

**Burst.Com, Inc. Annual Report**

For the Fiscal Year ended: December 31, 2007

Delaware

84-1141967

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(State or Other Jurisdiction of  
Incorporation or Organization)

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(I.R.S. Employer Identification Number)

1275 Fourth Street, #191  
Santa Rosa, California, 95404

(707) 541-3870

Note that our securities are not registered under Section 12(b) or under  
Section 12(g) of the Exchange Act

Common Stock \$.00001 Par Value

As of December 31, 2007, there were 38,250,480 shares of the Company's Common Stock  
outstanding. The closing price of the Common Stock as reported on the NASDAQ Over-the-  
Counter Bulletin Board for that date was \$ .41.

The Company's transfer agent is ComputerShare, Inc. It's address is P.O. Box  
1596, Denver, CO 80201.

BURST.COM, INC.  
2007 ANNUAL REPORT  
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Instant Video(R), Burstware(R), Faster-Than-Real-Time(R), Burstware Conductor(R), Burstware Player(R), and Burstware Server(R) are registered trademarks of Burst.com, Inc. All other corporate or product names may be trademarks and/or registered trademarks of their respective owners.

## SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things, the following:

- \* Implementing our business strategy;
- \* Maintaining sufficient cash balances to continue in operation;
- \* Rapid technological changes in our industry and relevant markets and
- \* Competition in our market.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and similar expressions. These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. These forward-looking statements are made as of the date of this report and we assume no obligation to update them or to explain the reasons why actual results may differ.

## THE COMPANY

We have developed client/server network software and intellectual property for the delivery of video and audio information over networks and hold a number of patents on our technology. Our office is located in Santa Rosa, California. Our software manages the delivery of video and audio content over a variety of networks, optimizing network efficiency and quality of service. Our Burstware® suite of software products enables companies to manage the delivery of video and audio files at Faster-Than-Real Time® speeds, which is accomplished by utilizing available bandwidth capacity and local storage in conjunction with data compression to deliver more video or audio data to users than the players are consuming in real time. Video and audio content is stored on the user's machine for playing on demand, thus isolating the user from noise and other network interference. The result is high-quality, full-motion video and CD-quality audio to the end-user. Burstware® utilizes various components of our international patent portfolio, including the Faster-Than-Real-Time delivery method.

In 2000, we changed our name from "Instant Video Technologies, Inc." to "Burst.com, Inc." Since 2003, our stock trades on the over-the-counter "Pink Sheets" under the symbol "BRST".

Since 2001, we have had two full-time employees: Chief Executive Officer Richard Lang and Vice-President of Operations Eric Walters. In 2004, we added a 3<sup>rd</sup> full-time employee to handle administrative and other responsibilities. Since October 2001, engineering, licensing, legal, accounting and other support services are being procured on an "as-needed" basis from a combination of former employees providing contract services, and outside consulting, legal and accounting firms. In light of our reduced operations, we have changed our mode of conducting business by engaging in a business model that focuses exclusively on efforts to license both our intellectual property and existing versions of Burstware.

Following the successful licensing of our patent portfolio to Microsoft in 2005 for a one-time \$60 million fee, we began pursuing the licensing of our patents to other companies that we believe are either already infringing our patents or will be infringing our patents when they begin selling their publicly announced services or products. In addition to the attempted licensing of our patents, to a much lesser degree, we have been attempting to license our Burstware media delivery software to companies that we believe could benefit from the use of our independent media delivery platform. While we believe that our ability to license our patents to other companies was improved by the validation of our patents that we believe our patent license to Microsoft provided, we have been aware that other companies may decide to fight our licensing efforts and possibly challenge our patents. In fact, on January 4<sup>th</sup>, 2006, Burst was sued in U.S. District Court in San Francisco by Apple Computer for declaratory relief, alleging patent invalidity or non-infringement. The suit followed a breakdown in protracted negotiations for issuance of a license of Burst's patents to cover several of Apple's products and services. On April 17<sup>th</sup>, 2006 we filed a counter-suit against Apple, alleging infringement of four of our patents. Following approximately 18 months of litigation, Apple paid us \$10 million for a non-exclusive license to our patent portfolio, which settled the litigation in full.

In January of 2008, Real Networks filed suit against our company in an attempt to have the same patents which were litigated against Apple either ruled invalid and/or not infringed. Real Networks amended its complaint in February 2008 to include 3 other Burst patents that were not litigated against Apple. On March 25, 2008, Burst filed a counter claim against Real Networks, alleging Real's infringement of various Burst patents. The case is currently proceeding.

Our licensing efforts going forward have been at least partially shaped by the results of our litigation against Microsoft & Apple. Generally speaking our patent claims going forward fall into the following 3 categories:

1. Claims rejected by the court. In our litigation against Apple, the court, in response to a Summary Judgment motion by Apple, invalidated approximately 1/3 of the Burst patent claims contained in the 4 patents in that suit (the earliest Burst patents, which are due to expire at the end of 2008). As a result of the ruling which invalidated these claims, we no longer intend to pursue the enforcement of those claims against any other potential infringers.

2. Claims which survived the ruling by the court in our litigation against Apple. Approximately 2/3 of the claims at issue survived the Court's Summary Judgment ruling on invalidity. These included 2 independent claims and a balance of dependent claims. We view these combined surviving claims as a valuable corporate asset, which have now been battle-

tested in court. We plan on continuing our efforts to monetize these remaining claims of the 4 patents at issue.

3. Claims/patents not involved in litigation with Microsoft, Apple or Real. Our patent portfolio contains a number of patents that have never been subject to litigation. The bulk of these patents generally relate to 2 areas of intellectual property: (a) Network Optimization (i.e. patents authored by Allen, Polish and Rebane), and (b) DVR technology (i.e. patents authored by Lang, Walters and/or Mincer). We believe that these patents are timely to industry needs and have inherent value; we plan on continuing our efforts to monetize them.

## INDUSTRY BACKGROUND

In recent years, several related technologies have converged to enable the distribution of video and audio content over electronic communications networks. As network bandwidth, data storage, processing power, and compression technologies have become increasingly available and affordable, the demand for high quality video and audio over the Internet, as well as over intranet and other networks, has expanded rapidly. The result of such developments has been the transition of the Internet from a static, text-oriented network to an interactive environment filled with graphic and audio-visual content. With the advent of high-definition TV, the demand for efficient ways to use available bandwidth has become increasingly important.

Distributing audio-visual, time-based content over the Internet, or within an intranet, offers certain advantages and capabilities not generally available through traditional media, including consumer targeting and interactive responsiveness.

## MARKET OPPORTUNITY

We believe that our intellectual property and to a lesser degree, our primary software product, Burstware®, should be attractive to any company that wishes to deliver digital media over electronic networks at a quality level high enough to justify charging end-users, content providers or advertisers. However, we no longer provide any meaningful technical support for our software product, except through independent third parties familiar with our product. As a result, our business model involves developing strategies that will enable us to successfully enforce and monetize our intellectual property and thereafter receive what we believe will be meaningful licensing revenues as a result, although there can be no assurance that this will be the case.

In the past 2 years, the U.S. Supreme Court and appellate courts have handed down rulings which, in the view of some commentators, have redefined basic patent law principles that had stood since the inception of the U.S. Patent system. The most recent of these significant changes was in the case entitled “KSR vs. Teleflex.” Many commentators believe that these changes will make it difficult for many small entity inventors and patent holders to enforce their patent rights against larger industry competitors and large corporations in general. We believe that we are still in a position to continue to monetize our patents.

The Burst litigation against Apple, which was initiated by Apple in January 2006, was settled in late 2007, following a summary judgment ruling. In the summary judgment ruling, the court held that about 1/3 of the claims contained in Burst's patents-in-suit were invalid because of "obviousness." We believe that the \$10 million license and settlement that Apple executed with Burst indicates that there is still licensing value in the Burst patent portfolio, which we intend to monetize in the most efficient manner possible.

## THE BURST SOLUTION

With our patented Burstware® technology, we have provided a server-client based intelligent network management system delivering "Faster-Than-Real-Time®" content across a variety of networks. Our software was designed to work equally well with content created using almost any data compression/decompression (CODEC) methodology. The Burstware® solution has ensured a consistent, high-quality experience over multiple platforms through optimization of network resources and superior isolation of clients from network disturbances.

The intelligent Burstware network resource management features enable multiple end-user applications as well. With the capacity to deliver data in a clear, efficient and cost-effective manner, the Burstware solution creates a high-quality audio-visual experience for the end-user and enables powerful business-to-business, business-to-customer and business-to-employee communication. Burstware also gives producers, content aggregators and developers the ability to reach new markets with virtually unlimited access to vast libraries of content. With these various applications, Burstware's network delivery mechanism is ideally suited for numerous industries including news, entertainment, retail and advertising as well as local, state and federal governments and agencies. At this time, we are not aware of any companies still using our Burstware media delivery software; however, we consider our Burstware software source code to be a viable solution to the very important network management issues that exist and will continue to grow with the proliferation of bit-rich media content over various communications networks.

## BUSINESS OF THE COMPANY

### Overview

We have developed media delivery-related intellectual property, and to a lesser degree, our Burstware software, for use within commercial, multimedia, and interactive networks, including satellite, wireless and cable networks, as well as the Internet. We intend to continue the development of our patent portfolio especially in the area of network optimization, where we believe the maximum benefits to the industry and highest likely return to Burst are likely to exist. We are willing and able to develop additional enhancements to Burstware that may be requested by customers, assuming that we are able to achieve a financial return on any investments we might make in these additional software enhancements. However, at this time, we are not aware of any need to perform these enhancements.

At this time, we are engaged in litigation against Real Networks, Inc. If we are successful, we believe that this should have the effect of both providing licensing revenue and further validating our patents, thus increasing the likelihood that we will be able to license our patents to other companies without engaging in litigation. Concurrently with our litigation with Real Networks, we are reviewing patent infringement and licensing opportunities with other companies that we believe should be licensing our intellectual property.

## Strategy

Burst.com's goal has always been to see its "faster-than-real-time" or "Burst" digital media delivery technology integrated in the broadband-centered media-on-demand industry. We have viewed and continue to view our designs and methods employing "faster-than-real time" technology as essential to the successful deployment of commercially viable media-on-demand systems, which we believe require the quality of service and network efficiencies that our technology provides. Our longstanding belief in the necessity of utilizing our technology and intellectual property in order to derive these benefits has been validated by what we believe to be current widespread use of our intellectual property in our industry, in applications ranging from video and audio "on-demand" to network management. We intend to continue to pursue our business goals by enforcing our patent rights and building our patent licensing revenue as efficiently as possible. Additionally, we plan to continue to offer our media delivery software solution, Burstware, to companies that we believe would like to utilize a media delivery platform that is wholly independent from those offered by our primary competitors, even though we have not yet been successful in those efforts. On a limited basis, we plan to continue to offer to license our current version Burstware media delivery software solution to value-added resellers, set-top box manufacturers and developers of media-on-demand systems, among others. Having successfully concluded our litigation against Microsoft and Apple with the granting of a non-exclusive patent licenses with no sub-licensing rights, we continue to focus in largest part on the licensing and aggressive enforcement of our patent portfolio, which focuses on media delivery innovation, including optimal network management.

Our original licensing efforts were focused on licensing our oldest and broadest patents, pertaining to the delivery of audio and video in faster-than-real-time over various networks. These patents will largely expire at the end of 2008. However, our portfolio also contains patents pertaining to Digital Video Recorder (DVR) technology, as well as other patents pertaining to Network Optimization. All of these other patents have significant life remaining before their expiration dates, ranging generally beyond 10 years. We intend to focus much of our patent licensing efforts on these other patents, in addition to the ongoing licensing efforts on the earliest patents.

## Competition

We compete in markets that are rapidly evolving and intensely competitive. We have experienced and expect to continue to experience increasing competition from current and potential competitors, many of which have significantly greater financial, technical, marketing and other resources. We believe that our technological approaches to media delivery and network

optimization are important solutions to important industry issues. However, there are other technological approaches that are currently being utilized. One such competitive approach is “peer-to-peer” multimedia distribution. While we believe that our solutions are superior in most applications, we depend primarily on pure intellectual property licensing to derive our revenues, while some of our competitors offer software products that they also support in the marketplace. We believe that our patented technological approach has been or is being incorporated into the products of various companies in our industry. We have initiated licensing discussions with some of these companies; however there can be no assurance that we will be successful in licensing our technology to these companies without litigation, or that we will be successful in any litigation that we may be involved with.

## Sales and Marketing

While we pursue the licensing of our patent portfolio, and to a much lesser degree, the licensing of our Burstware media delivery software, we will continue to support any existing value added resellers and software customers on an as-needed basis, using outside engineering consultants, although we are not currently aware of any such resellers or software customers that require this support. Our target market for the licensing of our software solution is comprised of companies involved in the enablement or direct sales and/or manufacture of digital media-on-demand solutions, including devices and systems utilized to deliver video and/or audio programs. Potential customers include businesses or other end-users that desire to send, receive or effectively manage high-quality video and audio content over their own networks or to outside customers through the Internet and/or other networks. Applications include corporate communications, education, advertising, entertainment, broadcasting and retail video, movie and audio delivery directly to consumers. In 2005 and 2006, we relied almost exclusively on one existing U.S.-based master reseller to market our software product and certain derivatives directly to end customers for such software. As of December 31, 2007, this individual master reseller had not generated any sales resulting in royalty payments to Burst. Due to this master reseller’s refocusing on its core competencies and lack of funding for new technology initiatives, we do not expect any software-based licensing revenues from this master reseller in the foreseeable future. As of 12/31/2007, we had no other master resellers actively developing or reselling our Burstware product.

Our target market for licensing of our intellectual property is comprised of content providers, platform providers, network providers, content aggregators, computer manufacturer and consumer device manufacturers that are involved in the delivery of video and audio content to end users. We are currently focusing our marketing efforts on licensing our patent portfolio to these prospective customers. The internal sales organization consists of our CEO and our VP of Operations. We are assisted by a team of outside attorneys specializing in the enforcement of intellectual property rights.

Our goal is to continue to monetize our intellectual property. Since 2005, we have licensed our patents to Microsoft and Apple for a total of \$70,000,000, following litigation. We believe that the various litigation efforts have established a value range for other potential licensees and we will seek to continue to license our intellectual property, using appropriate methods to enforce

our rights. We will proceed with our efforts to monetize our entire portfolio in the most efficient and beneficial manner possible.

Our intellectual property falls into the 3 categories previously discussed, and each category represents a different range of possible revenues. In the 2 categories where we believe there are additional licensing revenues available, the amounts of these revenues are likely to be a function of the following factors:

1. Which patents, and more specifically, which claims do we believe should be licensed to a given company?
2. Of the claims we believe should be licensed, have any been upheld as valid in a court challenge?
3. Of the claims we believe should be licensed, which products belonging to a prospective licensee appear to infringe those claims?
4. Of the products that we believe should be subject to licensing royalties on the applicable patent claims, what sales revenues are associated with those products?
5. Of the revenues that we believe apply to the licensable products, what would a likely “reasonable royalty rate” be?
6. If we decide jointly with a potential licensee to either avoid litigation or to end litigation in the form of a settlement, what level of adjustment, if any, is appropriate for either party to the licensing fees likely due (#5) to reflect litigation (and the related costs, in both money and opportunity cost)?
7. What other risk factors exist, if any, including (in the event of litigation) the likelihood of prevailing upon appeal and the delays inherent in the appellate process?

The specific answers to the questions above will likely determine whether we are able to license our technology without litigation and also what settlement range, if any, may be appropriate.

We will proceed with our efforts to monetize our entire portfolio in the most efficient and beneficial manner possible.

We do not believe that there is any significant seasonality that would affect the licensing of our intellectual property or the sales of our products or services. As of December 31, 2007, there was no backlog of unfilled orders for our products.

## Patents and Trademarks

Our business is extraordinarily dependent on our patent portfolio. We have twelve issued U.S. patents. The early patents describe a broad class of systems that allow a user to view, edit, store video and/or audio information and send and receive the data associated with that video and/or audio information over networks in less time than is normally required to view or listen to the content. The later patents describe derivative inventions, including the use of burst mode delivery as a means of achieving network optimization.

Twelve patents have been issued to Burst.com in the United States with an additional 10 patent applications pending before the United States Patent Office. Burst.com presently has a single Patent Cooperation Treaty application pending in the United States Receiving Office. Burst.com has been granted five European patents that were validated and remain in force in Germany, France, and the United Kingdom. Burst.com has four patents granted and in force in Australia and two patents granted and in force in each of South Korea, Canada, and India. Burst.com also has one patent in each of Mexico, Singapore, and Japan; each of these patents remains in force. Burst.com has two pending European patent applications and one pending Japanese patent application. The Indian Patent Office has indicated its intent to grant an additional Indian patent subject to the processing of certain fees.

In addition to protecting the Burstware® product offerings, we believe that our patents have application as various markets, and in particular in the network optimization segment, One of our most recent issued patents is for specialized DVR functionality. Two other patents also issued in 2007 relate directly to network optimization and optimal use of bandwidth via specialized algorithms. Also, we currently have additional pending patent applications pertaining to improvements in Digital Video Recorder (DVR) functionality, as well as improved network efficiency strategies. We believe that these newer pending patents, if issued, would prove timely in terms of providing valuable industry-wide solutions to existing DVR-related and network efficiency problems. However, there can be no assurance either that these patent applications will be granted, or that if they are granted they will result in the added value that we can license.

We view our patent portfolio as an important component in gaining relationships with strategic partners. Potential licensees include companies such as server and client manufacturers, bandwidth, network and platform providers, content aggregators, copyright owners, as well as personal computer, consumer device and other hardware manufacturers.

Our plan is to continue to monetize our patent portfolio through successful licensing and enforcement of our patent portfolio and to seek licensing revenues from any companies who seek to utilize our patented technology in their products or services. We have assembled a continuously updated database of potential licensing candidates whose goods and/or services we believe may require them to license our technology in order to avoid being in violation of our patents.

We have registered the trademarks "INSTANT VIDEO®, BURSTWARE®, FASTER-THAN-REAL-TIME®, BURSTWARE CONDUCTOR®, BURSTWARE PLAYER® and BURSTWARE SERVER®" in the United States, as well as in certain countries in Europe and Asia.

## PROPERTY.

We presently occupy approximately 1,100 square feet of office space in Santa Rosa, California, under a lease that expires at the end of August 2009, which we may extend for an additional term. The current lease provides for rent of approximately \$2,900 per month through

August 2009. We believe that our current facility is suitable and sufficient to accommodate our operating needs for the foreseeable future

## LEGAL PROCEEDINGS.

In 2002, we initiated litigation against Microsoft Corporation in order to enforce our intellectual property and other rights. This litigation was settled in 2005 when Microsoft agreed to pay us \$60 million for a non-exclusive license to our patent portfolio.

On January 4<sup>th</sup>, 2006, Burst was sued in U.S. District Court in San Francisco by Apple Computer for declaratory relief, alleging patent invalidity or non-infringement. The suit followed a break-down in protracted negotiations for issuance of a license of Burst's patents to cover Apple's iPod and iTunes products. Subsequently, on April 17, 2006, Burst filed counterclaims accusing Apple Computer of infringing four of Burst's U.S. patents. In the counterclaims, Burst alleged that Apple's iTunes Music Store, iTunes software, the iPod devices, and Apple's QuickTime Streaming products infringe Burst's U.S. Patents 4,963,995; 5,995,705; 5,057,932 and 5,164,839. Burst requested in its counterclaims that Apple pay a reasonable royalty for Apple's infringing products and services, and also sought an injunction against further infringement. A copy of the filing can be found on Burst's website: [www.burst.com](http://www.burst.com).

On November 30, 2007 we settled our litigation with Apple. Apple agreed to pay Burst a one-time payment of \$10 million cash in exchange for a non-exclusive license to Burst's patent portfolio, not including one issued U.S. patent and 3 pending U.S. patent applications related to new DVR technology. Burst agreed not to sue Apple for any future infringement of the DVR patent and any patents that might issue from the pending DVR-related applications. Of the license fee paid to Burst, we paid \$3.5 million to our attorneys, who had been working on a 100% contingency basis. We also paid approximately \$1.9 million in court and other litigation costs, including expert reports. We retained a balance of approximately \$4.6 million after all litigation-related expenses, and before any taxes due.

On January 9, 2008, we announced that Real Networks, had commenced declaratory judgment litigation in the Northern District of California with respect to the validity and enforceability of certain Burst patents. Real's complaint was similar to the lawsuit filed by Apple in 2006, seeking to have several of our patents ruled invalid and Real Networks not infringing. In February 2008, Real Networks added 2 additional patents to its complaint. On March 25<sup>th</sup>, 2008, we filed a counter-claim against Real Networks, alleging willful infringement of 5 of our patents. There can be no guarantee that we will be successful in our efforts to license our patents or Burstware to any other companies beyond Microsoft and Apple; however, we are pursuing discussions with other companies with regard to licensing our intellectual property.

We are not aware of any other material legal proceedings pending or threatened against us.

## SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We will hold an Annual Meeting of Stockholders on June 4, 2008, for the purpose of electing a Board of Directors – See Proxy Statement.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### MARKET INFORMATION

On December 31, 2001 our common stock was traded on the NASDAQ OTC:BB (Over the Counter Bulletin Board) under the symbol “BRST” (prior to January, 2001, our common stock had been traded on the NASDAQ Small Cap Market).

In January 2002, the company elected to deregister its stock under S.E.C. Rule 12g. The company’s common stock continues to trade on the “Pink Sheets” under the trading symbol “BRST” in accordance with the provisions of Rule 15c2-11.

The following table sets forth the closing high and low bid prices of the Common Stock for the periods indicated. These prices are believed to be representative inter-dealer quotations, without retail markup, markdown or commissions, and may not represent prices at which actual transactions occurred.

2007	High	Low
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1st Quarter	\$ 1.58	\$ 1.16
2nd Quarter	\$ 2.50	\$ 1.42
3rd Quarter	\$ 2.05	\$ 1.40
4th Quarter	\$ 1.80	\$ .28
2006	High	Low
-----	-----	-----
1st Quarter	\$ 2.07	\$1.02
2nd Quarter	\$ 2.01	\$ 1.26
3rd Quarter	\$ 1.65	\$ .86
4th Quarter	\$ 1.61	\$ 1.06

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2007, was approximately 248. The closing bid price of our stock was \$ .41 on December 31, 2007.

### DIVIDENDS

No dividends were declared or paid during 2007.

## RECENT SALES OF UNREGISTERED SECURITIES

There were no sales of unregistered securities during 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of the financial condition and results of operations of Burst.com, Inc. should be read in conjunction with the Company's Year-End Financial Statements for 2006, currently posted on its web site, [www.burst.com](http://www.burst.com). Please note that the 2006 and 2007 Financial Statements are Audited, and Summary pages are included in this report. A complete copy of our audited financials for 2007 can be found on our website: [www.burst.com](http://www.burst.com).

We are an independent provider of client/server network software and intellectual property for the delivery of video and audio information over networks. Our principal executive offices are located in Santa Rosa, California.

During 2007, we maintained operations utilizing funds in the amount of \$802,863.

In 2007 we had \$10,000,000 of gross income derived from the licensing of our intellectual property, all of it paid by Apple, Inc. We had no income or fees for software licenses. Our current net operating expenses (after interest income) are approximately \$75,000 per month.

As of December 31, 2007, we had approximately \$5,820,538 cash on hand, as well as Treasury Bills available for sale, valued at \$706,070. We believe that after payment of all 2007 taxes, our cash reserve will enable us to sustain our current operations for the foreseeable future. We are pursuing additional licensing revenues; however, there can be no assurance our efforts will be successful. Our success will depend, in large part, on our continued ability to protect the intellectual property that we have developed through patents, trademarks, trade secrets, copyrights, licenses and other intellectual property rights

We plan to aggressively enforce our intellectual property rights. We have contacted companies whom we believe should be licensing our technology in order to avoid infringing our patents. However, there can be no assurance that we will be successful in licensing other companies or that we will be able to do so without litigation.

In our litigation against Microsoft and Apple, our attorneys were being retained under a 100% contingency agreement, including all costs. In our litigation with Real Networks, our attorneys are retained on a partial contingency agreement, which we believe will enable us to retain a larger percentage of licensing revenue, if it occurs. We intend to pursue at least partial contingency arrangements with our attorneys while we pursue our licensing efforts and we may also elect not to utilize a contingency arrangement at all in certain instances, particularly in the event that litigation is not required. While we pursue new patent licensing opportunities, we will continue to engage in discussions with potential licensees of our Burstware® media delivery software, and attempt to license our technology, as opportunity permits.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached

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

Our independent auditors for fiscal year 2007 were Smith, Lang & Phillips of San Francisco, CA. There were no disagreements with our auditors over any items.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, key employees and Directors as of December 31, 2007 and their ages as of that date, are as follows:

Name	Age	Position
Richard A. Lang	54	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	51	Vice President, Operations
Brian Murphy	52	Director
Barry L. Ritholtz	46	Director

The following sets forth biographical information as to the business experience of each Executive Officer and Director of the Company as of December 31, 2007:

Richard A. Lang has been Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer since 2001. From September 1997 through the end of May 2000 he served as President and from September 1997 through September 2000 he served as Chief Executive Officer. From January 31, 1997 through August 1997, Mr. Lang served as one of our directors. Mr. Lang served as our Chairman of the Board and Treasurer until January 31, 1997. He had served as Chairman of the Board, Chief Executive Officer and Treasurer from December 1993 to September 1995 and as a Director since August 1992. He has been a Director of our subsidiary, Explore Technology, Inc., since February 1990, and served as its President from February 1990 to August 1992. Mr. Lang has presided over the development of our patent portfolio. He is the inventor of record for the bulk of our Intellectual Property. Mr. Lang was also

a co-founder of Go-Video, Inc., Scottsdale, Arizona and co-inventor of Go-Video's patented dual-deck VCRs. Mr. Lang received his A.A. degree in Communications with a Foreign Language minor from Scottsdale Community College in 1973.

Brian Murphy has been one of our directors since January 1997. Brian is a consultant with Mazars O.J. Kilkenny in Dublin. The firm provides a wide range of services to their clients, consisting of major international entertainment artists, covering all areas of financial management and audit and accountancy advice. Mr. Murphy is also involved with a number of companies in the property and entertainment business. Mr. Murphy received a Bachelors Degree in Commerce from Dublin University and became a fellow of the Institute of Chartered Accountants in Ireland, England and Wales. Mr. Murphy is also an accredited mediator with CEDR (Centre for Effective Dispute Resolution).

Barry L. Ritholtz has been one of our directors since March 8, 2002. Mr. Ritholtz performed his graduate studies at Yeshiva University's Benjamin N. Cardozo School of Law in New York, graduating *Cum Laude* with. Mr. Ritholtz is presently Chief Investment Officer at Ritholtz Capital Partners, a New York Hedge fund. He is also Chief Market Strategist for Ritholtz Research, an independent institutional research firm. Most recently, Mr. Ritholtz was Chief Market Strategist for Maxim Group, a New York Investment bank, managing over \$5 Billion in client assets. Mr. Ritholtz is a frequent guest on CNBC, where he has been guest host of *Squawk Box*, and is a regular on *Kudlow & Company*. He has also appeared on *Your World with Neil Cavuto*, *Bulls & Bears*, *Wall Street Week* and is frequent guest on other shows. His perspectives on the markets are quoted regularly in the *Wall Street Journal*, *Barron's*, and other print media. Beyond weekly commentary and published articles, for the past several years Mr. Ritholtz has been writing *The Big Picture*, an informal economics weblog covering diverse topics, including investing, digital media, geopolitics, film and music industries, and more.

Eric H. Walters, a key employee, has served as our Vice-President of Operations since October 2001. He is responsible for our administrative operations as well as intellectual property management. From March 2000 to October 2001, Mr. Walters served as the Manager of our Intellectual Property Department. From March 1999 to March 2000, he was our Manager of Inside Sales. Mr. Walters has been associated with us since our formation in 1990. He held the position of Director of Corporate Communications during 1991 and 1992. Prior to joining us in 1990 and again in 1999, Mr. Walters worked at Intel Corporation in Press Relations for the Digital Imaging and Video Division. Mr. Walters is the co-inventor of record for several of our patents and pending patent applications

Gordon Rock, 66, a member of the company's Board of Directors for 2 years, and owner of approximately 26% of the Company's outstanding common stock, resigned from the Board of Directors, effective December 28, 2007. Mr. Rock was an early investor in Burst, beginning in 1992 and he participated in all of the company's financings from that point forward. He joined the Company's Board of Directors in 2005. Mr. Rock's vacant seat was filled by Mr. Barry Reder in January 2008 (see Subsequent Events).

On January 8, 2008 Barry Reder was elected to Burst Board of Directors. Reder, 63, a retired San Francisco lawyer, was elected to the Board of Directors of the Company, filling the vacancy created

when Gordon Rock resigned on December 28, 2007. Formerly a partner in the San Francisco law firms of Coblenz, Patch, Duffy and Bass (1993-2006) and Dinkelspiel, Donovan and Reder (1976-1993), Mr. Reder, practiced corporate and securities law for 37 years before retiring in 2006. Mr. Reder has been a Burst stockholder for a number of years and became a consultant to the Company late in 2007. He previously served on the Boards of HS Resources, Inc (NYSE) and Real Goods Trading Corporation (OTC/PSE) before those companies were sold.

## EXECUTIVE COMPENSATION AND OTHER MATTERS.

Summary of Compensation. The following table sets forth all compensation earned or paid for services rendered to us in all capacities by our Chief Executive Officer and Vice President of Operations for the fiscal year ended December 31, 2007. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2007.

### Summary Compensation Table

Name and Principal Position	Annual Compensation			Long-Term Compensation
	Year	Salary	Bonus Underlying Options (#)	Securities All Other Compensation(\$)
Richard A. Lang, Chairman of the Board	2007	\$240,000		\$ 7,589(1)
President and Chief Executive Officer	2006	\$240,000		\$ 5,822(1)
	2005	212,550		\$ 63,626
Eric H. Walters Vice-President of Operations	2007	\$ 84,000		\$ 0
	2006	\$ 84,000		\$ 0

(1) Represents monthly auto allowance payments made to Mr. Lang totaling \$7,589 and \$5,822 for the years, respectively.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of December 31, 2007, with respect to beneficial ownership of our common stock by each person who beneficially owns more than 5% of our common stock; each of our executive officers; each of our Directors; and all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. To our knowledge, except under applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned. The applicable percentage of ownership for each stockholder is based on 38,250,480 shares of common stock outstanding on December 31, 2007 together with applicable options and warrants for that stockholder. Shares of common stock issuable upon exercise of options and other rights beneficially owned are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, but are not deemed outstanding for computing the percentage ownership of any other person.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding
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Executive Officers and Directors		
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Richard A. Lang	3,576,399 (1)	9.30%
Brian Murphy	892,645 (2)	2.31%
Barry L. Ritholtz	600,000 (3)	1.55%
Barry Reder	351,633 (4)	.92%
All executive officers and directors as a group (3 persons):	5,428,677	13.84%

5% Stockholders

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Gordon Rock	9,544,838 (5)	24.95%
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(1) Includes 2,476,399 shares of our common stock in the name of the Lisa Walters and Richard Lang Revocable Trust, plus 875,000 shares purchased by the Trust from former Board Member Gordon Rock in December 2007, as well as warrants, which expire on May 24, 2012, to purchase 225,000 shares of common stock at \$1.56 per share. Also includes 100,000 shares transferred to the family's irrevocable trust fund in 2002, an additional 28,000 shares transferred in 2005, and an additional 20,000 shares transferred in 2006.

(2) Includes an option, which expires on May 18, 2008 to purchase 200,000 shares of our common stock at \$.50 per share,. Also includes a warrant, which expires on May 24, 2012, to purchase 150,000 shares of our common stock at \$1.56 per share.

(3) Includes an option, which expires on May 18, 2008, to purchase 200,000 shares of our common stock at \$.50 per share. Also includes a warrant, which expires on May 24, 2012, to purchase 150,000 shares of our common stock at \$1.56 per share.

- (4) Excludes shares beneficially owned by his children, as to which he has disclaimed beneficial interest.
- (5) Includes 4,197,350 shares owned by Mercer Management and 5,347,488 owned by Gordon Rock

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

### Payment of Promissory Notes

On December 20, 2007, Richard Lang, the Company's CEO and Eric Walters, the VP of Operations, tendered 1,651,761 and 48,392 shares of common stock, respectively, to the Company at \$.28 a share (the closing price of the Company's Stock at the close of business on 12-20-07) in return for the reduction of \$462,293.08 and \$13,549.76 of the amount of indebtedness on the Promissory Notes they issued to the Company on October 20, 2003. The two transactions, which were approved by the Board of Directors, reduced the Company's total number of outstanding common shares by 1,700,153 shares.

Since January 1, 2007, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$60,000 and in which any director, executive officer or holder of more than 5% of our common stock, or an immediate family member of any of the foregoing, had or will have a direct or indirect interest other than compensation arrangements that are described in Executive Compensation and Other Matters, above, and the transactions described below.

### SUBSEQUENT EVENTS

On January 8, 2008 the Board of Directors authorized the execution of new two-year employment agreements with Richard Lang and Eric Walters, the Company's Chairman/CEO and VP of Operations, respectively, effective January 1, 2008. In reaching that decision, the Board considered their importance to the execution of the Company's strategic plan and the need to avoid any diminution in their energies and focus over the near and intermediate terms. In that connection, each of them agreed to participate in the sale by the Company of an aggregate of 4,700,000 newly issued shares of the Company's common stock to officers and directors of the Company. At the time of the Board's action, the stock was trading at \$.37 per share. The shares sold are burdened with a perpetual right of first refusal pursuant to which the purchasers are required to first offer the shares to the Company for a period of five business days at a discount of \$.34 from whatever price a third party offers before they can be sold to that third party. The purchase price for the stock burdened with that right of first refusal was \$.07, payable 20% in cash and 80% by execution and delivery of a non-recourse promissory note due in eight years and eleven months. The notes will bear interest at the Applicable Federal Rate fixed at the date of execution of the notes. Richard Lang agreed to purchase 3,000,000 of those shares; of such number, 1,400,000 were purchased in January 2008, and the purchase of the balance is subject to his tender of 1,750,000 other shares which he currently owns to the Company, in cancellation of indebtedness. Eric Walters purchased 50,000 shares in January

2008 and the balance of 400,000 shares is subject to his tender of 400,000 shares currently owned, in cancellation of indebtedness. Colt Briner will purchase 50,000 shares upon his tender of 50,000 currently owned shares, in cancellation of indebtedness. In January, 2008, each of the Company's outside directors each purchased 400,000 shares, on the same terms as described above. Before Richard Lang's and Eric Walters' tenders of shares to the Company in December, 2007 (a total of 1,700,153 shares tendered) there were 39,950,633 shares of the Company's common stock outstanding; after the various tenders and issuances described herein, there will be 41,500,480 shares of the Company's stock outstanding.

Also in conjunction with the execution of new two-year employment agreements with CEO Richard Lang and V.P of Operations Eric Walters in January 2008, each executive received a cost-of living increase in monthly salary (covering the previous 3 years in which no increases took place) and a signing bonus. Mr. Lang received a \$2,500/mo. salary increase and a \$200,000 signing bonus. Mr. Walters received a \$500/mo. salary increase and a \$10,000 signing bonus.

Also on January 8, 2008, the Directors noted that the non-employee Directors had been serving without compensation and that the demands of Board membership, the compensation otherwise earned by them in their other endeavors, the aggregate value of the shares involved and the history of the Company suggested that it would be in order both to permit them to participate in the above-described sale and to establish a retainer for the non-employee Directors. Each of the three non-employee Directors agreed to purchase 400,000 of the 4,700,000 shares on the terms described above, and a \$30,000 annual retainer for each non-employee director was also approved. No compensation was paid to the Board in 2007 or in any previous years.

On January 21, 2008, the company changed accounting firms from Sterck, Kulik & O'Neil of San Francisco to Smith, Lange & Phillips, also of San Francisco. The 2007 company audit was completed by the new accounting firm.

BURST.COM, INC.

Dated: April 18th, 2008

By /s/ Richard A. Lang

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Richard A. Lang  
Chairman, Chief Executive Officer and Chief Financial Officer

BURST.COM, INC.  
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders of  
Burst.com, Inc. and Subsidiaries  
Santa Rosa, California

SUMMARY FINANCIALS TO FOLLOW

Complete Audited Financials Can be found on our website: [www.burst.com](http://www.burst.com)

**Burst.com, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**December 31, 2007 and 2006**

**Assets**

	<u>2007</u>	<u>2006</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,820,538	\$ 653,026
Investments in Treasury bills	706,070	2,837,175
Prepaid expenses and advances	19,461	12,200
Income tax receivable	58,381	-
	<u>6,604,450</u>	<u>3,502,401</u>
<b>Property and equipment, net</b>	-	-
<b>Other assets</b>		
Investments in Treasury notes	717,937	-
Other assets	8,740	2,740
	<u>726,677</u>	<u>2,740</u>
	<u>\$ 7,331,127</u>	<u>\$ 3,505,141</u>

**Liabilities**

**Current liabilities**

Accrued expenses and accounts payable	\$ 95,707	\$ 49,921
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**Stockholders' equity**

Convertible preferred stock, \$.00001 par value; 20,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.00001 par value; 100,000,000 shares authorized; 38,250,480 and 39,950,633 shares issued and outstanding, respectively	400	400
Additional paid-in-capital	67,908,552	68,008,864
Accumulated deficit	(59,260,124)	(62,698,508)
Stockholders' notes receivable, including accrued interest of \$173,482 and \$109,951, respectively	(1,438,022)	(1,850,534)
Accumulated other comprehensive income: Unrealized gain (loss) on marketable securities	24,614	(5,002)
	<u>7,235,420</u>	<u>3,455,220</u>
	<u>\$ 7,331,127</u>	<u>\$ 3,505,141</u>

**Burst.com Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**Years Ended December 31, 2007 and 2006**

	2007	2006
Revenue	\$ 10,000,000	\$ -
Costs and expenses:		
General and administrative	1,223,528	762,965
Legal fees and costs associated with licensing revenue	5,368,267	-
	<u>6,591,795</u>	<u>762,965</u>
Income (loss) from operations	3,408,205	(762,965)
Other income (expenses):		
Interest income	184,826	174,054
Interest expense	(9,285)	(3,123)
Gain on sale of securities	51,278	59,675
Other taxes	(2,899)	-
	<u>223,920</u>	<u>230,606</u>
Income (loss) before income taxes	3,632,125	(532,359)
Income taxes	193,741	850
Net income (loss)	<u>3,438,384</u>	<u>(533,209)</u>
Unrealized gain (loss)	<u>29,616</u>	<u>(35,892)</u>
Total comprehensive income (loss)	<u>\$ 3,468,000</u>	<u>\$ (569,101)</u>
Net income (loss) per share, basic	<u>\$ 0.0871</u>	<u>\$ (0.01)</u>
Net income per share, diluted	<u>\$ 0.0868</u>	<u>\$ -</u>
Weighted average number of common shares outstanding	<u>39,894,738</u>	<u>35,391,968</u>