these companies, which roughly number about 90 and negotiate with them for bulk purchases of certain titles our Editorial Advisory Board indicates are consistent with our mission, goals and objectives. In many cases, we are able to negotiate consignment inventory. All of this is possible because large book publishers really do not have a good sense of the disability marketplace and/or the needs of specific targeted audiences whether consumer or professional in nature. We have this expertise and we went about building our

library of titles in specific disciplines. In the process of building this library, we place importance in understanding the marketing requirements for reaching this audience and whether or not we believe we can do so effectively through our magazine, web site and contacts within disability organizations and professional medical societies; and via distribution and sales at trade shows and conferences. The EP Bookstore also consists of book titles we own outright and exclusively. Examples of such titles include the following: *No Apologies for Ritalin* by Bhushan Gupta, MD; and *Patient Persistence* by Adele Gill, RN, and approximately five other titles. None has a material impact taken individually or collectively but the profit margins earned on these sales are approximately 30% while the profit margins on other titles are in the vicinity of 10%. Our decision to have a stake in book publishing is based on the fact that we receive countless number of requests to publish specific manuscripts as books. While most of these are rejected, the pipeline for such valuable information is of high importance to us because some of this can be turned into productive titles we can publish while others can serve as useful content for some of our other multi media publishing activities in print or online. We do not envision total revenues from our book operation to reach levels much beyond \$500,000 per year with profit margins on the order of 15%.

#### Custom Publishing & Contract Publishing

Over the years, we have taken educational editorial series published in EP Magazine, had them reviewed by a panel of clinical thought and opinion leaders, edited and packaged into stand alone monographs focused on a specific subject area and distributed to key target market segments mutually identified by a project sponsor and ourselves. All of this work is completely funded under unrestricted educational grants secured from major pharmaceutical companies, medical equipment device manufacturers, consumer packaged goods companies and financial services companies. At all times, we adhere to strict ACCME Standards for medical education and strict standards that ensure the separation of that which is educational and that which is promotional in nature.

#### Online Interactive Educational Seminars

Another element in our product mix is the **EP LiveOnline™** Interactive TV-Quality, Educational Seminars. This is a project that capitalizes on the relationships and credibility we have built with major professional medical societies as well as lay and consumer organizations representing the interests of people with disabilities. We have produced a total of twenty such seminars over the past three years and now are poised to offer these in concert with professional medical societies such as the AADMD, CNF and CNS. The fact that all of these seminars offer Continuing Medical Education (CME) accreditation for physicians, usually without fees, coupled with the fact that the physicians do not have to travel but can instead participate from the comfort of their homes or offices, helps to reduce costs and improve efficiency and educational results. To our knowledge, no other company in the United States offers the kind of comprehensive, authoritative, educational programming that is focused exclusively on chronic life-long conditions as we do. In addition, we do this by offering online, real-time, live, interactive, TV-quality information utilizing proprietary software and delivered over the Internet. We expect to conduct over 20 such seminars in 2007, in combination with our military initiative. We had four online seminars under contract as of December 30, 2005 extending through 2006 and actually delivered an additional four others in the arena of Hyperbaric Oxygen Therapy and Klinefelter Syndrome and other clinical topics. There are also several other proposals outstanding.

#### Results of Operations for the Period Ended March 31, 2007

##### Liquidity and Capital Resources

The cash flows from operations for the quarter ended March 31, 2007 were approximately equal to the operating requirements of the Company.

With an existing forecast of minimum revenues of \$4,000,000 in 2007, management believes that with the operational cash to be generated and the retained working capital from our recent funding, the overall cash requirements of operations are expected to be met. While there is no absolute guarantee that we will generate the forecast revenues, management believes that both the revenue generation forecast and the additional funding received will meet the liquidity requirements of EPGL for 2007.

At the present level of operations, working capital requirements to sustain operations approximates \$350,000 per month exclusive of any existing debt service that approximates an additional \$7,000 per month. The company is also benefiting from cost reduction measures implemented in the last quarter of 2006, especially from the elimination of office space in New Jersey and staff reductions.

It is management's estimate that with its existing working capital resources and with the issuance of an additional \$800 thousand of convertible notes, we will be able to meet the working capital requirements of operations for the coming twelve months of operations.

### Results of Operations

Reflected in the tables that follow are comparisons of revenue and sales and general administrative expenses for the three months ended March 31, 2007 and 2006 as well as commentary on significant variations noted between the periods.

	Quarter Ended March 31,		Percent
	2007	2006	Change
Revenue:			
Advertising revenue	\$ 445,899	\$ 531,152	-16%
Subscription revenue	196,092	87,114	125%
On line seminars	-	25,500	-100%
Book sales	20,854	12,386	68%
Special projects	252,142	316,400	-20%
Other revenue	84,463	5,270	1503%
Revenue	<u>\$ 999,450</u>	<u>\$ 977,822</u>	2%

Revenues for the three months ended March 31, 2007, as compared to the same period in 2006, increased by approximately \$22,000. The largest component of the increase was a \$109,000 gain in subscription revenue. This gain was a direct result of the U.S. Army contract. Other revenue increased by \$79,000 over 2006 and book sales increased by \$8,500 or 68% for the first quarter 2007. Advertising revenue decreased by approximately \$86,000 for the quarter and online seminar revenue registered no income for the quarter ended March 31, 2007. Online revenue contracts have been secured by the company and will generate revenues through the remaining quarters of 2007.

### Operating Expenses Including Cost of Sales

For the quarter ended March 31, 2007, cost of sales increased by approximately \$64,000 as compared to March 31, 2006. The increase is primarily due to increases in magazine production costs.

Commentary on the significant variations in selling, general and administrative expense follow the table that is noted below.

	Quarter Ended March 31,		
	2007	2006	
Selling general and administrative expenses:			
Salaries and Benefits	\$ 138,653	\$ 275,228	-50%
Business Travel	63,236	48,599	30%
Legal	20,399	11,478	78%
Office Expenses	50,200	85,842	-42%
Information Technology	16,060	12,428	29%
Business Development	-	4,338	-100%
Consultants	150	(1,338)	-111%
Investor Relations	-	12,463	100%
Sales and Marketing	17,242	12,067	43%
Professional Fees	51,846	57,151	-9%
Other G&A	113,616	69,234	64%
Selling, general and administrative expenses	<u>\$ 471,402</u>	<u>\$ 587,492</u>	-20%

The significant variations in the components of selling, general and administrative expense are discussed below.

Salaries and benefits decreased by approximately \$136,000 for the quarter ended March 31, 2007. This was a result of deferring salary expense related to online seminars. Office expense decreased by approximately \$36,000 over the same period for 2006. This was due to the closing of the New Jersey office and relocation of the Johnstown office. Business travel increased approximately \$15,000 due to additional trade shows that were attended in the first quarter of 2007. Overall selling, general and administrative expenses have been reduced by \$116,000 for the quarter ended March 31, 2007.

#### Interest, Depreciation and Amortization

Interest expense has increased in the first quarter of 2007 compared to 2006 by approximately \$30,000 due to the increase in NIR funding. Depreciation and amortization expense have increased by approximately \$18,000 for the quarter ended March 31, 2007.

#### Taxes

We reflected no provision for income taxes in the first three months of 2007 because of the availability of a significant net operating loss carryforward to offset any taxable income.

#### Debt Expenses

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the

convertible debt. The calculated fair value of the convertible debt of \$4,463,785 was recorded as a long-term liability as of March 31, 2007. The convertible debt will be accreted to its face value of \$6.3 million under the interest method until it is either converted or matures. As of March 31, 2007, the total accretion was \$394,061 (of which \$87,200 was recorded in the three months ended March 31, 2007). Separately, the holder of the note exercised conversion privileges for 61,260,000 shares of common stock, thereby reducing the amount of the debt by \$80,026.

We incurred debt issue costs of \$476,000 relating to their convertible notes and will be expensed over the term of the convertible debt.

#### Off Balance Sheet Arrangements

None

### **Item 3. Controls and Procedures**

#### Evaluation of Disclosure Controls

During the course of the most recent examination of our financial statements for the period ended December 31, 2006 by our independent accountants, we were advised of the existence of a material weakness in our internal accounting controls. We have since applied the necessary corrective action and believe this weakness has been remedied.

Management evaluated the effectiveness of the disclosure controls and procedures as of April 12, 2006. This evaluation was conducted by the chief financial officer (the principal accounting officer).

Disclosure controls are controls and other procedures that are designed to ensure that information that is required to be disclosed in the reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported.

#### Limitations on the Effectiveness of Controls

Management does not expect that the disclosure controls or the internal controls over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. These limitations also include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies, or procedures may deteriorate.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

## Conclusions

Based upon evaluation of the controls, the chief executive officer and the chief financial officer (principal accounting officer) have concluded that, subject to the limitations noted above, the disclosure controls are effective, providing reasonable assurance that material information relating to the Company is made known to management on a timely basis during the period when the reports are being prepared. There were no changes in the internal controls that occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the internal controls.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Item 3 of the Company's 2006 annual report on Form 10KSB as filed with the Securities and Exchange Commission on April 16, 2007.

Joseph Braumstein, Chapter 7 Trustee of The McCabe Group versus Joseph M. Valenzano, Jr. and Psy-Ed Corporation et al. Adversary proceeding No 06-01351. When The McCabe Group (TMG) ceased business operations in October 2004, it entered into a Chapter 7 liquidation proceeding, under the terms of Title 11 of the U.S. Code (Bankruptcy). The Chapter 7 Trustee of TMG, Joseph Braumstein in June 2006 brought a lawsuit in the U.S. Bankruptcy Court alleging that the Company and its President and CEO, jointly and severally, owed approximately \$53,000 for legal fees and expenses to TMG. The Company and its CEO are vigorously defending this complaint. The Company and Counsel believe that further litigation should result in the ultimate dismissal of this Chapter 7 Trustee Claim. The Company has made all timely filings with the court and to date has heard nothing further with regard to the position of the court.

Psy-Ed Corporation, d/b/a Exceptional Parent, Plaintiff v. Stanley D. Klein and Kimberly Schive, Superior Court in and for the County of Middlesex, in the Commonwealth of Massachusetts, Civil Action No. 99-6140; Counterclaims Brought by Klein Against Plaintiffs and Third-Party Directors (Kenneth Rossano, David Hirsch, MD, Robert Striano, Donald S. Chadwick, C. Kenneth Mehrling and Robert K. Hopkins, Jr.) of Exceptional Parent in Civ. No. 99-6140. This case was commenced on December 17, 1999. Psy-Ed is the plaintiff and counter-claimants in this case. The Company and its president were previously successful in defending an action taken by Ms. Schive in 1996 for wrongful termination and successfully defended itself in three separate appeals made by Ms. Schive. At present, most of the claims by Kimberly Schive have been dismissed and are no longer pending, either in any court proceeding or before the MCAD. Still pending are her claims for abuse of process and retaliation. The company and its attorney's feel that further litigation should result in the ultimate dismissal of her claims.

The employment of Stanley D. Klein, a former officer, director and shareholder of the company was terminated for cause in August of 1997. He filed a complaint with the Massachusetts Commission Against Discrimination in 2000 alleging that the Company, which had brought an action against him in December 1999 for misconduct, fraud and defamation causing damage to the Company, had retaliated against him because of his support for Kimberly Schive.

Mr. Klein filed an action against the Company and Mr. Valenzano in the Superior Court for Middlesex County, Massachusetts in December 2002 seeking payment of unspecified damages. That lawsuit was dismissed in 2005. Mr. Klein then filed an action seeking precisely the same relief in a state court in New Jersey which action was summarily dismissed by Superior Court in Bergen County New Jersey. At the time of filing both of these actions, Mr. Klein was a defendant in an action brought by the Company against him in 1999.

During the non-jury trial held in June of 2006, eight of Klein's ten claims against the Company were dismissed. The Company was found liable by the judge with respect to abuse of process in the Schive case and tortious interference with respect to a promissory note. The balance on that note was approximately \$124,000. The Company intends to rigorously defend against the decision and to date no decision with regard to any award of damages has been made. It is the Company's position that it will prevail with respect to any adverse findings although it is impossible to assert at this time that there is any certainty with respect to this position.

Other than noted above, there is no litigation pending or threatened by or against us.

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

None.

**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 and Reports on Form 8-K**

A. Exhibits

- 31 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

B. Reports on Form 8-K

None

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### EP Global Communications, Inc. (Registrant)

By: /s/ Joseph M. Valenzano, Jr.  
Joseph M. Valenzano, Jr, President, Chief Executive Officer

/s/ James McGinnis  
James McGinnis, Chief Financial Officer, Vice President of Operations

In accordance with the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Joseph M. Valenzano, Jr.  
Joseph M. Valenzano, Jr., Director

/s/ William Bleil  
William Bleil, Director

/s/ Donald Chadwick  
Donald Chadwick, Director

/s/ Dr. David Hirsch  
Dr. David Hirsch, Director

/s/ Diane Jones  
Diane Jones, Director

/s/ Raymond C. Smith  
Raymond C. Smith, Director

Dated: May 15, 2007