

ONSCREEN TECHNOLOGIES INC  
Form 10QSB  
May 15, 2007

ONSCREEN TECHNOLOGIES, INC.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

---

For quarter ended March 31, 2007

Commission File Number 0-29195

ONSCREEN TECHNOLOGIES, INC.  
(Name of Small Business Issuer in Its Charter)

|  |  |  |
|--|--|--|
| <u>Colorado</u><br>(State or jurisdiction of<br>incorporation or organization) | <u>(3990)</u><br>(Primary Standard Industrial<br>Classification Code Number) | <u>84-1463284</u><br>(I.R.S. Employer<br>Identification No.) |
|--|--|--|

600 NW 14<sup>th</sup> Avenue, Suite 100  
Portland, Oregon 97209  
(503) 417-1700  
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

Russell L. Wall, CEO/President  
OnScreen Technologies, Inc.  
600 NW 14<sup>th</sup> Avenue, Suite 100  
Portland, Oregon 97209  
(503) 417-1700  
(Name, Address and Telephone Number of Agent for Service)

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

YES  NO

As of May 10, 2007, there were 149,716,312 shares of the Company's common stock outstanding, 75,543 shares of Series A Convertible Preferred Stock outstanding and no shares of Series B Convertible Preferred Stock outstanding.



## ONSCREEN TECHNOLOGIES, INC.

## INDEX

## Part I

|  | Page |
|--|------|
| Item   |      |
| 1 Financial Statements   | 3    |
| Condensed Balance Sheets (unaudited)                                 | 3    |
| Condensed Statements of Operations (unaudited)                       | 4    |
| Condensed Statements of Cash Flows (unaudited)                       | 5    |
| Notes to the Condensed Financial Statements (unaudited)              | 7    |
| Item Management's Discussion and Analysis of Financial Condition and |      |
| 2 Results of Operations  | 12   |
| Overview   | 12   |
| Intellectual Property  | 13   |
| Critical Accounting Policies   | 13   |
| Liquidity and Capital Resources                                      | 14   |
| Results of Operations  | 16   |
| Item   |      |
| 3 Controls and Procedures  | 17   |

## Part II

|   |    |
|---|----|
| Item  |    |
| 1 Legal Proceedings.                                  | 18 |
| Item  |    |
| 2 Changes in Securities                               | 18 |
| Item  |    |
| 3 Defaults Upon Senior Securities                     | 19 |
| Item  |    |
| 4 Submission of Matters to a Vote of Security Holders | 19 |
| Item  |    |
| 5 Other Information                                   | 19 |
| Item  |    |
| 6 Exhibits and Reports on Form 8-K                    | 19 |
| Signatures  | 20 |
| Exhibits  |    |

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ONSCREEN TECHNOLOGIES, INC.  
CONDENSED BALANCE SHEETS**

|  | <b>March 31,<br/>2007<br/>(Unaudited)</b> | <b>December 31,<br/>2006</b> |
|--|---|------------------------------|
| <u><b>Assets</b></u>   |   |                              |
| <b>Current Assets</b>  |   |                              |
| Cash and cash equivalents  | \$ 45,832                                 | \$ 570,501                   |
| Accounts receivable, net of allowance of \$6,333 at March 31, 2007 and December 31, 2006   | 14,557                                    | 11,295                       |
| Inventory  | 2,182,702                                 | 2,125,735                    |
| Prepaid expenses and other current assets  | 126,533                                   | 141,474                      |
| <b>Total Current Assets</b>  | <b>2,369,624</b>                          | <b>2,849,005</b>             |
| <b>Property and Equipment, net of accumulated depreciation of \$133,459 at March 31, 2007 and \$119,057 at December 31, 2006</b>                       | <b>87,837</b>                             | <b>102,239</b>               |
| <b>Other Assets</b>  |   |                              |
| Note Receivable  | 107,500                                   | 115,000                      |
| Technology rights, net of accumulated amortization of \$392,366 at March 31, 2007 and \$332,843 at December 31, 2006                                   | 4,500,377                                 | 4,509,900                    |
| Patent Costs   | 613,463                                   | 582,965                      |
| Other assets   | 21,993                                    | 22,173                       |
| <b>Total Other Assets</b>  | <b>5,243,333</b>                          | <b>5,230,038</b>             |
| <b>Total Assets</b>  | <b>\$ 7,700,794</b>                       | <b>\$ 8,181,282</b>          |
| <u><b>Liabilities and Stockholders' Equity</b></u>   |   |                              |
| <b>Current Liabilities</b>   |   |                              |
| Accounts payable and other payables  | \$ 545,334                                | \$ 480,960                   |
| Preferred Stock Dividends Payable  | 27,353                                    | 27,353                       |
| Accrued expenses   | 152,342                                   | 132,914                      |
| Accrued Compensation   | 73,673                                    | 85,000                       |
| Deferred Revenue   | 7,990                                     | 8,260                        |
| Convertible note payable, net of discounts of \$69,461 at March 31, 2007 and \$52,439 at December 31, 2006   | 1,030,539                                 | 947,561                      |
| <b>Total Current Liabilities</b>   | <b>1,837,231</b>                          | <b>1,682,048</b>             |
| <b>Long term note payable, net of discounts of \$191,460 at March 31, 2007 and \$253,303 at December 31, 2006</b>                                      | <b>508,540</b>                            | <b>396,697</b>               |
| <b>Total Liabilities</b>   | <b>2,345,771</b>                          | <b>2,078,745</b>             |
| <b>Commitments (Note 7)</b>  | <b>-</b>                                  | <b>-</b>                     |
| <b>Stockholders' Equity</b>  |   |                              |
| Preferred stock, par value \$0.001; 10,000,000 shares authorized Convertible Series A, Preferred stock, 5,000,000 shares authorized, 75,543 shares and | 76  | 91                           |

Edgar Filing: ONSCREEN TECHNOLOGIES INC - Form 10QSB

90,543 shares outstanding at March 31, 2007 and December 31, 2006, respectively; liquidation preference of \$75,543 at March 31, 2007

|   |                     |                     |
|---|---------------------|---------------------|
| Convertible Series B preferred stock, 30,000 shares authorized, no shares issued at March 31, 2007 and December 31, 2006, respectively.   | -                   | -                   |
| Common stock, par value \$0.001; 200,000,000 shares authorized, 149,353,818 and 147,127,238 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively | 149,354             | 147,127             |
| Common stock issuable, at par value, (13,500 shares at March 31, 2007)  | 13                  | -                   |
| Additional paid-in capital  | 49,151,383          | 48,926,371          |
| Accumulated deficit   | (43,945,803)        | (42,971,052)        |
| <b>Total Stockholders' Equity</b>   | <b>5,355,023</b>    | <b>6,102,537</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 7,700,794</b> | <b>\$ 8,181,282</b> |

See accompanying notes to financial statements

**ONSCREEN TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

|  | For the three months ended |                       |
|--|----------------------------|-----------------------|
|  | March 31,                  |                       |
|  | 2007                       | 2006                  |
| <b>Revenues</b>  | \$ 49,393                  | \$ 27,230             |
| <b>Cost of Revenues</b>  | 51,225                     | 52,082                |
| <b>Gross Loss</b>  | (1,832)                    | (24,852)              |
| <b>Operating Expenses</b>  |                            |                       |
| Selling, general and administrative                                      | 442,358                    | 2,398,763             |
| Research and development   | 359,097                    | 596,928               |
| Restructuring costs  | -                          | 13,967                |
| <b>Total Operating Expenses</b>  | <b>801,455</b>             | <b>3,009,658</b>      |
| <b>Loss from Operations</b>  | <b>(803,287)</b>           | <b>(3,034,510)</b>    |
| <b>Other Income (Expense)</b>  |                            |                       |
| Other income   | 12,902                     | 16,374                |
| Settlement gain (loss), net  | -                          | 107,160               |
| Intrinsic value of convertible debt and amortization of debt discount    | (132,607)                  | (1,914,926)           |
| Interest expense   | (51,759)                   | (286,967)             |
| <b>Total Other Income (Expense), Net</b>                                 | <b>(171,464)</b>           | <b>(2,078,359)</b>    |
| <b>Net Loss</b>  | <b>(974,751)</b>           | <b>(5,112,869)</b>    |
| Preferred Stock Dividends  | -                          | (49,927)              |
| <b>Net Loss Available to Common Stockholders</b>                         | <b>\$ (974,751)</b>        | <b>\$ (5,162,796)</b> |
| Basic and Diluted Loss Per Common Share Available to Common Stockholders | \$ (0.01)                  | \$ (0.07)             |
| Weighted average basic and diluted common shares outstanding             | 147,728,670                | 77,843,502            |

See accompanying notes to financial statements

**ONSCREEN TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**

|  | <b>For the three months ended</b> |                     |
|--|-----------------------------------|---------------------|
|  | <b>March 31,</b>                  |                     |
|  | <b>2007</b>                       | <b>2006</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                   |                     |
| Net Loss   | \$ (974,751)                      | \$ (5,112,869)      |
| Adjustments to reconcile net loss to net cash used in operating activities:                                |                                   |                     |
| Stock, warrants and notes issued for compensation and services   | 3,292                             | 790,157             |
| Non-cash interest expense, including intrinsic value of convertible debt and amortization of debt discount | 132,607                           | 1,914,926           |
| Non-cash gain on settlement, net   | -                                 | (150,016)           |
| Amortization of technology rights  | 59,523                            | 5,000               |
| Amortization of deferred consulting and compensation   | -                                 | 258,223             |
| Amortization of deferred financing fees  | -                                 | 63,509              |
| Compensation expense payable in common stock   | 6,250                             | 141,116             |
| Depreciation   | 14,402                            | 31,765              |
| <b>(Increase) decrease in assets:</b>  |                                   |                     |
| Accounts receivable and other receivables  | 4,238                             | 11,893              |
| Inventory  | (56,967)                          | (531,131)           |
| Prepaid expenses and other current assets  | 14,941                            | (44,685)            |
| Deposits and other assets  | 180                               | 63,640              |
| <b>Increase (decrease) in liabilities:</b>   |                                   |                     |
| Accounts payable and accrued expenses  | 72,205                            | 479,727             |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(724,080)</b>                  | <b>(2,078,745)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                   |                     |
| Investment in technology rights  | (50,000)                          | (800,000)           |
| Investment in patents  | (30,498)                          | (27,880)            |
| Purchase of property and equipment   |                                   | (3,649)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(80,498)</b>                   | <b>(831,529)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                   |                     |
| Proceeds from notes and loans payable  | 277,500                           | 4,918,950           |
| Payments on notes and loans payable  |                                   | (250,000)           |
| Proceeds from exercise of warrants and options   | 2,409                             |                     |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>279,909</b>                    | <b>4,668,950</b>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(524,669)</b>                  | <b>1,758,676</b>    |
| Cash and Cash Equivalents at Beginning of Year   | 570,501                           | 727,141             |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIODS</b>   | <b>\$ 45,832</b>                  | <b>\$ 2,485,817</b> |

(continued)

**ONSCREEN TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS (continued)**  
**UNAUDITED**

|  | For the three months ended<br>March 31, |              |
|--|---|--------------|
|  | 2007                                    | 2006         |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>   |   |              |
| Income taxes paid  | \$ -                                    | \$ -         |
| Interest paid  | \$ 51,759                               | \$ 171,001   |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                               |   |              |
| Conversion of Series A convertible preferred stock to common stock   | \$ 15                                   | \$ 24        |
| Discount on debt of convertible notes payable  | \$ 87,786                               | \$ 2,609,798 |
| Accounts payable converted to notes payable  | \$ -                                    | \$ 375,475   |
| Conversion of debt to common stock   | \$ 127,500                              | \$ 9,037,898 |
| Technology rights acquired through issuance of warrants  | \$ -                                    | \$ 3,520,243 |
| Common stock issued for deferred consulting and compensation and accrued liabilities payable in common stock | \$ 1,333                                | \$ 645,892   |
| Other comprehensive loss from unrealized loss (gain)   | \$ -                                    | \$ (2,303)   |

See accompanying notes to financial statements



**ONSCREEN TECHNOLOGIES, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION AND GOING CONCERN**

OnScreen Technologies, Inc. (sometimes hereafter referred to as “OnScreen™” or “the Company”) has developed and is commercializing innovative thermal management solutions capable of revolutionizing the LED display, semiconductor and electronic packaging industries. Utilizing its patent-pending thermal technologies and architecture, the Company has developed advanced, proprietary LED display solutions and cooling applications. The Company is primarily focused on commercialization of its innovative thermal cooling technology, WayCool, and the commercial adoption of its sign display platform product under the names RediAlert™ and Living Window™. Additionally, the Company is continuing efforts towards development and commercialization of its Tensile technology.

The accompanying financial statements have been prepared on the assumption that the Company will continue as a going concern. As reflected in the accompanying financial statements, the Company has a net loss of \$974,751 and cash used in operations of \$724,080 for the three months ended March 31, 2007. The ability of the Company to continue as a going concern is dependent on the Company's ability to bring the OnScreen™ products to market, generate increased sales, obtain positive cash flow from operations and raise additional capital. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

The Company is continuing to raise additional capital for the commercialization of its OnScreen™ technology product lines which the Company believes should provide sufficient cash to meet its funding requirements to bring the OnScreen™ technology product lines into production during 2007. As the Company continues to expand and develop its technology and product lines, additional funding may be required. The Company has experienced negative cash flows from operations and incurred net losses in the past and there can be no assurance as to the availability or terms upon which additional financing and capital might be available, if needed.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information which includes condensed financial statements. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with the Company's Annual Report, Form 10-KSB for the year ended December 31, 2006.

It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

**NOTE 2 USE OF ESTIMATES**

The preparation of 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. Significant estimates in 2007 and 2006 include estimates used to review the Company's long-lived assets for impairment, inventory valuation, valuations of non-cash capital stock issuances, valuations of derivatives and the valuation allowance on deferred tax assets.



**NOTE 3 LOSS PER COMMON SHARE**

Common stock equivalents in the three-month periods ended March 31, 2007 and 2006 were anti-dilutive due to the net losses sustained by the Company during these periods, thus the diluted weighted average common shares outstanding in these periods are the same as the basic weighted average common shares outstanding.

At March 31, 2007, 33,862,096 potential common stock shares are issuable upon the exercise of warrants and options and conversion of debt to common stock. These are excluded from computing the diluted net loss per share as the effect of such shares would be anti-dilutive.

**NOTE 4 INCOME TAXES**

The Company has not recognized an income tax benefit for its operating losses generated in the three-month periods ended March 31, 2007 and 2006 based on uncertainties concerning its ability to generate taxable income in future periods. The tax benefits for the three-month periods ended March 31, 2007 and 2006 is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

**NOTE 5 STOCK-BASED EMPLOYEE COMPENSATION**

On January 1, 2006, the Company implemented Statement of Financial Accounting Standard 123 (revised 2004) ("SFAS 123(R)", "Share-Based Payment" which replaced SFAS 123 "Accounting for Stock-Based Compensation" and superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires the fair value of all stock-based employee compensation awarded to employees to be recorded as an expense over the related vesting period. The statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. During 2006, all employee stock compensation is recorded at fair value using the Black Scholes Pricing Model. In adopting SFAS 123(R), the Company used the modified prospective application ("MPA"). MPA requires the Company to account for all new stock compensation to employees using fair value and for any portion of awards prior to January 1, 2006 for which the requisite service has not been rendered and the options remain outstanding as of January 1, 2006, the Company recognized the compensation cost for that portion of the award the requisite service was rendered on or after January 1, 2006. The fair value for these awards is determined based on the grant-date.

On August 25, 2005, the Board of Directors approved the 2005 Equity Incentive Plan ("2005 Plan") for 2,000,000 shares of the Company's common stock. The 2005 Plan provides for the issuance of stock options to attract, retain and motivate employees, to encourage employees, directors and independent contractors to acquire an equity interest in the Company, to make monetary payments to certain employees based upon the value of the Company's stock and provide employees, directors and independent contractors with an incentive to maximize the success of the Company and to further the interest of the shareholders. The 2005 Plan provides for the issuance of Incentive Stock Options and Non Statutory Options. The Administrator of the plan shall determine the exercise price per share at the time an option is granted but the exercise price shall not be less than the fair market value on the date the options is granted. Stock options granted under the 2005 Plan have a maximum duration of 10 years.

On June 26, 2000, the Company's Board of Directors adopted the OnScreen Technologies, Inc. 2000 Stock Option Plan (the "Plan"). The Plan provides for the issuance of incentive stock options (ISO's) to any individual who has been employed by the Company for a continuous period of at least six months. The Plan also provides for the issuance of Non Statutory Options (NSO's) to any employee who has been employed by the Company for a continuous period of at least six months, any director, or consultant to the Company. The Company may also issue reload options as defined in the plan. The total number of common shares of common stock authorized and reserved for issuance under the Plan is 600,000 shares. The Board shall determine the exercise price per share in the case of an ISO at the time an option is granted and such price shall be not less than the fair market value or 110% of fair market value in the case of a ten percent or greater stockholder. In the case of an NSO, the exercise price shall not be less than the fair market value of one share of stock on the date the option is granted. Unless otherwise determined by the Board, ISO's and NSO's granted under the Plan have a maximum duration of 10 years.

The following information is presented for the non-vested stock options for the three months ended March 31, 2007:

|   | Number<br>of Shares | Weighted Avg.<br>Grant-date Fair<br>Value |
|---|---------------------|---|
| Non-vested stock options at December 31, 2006 | 485,000             | \$ 0.45                                   |
| Granted during the period                     | -                   | -   |
| Vested during the period                      | (10,000)            | \$ 0.30                                   |
| Forfeited during period                       | (425,000)           |   |
| Non-vested stock options at March 31, 2007    | 50,000              | \$ 0.36                                   |

The following information is presented for the stock option activity for the three months ended March 31, 2007:

|   | # of shares | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contract Life | Aggregate<br>Intrinsic<br>Value |
|---|-------------|---------------------------------------|---|---------------------------------|
| Outstanding at December 31, 2006:         | 5,463,500   | \$ 0.14                               |   |                                 |
| Forfeited                                 | (572,500)   | \$ 0.16                               |   |                                 |
| Granted                                   | -           | \$ 0.00                               |   |                                 |
| Outstanding at March 31, 2007             | 4,891,000   | \$ 0.13                               | 9.3.2<br>years                                    | \$ 16,790                       |
| Outstanding exercisable at March 31, 2007 | 4,841,000   | \$ 0.13                               | 9.3.2<br>years                                    | \$ 16,790                       |

The fair value of each stock option is estimated on the date of grant using a Black Scholes Pricing Model. The fair value of options granted during 2006 was estimated using the following approximate assumptions: dividend yield of 0%, expected volatilities of 130% -202%, risk-free interest rates of 4.4% - 4.8%, and expected lives of 3 - 5 years. There have been no options granted during 2007.

In accordance with SFAS 123(R), during the three months ended March 31, 2007, the Company recognized compensation expense of \$3,292 for the fair value of stock options over the vesting period. Due to the Company's net loss position, there was no tax effect recognized.

At March 31, 2007, the Company has \$9,739 of unrecognized compensation costs related to non-vested awards and the Company expects to recognize this expense by the end of 2007.

#### **NOTE 6 NOTES PAYABLE**

At December 31, 2006 eighteen month secured convertible promissory notes totaling \$1,650,000 were outstanding. During the three months ended March 31, 2007, the Company entered into eighteen-month secured convertible promissory notes totaling \$177,500. Interest accrues at 12% per annum, payable monthly, until the maturity of these notes at which time the principal is due. The note holder has the right to convert the note to the Company's common stock at the greater of a per share price equal to 80% of the average closing bid price of the stock for 10 days preceding the conversion date or \$0.20. During the three months ended March 31, 2007, note holders converted \$127,500 of the notes into the Company's common stock. Unamortized debt discount as of March 31, 2007 is \$260,921.

During March 2007, the Company entered into a twenty four month secured promissory note and received proceeds of \$100,000. Interest accrues at 12% per annum, payable monthly, until the maturity of this note at which time the principal is due.

#### **NOTE 7 TECHNOLOGY RIGHT AND LICENSE AGREEMENT**

On January 8, 2007, the Company reached an agreement with the inventor of the WayCool technology to purchase from him the cooling solution designed for the solar industry for a purchase price of \$50,000. Conditions of the agreement reached between the two parties included fulfillment by the inventor of all obligations required to obtain a filing of the provisional application for the patent and to provide technical advice to implement the cooling solution.

#### **NOTE 8 COMMITMENTS**

On January 1, 2007, the Company entered into an agreement with a consultant to provide research and development services. For these services, the Company pays a monthly fee of \$5,000 over a one-year period.

#### **NOTE 9 PREFERRED STOCK**

During the three months ended March 31, 2007, the Company converted 15,000 shares of the Company's Series A convertible preferred stock into 75,000 shares of the Company's common stock at the request of certain Series A convertible preferred stock holders.

**NOTE 10 OTHER EQUITY TRANSACTIONS**

During the three months ended March 31, 2007, the Company issued 82,938 shares of its common stock to an employee in accordance with his employment agreement. These shares were valued at \$25,000 using a thirty-day average price at December 31, 2006, in accordance with the employee's employment agreement.

During the three months ended March 31, 2007, the Company was to issue 500 shares of its Series B Convertible Preferred stock and 125,000 shares of its Series A Convertible Preferred stock to the CFO in accordance with the employee's employment agreement. The 125,000 shares of Series A Convertible Preferred stock was valued at \$1.00 per share based on contemporaneous cash sales. The 500 shares of Series B Convertible Preferred stock was valued at \$270 per share based on contemporaneous cash sales. The total value of these shares of \$260,000 was expensed over the term of the employee's employment agreement. In lieu of the Convertible A and B Preferred stock, the Company issued 1,250,000 of its Common Stock.

During the three months ended March 31, 2007, the Company issued 578,704 shares of its common stock and warrants for 47,296 shares of its common stock in relation to the conversion of promissory notes.

During the three months ended March 31, 2007, the Company issued 239,938 shares of its common stock in relation to the exercise of warrants.

During the three months ended March 31, 2007, the Company recorded compensation expense of \$3,292 for stock options that the requisite service was performed during the first quarter of 2007. The compensation expense is recorded over the vesting period based upon fair market value of the options using the Black Scholes option model in accordance with SFAS 123(R).

The Company also recorded \$6,250 of compensation expense for stock that is to be issued based upon employment agreements that the requisite service had been performed.

**NOTE 11 SUBSEQUENT EVENTS**

During April 2007, the Company entered into a secured promissory note with a board member for \$80,000. Interest on this note accrues at the rate of 12% per annum and is payable monthly. The note is payable in one installment no more than sixty days after the receipt of funds by the Company or upon receipt of funds from an investment group.

During April 2007, the Company entered into a twenty four month secured promissory note and received proceeds of \$200,000. Interest accrues at 12% per annum, payable monthly, until the maturity of this note at which time the principal is due.

During May 2007, the Company entered into a twenty four month secured promissory note and received proceeds of \$200,000. Interest accrues at 12% per annum, payable monthly, until the maturity of this note at which time the principal is due.

During May 2007, warrants for 250,000 shares of its common stock at a price of \$0.01 were exercised.

During May 2007, the Company converted accrued dividends of approximately \$19,800 into 98,994 shares of the Company's common stock at per share price of \$0.20 for the shareholder who elected to convert accrued dividends to common shares.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **General**

Management's discussion and analysis contains various "forward looking statements." Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate," or "continue" or use of negative or other variations or comparative terminology.

The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those contained in the forward-looking statements, that these forward-looking statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements.

### **Overview**

OnScreen Technologies, Inc. (sometimes hereafter referred to as "OnScreen™" or "the Company") has developed and is commercializing innovative thermal management solutions capable of revolutionizing the LED display, semiconductor and electronic packaging industries. Utilizing its patent-pending thermal technologies and architecture, the Company has developed highly advanced, proprietary LED display solutions and cooling applications that provide increased performance and are less expensive to install and support than competing products and technologies.

The Company is primarily focused on commercialization of its innovative thermal cooling technology, WayCool, and the commercial adoption of its sign display platform product under the name RediAlert™. Additionally, the Company is continuing efforts towards development and commercialization of its Tensile technology. The Company's sign display product lines utilize the OnScreen™ direct view LED (light emitting diode) sign display technology (sometimes referred to as the "OnScreen™ LED architecture" or "OnScreen™ LED technology"). The Company's plan is to focus all of its resources on the commercialization of its technology.

The Company's LED products are specially designed to provide display solutions into vertical markets including commercial and government. The OnScreen™ LED architecture provides a platform for the production of LED display products in the current market that is lighter than competitive products and provides a corresponding reduction in wind loading. These architectural benefits yield products that could be easy to install, are portable and require less support infrastructure, which opens new markets for LED message display products.

The Company's RediAlert™ Rapid Dispatch Emergency Signs product line provides the world's first truly portable LED product for Emergency Response and commercial advertising using the OnScreen™ LED sign technology. Powered by battery and transported by any vehicle, these products give highly visible emergency information or advertising messages in less than five minutes of set up time. The Company began shipping the RediAlert™ product line during the third quarter of 2006.

The Company does not expect to record any significant growth in revenues until the WayCool technology is commercialized and its RediAlert™ product line is fully deployed nationwide.

During the three months ended March 31, 2007, the Company continued to incur significant losses from operations. The Company incurred a net loss of \$974,751 for the three months ended March 31, 2007. This net loss of \$974,751 is significantly lower than for the same period last year when the Company recorded a net loss of \$5,112,869 primarily due to reduced headcount, decrease in operating expenses, lower non-cash charges of approximately \$1,189,000 for compensation and services expense including amortization of deferred compensation related to equity given or to be given to employees and consultants for services provided, and \$1,782,319 of non-cash amortization of the intrinsic value of convertible debt and the debt discount.

Management has continued to raise the capital needed to fund the development and marketing of the Company's OnScreen™ products during 2007. During the three months ended March 31, 2007 the Company received proceeds of \$177,500 from secured convertible notes and \$100,000 from secured promissory notes. These funds will assist the Company to continue to develop its OnScreen™ products and technology and continue the Company's operations until the Company brings the OnScreen™ products fully to market. However, the Company anticipates expanding and developing its technology and product lines which will require additional funding.

#### Intellectual Property

The Company relies on various intellectual property laws and contractual restrictions to protect its proprietary rights in products, logos and services. These include confidentiality, invention assignment and nondisclosure agreements with the Company's employees, contractors, suppliers and strategic partners. The confidentiality and nondisclosure agreements with employees, contractors and suppliers are in perpetuity or for a sufficient length of time so as to not threaten exposure of proprietary information. In addition, the Company intends to pursue the registration of its trademarks and service marks in the U.S. and internationally.

The Company continues to file and protect its intellectual property rights, trademarks and products through continued filings with the US Patent and Trademark Office and, as applicable, internationally.

#### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that have a significant impact on the results the Company will report in the Company's financial statements. Some of the Company's accounting policies require the Company to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Actual results may differ from these estimates under different assumptions or conditions.



### Asset Impairment

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized as the excess of the carrying amount over the fair value. Otherwise, an impairment loss is not recognized. Management estimates the fair value and the estimated future cash flows expected. Any changes in these estimates could impact whether there was impairment and the amount of the impairment.

### Valuation of Non-Cash Capital Stock Issuances

The Company values its stock transactions based upon the fair value of the equity instruments. Various methods can be used to determine the fair value of the equity instrument. The Company may use the fair value of the consideration received, the quoted market price of the stock or a contemporaneous cash sale of the common or preferred stock. Each of these methods may produce a different result. Management uses the method it determines most appropriately reflects the stock transaction. If a different method was used it could impact the expense and equity stock accounts.

### Patent Costs

The Company estimates the patents it has filed have a future beneficial value to the Company, thus it capitalizes the costs associated with filing for its patents. At the time the patent is approved, the patent costs associated with the patent will be amortized over the useful life of the patent. If the patent is not approved, at that time the costs will be expensed. A change in the estimate of the patent having a future beneficial value to the Company will impact the other assets and expense accounts of the Company.

### Revenue Recognition

The recognition of the Company's revenues requires judgment, including whether a sale includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. Customers receive certain elements of our products over a period of time. These elements include installation and training services. The ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. Also, the Company offers an extended warranty for which the revenues are initially recorded as deferred revenue and recorded to revenue ratably over the applicable warranty period. The Company does not have any history as to the costs expected to be incurred in performing these services. Therefore, revenues may be recorded that are not in proportion to the costs expected to be incurred in performing these services.

## **Liquidity and Capital Resources**

### General

The Company's cash and cash equivalents balance at March 31, 2007 is \$45,832. The Company has a working capital balance at March 31, 2007 of \$600,445. The Company has funded its operations and investments in equipment through cash from operations, equity financings and borrowing from private parties as well as related parties.

### Cash used in operations

The Company's operating requirements generated a negative cash flow from operations of \$724,080 for the three months ended March 31, 2007 versus \$2,078,745 for the same period last year. The significant decrease in cash used in operations is a result of reduced headcount and lower operating expenses.

During the first three months of 2007, the Company has not used stock and warrants as a form of payment to certain vendors, consultants and employees. For the first three months of 2006, the Company recorded a total of approximately \$1,189,000 for compensation and services expense including amortization of deferred compensation related to equity given or to be given to employees and consultants for services provided.

As the Company focuses on the OnScreen™ technology during 2007, it will continue to fund research and development related to the OnScreen™ products as well as sales and marketing efforts related to these products. The Company does not expect to record much revenue in 2007 until its RediAlert™ product line is fully deployed nationwide. The RediAlert™ product line began shipping during the third quarter of 2006.

#### Capital Expenditures and Investments

During the first three months of 2007, the Company had no investment in fixed assets versus approximately \$4,000 of expenditures incurred during the first quarter of 2006. During the remainder of 2007, the Company does not anticipate any significant capital expenditures.

The Company invested \$30,498 in patent costs and \$50,000 in technology rights during the first three months of 2007. The Company expects its investment in patent costs will continue throughout 2007 as it invests in patents to protect the rights to use its OnScreen™ product developments. During the first three months of 2006, the Company invested \$800,000 in technology rights and \$27,880 in patent costs.

#### Financing activities

During the first three months of 2007, the Company received \$177,500 of proceeds from secured convertible notes and \$100,000 of proceeds from secured promissory notes. During the first quarter of 2007, the Company converted \$127,500 of convertible secured notes into 591,204 shares of its common stock. The Company plans on raising the capital needed to fund the further development and marketing of the Company's products.

#### Recap of liquidity and capital resources

The report of our independent registered public accounting firm on our financial statements as of December 31, 2006 contains an explanatory paragraph expressing uncertainty with respect to our ability to continue as a going concern. The Company currently is not generating significant revenues to fund operations and had an accumulated deficit of \$43,945,803 at March 31, 2007. The Company currently does not have enough working capital to continue operations for the next 12 months.

The Company is seeking to raise additional capital for the commercialization of its OnScreen™ technology product lines which the Company believes will provide sufficient cash to meet its short-term working capital requirements for the next twelve months. As the Company continues to expand and develop its technology and product lines, additional funding may be required. The Company will attempt to raise these funds through borrowing instruments or issuing additional equity.

Management expects the OnScreen™ LED and WayCool technologies to be commercialized during 2007 and 2008. The Company cannot assure that it will generate material revenues by that date or that its revenues will be sufficient to cover all operating and other expenses of the Company. If revenues are not sufficient to cover all operating and other expenses, the Company will require additional funding. There is no assurance the Company will be able to raise such additional capital. The failure to raise additional capital or generate product sales in the expected time frame will have a material adverse effect on the Company.

## **Results of Operations**

### Revenue

During the three months ended March 31, 2007, revenue was \$49,393 and \$27,230 for the same period during 2006. The revenue for the three months ended March 31, 2007 is comprised of \$30,000 from RediAlert™ products, \$14,823 from Living Window™ products and related add-ons and \$4,570 from sale of wireless modems. For the three months ended March 31, 2006, the Company recorded \$27,230 from Living Window™ products and related add-ons.

The Company began shipping its RediAlert™ product during late July 2006. As the RediAlert™ product penetrates the marketplace, the Company expects its revenues will increase during 2007 compared to the prior year.

### Cost of revenue

The cost of revenue for the three months ended March 31, 2007 and 2006 was \$51,225 and \$52,082, respectively. While the Company's is introducing its new products and until it sells larger volumes to get economies of scale, it expects the cost of sales to fluctuate between periods as a percentage of its revenues.

### Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses includes such items as wages, consulting, general office expenses, business promotion expenses and costs of being a public company including legal and accounting fees, insurance and investor relations.

SG&A expenses decreased from \$2,398,763 for the three months ended March 31, 2006 to \$442,358 for the same period during 2007. This decrease of \$1,956,405 is primarily the result of lower non-cash expenses of approximately \$1 million as well as the reduction in staff and overhead expenditures versus prior year.

### Research and Development

The research and development costs are related to the OnScreen™ technology to which the Company acquired the licensing rights. The decrease of \$237,831 in research and development during the three months ended March 31, 2007, compared to the same period in 2006 is a result of a decrease in non-cash compensation for research and development consulting services and reduction in headcount. During the three months ended March 31, 2006, the Company recorded approximately \$189,000 of non-cash compensation for research and development consulting services provided to the Company while no non-cash compensation was recorded during the first quarter of 2007. The Company anticipates decreasing its expenditures in research and development during the remainder of 2007 compared to 2006.

### Restructuring Costs

The Company recorded no restructuring costs during the first three months ended March 31, 2007 while it incurred \$13,967 of restructuring costs during 2006 related to the move from Florida to Oregon.



### Other Income

The investment Income remained relatively unchanged during the three months ended March 31, 2007 compared to the same period in 2006. The Company does not expect this item to be significant during the balance of 2007.

### Settlement Gain (Loss), Net

The Company did not have any significant gain (loss) during the three months ended March 31, 2007.

The Company recorded \$107,160 of a net settlement gain for the three months ended March 31, 2006 arising from settlements reached with Capitol City Trailers and Mobile Magic. During 2005, the Company reached a settlement with Capitol City Trailers regarding the use of one of its trucks. For the three month ended March 31, 2006, the Company had received \$12,500, which was recorded as a settlement gain. During the first quarter of 2006, the Company reached a settlement with Mobile Magic where Mobile Magic agreed to pay \$175,000 as settlement of the Company's claim against it. Due to the financial condition of Mobile Magic, the Company had not recorded a receivable of \$175,000 for the remaining amount. The Company also had recorded approximately \$150,000 as a payable to Mobile Magic who was constructing a truck that the Company never received. As part of the agreement the Company does not owe the \$150,000 and recorded a settlement gain for this amount during the first quarter of 2006. This was offset by legal fees of \$44,158.

### Intrinsic value of convertible debt and amortization of debt discount

The Company recorded for the three months ended March 31, 2007 and 2006 an expense of \$132,607 and \$1,914,926, respectively for the intrinsic value of convertible debt and the amortization of debt discount. The lower expense of \$1,782,319 was due to a significant reduction in convertible debt.

### Interest Expense

The interest expense of \$51,759 for the three months ended March 31, 2007 is for the interest on the secured convertible notes payable and a secured promissory note in the amount of \$100,000. As of March 31, 2007, the Company converted all of the secured convertible notes except \$1,700,000.

The interest expense for the three months ended March 31, 2006 was \$286,967.

### Preferred Stock Dividends

No preferred dividend expense was recorded by the Company during the three months ended March 31, 2007 as all Series A and Series B Convertible Preferred shareholders accepted during 2006 the Company's offer to receive all outstanding dividends through March 2006 in either cash or common shares at a per share price of \$0.20. During the three months ended March 31, 2006, the Company recorded Series A Convertible Preferred Stock dividends of \$49,802 and Series B Convertible Preferred Stock dividends of \$125.

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

Within 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective for the gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been

no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

(a) Our management, including the principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures will prevent all error and fraud. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations 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, collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Changes in internal controls over financial reporting.

In addition, there were no significant changes in our internal control over financial reporting that could significantly affect these controls during quarter ended March 31, 2007. We have not identified any significant deficiency or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

## **PART II - OTHER INFORMATION**

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

None.

### **Item 2. Changes in Securities.**

#### **Common Stock Issued**

The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for this issuance. During the three months ended March 31, 2007, the Company issued 82,938 shares of its common stock to an employee in accordance with his employment agreement. These shares were valued at \$25,000 using a thirty-day average price at December 31, 2006, in accordance with the employee's employment agreement.

The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for this issuance. During the three months ended March 31, 2007, the Company was to issue 500 shares of its Series B Convertible Preferred stock and 125,000 shares of its Series A Convertible Preferred stock to the CFO in accordance with the employee's employment agreement. The 125,000 shares of Series A Convertible Preferred stock was valued at \$1.00 per share based on contemporaneous cash sales. The 500 shares of Series B Convertible Preferred stock was valued at \$270 per share based on contemporaneous cash sales. The total value of these shares of \$260,000 was expensed over the term of the employee's employment agreement. In lieu of the Convertible A and B Preferred stock, the Company issued 1,250,000 of its Common Stock.



The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for this issuance. During the three months ended March 31, 2007, the Company issued 578,704 shares of its common stock and warrants for 47,296 shares of its common stock in relation to the conversion of promissory notes.

The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for this issuance. During the three months ended March 31, 2007, the Company issued 239,938 shares of its common stock in relation to the exercise of warrants.

The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for this issuance. During the three months ended March 31, 2007, the Company converted 15,000 shares of the Company's Series A convertible preferred stock into 75,000 shares of the Company's common stock at the request of certain Series A convertible preferred stock holders.

**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

| Exhibit Number | Description  |
|----------------|--|
| 31.1           | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002. |
| 31.2           | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002. |
| 32.1           | Certification of Chief Executive Officer pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                      |
| 32.2           | Certification of Chief Financial Officer pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                      |

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on January 18, 2007 in connection with the disclosure of the multi-year licensing agreement with CUI, Inc.



The Company filed a Current Report on Form 8-K on February 21, 2007 in connection with the disclosure of a twelve months licensing and royalty agreement with Thermaltake Technologies Co., Ltd.

The Company filed a Current Report on Form 8-K on February 28, 2007 announcing its exclusive one-year licensing and royalty agreement with OCZ Technology Group, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Signed and submitted this 15th day of May 2007.

OnScreen Technologies, Inc.  
(Registrant)

by: /s/ Russell L. Wall

\_\_\_\_\_  
Russell L. Wall  
Chief Executive Officer/Director

by: /s/ Mark R. Chandler

\_\_\_\_\_  
Mark R. Chandler  
Chief Financial Officer / Principal Accounting Officer