

MORGAN STANLEY
Form FWP
February 20, 2019

March 2019

Preliminary Terms No. 1,613

Registration Statement Nos. 333-221595; 333-221595-01

Dated February 19, 2019

Filed pursuant to Rule 433

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Buffered PLUS Based on the Financial Select Sector SPDR[®] Fund due March 25, 2021

Buffered Performance Leveraged Upside SecuritiesSM

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The Buffered PLUS offered are unsecured obligations of Morgan Stanley Finance LLC (“MSFL”) and are fully and unconditionally guaranteed by Morgan Stanley. The Buffered PLUS will pay no interest, provide a minimum payment at maturity of only 10% of the stated principal amount and have the terms described in the accompanying product supplement for PLUS, index supplement and prospectus, as supplemented or modified by this document. At maturity, if the underlying shares have appreciated in value, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying shares, subject to the maximum payment at maturity. If the underlying shares have depreciated in value, but the underlying shares have not declined by more than the specified buffer amount, the Buffered PLUS will redeem for par. However, if the underlying shares have declined by more than the buffer amount, investors will lose 1% for every 1% decline beyond the specified buffer amount, subject to the **minimum payment at maturity of 10% of the stated principal amount. Investors may lose up to 90% of the stated principal amount of the Buffered PLUS.** The Buffered PLUS are for investors who seek an equity fund-based return and who are willing to risk their principal and forgo current income and upside above the maximum payment at maturity in exchange for the leverage and buffer features that in each case apply to a limited range of performance of the underlying shares. The Buffered PLUS are notes issued as part of MSFL’s Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These Buffered PLUS are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

SUMMARY TERMS

Issuer: Morgan Stanley Finance LLC
Guarantor: Morgan Stanley

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Maturity date: March 25, 2021

Underlying shares: Shares of the Financial Select Sector SPDR® Fund (the “Fund”)

Aggregate principal amount: \$

Payment at maturity per Buffered PLUS: § If the final share price is *greater than* the initial share price: \$1,000 + leveraged upside payment

In no event will the payment at maturity exceed the maximum payment at maturity.

§ If the final share price is *less than or equal to* the initial share price but has decreased from the initial share price by an amount less than or equal to the buffer amount of 10%: \$1,000

§ If the final share price is *less than* the initial share price and has decreased from the initial share price by an amount *greater than* the buffer amount of 10%:
 (\$1,000 x the share performance factor) + \$100

Under these circumstances, the payment at maturity will be less than the stated principal amount of \$1,000.

However, under no circumstances will the Buffered PLUS pay less than \$100 per Buffered PLUS at maturity.

Leveraged upside payment: \$1,000 x leverage factor x share percent increase

Share percent increase: (final share price – initial share price) / initial share price

Share performance factor: final share price / initial share price

Initial share price: \$, which is the closing price of one underlying share on the pricing date

Final share price: The closing price of one underlying share on the valuation date *times* the adjustment factor on such date

Adjustment factor: 1.0, subject to adjustment in the event of certain events affecting the underlying shares

Valuation date: March 22, 2021, subject to postponement for non-trading days and certain market disruption events

Leverage factor: 200%

Buffer amount: 10%. As a result of the buffer amount of 10%, the value at or above which the underlying shares must close on the valuation date so that investors do not suffer a loss on their initial investment in the Buffered PLUS is \$, which is 90% of the initial share price.

Minimum payment at maturity: \$100 per Buffered PLUS (10% of the stated principal amount)

Maximum payment at maturity: \$1,170.00 to \$1,220.00 per Buffered PLUS (117.00% to 122.00% of the stated principal amount). The actual maximum payment at maturity will be determined on the pricing date.

Interest: None

Stated principal amount: \$1,000 per Buffered PLUS

Issue price: \$1,000 per Buffered PLUS

Pricing date: March 22, 2019

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Original issue date: March 27, 2019 (3 business days after the pricing date)
CUSIP: 61768DS30
ISIN: US61768DS301
Listing: The Buffered PLUS will not be listed on any securities exchange.
Agent: Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”
Estimated value on the pricing date: Approximately \$957.00 per Buffered PLUS, or within \$15.00 of that estimate. See “Investment Summary” on page 2.

Commissions and issue price: Price to public Agent’s commissions⁽¹⁾ Proceeds to us⁽²⁾
Per Buffered PLUS \$1,000 \$25 \$975
Total \$ \$ \$

We are also offering, pursuant to Preliminary Terms No. 1,614, a separate issuance of Buffered PLUS, being sold only to fee-based advisory accounts, with terms similar to those of this issuance but with a higher maximum payment at maturity.

(1) *Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of \$25 for each Buffered PLUS they sell. See “Supplemental information regarding plan of distribution; conflicts of interest.” For additional information, see “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement for PLUS.*

(2) *See “Use of proceeds and hedging” on page 16.*

The Buffered PLUS involve risks not associated with an investment in ordinary debt securities. See “Risk Factors” beginning on page 6.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Buffered PLUS are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see “Additional Terms of the Buffered PLUS” and “Additional Information About the Buffered PLUS” at the end of this document.

As used in this document, “we,” “us” and “our” refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

**Product Supplement for PLUS dated November 16, 2017 Index Supplement dated November 16, 2017
Prospectus dated November 16, 2017**

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Investment Summary

Buffered Performance Leveraged Upside Securities

Principal at Risk Securities

The Buffered PLUS Based on the Financial Select Sector SPDR® Fund due March 25, 2021 (the “Buffered PLUS”) can be used:

§ As an alternative to direct exposure to the underlying shares that enhances returns for a certain range of positive performance of the underlying shares, subject to the maximum payment at maturity

§ To enhance returns and potentially outperform the underlying shares in a moderately bullish scenario

§ To achieve similar levels of upside exposure to the underlying shares as a direct investment, subject to the maximum payment at maturity, while using fewer dollars by taking advantage of the leverage factor

§ To obtain a buffer against a specified level of negative performance in the underlying shares

Maturity:	Approximately 2 years
Leverage factor:	200%
Maximum payment at maturity:	\$1,170.00 to \$1,220.00 per Buffered PLUS (117.00% to 122.00% of the stated principal amount). The actual maximum payment at maturity will be determined on the pricing date.
Minimum payment at maturity:	\$100 per Buffered PLUS (10% of the stated principal amount). Investors may lose up to 90% of the stated principal amount of the Buffered PLUS.
Buffer amount:	10%
Coupon:	None

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The original issue price of each Buffered PLUS is \$1,000. This price includes costs associated with issuing, selling, structuring and hedging the Buffered PLUS, which are borne by you, and, consequently, the estimated value of the Buffered PLUS on the pricing date will be less than \$1,000. We estimate that the value of each Buffered PLUS on the pricing date will be approximately \$957.00, or within \$15.00 of that estimate. Our estimate of the value of the Buffered PLUS as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the Buffered PLUS on the pricing date, we take into account that the Buffered PLUS comprise both a debt component and a performance-based component linked to the underlying shares. The estimated value of the Buffered PLUS is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying shares, instruments based on the underlying shares, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the Buffered PLUS?

In determining the economic terms of the Buffered PLUS, including the leverage factor, the maximum payment at maturity, the buffer amount and the minimum payment at maturity, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the Buffered PLUS would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the Buffered PLUS?

The price at which MS & Co. purchases the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the underlying shares, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Buffered PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the underlying shares, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the Buffered PLUS, and, if it once chooses to make a market, may cease doing so at any time.

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Key Investment Rationale

The Buffered PLUS offer leveraged upside exposure to the underlying shares, subject to the maximum payment at maturity, while providing limited protection against negative performance of the underlying shares. Once the underlying shares have decreased in price by more than a specified buffer amount, investors are exposed to the negative performance of the underlying shares, subject to the minimum payment at maturity. At maturity, if the underlying shares have appreciated, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying shares, subject to the maximum payment at maturity. At maturity, if the underlying shares have depreciated and (i) if the closing price of the underlying shares has not declined from the initial share price by more than the specified buffer amount, the Buffered PLUS will redeem for par, or (ii) if the closing price of the underlying shares has declined by more than the buffer amount, the investor will lose 1% for every 1% decline beyond the specified buffer amount, subject to the minimum payment at maturity. **Investors may lose up to 90% of the stated principal amount of the Buffered PLUS.**

Leveraged Performance up to a Cap The Buffered PLUS offer investors an opportunity to capture enhanced returns for a certain range of positive performance relative to a direct investment in the underlying shares, subject to the maximum payment at maturity.

Upside Scenario The underlying shares increase in price, and, at maturity, the Buffered PLUS redeem for the stated principal amount of \$1,000 plus 200% of the share return, subject to the maximum payment at maturity of \$1,170.00 to \$1,220.00 per Buffered PLUS (117.00% to 122.00% of the stated principal amount). The actual maximum payment at maturity will be determined on the pricing date.

Par Scenario The underlying shares decline in price by no more than 10%, and, at maturity, the Buffered PLUS redeem for the stated principal amount of \$1,000.

Downside Scenario The underlying shares decline in price by more than 10%, and, at maturity, the Buffered PLUS redeem for less than the stated principal amount by an amount that is proportionate to the percentage decrease of the underlying shares from the initial share price, plus the buffer amount of 10%. (Example: if the underlying shares decrease in price by 35%, investors would lose 25% of their principal and the Buffered PLUS will redeem for \$750.00, or 75% of the stated principal amount.) The minimum payment at maturity is \$100 per Buffered PLUS.

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How the Buffered PLUS Work

Payoff Diagram

The payoff diagram below illustrates the payment at maturity on the Buffered PLUS based on the following terms:

Stated principal amount:	\$1,000 per Buffered PLUS
Leverage factor:	200%
Buffer amount:	10%
Hypothetical maximum payment at maturity:	\$1,195.00 per Buffered PLUS (119.50% of the stated principal amount, the midpoint of the specified range)
Minimum payment at maturity:	\$100 per Buffered PLUS

Buffered PLUS Payoff Diagram

How it works

Upside Scenario. If the final share price is greater than the initial share price, investors will receive the \$1,000 stated principal amount plus 200% of the appreciation of the underlying shares over the term of the Buffered PLUS, subject to the maximum payment at maturity. An investor will realize the hypothetical maximum payment at maturity of \$1,195.00 per Buffered PLUS (119.50% of the stated principal amount) at a final share price of 109.75% of the initial share price.

§ If the value of the underlying shares appreciates 2%, the investor would receive a 4% return, or \$1,040.00 per Buffered PLUS.

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If the value of the underlying shares appreciates 40%, the investor would receive only the hypothetical maximum payment at maturity of \$1,195.00 per Buffered PLUS, or 119.50% of the stated principal amount.

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Par Scenario. If the final share price is less than or equal to the initial share price but has decreased from the initial share price by an amount less than or equal to the buffer amount of 10%, investors will receive the stated principal amount of \$1,000 per Buffered PLUS.

Downside Scenario. If the final share price is less than the initial share price and has decreased from the initial share price by an amount greater than the buffer amount of 10%, investors will receive an amount that is less than the stated principal amount by an amount that is proportionate to the percentage decrease in the value of the underlying shares from the initial share price, plus the buffer amount of 10%. The minimum payment at maturity is \$100 per Buffered PLUS.

For example, if the value of the underlying shares depreciates 45%, investors would lose 35% of their principal and receive only \$650.00 per Buffered PLUS at maturity, or 65% of the stated principal amount.

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Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the Buffered PLUS. For further discussion of these and other risks, you should read the section entitled “Risk Factors” in the accompanying product supplement for PLUS, index supplement and prospectus. You should also consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the Buffered PLUS.

Buffered PLUS do not pay interest and provide a minimum payment at maturity of only 10% of your principal. The terms of the Buffered PLUS differ from those of ordinary debt securities in that the Buffered PLUS do not pay interest, and provide a minimum payment at maturity of only 10% of the stated principal amount of the Buffered PLUS, subject to our credit risk. If the final share price is less than 90% of the initial share price, you will § receive for each Buffered PLUS that you hold a payment at maturity that is less than the stated principal amount of each Buffered PLUS by an amount proportionate to the decline in the closing value of the underlying shares from the initial share price, plus \$100 per Buffered PLUS. **Accordingly, investors may lose up to 90% of the stated principal amount of the Buffered PLUS.**

The appreciation potential of the Buffered PLUS is limited by the maximum payment at maturity. The appreciation potential of the Buffered PLUS is limited by the maximum payment at maturity of \$1,170.00 to \$1,220.00 per Buffered PLUS, or 117.00% to 122.00% of the stated principal amount. The actual maximum payment at maturity will be determined on the pricing date. Although the leverage factor provides 200% exposure to any § increase in the final share price over the initial share price, because the payment at maturity will be limited to 117.00% to 122.00% of the stated principal amount for the Buffered PLUS, any increase in the final share price over the initial share price by more than 8.50% to 11.00% of the initial share price will not further increase the return on the Buffered PLUS.

§ **The market price of the Buffered PLUS will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the Buffered PLUS in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Buffered PLUS in the secondary market, including the trading price, volatility (frequency and magnitude of changes in value) and dividends of the underlying shares and of the stocks composing the Financial Select Sector Index, interest and yield rates in the market, time remaining until the Buffered PLUS mature, geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying shares or equities markets generally and which may affect the final share price of the underlying shares, the occurrence of certain events affecting the underlying shares that may or may not require an adjustment to the adjustment factor, and any actual or anticipated changes in our credit ratings or credit spreads. The price of the underlying shares may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See “Financial Select Sector SPDR® Fund Overview” below. You may receive less, and possibly significantly less, than the stated principal amount per Buffered PLUS if you try to sell your

Buffered PLUS prior to maturity.

The Buffered PLUS are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the Buffered PLUS. You are dependent on our ability to pay all amounts due on the Buffered PLUS at maturity and therefore you are subject to our credit risk. If we default on our obligations under the Buffered PLUS, your investment would be at risk and you could lose some or all § of your investment. As a result, the market value of the Buffered PLUS prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the Buffered PLUS.

As a finance subsidiary, MSFL has no independent operations and will have no independent assets. As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such § holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be

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treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The amount payable on the Buffered PLUS is not linked to the value of the underlying shares at any time other than the valuation date. The final share price will be based on the closing price on the valuation date, subject to postponement for non-trading days and certain market disruption events. Even if the value of the underlying shares appreciates prior to the valuation date but then drops by the valuation date by more than 10%, the payment at maturity will be less, and may be significantly less, than it would have been had the payment at maturity been linked to the value of the underlying shares prior to such drop. Although the actual value of the underlying shares on the stated maturity date or at other times during the term of the Buffered PLUS may be higher than the closing price on the valuation date, the payment at maturity will be based solely on the closing price on the valuation date.

Investing in the Buffered PLUS is not equivalent to investing in the underlying shares or the stocks composing the Financial Select Sector Index. Investing in the Buffered PLUS is not equivalent to investing in the underlying shares, the Financial Select Sector Index (the “share underlying index”) or the stocks that constitute the Financial Select Sector Index. Investors in the Buffered PLUS will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the underlying shares or the stocks that constitute the Financial Select Sector Index.

Investing in the Buffered PLUS exposes investors to risks associated with investments in securities with a concentration in the financial services sector. The stocks included in the Financial Select Sector Index and that are generally tracked by the Financial Select Sector SPDR® Fund are stocks of companies whose primary business is directly associated with the financial services sector, including the following sub-sectors: diversified financial services, insurance, commercial banks, capital markets, real estate investment trusts (“REITs”), consumer finance, thrifts & mortgage finance, and real estate management & development. Because the value of the Buffered PLUS is linked to the performance of the underlying shares, an investment in the Buffered PLUS exposes investors to risks associated with investments in securities with a concentration in the financial services sector.

Financial services companies are subject to specific and substantial risks, including, without limitation, significant competition and extensive government regulation, which may limit both the amounts and types of loans and other financial commitments they can make, the businesses they can enter and the interest rates and fees they can charge. The ability of companies in the financial services sector to generate profits is largely dependent on the availability and cost of capital funds, which may fluctuate significantly when interest rates or company credit ratings change. The stock prices of financial institutions, especially those engaged in investment banking, brokerage and banking businesses, have historically been unpredictable, with significant stock price fluctuations in response to reported trading losses in proprietary trading businesses, actual or perceived problems related to risk management systems, the amount of total leverage, liquidity of assets or capital resources, the strength of the mergers and acquisitions and capital markets businesses and general economic conditions, among other factors. Insurance companies, which are the

issuers of some of the equity securities held by the Financial Select Sector SPDR[®] Fund, have been and may continue to be subject to severe price competition. As a result, the value of the Buffered PLUS may be subject to greater volatility and be more adversely affected by a single economic, political or regulatory occurrence affecting the financial services sector or one of the sub-sectors of the financial services sector than a different investment linked to securities of a more broadly diversified group of issuers.

Adjustments to the underlying shares or to the Financial Select Sector Index could adversely affect the value of the Buffered PLUS. As the investment adviser to the Financial Select Sector SPDR[®] Fund, SSGA Funds Management, Inc. (the “Investment Advisor”), seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the share underlying index. Pursuant to its investment strategy or otherwise, the Investment Advisor may add, delete or substitute the stocks composing the Financial Select Sector § SPDR[®] Fund. Any of these actions could adversely affect the price of the underlying shares and, consequently, the value of the Buffered PLUS. The stocks included in the Financial Select Sector Index are selected by Merrill Lynch, Pierce, Fenner & Smith Incorporated, which we refer to as Merrill Lynch, acting as index compilation agent in consultation with S&P Dow Jones Indices LLC, which we refer to as S&P, from the universe of companies represented by the S&P 500[®] Index. Merrill Lynch, in consultation with S&P, can add, delete or substitute the

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stocks underlying the Financial Select Sector Index that could change the value of the Financial Select Sector Index and, consequently, the price of the underlying shares and the value of the Buffered PLUS.

The performance and market price of the Fund, particularly during periods of market volatility, may not correlate with the performance of the share underlying index, the performance of the component securities of the share underlying index or the net asset value per share of the Fund. The Fund does not fully replicate the share underlying index and may hold securities that are different than those included in the share underlying index. In addition, the performance of the Fund will reflect additional transaction costs and fees that are not included in the § calculation of the share underlying index. All of these factors may lead to a lack of correlation between the performance of the Fund and the share underlying index. In addition, corporate actions (such as mergers and spin-offs) with respect to the equity securities underlying the Fund may impact the variance between the performances of the Fund and the share underlying index. Finally, because the shares of the Fund are traded on an exchange and are subject to market supply and investor demand, the market price of one share of the Fund may differ from the net asset value per share of the Fund.

In particular, during periods of market volatility, or unusual trading activity, trading in the securities underlying the Fund may be disrupted or limited, or such securities may be unavailable in the secondary market. Under these circumstances, the liquidity of the Fund may be adversely affected, market participants may be unable to calculate accurately the net asset value per share of the Fund, and their ability to create and redeem shares of the Fund may be disrupted. Under these circumstances, the market price of shares of the Fund may vary substantially from the net asset value per share of the Fund or the level of the share underlying index.

For all of the foregoing reasons, the performance of the Fund may not correlate with the performance of the share underlying index, the performance of the component securities of the share underlying index or the net asset value per share of the Fund. Any of these events could materially and adversely affect the price of the shares of the Fund and, therefore, the value of the Buffered PLUS. Additionally, if market volatility or these events were to occur on the valuation date, the calculation agent would maintain discretion to determine whether such market volatility or events have caused a market disruption event to occur, and such determination would affect the payment at maturity of the Buffered PLUS. If the calculation agent determines that no market disruption event has taken place, the payment at maturity would be based solely on the published closing price per share of the Fund on the valuation date, even if the Fund's shares are underperforming the share underlying index or the component securities of the share underlying index and/or trading below the net asset value per share of the Fund.

§ The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the Buffered PLUS in the original

issue price reduce the economic terms of the Buffered PLUS, cause the estimated value of the Buffered PLUS to be less than the original issue price and will adversely affect secondary market prices. Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the Buffered PLUS in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Buffered PLUS in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the Buffered PLUS less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Buffered PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the underlying shares, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

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The estimated value of the Buffered PLUS is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.

These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the Buffered PLUS than those generated by others, including other dealers in the market, if they attempted to value the Buffered PLUS. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Buffered PLUS in the secondary market (if any exists) at any time. The value of your Buffered PLUS at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price of the Buffered PLUS will be influenced by many unpredictable factors” above.

The antidilution adjustments the calculation agent is required to make do not cover every event that could affect the shares of the Financial Select Sector SPDR® Fund. MS & Co., as calculation agent, will adjust the

amount payable at maturity for certain events affecting the shares of the Financial Select Sector SPDR® Fund. However, the calculation agent will not make an adjustment for every event that could affect the shares of the Financial Select Sector SPDR® Fund. If an event occurs that does not require the calculation agent to adjust the adjustment factor, the market price of the Buffered PLUS may be materially and adversely affected.

The Buffered PLUS will not be listed on any securities exchange and secondary trading may be limited. The Buffered PLUS will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Buffered PLUS. MS & Co. may, but is not obligated to, make a market in the Buffered PLUS and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the Buffered PLUS, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the Buffered PLUS. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Buffered PLUS easily. Since other broker-dealers may not participate significantly in the secondary market for the Buffered PLUS, the price at which you may be able to trade your Buffered PLUS is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Buffered PLUS, it is likely that there would be no secondary market for the Buffered PLUS. Accordingly, you should be willing to hold your Buffered PLUS to maturity.

§ The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the Buffered PLUS. As calculation agent, MS & Co. will determine the initial share price and the final share price, and will calculate the amount of cash you receive at maturity. Moreover, certain determinations made by MS & Co. in its capacity as calculation agent, may require it to exercise discretion and make subjective judgements, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the final share price in the event of a market disruption event or

discontinuance of the Financial Select Sector Index. These potentially subjective determinations may adversely affect the payout to you at maturity. For further information regarding these type of determinations, see “Description of PLUS—Postponement of Valuation Date(s)” and “—Calculation Agent and Calculations” in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the Buffered PLUS on the pricing date.

Hedging and trading activity by our affiliates could potentially adversely affect the value of the Buffered PLUS. One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the Buffered PLUS (and to other instruments linked to the underlying shares or the Financial Select Sector Index), including trading in the underlying shares and in other instruments related to the underlying shares or the Financial Select Sector Index. As a result, these entities may be unwinding or adjusting hedge positions during the term of the § Buffered PLUS, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. Some of our affiliates also trade the underlying shares or the stocks that constitute the Financial Select Sector Index and other financial instruments related to the Financial Select Sector Index on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could potentially increase the initial share price, and, therefore, could

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increase the price at or above which the shares of the Financial Select Sector SPDR® Fund must close on the valuation date so that investors do not suffer a loss on their initial investment in the Buffered PLUS. Additionally, such hedging or trading activities during the term of the Buffered PLUS, including on the valuation date, could adversely affect the closing price of the shares of the Financial Select Sector SPDR® Fund on the valuation date, and, accordingly, the amount of cash an investor will receive at maturity.

The U.S. federal income tax consequences of an investment in the Buffered PLUS are uncertain. Please read the discussion under “Additional Information—Tax considerations” in this document and the discussion under “United States Federal Taxation” in the accompanying product supplement for PLUS (together, the “Tax Disclosure Sections”) concerning the U.S. federal income tax consequences of an investment in the Buffered PLUS. As discussed in the Tax Disclosure Sections, there is a substantial risk that the “constructive ownership” rule could apply, in which case all or a portion of any long-term capital gain recognized by a U.S. Holder could be recharacterized as ordinary income and an interest charge could be imposed. If the Internal Revenue Service (the “IRS”) were successful in asserting an alternative treatment, the timing and character of income on the Buffered PLUS might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the Buffered PLUS as debt instruments. In that event, U.S. Holders would be required to § accrue into income original issue discount on the Buffered PLUS every year at a “comparable yield” determined at the time of issuance and recognize all income and gain in respect of the Buffered PLUS as ordinary income. Additionally, as discussed under “United States Federal Taxation—FATCA” in the accompanying product supplement for PLUS, the withholding rules commonly referred to as “FATCA” would apply to the Buffered PLUS if they were recharacterized as debt instruments. However, recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization) eliminate the withholding requirement on payments of gross proceeds of a taxable disposition. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the Buffered PLUS, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the Buffered PLUS, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, as discussed in this document. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Buffered PLUS, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an

investment in the Buffered PLUS, including possible alternative treatments, the potential application of the constructive ownership rule, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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Financial Select Sector SPDR® Fund Overview

The Financial Select Sector SPDR® Fund is an exchange-traded fund managed by Select Sector SPDR Trust (the “Trust”), a registered investment company. The Trust consists of nine separate investment portfolios, including the Financial Select Sector SPDR® Fund. The Financial Select Sector SPDR® Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Financial Select Sector Index. It is possible that this fund may not fully replicate the performance of the Financial Select Sector Index due to the temporary unavailability of certain securities in the secondary market or due to other extraordinary circumstances. Information provided to or filed with the Securities and Exchange Commission (the “Commission”) by the Trust pursuant to the Securities Act of 1933 and the Investment Company Act of 1940 can be located by reference to Commission file numbers 333-57791 and 811-08837, respectively, through the Commission’s website at www.sec.gov. In addition, information may be obtained from other publicly available sources. **Neither the issuer nor the agent makes any representation that any such publicly available information regarding the Financial Select Sector SPDR® Fund is accurate or complete.**

Information as of market close on February 15, 2019:

Bloomberg Ticker Symbol:	XLF UP
Current Share Price:	\$26.43
52 Weeks Ago:	\$29.02
52 Week High (on 3/9/2018):	\$29.70
52 Week Low (on 12/24/2018):	\$22.31

The following graph sets forth the daily closing price of the underlying shares for the period from January 1, 2014 through February 15, 2019. The related table sets forth the published high and low closing prices as well as the end-of-quarter closing prices of the underlying shares for each quarter in the same period. The closing price of the underlying shares on February 15, 2019 was \$26.43. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The historical prices of the underlying shares should not be taken as an indication of future performance, and no assurance can be given as to the closing price of the underlying shares on the valuation date.

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Shares of the Financial Select Sector SPDR® Fund
Daily Closing Prices
January 1, 2014 to February 15, 2019

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Financial Select Sector SPDR® Fund (CUSIP 81369Y605)	High (\$)	Low (\$)	Period End (\$)
2014			
First Quarter	18.25	16.67	18.14
Second Quarter	18.60	17.28	18.47
Third Quarter	19.33	17.99	18.81
Fourth Quarter	20.33	17.90	20.08
2015			
First Quarter	20.08	18.68	19.58
Second Quarter	20.52	19.56	19.80
Third Quarter	20.77	18.09	18.40
Fourth Quarter	20.16	18.41	19.31
2016			
First Quarter	19.05	15.99	18.28
Second Quarter	19.36	17.42	18.54
Third Quarter	19.95	18.17	19.30
Fourth Quarter	23.75	19.21	23.25
2017			
First Quarter	25.24	22.95	23.73
Second Quarter	24.69	22.90	24.67
Third Quarter	25.86	23.88	25.86
Fourth Quarter	28.22	26.05	27.91
2018			
First Quarter	30.17	26.82	27.57
Second Quarter	28.34	26.36	26.59
Third Quarter	28.98	26.48	27.58
Fourth Quarter	28.19	22.31	23.82
2019			
First Quarter (through February 15, 2019)	26.43	23.48	26.43

This document relates only to the Buffered PLUS offered hereby and does not relate to the underlying shares. We have derived all disclosures contained in this document regarding the Trust from the publicly available documents described in the preceding paragraph. In connection with the offering of the Buffered PLUS, neither we nor the agent has participated in the preparation of such documents or made any due diligence inquiry with respect to the Trust. Neither we nor the agent makes any representation that such publicly available documents or any other publicly available information regarding the Trust is accurate or complete. Furthermore, we cannot give any assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described in the preceding paragraph) that would affect the trading price of the underlying shares (and therefore the price of the underlying shares at the time we price the Buffered PLUS) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning the Trust could affect the value received at maturity with respect to the Buffered PLUS and therefore the value of the Buffered PLUS.

Neither we nor any of our affiliates makes any representation to you as to the performance of the underlying shares.

We and/or our affiliates may presently or from time to time engage in business with the Trust. In the course of such business, we and/or our affiliates may acquire non-public information with respect to the Trust, and neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, one or more of our affiliates may publish research reports with respect to the underlying shares. The statements in the preceding two sentences are not intended to affect the rights of investors in the Buffered PLUS under the securities laws. As a prospective purchaser of the Buffered PLUS, you should undertake an independent investigation of the Trust as in your judgment is appropriate to make an informed decision with respect to an investment linked to the underlying shares.

“Standard & Poor®”, “S&P”, “S&P 500”, “SPDR”, “Select Sector SPDR” and “Select Sector SPDRs” are trademarks of Standard & Poor’s Financial Services LLC (“S&P”), an affiliate of The McGraw-Hill Companies, Inc. (“MGH”). The Buffered PLUS are not sponsored, endorsed, sold, or promoted by S&P, MGH or the Trust. S&P, MGH

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and the Trust make no representations or warranties to the owners of the Buffered PLUS or any member of the public regarding the advisability of investing in the Buffered PLUS. S&P, MGH and the Trust have no obligation or liability in connection with the operation, marketing, trading or sale of the Buffered PLUS.

The Financial Select Sector Index. The Financial Select Sector Index is calculated and disseminated by S&P and is designed to provide an effective representation of the financial sector of the S&P 500® Index. The Financial Select Sector Index includes companies in the following industries: diversified financial services, insurance, commercial banks, capital markets, real estate investment trusts (“REITs”), thrift & mortgage finance, consumer finance and real estate management & development. See “The Financial Select Sector Index” in the accompanying index supplement.

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Additional Terms of the Buffered PLUS

Please read this information in conjunction with the summary terms on the front cover of this document.

**Additional
Terms:**

If the terms described herein are inconsistent with those described in the accompanying product supplement, index supplement or the terms described herein shall control.

**Share
underlying
index:**

The Financial Select Sector Index

**Share
underlying
index
publisher:**

S&P Dow Jones Indices LLC or any successor thereof

**Postponement
of**

maturity date:

If the scheduled valuation date is not a trading day or if a market disruption event occurs on that day so that the date as postponed falls less than two business days prior to the scheduled maturity date, the maturity date of the PLUS will be postponed to the second business day following that valuation date as postponed.

Denominations: \$1,000 per Buffered PLUS and integral multiples thereof

Trustee: The Bank of New York Mellon

**Calculation
agent:** MS & Co.

**Issuer notice to
registered
security
holders, the
trustee and the
depository:**

In the event that the maturity date is postponed due to postponement of the valuation date, the issuer shall give notice of such postponement and, once it has been determined, of the date to which the maturity date has been rescheduled to each registered holder of the Buffered PLUS by mailing notice of such postponement by first class mail, postage prepaid, to the registered holder's last address as it shall appear upon the registry books, (ii) to the trustee by facsimile or by first class mail, postage prepaid, at its New York office and (iii) to The Depository Trust Company (the "depository") by telephone or facsimile, confirmed by mailing such notice to the depository by first class mail, postage prepaid. Any notice that is mailed to a registered holder of the Buffered PLUS in the manner herein

be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder received the notice. The issuer shall give such notice as promptly as ----- Loss before extra

(0.03) (0.21) -----	Extinguishment of debt - 0.11 -----	N
(0.03) \$ (0.10) =====	Shares used in per share calculation - ba	

diluted 37,701,171 18,556,461 ===== The accompanying notes are an integral part of these financial statements. 41 Pen Interconnect, Inc. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

Retained Common Preferred	Additional earnings	Stock	Stock paid-in (accumulated Shares Amount Shares Amount Capital deficit) Total -----
-----	-----	-----	-----
Balance September 30, 1999	9,638,114	\$ 96,381	17,447,876 \$ (19,354,413) \$(1,810,128) -----
of Preferred Stock - Series B	411,112	4,111 (74) (1) (4,111) (1)	Conversion of Preferred Stock - Series A 9
(1,670) (17) (90,577) (17)	Common stock issued in lieu of preferred stock dividend payable	349,323	3,493
Compensation expense recognized on repricing of options and warrants	339,822	339,822	Conversion of wa
Stock Series A into common stock	315,000	3,150	83,792 86,942
Exercise of stock options	1,150,000	11,500	266,441
Exercise of warrants	2,766,668	27,667	273,451 301,118
Common stock issued for services	1,760,416,372	433,974	Conversion of trade payables and debt into common stock
1,061,747	10,617	250,655	261,000
common stock	1,087,135	10,871	206,843 217,714
Dividends on Preferred Stock	(289,809)	(289,809)	Stock
as compensation	42,250	42,250	Net loss (1,891,199) (1,891,199) -----
-----	-----	-----	-----
Balance September 30, 2000	27,596,946	\$ 275,946	\$ 19,282,402 \$ (21,535,421) \$(1,977,040) =====

----- The accompanying notes are an integral part of these financial statements. 42 Pen Interconnect, Inc. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED) FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

Common Preferred	Additional earnings	Stock	Stock paid-in (accumulated Shares Amount Shares Amount Capital deficit) Total -----
-----	-----	-----	-----
Balance September 30, 2000	27,596,946	\$ 275,946	1,056 \$ 10 \$ 19,282,402 \$(21,535,421) \$(1,977,040) -----
Conversion of Preferred Stock - Series B	1,617,648	16,177 (40) - (16,177) -	Conversion of Preferred Stock
1,667,039	16,670 (39) - (16,670) -	Exercise of options	346,000 3,460 40,882 44,342
Exercise of warrants	1,150,000	11,500	266,441
Common stock issued for services	683,950	6,840	21,920 28,760
Conversion of trade payables and debt into common stock	760,178	7,602	15,776 23,378
Stock granted as compensation	1,100,000	11,000	33,000
Compensation expense granted on options and warrants	163,765	163,765	Preferred dividend adjustment 10
Other (409) (4) (4)	Net loss (1,294,784) (1,294,784) -----	-----	-----
Balance September 30, 2001	49,873,603	\$ 498,736	977 \$ 10 \$ 20,008,060 \$(22,819,916) \$(2,313,110)

----- The accompanying notes are an integral part of these financial statements. 43 Pen Interconnect, Inc. CONSOLIDATED STATEMENTS OF CASH FLOWS AS OF SEPTEMBER 30, 2001 AND 2000

2001	2000	-----
Increase (decrease) in cash and cash equivalents	Cash flows from operating activities	Net loss \$ (1,294,784)
Adjustments to reconcile net loss to net cash used . in operating activities	Depreciation and amortization	87,000
Allowance for note receivable -	320,500	Common stock issued for services
28,760	433,974	Compensation expense granted on options and warrants
163,765	-	Extinguishment of debt -
(2,018,547)	Conversion of warrants -	86,941
Common stock issued for dividends payable -	64,581	Common stock issued for services
44,000	-	Stock options issued for services at below the fair market value of the stock on the
and repricing of options -	382,071	Discontinued operations
Loss on sale of divisions -	(186,643)	Loss on sale of division -
963,027	Changes in assets and liabilities	Trade accounts receivable -
790,429	Inventories -	1,300,000
expenses and other current assets	9,605	9,171
Accounts payable	(234,303)	1,861,945
Accrued liabilities	(1,411,401) -----	-----
Cash flow generated by (used in) operating activities	(1,391,292)	-----
Cash flow from investing activities: Advances to perFORMplace	- 320,500	-----
notes receivable -	(374,567)	Proceeds from sale of divisions -
75,689	-----	Net cash provided by investing activities -
21,622	-----	(continued) The accompanying notes are an integral part of these financial statements. 44 Cash flow from financing activities: Issuance of preferred stock -
(18)	-----	-----

of common stock - 217,714 Proceeds from convertible debenture 650,000 150,000 Proceed from advances
change in line of credit - (1,840,467) Net change in long-term debt obligations - (1,611,010) Preferred divi
10,285 - Exercise of warrants 644,185 301,117 Exercise of stock options 44,342 266,440 -----
cash provided (consumed) in financing activities 1,388,812 (2,516,224) ----- Net
cash and cash equivalents (2,480) (166,980) ----- Cash and cash equivalents at be
9,319 176,299 ----- Cash and cash equivalents at end of year \$ 6,839 \$ 9,319
===== Supplementary disclosures of cash flow information Ca
the year for Interest \$ - \$ 360,296 Income taxes \$ 800 \$ 900 Sale of Division On January 21, 2000, the Cor
substantially all of the assets and certain liabilities of its Powerstream division (Note 3, 9) noted as follows
Accounts receivable, net 142,017 Inventories 74,262 Note Receivable 9,017 Property, equipment and lease
Accounts Payable (166,661) Unearned revenue (216,000) Note payable (14,820) Capital leases (7,998) ----
gain on sale of Division (110,954) Less consideration received Note receivable \$ - Cash 75,689 -----
sale of division \$ (186,643) ===== The accompanying notes are an integral part of these
statements. 45 Foreclosure of Division On March 3, 2000, the Company's InCirT Division was foreclosed
all of the assets and liabilities were turned over to a secured lender (Note 3, 9). The value of the assets and
transferred were as follows: Accounts receivable, net \$ 2,038,322 Inventories 2,875,412 Notes receivable 2
equipment and leaseholds, net 959,758 Accounts payable (2,614,032) Other debt obligations (2,596,095) --
Loss on foreclosure of division \$ (963,027) ===== Conversion of debt and trade
2001, debt and trade payables in the amount of \$23,378 were converted in to 760,178 shares of common st
year 2000, debt and trade payables in the amount of \$261,272 were converted into 1,061,747 shares of com
2000 ----- The following are the other non-cash charges to common stock: Con
preferred stock into common stock \$ \$ (18) Common stock issued in lieu of dividends payable 64,581 Con
warrants-preferred stock into common stock 86,941 Common stock issued and warrants converted for serv
433,974 Common stock issued for compensation 44,000 - Compensation expense on stock options 163,765
expense on repricing of options and warrants - 339,822 The accompanying notes are an integral part of the
statements. 46 1. Organization and Summary of Significant Accounting Principles Organization Pen Interco
Company" or "Pen") was incorporated on September 30, 1985, in the State of Utah. Through March 3, 200
foreclosure of its last operating division, the Company was a total interconnection solution provider offerin
and manufacturing of circuit boards, battery chargers, power supplies and uninterrupted power supply syste
equipment manufacturers. Most of the Company's sales, before the closure of its operating divisions, consi
circuit boards. The Company experienced severe cash flow problems for several years and in an attempt to
demands of its creditors, sold three of its operating divisions, noted as follows: Division Name Date Sold
----- Cable Davison January 31, 1999 MOTO-SAT September 30,
Powerstream January 21, 2000 On March 3, 2000 the Company and its secured asset based lender, Finova
into a voluntary foreclosure in which all the assets in the Company's last remaining division, InCirt, was tra
Finova to satisfy the revolving credit and term loans held by the bank In a subsequent agreement, dated Ma
Finova Capital and Pen Interconnect agreed to a final settlement of all claims between them. During the se
FY2000, the Company announced a change in its strategic direction and began seeking merger candidates
technologies. On March 29, 2000, the Company announced the signing of a letter of intent to acquire perFO
privately held Internet provider of electronic business-to-business services to the entertainment industry. O
2000, perFORMplace.com informed the Company that it had decided not to pursue the merger. The Compa
signed a merger agreement with the The Automatic Answer, Inc. ("tAA"). tAA, a distributor of voice mail
developed a client service based software products that are used in a Microsoft Window's environment. Th
products include voice mail, automated attendant, call control, messaging and voice over Internet. The mer
effective October 1, 2001. Basis of Presentation The financial statements include the corporate operations
Interconnect as continuing operations. All the remaining activity from the Company's prior operating divis
Cable, MOTO SAT, Powerstream and InCirt have been disclosed as discontinued operations in the financi
the years ended September 30, 2000 and 2001. During 2001, activity from discontinued operations was lim
settlement of accounts payable. The accompanying notes are an integral part of these financial statements.
Organization and Summary of Significant Accounting Principles (continued) Basis of Presentation (contin

related to the October 1, 2001 merger with tAA consist solely of advances from the Company to tAA to cover operating expenses during the pre-merger period. These advances have been expensed as acquisition expenses. Cash Equivalents and Short-Term Investments The Company considers cash on hand, cash in banks, certificates of deposit, and time deposits with original maturities of three months or less when purchased as cash equivalents. Short-term investments are investments with original maturity greater than ninety days and less than one year. Property and Equipment Property and equipment are recorded at cost. Expenditures for additions and major improvements are capitalized. Expenses for repairs and maintenance and minor improvements are charged to expense as incurred. Gains or losses from retirement of assets and disposals are recorded as other income or expense. Property and equipment are depreciated over their estimated useful lives. Leasehold improvements and assets financed under capital leases are amortized over their estimated useful lives, whichever is shorter. Depreciation and amortization are calculated using straight-line and accelerated methods. Depreciation and amortization are calculated using straight-line and accelerated methods following estimated useful lives: Years ----- Production equipment 5-6 Furniture and fixtures 10 Transportation equipment 10 Leasehold improvements 5 The accompanying notes are an integral part of these financial statements. 48 Organization and Summary of Significant Accounting Principles (continued) Income Taxes The Company uses the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Financial Instruments Cash equivalents, trade accounts payable, and accrued liabilities are reflected in the financial statements at fair value, which approximates fair value. Stock-Based Compensation The Company accounts for its stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25. In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has determined that it will not change to the fair value method and will continue to use APB Opinion No. 25 for measurement and recognition of expense related to employee stock based transactions. In March 2000, the FASB released Interpretation No. 25, "Accounting for Certain Transactions Involving Stock Compensation." This Interpretation addresses certain practice issues related to APB Opinion No.25. The provisions of this Interpretation are effective July 1, 2000, and except for specific provisions noted in paragraphs 94-96 of this Interpretation, shall be applied prospectively to new awards, exchanges of awards in business combinations, modifications to an outstanding award, and exchanges in grantee status that occur on or after the effective date. Certain events and practices covered in this Interpretation have different application dates, and events and practices that have an application date but prior to July 1, 2000, shall be recognized only on a prospective basis. Accordingly, the Company shall be made upon initial application of the Interpretation to financial statements for periods prior to July 1, 2000. Compensation cost measured upon initial application of this Interpretation that is attributed to periods prior to July 1, 2000 shall not be recognized. The Company has adopted the provisions of this Interpretation starting July 1, 2000. The accompanying notes are an integral part of these financial statements. 49 1. Organization and Summary of Significant Accounting Principles (continued) Comprehensive Income The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") which establishes standards for reporting comprehensive income of changes in equity from non-owner sources in the financial statements. The Company does not have any components of comprehensive income in 2001 or 2000. Valuation of Long-lived Assets The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets, when events and circumstances indicate that a review may be warranted. The carrying value of a long-lived asset is considered impaired when the anticipated discounted cash flows from the asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose of the asset. Fair Value of Financial Instruments SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments. Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term nature of these instruments. Because of the unique aspects of the subordinated debentures and long-term debt, fair value cannot readily be determined. Revenue Recognition Sales are generally recorded when products are shipped or when services are rendered. Estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect

amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Significant estimates include allowance for doubtful accounts, inventory obsolescence, estimated lives for fixed assets, goodwill and intangibles, the liability for lawsuits and collection of contingent assets. Actual results could differ from these estimates. The accompanying notes are an integral part of these financial statements. 50 1. Organization and Summary of Significant Accounting Principles (continued) Advertising The Company did not incur any significant amount of advertising expenses. Earnings Per Share Basic earnings per common share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per common share incorporate the incremental shares issuable upon the assumption that all stock options and warrants were exercised. Certain of The Company's stock options were excluded from the calculation of diluted earnings per share because they were antidilutive, but these options could be dilutive in the future. Segment and Geographic Information The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 requires enterprises to report information about operating segments in annual financial statements and selected information about reportable segments in interim financial reports issued to shareholders, on the same basis used internally for evaluating segment performance and deciding how to allocate resources to segments. It also sets standards for related disclosures about products and services, geographic areas and major customers. Segment information has been provided for discontinued operations. Recent pronouncements In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for the Derivative Instruments and Hedging Activities." This Statement will require The Company to recognize all derivatives on the balance sheet at fair value. This Statement is effective for fiscal years beginning after June 15, 2000, and has been adopted by The Company for the year ended September 30, 2001 and 2000. The management does not anticipate that the adoption of the new Statement will have a significant effect on The Company's revenues and earnings, as The Company currently does not have any derivatives on its balance sheet. The FASB issued SFAS No. 131 on "Disclosures about Segments of an Enterprise and Related Information" effective in 1998. The Company evaluated SFAS No. 131 and determined that the Company operates in one reportable segment. The accompanying notes are an integral part of these financial statements. 51 1. Organization and Summary of Significant Accounting Principles (continued) In July 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" ("FAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but instead tested for impairment at least annually in accordance with the provisions of FAS No. 142. SFAS No. 142 will also require that intangible assets with definite lives be amortized over their respective useful lives, based on the estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The provisions of this Statement are effective for fiscal years beginning after December 15, 2001. The Company will continue to amortize goodwill existing at September 30, 2001 until the new standard is adopted and test goodwill for impairment in accordance with SFAS No. 121. The Company is currently evaluating the effect that adoption of the provisions of FAS No. 142 will have on its results of operations and financial position. In June 2001, the FASB issued SFAS No. 143, "Accounting for Obligations to Redeem Certain Equity Instruments." SFAS No. 143 requires liability recognition for obligations associated with the redemption of a tangible long-lived asset and the associated asset retirement costs. The Statement is effective for financial statements for fiscal years beginning after June 15, 2002 with earlier application encouraged. The implementation of SFAS No. 143 will not have a material effect on the Company's results of operations or financial position. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 amends SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," so that it removes goodwill from its impairment scope and allows for different approaches in cash flow estimation. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of. SFAS No. 144 also amends the business segment concept in APB opinion No. 30, "Reporting the Results of Operations-Reporting the Effect of Dispositions of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," so that it permits presentation of a component of an entity, whether classified as held for sale or disposed of, as a discontinued operation. However, SFAS No. 144 retains the requirement of APB Opinion No. 30 to report discontinued operations separately from continuing operations. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2002 with earlier application encouraged.

fiscal years beginning after December 15, 2001 with earlier application encouraged. Implementation of SFAS 141 will not have a material effect on the Company's results of operations or financial position. Reclassifications of SFAS 141 reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation. Such reclassifications had no effect on net income as previously reported. The accompanying notes are an integral part of these financial statements. 52 2. Financial Results and Liquidity The Company has incurred net losses of \$1,294,784, \$1,812,000 and 2000, respectively. In addition, the Company has a stockholders' deficit of \$2,313,110 and \$1,977,041 and a capital deficit of \$817,888 and \$972,729 as of September 30, 2001 and 2000, respectively. These factors, taken together, raise substantial doubt about the Company's ability to continue as a going concern. The Company's operations, when combined with tAA once the merger becomes effective, continue to generate operating losses and do not provide cash flow. The Company has issued common stock, preferred stock, debentures and convertible debentures in exchange for cash and services to provide the necessary resources and working capital to help meet its strategic objectives and meet its current obligations. While the Company continues to seek additional equity capital, there can be no assurance that the Company will be successful. Without an infusion of sufficient additional capital, the Company will not be able to continue as a going concern. The financial statements do not include any adjustments that might be necessary to reflect the impact of the Company's inability to continue as a going concern. 3. Disposition of Operating Divisions Cable Division Inc. On September 31, 1999, the Company sold substantially all of the assets and certain of the liabilities of its Cable Division to Cable Television Group, Inc. (CTG). Net assets of \$2,732,059 were sold for \$1,075,000 in cash and a royalty payment contingent upon the revenues of the Cable Division. \$150,000 of the royalty payment was guaranteed and has been recorded by the Company as a note receivable from CTG. CTG agreed to use and compensate the Company for an additional \$558,747 of net assets contingent upon certain of its future operating needs. The Company originally recorded a loss of \$948,312 upon the disposition of the Cable Division but has adjusted the loss to \$1,507,059 based on its determination that CTG will not be able to compensate the Company for the additional \$558,747 of net assets. MOTO-SAT Division Effective September 30, 2000, the Company sold substantially all of the assets and liabilities of its MOTO-SAT Division to James Pendleton, former CEO and Chairman. The net assets of \$68,438 were sold in exchange for Mr. Pendleton's agreement to waive his claim to post-employment, deferred compensation, or retirement benefits. The Company recognized a loss of \$68,438 upon the disposition of the MOTO-SAT Division. The accompanying notes are an integral part of these financial statements. Disposition of Operating Divisions (continued) Powerstream Division Effective January 21, 2000, the Company sold substantially all of the assets and liabilities of its Powerstream Division to Lund Instrument Engineering, Inc. Net assets of \$ (110,954) were sold for cash of \$75,689 plus a royalties ranging from 8% to 16% of the gross profits generated by the sale of certain products for a period of three years subsequent to the sale subject to certain adjustments. The Company recognized a gain of \$186,643 upon the disposition of the PowerStream division. Cash proceeds were used to pay a note due to a secured lender. InCirt Division The Company had been operating under a default notice with respect to a note from lender, Finova Capital, since September 1999, when the Company began seeking buyers for its two remaining divisions, PowerStream and InCirt. In February of 2000, a Letter of Intent to sell the InCirt division to another competitor was terminated. The Company then solicited a competitor to purchase most of the assets and to negotiate a settlement agreement with the Company's largest account as part of a voluntary foreclosure of all the remaining assets of the InCirt division for which Finova had a perfected security interest. The Company recognized a loss of \$963,027 during 2000 upon the foreclosure of the InCirt division. 4. Concentrations Financial instruments that potentially subject the Company to a concentration of credit risk include cash deposits in excess of FDIC limits and short-term investments. The Company restricts investment of cash balances to financial institutions with high credit standing. 5. Investment in tAA The Company concluded a merger agreement with The Automatic Answer, Inc. (tAA), a distributor of voice mail systems and other telephone products, on April 13, 2001. Under the agreement, the Company will give up sixty-seven percent of its common shares to acquire tAA subject to the adjustment, noted below. Certain of tAA's debt holders are to convert their debt notes to a new class of preferred shares within 120 days after the close of the transaction. The number of shares to be given to the Company will be adjusted if the average closing price of the Company's stock, in the aggregate, for the 30 days after the close of the transaction, falls below \$10,000,000. The accompanying notes are an integral part of these financial statements. 54 5. Investment in tAA (continued) As part of the transaction, the Company made several loans to tAA totaling \$461,200. The loans were used to fund tAA's pre-merger cash flow. The merger was effective as of April 13, 2001 and these loans are eliminated upon the consolidation of the two companies. These financial statements classify the \$461,200 as acquisition expenses. The transaction will be accounted for as a reverse merger with tAA as the surviving entity.

stock for their continued service as Board Members. Additionally, Mr. Bonar received options for 500,000 Company's common stock. Brian Bonar has been a Director with Pen since January 2000 and is also Chair at Itec. As of the foreclosure date, Itec owed InCirT/Pen \$850,000 for services performed by InCirT. During 2001, the Company received payments of \$93,000 from Itec. 11. Convertible Debentures During 2001, the Company issued new one-year convertible debentures with interest rates ranging from 7% to 8%, payable quarterly. These debentures are convertible in the Company's common stock at the lower of \$.04 or 70% of the average of the three lowest closing stock prices during the 30 days prior to the conversion. All these debentures are redeemable in cash due one year from the date of issuance. In August 2000, the Company entered into a convertible debenture agreement for \$600,000 in exchange for 4,000,000 shares of the Company's common stock. The convertible debenture has an interest rate of 7% per annum. The debenture is convertible into common stock at the lesser of \$0.15 per share or 70% of market price on the conversion date. The accompanying notes are an integral part of these financial statements. 58 12. Stock Holders' Equity Preferred Stock Dividends in Arrears Deferred Payments of annual dividends for 2001 and 2000 were deferred by the Company's directors on the outstanding preferred stocks because of losses sustained by the Company. As of September 30, 2001, preferred dividends in arrears amounted to \$480,323 on the Preferred Stock Series A and B. Conversion of Preferred Stock - Series A In 2000, the Company converted 1,670 shares of Preferred Stock Series A into 9,349,323 shares of common stock, and the Company converted \$64,581 of dividends payable on these shares of Preferred Stock Series A into 349,323 shares of common stock. During 2001, the Company redeemed 39 shares of Preferred Stock Series A into 39 shares of common stock. Conversion of Convertible Preferred Stock - Series B In 2000, the Company converted 411,112 shares of Preferred Stock Series B into 411,112 shares of common stock. During 2001, the Company redeemed 40 shares of Preferred Stock Series B stock for 1,617,648 shares of common stock. Conversion of Preferred Stock - Series A In 2000, the Company converted warrants to purchase shares of Preferred Stock Series A into 315,000 shares of common stock in a cashless exercise, and the Company recorded an expense of \$86,941 based on the fair value of the common stock at the date of conversion. During 2001, an additional 13,121,201 shares were issued in exchange of warrants at prices ranging from \$0.02 to \$0.063. An additional 3,327,050 warrants were converted in lieu of payments for services rendered. 13. Stock Options In order to continue to attract and retain employees, the Board of Directors authorized the repricing of options and warrants to purchase shares of common stock effective March 2000, to the then fair market value of the share. All repriced options maintained the same expiration terms. Approximately 1,240,000 options and warrants were repriced under this program. The repricing included members of the Board of Directors and executive officers. The accompanying notes are an integral part of these financial statements. 59 12. Stock Holders' Equity (continued) Warrant Activity for the Period During the year ended September 30, 2001, the Board of Directors approved the issuance of warrants to purchase an aggregate of 21,754,251 shares of the Company's common stock. Such warrants are exercisable at prices ranging from \$0.02 to \$0.10 per share, vest immediately, and expire at various times through December 2002. In order to continue to meet operating cash flow requirements, and to attract and retain employees and consultants, the Board of Directors authorized the repricing of options and/or warrants to purchase shares of common stock in November 2000, February, 2001, March 2001 and June 2001, to the then fair market value, which ranged from \$0.25 to \$0.063. Approximately 14 million options/warrants were repriced under this program. The repricing included approximately 14 million options and warrants granted to members of the Board of Directors and executive officers. The repricing of options/warrants resulted in warrants/options being exercised for approximately 11.7 million shares of common stock. In September 2001, the Board of Directors authorized the repricing and the extended the expiration date of the warrants to purchase shares of common stock to be effective November 2001. The price per share was repriced to \$0.063 (share price has to be at a minimum of \$0.24 for 15 days prior to conversion), from \$6.50 per share and the expiration date was extended by one year (warrants will expire in November 2002). Approximately 2.8 million warrants were repriced under this program. Included in the issuance of warrants to purchase 14 million aggregate shares of the Company's common stock are warrants that were issued to individuals under terms of a consulting agreement during the years ended September 30, 2001 and 2000. Such issuances were accounted for under Financial Accounting Standards Board Statement No. 123, which primarily the Black-Scholes option pricing model, which resulted in the recording of compensation cost due to the repricing ended September 30, 2001 and 2000 (see note 14). Grant of Equity Interest in Full Settlement of Trade Payables Troubled Debt Due to significant cash flow problems, in April 2000 the Company commenced on a program of debt restructuring agreements with its vendors to grant shares of its common stock to the vendors in full settlement of the amounts due to vendors. At the date of issuance of the shares, the amounts due vendors exceeded the fair market value of the

issued by \$1,988,218, which is classified in the statement of operations as an extraordinary gain due to the debt. As of September 30, 2000, the Company has issued 1,061,747 shares of its common stock under this additional 760,178 shares were issued as settlement of debt during 2001. The accompanying notes are an in these financial statements. 60 13. Preferred Stock The Company issued two series of Preferred Stock. Series February 1999 consisting of 1,800 shares, par value \$0.01 per share, for \$1,000 per share. Series B was issued at the same price but only 1,000 shares were issued. As mentioned in Note C, part of the funds raised from this stock were used to repay the bridge loans made earlier in the fiscal year. After repayment of the bridge \$238,500 in fees and expenses, the net cash raised by the Company for operations was \$1,665,500. Both series of Preferred Stock carry a 16 percent dividend rate, which is paid quarterly. Both issuances of Preferred Stock are convertible into the Company's Common Stock. Each share of Series A Preferred Stock is convertible into an amount of Common Stock equal to \$1,000 divided by the average of the two lowest closing bid prices for Pen Comm during the period of 22 consecutive trading days ending with the last trading day before the date of conversion, after that market price by 15 percent (the "Conversion Price"). During the first six months, the Board of Directors reduced the maximum Conversion Price for the Series A Preferred Stock and Series B Preferred Stock to \$1.17 and \$.79 per share respectively. The reduction was granted to obtain a waiver in relation to the sale of InCirT Technologies Division. The shares of Series B Preferred Stock are convertible into Common Stock at the Conversion Price as the Series A Preferred Stock. Warrants to acquire 335,453 shares of Common Stock at prices ranging from \$0.86 to \$1.434 per share were also issued to the purchasers of the Series A and Series B Preferred Stock. The warrants expire three years from date the Preferred Stock and warrants were initially issued. 61 13. Preferred Stock (continued) Convertible Debentures On October 22, 1997, the Board of Directors of the Company approved the issuance of up to \$1,000,000 of three percent convertible Debentures with a maximum term of 24 months. On June 16, 1998, the Board of Directors of the Company approved the issuance of up to \$1,000,000 of additional three percent convertible debentures with a maximum term of 24 months. The convertible debentures (the "Debentures") mature, unless earlier converted by the holders thereof, into shares of common stock of the Company. The Company filed a registration statement with the United States Securities and Exchange Commission with respect to the common stock of the Company into which the Debentures may be converted. The Debentures were convertible by the holders thereof into the number of shares of common stock equal to the face amount of the Debentures being converted divided by the lesser of (i) eighty percent (80 percent) of the closing bid price of the Company's common stock as reported on the NASDAQ Small Cap market on the day of conversion, or (ii) the face amount of the Debentures. The Debentures could be converted in three equal installments beginning on the earlier of (i) the 75th day of their issuance, or (ii) the day following the effective date of the Registration Statement, continuing through the 135th day of their issuance, or (ii) the day following the effective date of the Registration Statement through the 60th day following the effective date of the Registration Statement. The Company could cause the Debentures to be converted into shares of common stock after the 110th day following the effective date of the Registration Statement if the common stock traded at or above \$5.50 per share for 20 consecutive days. The accompanying notes are an in these financial statements. 61 13. Preferred Stock (continued) Convertible Debentures (continued) As of September 30, 1998, the Company had issued all \$2,500,000 of these convertible Debentures and \$1,000,000 had been converted into 689,332 shares of common stock. As of September 30, 1999, the remaining \$1,500,000 of convertible Debentures had been converted into 2,092,671 shares of common stock. Because of the favorable conversion feature of the Debentures, the Company has recognized interest expense relating to the price below market at which the Debentures can be converted into common shares of stock. The interest is initially set up as a deferred charge against the subordinated debentures and is an offset to additional paid-in capital. The deferred interest is amortized over a period corresponding to time from issuance to when the Debentures can be converted into stock. The resulting charge to interest expense increases the effective interest rate of the Debentures. Deferred interest expense of \$250,032 was recorded on the \$1,000,000 in Debentures issued in 1998 due to the favorable conversion feature and was amortized over four months and charged to interest expense. Amortization of the \$250,032 deferred charge totaled \$98,571 in fiscal 1999 (\$151,461 in fiscal 1998). This interest along with the 3 percent interest rate in the Debentures results in an inherent interest rate of 31 percent. In connection with the Debenture issue, the Company recorded \$389,591 of deferred interest expense related to the beneficial conversion feature. The entire deferred charge was amortized and charged to interest expense as of September 30, 1998. This interest expense added to the stated 3 percent interest rate of the Debenture results in an inherent interest rate of 28 percent. 62 13. Preferred Stock (continued) Options and Warrants The Company has a Stock Option Plan (the Plan). The Plan provides for the granting of Incentive Stock Options (ISOs) and Non-qualified Stock Options (NSOs) to purchase shares of common stock.

2000 ----- Net Loss: As reported \$ (1,294,784) \$ (1,891,199) Pro forma \$ (1,38 (1,966,130) Basic and diluted loss per common share: As reported: Basic \$ (0.035) \$ (0.10) Diluted \$ (0.03 form: Basic \$ (0.037) \$ (0.11) Diluted \$ (0.037) \$ (0.11) The accompanying notes are an integral part of t statements. 64 14. Stock Options and Warrants (continued) Options/warrants are granted at prices equal to value of the Company's common stock at the date of grant. All options and warrants granted during fiscal y immediately. The fair value of these options was estimated at the date of grant using the Black-Scholes opt with the following weighted-average assumptions: 2000: dividend yield of 0%; expected volatility of 200% interest rate of 5.6%, and expected life of 2 to 5 years; 2001: dividend yield of 0%; expected volatility of 3 interest rate of 5.8%, and expected life equal to the actual life for the period. The weighted-average fair val warrants granted were \$0.02 and \$0.06 for 2001, and \$0.25 and \$0.33 for 2000. The Black-Scholes option was developed for use in estimating the fair value of traded options, which have no vesting restrictions and transferable. In addition, option valuation models require the input of highly subjective assumptions includ stock price volatility. Because the Company's employee stock options have characteristics significantly dif of traded options, and because changes in the subjective input assumptions can materially affect the fair va management's opinion, the existing models do not necessarily provide a reliable single measure of the fair options. 15. Earnings Per Share The number of weighted common shares outstanding used in the loss per s 37,701,171 in 2001 and 18,556,461 in 2000. 2001 2000 ----- Net loss \$ (1,294, (1,891,199) Dividends on preferred stock 10,289 (289,809) Imputed dividends from beneficial conversion ----- Loss applicable to common stock \$ (1,284,495) \$ (2,181,008) == ===== For the years ended September 30, 2001 and 2000, all of the options and warrants tha outstanding were not included in the computation of diluted EPS because to do so would have been anti-di accompanying notes are an integral part of these financial statements. 65 16. Income Taxes Income tax exp continuing operations consists of the following: 2001 2000 ----- Federal \$ - \$ - State 800 9 ----- \$ 800 \$ 900 == ===== Reconciliation of income taxes (benefit) computed at statutory rate of 34 percent is as follows: 2001 2000 ----- Federal income taxes (statutory rate \$ (258,957) \$ (568,743) State income taxes (benefit), net of federal tax benefit (129,478) (14 differences - - Increase in valuation allowance 387,635 717,516 -- ----- Income tax ===== Deferred tax assets and liabilities consisted of the following ----- Deferred tax assets (liabilities) Net operating loss \$ 8,295,665 \$ 7,954,332 note receivable 157,057 137,302 Other 26,547 - -- ----- Deferred tax asset 8,479,2 Valuation allowance (8,479,269) (8,091,634) -- ----- Net deferred tax asset \$ - \$ - ===== The Company sustained net operating losses in each of the presented. For 2001 and 2000, there were no deferred tax assets or income tax benefits recorded in the fina for net deductible temporary differences or net operating loss carryforwards because the likelihood of reali related tax benefits cannot be fully established. A valuation allowance of \$8,479,269 has been recorded in in 2000) to reduce the net deferred tax assets to their estimated net realizable value. The accompanying not part of these financial statements. 66 16. Income Taxes (continued) As of September 30, 2001, the Compar operating loss carryforwards for tax reporting purposes of approximately \$17,315,000 expiring in various y 2020. The merger with tAA results in a greater than 50% change in ownership and represents a different lin This severely restricts the use of these loss carryforwards. 17. Commitments and Contingencies Litigation time, the Company is engaged in various lawsuits or disputes as plaintiff or defendant arising in the normal business. Following are the matters pending as of September 31, 2001: 1) On October 28, 1999 Color Savv filed suit to recover \$165,750 in past due uncontested vendor obligations. On February 16, 2000, Color Sav judgment against the Company for \$165,783. 2) Sony Recording Media Products obtained a judgment agai for \$35,086 plus interest during 2001. The Company has been making monthly payments of \$5,000 per mo outstanding balance. 3) On November 15, 2000 Alan L. Weaver, former CEO of Pen Interconnect, Inc., ob against the Company in the amount of \$118,500 plus interest for breach of a settlement agreement relative employment agreement with the Company. The Company is currently negotiating a payment plan with the The Company is in discussion with Wayne Wright, the prior CFO of the Company, regarding a claim the C the value of certain stock given to him as part a settlement of his employment agreement. The resolution of

under this potential claim is not currently determinable. Capitalized Leases Subsequent to the cessation of operations in March 2000, various lessors foreclosed upon capitalized lease equipment and the equipment of the lessors. At the beginning of the fiscal year, October 1999 future lease payments were \$558,492. The Company made certain payments prior to default. The lessors have not made additional claims after repossession of the equipment. The accompanying notes are an integral part of these financial statements. 67 18. Subsequent Events The merger was effective October 1, 2001. The name of the Company and its trading symbol was changed to The Amanda Company (trading symbol AMND.OB), effective with the merger. In accordance with the merger agreement with tAA, the Company issued 408,163,265 shares of the Company stock to the tAA shareholders and will issue an estimated additional 50,000,000 shares to the tAA shareholders to complete the merger. An additional 50,000,000 shares are to be issued to a company that helped orchestrate the merger. The Company anticipates that the 10-1 reverse split approved by the shareholders at the annual meeting on August 30, 2001 will be effective in January 2002. The Company leased new office space in Irvine, CA over a 60-month term at \$ 5056 per month. The Company issued \$100,000 in convertible debentures with interest at 8%, payable quarterly. These debentures are convertible in the Company's common stock at the lower of \$.04 or 70% of the average of the three lowest closing prices during the 30 days prior to maturity. These debentures are due one year from the date of issuance. The Company issued convertible promissory notes for \$450,000 in October 2001. These notes are convertible into the company's common stock at \$.01 per share and 8,055,853 warrant exercisable for common stock at \$.02 per share and 1,500,000 warrants at \$.01 per share. The accompanying notes are an integral part of these financial statements. 68 THE AMANADA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 69 PEN INTERCONNECT, INC. UNAUDITED BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDING DECEMBER 2001 AND SEPTEMBER 2000 (Unaudited) The accompanying notes are an integral part of these financial statements. 70 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 71 THE AMANDA COMPANY, INC. 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BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 84 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 85 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 86 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 87 THE AMANDA COMPANY, INC. 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BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 96 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 97 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 98 THE AMANDA COMPANY, INC. BALANCE SHEETS AND FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2001 AND SEPTEMBER 30, 2001 (Unaudited) The accompanying notes are an integral part of these financial statements. 99 THE AMANDA COMPANY, INC. 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----- Net loss \$ (1,013,881) \$ (626,103) ===== The accompanying no
intergral part of these statements. 73 THE AMANDA COMPANY, INC. STATEMENTS OF CASH FLOW
THREE MONTHS ENDED DECEMBER 31, 2001 AND 2000 2001 2000 ----- CASH FLOWS FROM
OPERATING ACTIVITIES: Net loss \$ (1,013,881) \$ (626,103) Adjustments to reconcile net cash provide
operating activities Depreciation and amortization 8,412 27,194 Allowance for notes receivable - 63,000 W
compensation expense - 42,513 Common stock issued for compensation 1,081,729 50,022 Effect on cash o
operating assets and liabilities: Decrease (increase) in accounts receivable, net (69,538) 115,323 Decrease
receivables (10,000) (37,020) Decrease (increase) in inventory 4,221 (13,291) Decrease (increase) in prepa
current assets (72,164) 32,240 Decrease (increase) in security deposits (7,038) (4,492) Increase (decrease)
payable (300,442) (48,951) Increase (decrease) in accrued expenses (9,424) 119,440 Increase (decrease) in
payable (40,000) - Increase (decrease) in deferred revenue 11,713 28,595 ----- Net cash p
operating activities (416,412) (251,530) ----- CASH FLOWS FROM INVESTING ACTI
Advances to perFORMplace - (63,000) Issuance of notes receivable - (37,020) ----- Net c
(used) in investing activities - (100,020) CASH FLOWS FROM FINANCING ACTIVITIES; Payments of
(110,000) - Payments of equipment financing (10,735) - Proceeds from equipment financing - 97,591 Proc
payable - 240,698 Proceeds from convertible debenture 100,000 - Proceeds from convertible promissory no
----- Net cash provided (used) in financing activities 449,265 338,289 -----
(decrease) in cash and cash equivalents 32,853 (13,261) Cash and cash equivalents at beginning of period 3
----- Cash and cash equivalents at end of period \$ 69,247 \$ 35,522 =====

The accompanying notes are an integral part of these financial statements. 74 The accompanying notes are
of these statements. Non-cash investing and financing activities During the first quarter of FY2002 Series A
shareholders converted 30 preferred shares into 2,941,176 common shares at an average conversion price o
common share. Series B preferred shareholders converted 150 preferred shares into 15,730,674 common sh
average conversion price of \$0.0095 per common share. Under the conversion terms of the convertible pre
holder has the right to convert preferred shares into common shares at eighty-five (85%) percent of the ave
lowest closing bid prices during the last twenty-two (22) consecutive trading days prior to conversion. As p
the Company issued 50,000,000 shares of common stock with a value of \$876,000. NOTE A - GOING CO
accompanying financial statements have been prepared assuming that the Company will continue as a goin
Company had a loss of \$1,013,881 for the quarter ended December 31, 2001, a deficit of \$3,466,061 in sto
and negative working capital of \$2,934,474 for the period ended December 31, 2001. The Company intend
raise additional funds in the capital markets for working capital purposes. The Company must raise additio
order to continue as a going concern. NOTE B - ACQUISITIONS/DISPOSITIONS The Company complet
with the Automatic Answer Company (tAA) in the quarter ended December 31, 2001. The merger was acc
reverse merger. The recapitalization of tAA, the surviving entity, resulted in a reduction of \$2,119,979 in s
equity; \$876,000 of which was attributable to merger expenses and \$1,243,979 resulting from the assumpti
deficit of the registrant. NOTE C - OPTIONS TO PURCHASE COMMON STOCK No options were exerc
quarter. NOTE D - WARRANTS TO PURCHASE COMMON STOCK No warrants were exercised in the
NOTE E - OPTIONS/WARRANTS TO PURCHASE COMMON STOCK No options or warrants were iss
quarter/ NOTE F - ACCRUED PREFERRED STOCK DIVIDENDS The Company accrued \$23,214 for di
to preferred shareholders during the quarter. Note G - Preferred Stock The Company has issued two series
Stock. Series A was issued in February 1999 consisting of 1,800 shares, par value \$0.01 per share, for \$1,0
Series B was issued in April 1999 at the same price and par value but only 1,000 shares were issued. Both
Stock carry a 16 percent dividend rate, which is paid quarterly. If and when the Company's stock is listed a
NASDAQ the dividend rate will drop to 8 percent. The accompanying notes are an integral part of these fin
statements. 75 Both issuances of Preferred Stock are convertible into shares of the Company's Common St
of Series A Preferred Stock is convertible into an amount of shares of Pen Common Stock equal to \$1,000
average of the two lowest closing bid prices for Pen Common Stock during the period of 22 consecutive tra
with the last trading day before the date of conversion, after discounting that market price by 15 percent (th
Price"). The maximum Conversion Price for the Series A Preferred Stock is \$1.17 per share. The shares of
Preferred Stock are convertible into Common Stock at the same Conversion Price as the Series A Preferred

a maximum Conversion Price of \$0.79 per share. Warrants to acquire 320,000 shares of Common Stock at from \$0.86 to \$1.28 per share were also issued to the purchasers of the Series A and Series B Preferred Stock and expire three years from date the Preferred Stock and warrants were initially issued. NOTE H - CONVERTIBLE DEBENTURE In the first quarter ended December 31, 2001 the Company issued \$100,000 in one year convertible debentures with interest at eight (8) percent, payable quarterly. These debentures are convertible into the Company's common stock at the lower of \$.04 or 70% of the average of the three lowest closing prices during the 30 day period preceding conversion. These debentures are due one year from the date of the issuance. NOTE I - CONVERTIBLE PROMISSORY NOTE In the first quarter ended December 31, 2001 the Company issued a convertible promissory note totaling \$1,000,000 with an interest rate of eight (8) percent per annum. These notes are convertible into the Company's common stock at \$.02 per share and a 8,055,853 warrant exercisable for common stock at \$.02 per share and 1,500,000 warrants at \$.02 per share. Note J - Earnings (loss) per share Basic earnings (loss) per common share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share are similarly calculated, except that the weighted average number of common shares outstanding includes common shares that may be issued subject to existing rights with dilutive potential during periods when such calculations would be anti-dilutive. For the three months ended December 31, 2001, net earnings (loss) attributable to common shareholders includes accrued dividends at the stated dividend rate from date of issuance and a non-cash imputed dividend to the preferred shareholders related to the beneficial conversion feature on the Series A and B Preferred Stock and related warrants. The beneficial conversion feature is computed as the difference between the market value of the common stock into which the Series A and B Preferred Stock can be converted and the carrying amount of the Series A and B Preferred Stock in the private placement. The imputed dividend is a one-time non-cash dividend based on earnings (loss) per common share. The calculation of earnings (loss) per share is included in Exhibit 11. These notes are an integral part of these financial statements. 76 NOTE K - INTERIM PERIOD COST OF GOODS SOLD Inventory costing is based on specific identification. An inventory count is taken at the end of each quarter. INCOME TAXES The future benefits of loss carried forward are fully reserved. There were no income tax credits available at the end of the quarter. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION FORWARD-LOOKING STATEMENTS. This report contains certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933 as amended, and section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties. In addition, the Company may from time to time make oral forward-looking statements. Actual results are uncertain and may be impacted by the following factors. In particular, certain risks and uncertainties may impact the accuracy of the forward-looking statements with respect to revenues, expenses and operating results. Without limitation, cycles of customer orders, general economic and competitive conditions and changing customer requirements, technological advances and the number and timing of new product introductions, shipments of products and components from foreign suppliers, and changes in the mix of products ordered by customers. As a result, the actual results may differ materially from those projected in the forward-looking statements. Because of these and other factors that may affect the Company's operating results, past financial performance should not be considered an indicator of future performance. Investors should not use historical trends to anticipate results or trends in future periods. The following discussion and analysis provides certain information which the Company's management believes is relevant to an assessment of the Company's understanding of the Company's results of operations and financial condition for the three months ended December 31, 2000 and 2001. This discussion should be read in conjunction with the audited financial statements of the Company for the three months thereto included in the Annual Report of the Company on Form 10-KSB for the year ended September 30, 2000. There were no sales from continuing operations for the quarter ended December 31, 2000. All operating assets were disposed of during 1999 and 2000, and all operating activity was reclassified as discontinued operations. Since the beginning of 2000, the Company decided to maintain its' situation as a reporting public company, and to reduce its' debt to make the Company attractive to private companies that would want to use Pen to go public. This approach would be expected to possibly help to maintain some shareholder value in the Company's stock price. The accompanying notes are an integral part of these financial statements. 77 The Company did enter into a Letter of Intent to reverse merge with a .com company, perFORMplace.com, in the entertainment services business. A definitive agreement was signed in late August 2000 with the intent to obtain shareholder ratification at the next shareholders' meeting. However, on September 1, 2000, before the meeting could be held, perFORMplace.com terminated the merger. On October 1, 2001, the Company completed a reverse merger with tAA. tAA is the surviving entity for accounting purposes. The following

based upon the merged activities of both companies for all periods presented. Net sales. Net sales for the Company decreased \$185,850 or approximately 17 percent for the three month period ended December 31, 2001, as compared to the same period in the prior year. The Company believes that the economic conditions after September 11, 2001, contributed significantly to the decline in revenues. Prior to September 11, 2001, the Company was achieving record monthly sales revenues. Cost of sales. Cost of sales as a percentage of net sales decreased to 54% of net sales as compared to 62% for the same period in the prior year. The decrease resulted from the increase in the shipment of high margin products; along with a reduction in shipping costs due to improved inventory control and production efficiencies. Selling, general and administrative expenses. Selling, general and administrative expenses decreased by \$3,000,000 or approximately 42% from the three month period ended December 31, 2001 as compared to the same period in the prior year. The decrease is due (1) the reduction in salaries, payroll taxes and related employee expenses paid in the current quarter compared to the prior year due a reduction in personnel. (2) In June 2001, the operations of Pen Interconnect, Inc. were moved to the offices of the Automatic Answer, Inc. (tAA). The relocation resulted in the termination of the remaining employees as salaried employees, along with a reduction in operating expenses. (3) The Automatic Answer, Inc. moved its offices from San Juan Capistrano, CA to Irvine, CA thereby reducing monthly rent expense for the quarter ended December 31, 2001 by approximately \$15,000; and (4) the Company has made a concerted effort to eliminate unnecessary expenses that were not relative to producing revenue or profit for the Company. Other income and expense. Other income and expense decreased in other income and expenses for the quarter ended December 31, 2001 amounted to \$87,433. In the prior year the Company incurred a loss on impairment of \$63,000 and a loss from discontinued operations of \$1,013,881. There were no comparable losses in the current quarter. The accompanying notes are an integral part of these financial statements. 78 Extraordinary costs. The Company recorded costs of \$876,000 for the quarter ended December 31, 2001. These costs are associated with the merger between Pen Interconnect, Inc. and the Automatic Answer, Inc. Net loss for the first fiscal quarter ended December 31, 2001 totaled \$(1,013,881) or (\$0.00) per share, compared with losses of (\$626,103) or (\$0.00) per share for the first fiscal quarter ended December 31, 2000. Liquidity and Capital Resources During the first three months of FY 2001 the Company sustained losses of \$1,013,881. As a result of these losses the Company raised additional working capital through the issuance of \$100,000 of Debentures (\$100,000) and Convertible Promissory Notes (\$450,000). Inflation and Seasonality The Company does not believe that it is significantly impacted by inflation or seasonally. The accompanying notes are an integral part of these financial statements. 79 THE AUTOMATIC ANSWER, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 The accompanying notes are an integral part of these financial statements. 80 THE AUTOMATIC ANSWER, INC. Financial Statements December 31, 2000 and 1999 Report of Independent Certified Public Accountants 81 Balance Sheets 84 - 85 Statements of Operations 86 Statements of Shareholders' Equity 87 Statements of Cash Flows 88 - 89 Notes to Financial Statements 90 - 106 The accompanying notes are an integral part of these financial statements. 81 REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS Board of Directors and Shareholders The Automatic Answer, Inc. We have audited the accompanying balance sheets of The Automatic Answer, Inc. as of December 31, 2000, and 1999 and the related statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Automatic Answer, Inc. as of December 31, 2000, and 1999 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred significant losses from operations and has a net capital deficiency, which raise doubts about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include the adjustments that might result from the outcome of this uncertainty. Pohl, McNabola, Berg & Company LLP, Irvine, California. The accompanying notes are an integral part of these financial statements. 82 THE AUTOMATIC ANSWER, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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Sheets December 31, 2000 and 1999 2000 1999 ----- ASSETS CURRENT ASSETS
 cash equivalents \$ 29,278 \$ 41,771 Accounts receivable, net 96,252 241,523 Inventory 133,364 338,118
 advances - 10,647 Prepaid and other current assets - 24,000 ----- Total current assets
 656,059 PROPERTY AND EQUIPMENT, net 107,087 195,055 OTHER ASSETS 35,478 35,478
 ----- TOTAL ASSETS \$ 401,459 \$ 886,592 =====

(continued) The accompanying notes are an integral part of these financial statements. 83 THE AUTOMATIC ANSWER, INC. Balance Sheets (continued) December 31, 2000 and 1999 2000 1999 -----
 LONG-TERM LIABILITIES Accounts payable \$ 601,330 \$ 776,018 Accounts receivable, net 327,707 214,834
 Deferred revenue 94,611 64,790 Notes payable - related party 523,000 545,383 Lease financing
 22,750 - Note payable 50,000 50,000 ----- Total current liabilities 1,619,398 1,650,000
 LONG-TERM LIABILITIES Note payable - 50,000 Lease financing payable 74,841 - -----
 long-term liabilities 74,841 50,000 SHAREHOLDERS' EQUITY Preferred stock, \$.001 par value; 2,000,000
 authorized; 200,000 Series A; 153,920 shares of Series A issued and outstanding 154 154 Common stock,
 8,000,000 shares authorized; 4,425,235 and 2,070,581 shares issued and outstanding 4,426 2,071
 Additional paid-in capital 1,115,954 1,094,762 Retained earnings (2,413,314) (1,911,420) ----- Total shareholders' equity
 (1,292,780) (814,433) TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$ 401,459 \$ 886,592

===== The accompanying notes are an integral part of these financial statements. 84 THE AUTOMATIC ANSWER, INC. Statements of Operations December 31, 2000 and 1999 1998 -----
 NET SALES \$ 5,150,379 \$ 6,392,937 \$ 6,335,427 COST OF SALES 3,220,140 3,685,583 3,946,588 ----- GROSS PROFIT 1,930,239 2,707,354 2,388,839
 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES 2,367,317 2,357,340 2,998,941 RESEARCH AND DEVELOPMENT EXPENSES - - 913,353 ----- OPERATING INCOME (LOSS) (437,077) 350,013 (1,523,455)
 INTEREST EXPENSE 117,849 73,779 65,775 OTHER (INCOME) EXPENSE (53,834) (36,591) (6,160) ----- INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX (501,093) 312,826 (1,583,070)
 INCOME TAX (BENEFIT) PROVISION 800 1,600 (62,591) ----- NET INCOME (LOSS) \$ (501,893) \$ 311,226 \$ (1,520,478) =====

===== The accompanying notes are an integral part of these financial statements. 85 THE AUTOMATIC ANSWER, INC. Statements of Shareholders' Equity December 31, 2000 and 1999 2000 1999 1998 -----
 Additional Paid in Retained capital earnings Total Preferred stock Common stock (deficit) Equity Shares Amount -----
 Balance, December 31, 1998 151 2,055,627 \$ 2,056 1,063,762 \$ \$(702,172) \$363,797 Shares issued - preferred 3,000 3 16,061 16,064
 Net loss (1,520,474) (1,520,474) ----- Balance, December 31, 1999 153 2,070,581 2,071 1,094,762 (1,911,420) (814,433)
 Shares issued for compensation 1,457,825 1,458 13,121 13,121 Shares issued for interest on loans 896,829 897 8,071 8,968
 Net loss (501,893) (501,893) ----- Balance, December 31, 2000 153 4,425,235 \$ 4,426 1,115,954 \$ (2,413,313) (1,292,780)

===== The accompanying notes are an integral part of these financial statements. 86 THE AUTOMATIC ANSWER, INC. Statements of Cash Flows December 31, 2000 and 1999 2000 1999 1998 -----
 FROM OPERATING ACTIVITIES: Net income (loss) \$ (501,893) \$ 311,226 \$ (1,520,478) Adjustments to reconcile net income (loss) to cash provided (used) in operating activities: Depreciation and amortization 107,497 148,130 150,530
 Loss on disposal of equipment - - 15,486 Common Stock issued for compensation and interest 23,546 14,954 - Effect of exchange rate changes in operating assets and liabilities: Decrease (increase) in accounts receivable, net 145,271 (23,945)
 Decrease (increase) in inventory 204,754 107,585 (143,915) Decrease (increase) in prepaid assets 24,000 (24,000)
 Decrease (increase) in employee advances 10,647 (10,647) - Decrease in income tax receivable - - 92,413
 Increase (decrease) in security deposits - 4,800 - Increase (decrease) in accounts payable (174,688) (264,594) 540,158
 Increase (decrease) in deferred revenue 29,821 36,268 (3,989) Increase in accrued expenses 112,873 33,914 52,209
 Increase (decrease) in other assets and liabilities 1,000 (1,000) -----

fee payable - (84,000) 84,000 ----- Net cash provided (used) in operating
 (18,172) 265,754 (716,907) ----- CASH FLOWS FROM INVESTING A
 Purchase of property and equipment (10,595) - (162,453) ----- Net cash
 activities (10,595) - (162,453) ----- CASH FLOWS FROM FINANCING
 Proceeds from sale of stock - - 16,065 Payments of notes payable (72,383) (50,000) Proceeds from equipm
 88,657 - - Borrowings under notes payable - 85,070 360,313 Borrowing under line of credit - - 73,588 Pay
 of credit - (263,588) - ----- Net cash provided (used) by financing activit
 (228,518) 449,966 ----- Net increase (decrease) in cash and cash equival
 37,236 (429,394) Cash and cash equivalents, beginning of year 41,771 4,535 433,929 -----
 ----- Cash and cash equivalents, end of year \$ 29,278 \$ 41,771 \$ 4,535 =====

===== (continued) The accompanying notes are an integral part of these financial statements
 AUTOMATIC ANSWER, INC. Statements of Cash Flows (continued) December 31, 2000 and 1999 2000

----- SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION
 during the year for: Interest \$ 42,578 \$ 52,506 \$ 65,775 Income tax \$ - \$ 1,600 \$ 800 =====

===== SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING
 FINANCING TRANSACTIONS: Computer equipment refinanced under a lease transaction: Cash received

Retired computer equipment (15,828) Refurbished computer equipment 24,762 ----- Lease financin
 97,591 ===== The accompanying notes are an integral part of these financial statements. 88 M

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Organization and line of business The Autor
 Inc. (the Company) makes PC-enabled telephone answering software. Sales are made primarily to resellers

of estimates The preparation of financial statements in conformity with generally accepted accounting prin
 management to make estimates and assumptions that affect the reported amounts of assets and liabilities ar

of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of
 expenses during the reporting period. Significant estimates include reserve for bad debts, reserve for obsole

depreciation. Actual results could differ from those estimates. Cash and cash equivalents For purpose of the
 cash flows, cash equivalents include amounts invested in a money market account with a financial instituti

considers all highly liquid investments with an original maturity of three months or less to be cash equivale
 equivalents are carried at cost, which approximates market. Concentration of cash The Company at times r

balances in excess of the federally insured limit of \$100,000 per institution. Uninsured balances as of Dece
 and 1999 were \$92,279 and \$0 respectively. Revenue recognition The Company recognizes revenue when

shipped to a customer or at the time services are rendered. The Company estimates the reserve for returns b
 historical amount of returns. 89 NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (c

Accounts receivable The Company's accounts receivable consists of balances due from dealers in the teleco
 industry. The terms are normally net 10 days. The Company recorded an allowance for bad debts of \$71,82

December 31, 2000 and 1999, respectively. Inventory Inventory consists principally of network telephone
 is stated at the lower of cost (first-in, first-out method) or market. Property and equipment Property and eq

recorded at cost less accumulated depreciation and amortization. Maintenance and minor replacements are
 expense as incurred. Gains and losses on disposals are included in the results of operations. Depreciation a

are provided using the straight-line method over estimated useful lives of the respective assets as follows: C
 and fixtures 7 years Computer and office equipment 5 years Computer software 3 years 90 NOTE 1 - SUM

SIGNIFICANT ACCOUNTING POLICIES (continued) Property and equipment (continued) Amortization
 improvements is computed using the straight-line method over the lesser of the asset life or the life of the r

Advertising cost The Company expenses advertising costs as incurred. Total advertising expense was \$11,
 for the years ended December 31, 2000 and 1999, respectively. Income taxes The Company utilizes SFAS

"Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the
 tax consequences of events that have been included in the financial statements or tax returns. Under this m

income taxes are recognized for the tax consequences in future years of differences between the tax bases o
 liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory

applicable to the periods in which the differences are expected to affect taxable income. Valuation allowan
 established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provi

taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities. The carrying amount of financial instruments The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The carrying amounts shown for notes payable also approximate fair value because current interest rates offered to the Company and of similar maturities are substantially the same. 91 NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) Stock options SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and prescribes the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation expense is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue to use the current intrinsic value accounting method specified in Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company has elected to use the fair value based method and has disclosed the pro forma effect of using the fair value based method to account for stock-based compensation. Comprehensive income (loss): In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), which requires the reporting and display of comprehensive income (loss) and its components in a full set of general-purpose financial statements. The Company, however, does not have any components of comprehensive income (loss) as defined in SFAS 130 and therefore, for the years ended December 31, 2000 and 1999, comprehensive income (loss) is equivalent to the Company's net income (loss). Long-Lived assets The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Term Deferable Intangible Assets". In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. As of December 31, 2000 and 1999, no impairment has been recorded. 92 NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) Other accounting pronouncements In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities". SFAS No. 133 requires that an enterprise recognize all derivatives as either assets or liabilities on the statement of financial position and measure those instruments at fair value. The Company does not believe that the adoption of the provisions of SFAS No. 133 will have a material impact on its financial position or results of operations. In June 1998, the FASB issued SFAS No. 131 on "Disclosures about Segments of an Enterprise and Related Information" effective for fiscal years beginning after December 15, 1998. The Company evaluated SFAS No. 131 and determined that the Company operates in only one segment. NOTE 2 - GOING CONCERN The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company experienced net losses of approximately \$311,000 in 1999 and sustained net losses of \$ 501,893 and \$ 1,520,478 in 2000 and 1998, respectively. The Company has an accumulated deficit of approximately \$1,293,000 and \$814,000 at December 31, 2000 and 1999, respectively. In addition, the Company had a working deficit of approximately \$1,360,500 and \$994,900 at December 31, 2000 and 1999. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence. The Company's continuation as a going concern is dependent upon its ability to obtain the additional financing necessary to complete development of new products and achieve the level of sales that will enable it to sustain its operations. The Company is seeking to enter into a strategic acquisition with a publicly held company and is seeking to obtain financing from equity sources to fund its operations. No assurance can be given that the Company will be successful in its efforts. 93 NOTE 3 - INVENTORY Inventory, which principally consists of computer hardware, amounted to \$338,118 at December 31, 2000 and 1999, respectively. The Company's reserve for obsolete inventory amounted to \$190,574 at December 31, 2000 and 1999. NOTE 4 - PROPERTY AND EQUIPMENT Property and equipment at December 31, 2000 and 1999 consisted of the following:

2000	1999	
-----	-----	-----
Office furniture and fixtures	274,166	273,509
Computer and office equipment	225,488	227,509
Computer software	40,036	40,036
Leasehold improvements	90,574	90,574
-----	-----	-----
Total property and equipment	630,265	678,285
Less accumulated depreciation and amortization	(523,178)	(483,230)
-----	-----	-----
Total	\$ 107,087	\$ 195,055
=====	=====	=====

Depreciation expense for the years ended December 31, 2000 and 1999 was \$107,490 and \$195,055, respectively.

respectively. Computer and office equipment includes \$24,762 of leased computer equipment under a lease arrangement at December 31, 2000. NOTE 5 - ACCRUED EXPENSES Accrued expenses at December 31 consisted of the following: 2000 1999 ----- Accrued payroll and payroll taxes \$ 125,879 Accrued consulting fees 96,000 - Accrued benefits 66,876 74,165 Accrued accounting fees 30,000 taxes 800 - Accrued interest 20,803 - Other accrued expenses 8,652 2,790 -- ----- T 214,834 == ===== 94 NOTE 6 - NOTES PAYABLE - SHAREHOLDERS The company has entered into multiple loan agreements with its shareholders and other related parties. Notes payable to shareholders and related parties at December 31, 2000 consist of the following: Note payable to a shareholder. Interest is 12% per annum, payable monthly. \$ 300,000 Principal payment is due at maturity. Note payable to a Trust. Interest is 12% per annum. Interest and principal payments are due at maturity, February 10, 2001. The note is secured by the company. 50,000 Note payable to a shareholder. Interest is 12%. Interest is payable monthly. This is a short-term note with no fixed maturity date. 75,000 Note payable to a shareholder. Interest is 10% per annum. Interest is payable monthly. Principal payment is due at maturity, April 25, 2000. The note is outstanding at December 31, 2000. 25,000 Note payable to a shareholder. Interest is 10% per annum. Interest is payable monthly. Principal payment is due at maturity, April 25, 1999. The note is outstanding at December 31, 2000. 4,500 Note payable to a shareholder. Interest is 12% per annum. Interest is payable monthly. Principal payment is due at maturity, March 01, 1999. The note is outstanding at December 31, 2000. 35,000 Note payable to a Corporation. Interest is 7% per annum. Principal and interest are due at maturity, April 15, 2000. The note is secured by the assets of the company. On May 16, 2001 the Corporation filed a lawsuit against the company for repayment. 33,500 ----- \$ 523,000 Total notes payable at December 31, 2000 ===== 95 NOTE 6 - NOTES PAYABLE - SHAREHOLDERS (continued) Notes payable to shareholders and related parties at December 1999 consist of the following: Note payable to an organization. Interest is 10% per annum, payable monthly. \$ 75,000 Principal payment is due by November 30, 1999. The note is renewable every quarter for additional interest. The note is secured by the assets of the company. The note is outstanding at December 31, 1999. 100,000 Note payable to a shareholder. Interest is 10% per annum, payable monthly. Principal payment is due at maturity, April 25, 2000. The note is renewable every quarter for additional interest. The note is secured by the company's assets. The note is outstanding at December 31, 1999. 100,000 Note payable to a shareholder. Interest is 12% per annum. Interest and principal payment is due at maturity. 125,000 Note payable to a Trust. Interest is 10% per annum. Interest and principal payments are due at maturity, May 03, 1999. The note is outstanding at December 31, 1999. 50,000 Note payable to a shareholder. Interest is 10%. Interest is payable quarterly. Principal payment is due at maturity, March 01, 2000. Note payable to a shareholder. Interest is 10% per annum. Interest is payable monthly. Principal payments are due at maturity, April 25, 2000. 25,000 Note payable to a shareholder. Interest is 10% per annum. Interest is payable monthly. Principal payment is due at maturity, December 31, 1999. The note is outstanding at December 31, 1999. 4,500 Note payable to a shareholder. Interest is 12% per annum. Interest is payable monthly. Principal payment is due at maturity, April 25, 1999. The note is outstanding at December 31, 1999. 35,000 Note payable to a shareholder. Interest is 10% per annum. Interest and interest payments are due and payable. 56,433 Note payable to a Corporation. Interest is 7% per annum. Interest and accrued interest are payable at maturity, August 11, 2000. The note is secured by the assets of the company. ----- \$ 545,383 Total notes payable at December 31, 1999 ===== 96 NOTE 6 - NOTES PAYABLE - SHAREHOLDERS (continued) In conjunction with the notes, the Company issued warrants to shareholders to purchase shares of the Company's common stock at exercise prices that range from \$0.01 to \$3.00. The expense on these notes amounted to \$117,849 and \$73,779 for the years ended December 31, 2000 and 1999. At December 31, 2000, several of these notes were in default. The company is planning to convert the outstanding notes into a new class of preferred stock within 120 days after the close of the proposed merger agreement with Pen International during the year 2001. NOTE 7 - LEASE COMMITMENTS The company entered into a financing arrangement with a financing company at December 31, 2000. The company surrendered old equipment and received new equipment as a result of the transaction. The company recorded lease financing payable in the amount of \$97,591 at December 31, 2000 for the financing arrangement. Minimum annual rental payments subsequent to December 31, 2000 are: 2001 \$ 33,474 2003 31,837 2004 13,624 2005 12,489 --- ----- Total minimum lease payments 97,824 Less amount representing interest 27,307 --- ----- Total lease financing payable 70,517 Current portion (22,750) --- ----- Lease financing payable - long term \$ 47,767 ===== 97 NOTE 8 - NOTE PAYABLE On October 10, 1998 the Company entered into a

agreement with Lucent Computer Telephony Products (CTP). CTP agreed to loan the company \$150,000 at a rate of 10% per annum. One third of the debt plus any accrued interest will be forgiven by CTP on October 1, 2000, November 1, 2000 and December 1, 2001, provided that CTP is the "primary supplier" of computer telephony equipment to the Company for the three years following the date of the agreement. The outstanding balance on this loan was \$50,000 and \$100,000 at December 31, 2000 and 1999, respectively. Accrued interest in relation to that loan was \$5,000 at December 31, 2000. The classification of the note on the balance sheet is presented below:

-----	Long term \$ - \$ 50,000	Current	50,000	50,000	-----
-------	--------------------------	---------	--------	--------	-------

100,000	====	=====	=====	=====	NOTE 9 - LICENSE FEE PAYABLE	During 1999
---------	------	-------	-------	-------	------------------------------	-------------

received \$105,000 from a South African Company for software license fees for a period of five years. During 2000, the South African company discontinued operations and management decided to write off the remaining balance of the license fee expense at December 31, 2000 and 1999 amounted to \$0 and \$84,000, respectively. NOTE 10 - TAXES Significant components of the provision for taxes based on income for the years ended December 31, 2000 and 1999

-----	Current Federal \$ - \$ -	State	800	800	-----	\$ 800	\$ 800	Total	====	=====
-----	Deferred Federal - -	State - -	-----	-----	-----	\$ 800	\$ 800	Total	====	=====

===== 98 Significant components of the Company's deferred tax assets and liabilities for income taxes are the following:

2000	1999	-----	-----	Deferred tax asset	Net operating loss carryforward					
440,093	Depreciation	39,418	31,705	Bad debts	30,771	10,710	Benefits and accruals	67,538	59,556	-----
-----	Total deferred tax asset	768,571	542,064	-----	-----	Deferred tax liability	taxes benefit	(53,922)	(38,031)	-----
-----	-----	-----	-----	Less valuation allowance	(714,649)	(504,031)	-----	-----	-----	-----
-----	Net deferred tax asset	\$ - \$ -	-----	-----	-----	-----	-----	-----	-----	-----

31, 2000 and 1999, the Company has available approximately \$1,472,557 and \$1,027,295, respectively, in tax carryforwards available to offset future federal and state income taxes, which expire through 2020. NOTE 11 - COMMITMENTS AND CONTINGENCIES Office Lease The Company is committed under operating leases for its office facilities in Connecticut and California that expire in November and July 2001 respectively. Certain leases have renewal options. Future minimum lease payments required under these non-cancelable operating leases as of December 31, 2000 amount to \$140,097. Rent expense for the years ended December 31, 2000 and 1999 was \$182,096 and \$175,000, respectively. 99 Litigation On May 16, 2001, a lawsuit was filed, one of the Company's note holders, for breach of the terms of the written agreements between both parties. The balance due to the plaintiff amounts to \$33,500 plus interest at December 31, 2000. NOTE 12 - STOCK OPTIONS AND WARRANTS The Company adopted the 1996 Stock Option Plan ("the Plan") in July 1996. The Plan provides for the granting of incentive stock options and non-qualified stock options to purchase shares of the Company's common stock covering an aggregate of 600,000 shares of the Company's common stock. The exercise price of incentive stock options under the Plan must at least be equal to the fair market value of a share of common stock on the date the option is granted. Non-qualified options shall have an exercise price of at least 85% of fair market value of a share of common stock on the date such option is granted. The options must be exercisable within ten years from the date of grant. Vesting on options granted in the future will be at a rate of no less than 20% over a period of no more than five years following the date of grant. The Company has adopted only the disclosure requirements of SFAS No. 123. It applies APB Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans other than for restricted stock plans. The Company does not recognize compensation expense for its stock-based compensation plans other than for restricted stock plans issued to outside third parties. If the Company had elected to recognize compensation expense based upon the grant date for awards under this plan consistent with the methodology prescribed by SFAS No. 123, the net income and loss per share would be reduced to the pro forma amounts indicated below for the years ended December 31, 2000 and 1999

-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions for the year ended December 31, 2000: dividend yield of 0%; no dividends expected; volatility; risk-free interest rate of 5.6%; and expected life of 4 years. 100 NOTE 12 - STOCK OPTIONS AND WARRANTS (continued) The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The following table summarizes information with respect to options outstanding and exercisable at December 31, 2000: Options Outstanding

Exercisable ----- Weighted Number Average
 Number Weighted Outstanding Remaining Average Exercisable Average as of Contractual Exercise as of
 Prices December 31, 2000 Life Price December 31, 2000 Price -----
 ----- \$ 0.10 2,500 4.99 \$ 0.10 2,500 \$ 0.10 \$ 1.00 83,803 5.97 \$ 1.00 83,803 \$ 1.00
 8.58 \$ 2.50 70,640 \$ 2.50 ----- 237,303 156,943 =====
 ===== 101 NOTE 12 - STOCK OPTIONS AND WARRANTS (continued) The fol
 summarizes the Company's Stock Options activity: 2000 1999 -----
 Weighted Number of Weighted average average of exercise exercise options price options price -----
 ----- Outstanding at beginning of year 515,120 \$ 0.83 515,120 \$ 0.83 Granted 153,000 2.5
 (100) 1.00 - - Forfeited/Cancelled (430,717) 1.09 - - ----- Outstanding
 237,303 \$ 1.94 515,120 \$ 0.83 ===== == ===== == ===== Option
 year end 156,943 507,120 ===== Weighted average fair value of options grant
 \$ 0.50 \$ - ===== The following table summarizes information with respect to v
 outstanding and exercisable at December 31, 2000: Warrants Outstanding Warrants Exercisable
 ----- Weighted Number Average Weighted
 Weighted Outstanding Remaining Average Exercisable Average as of Contractual Exercise as of Exercise
 December 31, 2000 Life Price December 31, 2000 Price -----
 ----- \$ 0.01 775,131 9.63 \$ 0.01 775,131 \$ 0.01 \$ 1.00 10,000 0.63 \$ 1.00 10,000 \$
 1,131,000 3.91 \$ 2.00 1,131,000 \$ 2.00 \$ 2.50 30,000 4.88 \$ 2.50 30,000 \$ 2.50 -----
 1,946,131 1,946,131 ===== ===== ===== 102 NOTE 12 - STOCK O
 WARRANTS (continued) The following summarizes the Company's warrants activity: Warrants Weighted
 Outstanding Exercise Price ----- Outstanding, December 31, 1998 201,500 \$ 2.19 G
 \$ 2.07 Exercised - \$ - Expired/Cancelled - \$ - ----- Outstanding, December 31, 1999
 Granted 2,637,631 \$ 0.862 Exercised - \$ - Expired/Cancelled (2,321,500) \$ 1.39 -----
 December 31, 2000 1,946,131 \$ 1.21 ===== == ===== During the years ended
 2000, and December 31, 1999, the board of directors approved the issuance of warrants to purchase an aggr
 2,637,631 and 1,428,500 shares of the Company's common stock. Such warrants are exercisable at prices r
 \$0.01 to \$2.50 per share, and these warrant vest immediately, and expire at various times through August 2
 year ended December 31, 2000, certain warrant holders relinquished warrants to purchase 2,321,500 shares
 assist the Company in its efforts to restructure operations. Included in the issuance of warrants to purchase
 aggregate shares of the Company's common stock is a warrant to purchase 333,920 shares that was issued t
 Executive Officer and the Chairman of Board as a bonus. The exercise price of the warrants is equal to the
 common shares. This issuance was accounted for under APB Opinion No. 25, and accordingly, no compen
 was recorded. If this issuance was accounted for under Financial Accounting Standards Board Statement N
 Black-Scholes option pricing model, which would have resulted in the recording of \$1,335 in compensatio
 year ended December 31, 2000 103 NOTE 12 - STOCK OPTIONS AND WARRANTS (continued) Durin
 in the issuance of warrants to purchase shares of the Company's common stock are warrants to purchase 30
 was issued to an employee as a bonus. The exercise price of the warrants is in excess of the fair value of th
 This issuance was accounted for under APB Opinion No. 25, and accordingly, no compensation expense w
 this issuance was accounted for under Financial Accounting Standards Board Statement No. 123 using the
 option pricing model, which would have resulted in the recording of no additional compensation cost durin
 December 31, 2000 During 1999, included in the issuance of warrants to purchase shares of the Company's
 are warrants to purchase 100,000 shares that was issued to an employee as a bonus. The exercise price of th
 equal of the fair value of the common shares. This issuance was accounted for under APB Opinion No. 25,
 no compensation expense was recorded. If this issuance was accounted for under Financial Accounting Sta
 Statement No. 123 using the Black-Scholes option pricing model, which would have resulted in the recordi
 compensation cost during the year ended December 31, 1999 NOTE 13 - EMPLOYEE BENEFIT PLAN E
 1, 1996, the Company adopted a defined contribution plan (the Plan) that meets the requirements of Section
 Internal Revenue Code. To become eligible to join the plan, employees must have attained the age of 21 ar
 days of service with the Company. Participants may contribute up to 15% of their compensation, not to ex

Plan expense was \$8,799 and \$11,226 for the years ended December 31, 2000 and 1999, respectively. The matching percentage varies from 11% to 25% of the amount contributed by the employee during a calendar year. The company terminated employer-matching contribution in April 30, 2001. NOTE 14 - RELATED PARTY TRANSACTIONS During the year 2000, the Company issued 427,464 shares of common stock with a value of \$4,752 to various shareholders as payment for consulting services provided to the company or for settlement of amounts due them. The Company issued 475,172 shares of common stock with a value of \$4,752 to various shareholders as payment for consulting services rendered to the company or for settlement of amounts due them. The Company issued 398,035 shares of common stock with a value of \$3,980 to an officer of the company as payment for services rendered to the company or for settlement of amounts due them. The Company issued 525,378 shares of its common stock with a value of \$5,254 to the president of the company as compensation. The Company issued 192,248 shares of its common stock with a value of \$1,922 to a family member of the President of the Company as settlement of amounts due them. NOTE 15 - SUBSEQUENT EVENTS The Company entered into an agreement with Pen InterConnect, Inc. (trading symbol, PENC), a publicly traded corporation on the NASDAQ National Counter Bulletin Board ("OTCBB"). Under the agreement, the Company will exchange all of its shares, including the exercise of all stock and options, for sixty-seven (67%) of PENC's outstanding common shares. The number of shares the Company receives will be adjusted if the average closing price of the PENC common stock, in the aggregate, after the close of the transaction, falls below \$10,000,000. The agreement calls for certain of the Company's notes to convert their outstanding notes to a new class of preferred stock within 120 days after the close of the transaction. The Automatic Answer, Inc. borrowed \$500,000 from Pen Interconnect, Inc in two installments of \$250,000 on February 1, 2001 and \$250,000 on April 26, 2001. These notes are due on September 1, 2001 and bear interest at 10% per annum.

105 THE AMANDA COMPANY UNAUDITED PROFORMA FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

106 UnAUDITED PROFORMA FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000	Page Balance Sheets.....	101-110
Operations.....	111 Statement of Cash Flows Year 2001.....	112-113

107 THE AMANDA COMPANY, INC. PROFORMA BALANCE SHEETS FOR THE YEAR ENDED SEPTEMBER 30, 2001 AND 2000

September 30	September 30	2000	2001	-----	(unaudited)	(unaudited)	CURRENT ASSETS							
Cash and cash equivalents	\$ 48,783	\$ 36,394	Accounts receivable, net	211,575	84,069	Inventory	120,073							
and other current assets	32,240	51,880	-----	-----	Total current assets	412,671	344,492							
PROPERTY, PLANT AND EQUIPMENT, NET	126,883	33,020	OTHER ASSETS	40,591	29,436	-----	-----							
Total assets	\$ 580,145	\$ 407,416	=====	=====	108 THE AMANDA COMPANY UNAUDITED PROFORMA BALANCE SHEETS FOR THE YEAR ENDED SEPTEMBER 30, 2001 AND 2000	30-Sep-2001	-----							
2001	-----	(unaudited)	(unaudited)	CURRENT LIABILITIES	Accounts payable	\$ 1,778,986	Accrued liabilities	976,780	1,678,820	Leasing financing payable -	22,750	Notes payable	563,950	
revenue	108,016	15,448	Convertible debentures	150,000	800,000	-----	-----	Total current liabilities	3,869,004	LONG-TERM LIABILITIES	Lease financing payable -	72,320	-----	-----
liabilities -	72,320	-----	-----	Total liabilities	3,562,974	3,941,324	STOCKHOLDERS' DEFICIT							
Convertible Preferred stock, \$0.01 par value authorized 5,000,000 shares, Series A; issued and outstanding 91 shares at September 30, 2000 and 91 shares at September 30, 2001. Series B: issued and outstanding 926 shares at September 30, 2000 and 886 shares at September 30, 2001 Common stock, \$0.001 par value, issued and outstanding 665,665 shares at September 30, 2000 and 687,789,599 shares at September 30, 2001	665,513	687,789	Accumulated deficit	(4,221,707)	-----	-----	Total stockholders' deficit	(2,982,829)	(3,533,908)	-----	-----			
Total assets and stockholders' deficit	\$ 580,145	\$ 407,416	=====	=====	109 THE AMANDA COMPANY UNAUDITED PROFORMA STATEMENTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2000 AND 2001	-----	-----							
2000	2001	-----	-----	(unaudited)	(unaudited)	Net sales	\$ 5,015,319	\$ 3,990,679	Cost of sales	3,224,312	2,364,560			
-----	-----	-----	-----	Gross profit	1,791,007	1,629,254	Selling, general and administrative expenses	3,284,560	-----	-----	Operating loss	(2,149,014)	(1,655,306)	
Other income (expense)	(444,729)	(163,103)	Miscellaneous income (expense), net	(4,273)	110,769	Loss on impairment	(320,500)	(135,300)	- Liquidation damage waiver	(86,941)	- Gain (loss) from discontinued operations	(1,274,421)		
Extinguishment of debt	2,018,547	# 149,642	-----	-----	Total other income (expense)	100,159	-----	-----	Net loss before income taxes	(2,396,421)	(1,555,147)	Income taxes	(1,555,147)	
-----	-----	-----	-----	Net loss	\$ (2,398,187)	\$ (1,556,747)	=====	=====						

===== 110 THE AMANDA COMPANY, INC. PROFORMA STATEMENT OF CASH FLOWS
 THE YEAR ENDED SEPTEMBER 30, 2001 2001 ----- CASH FLOWS FROM OPERATING ACTIVITIES: Net cash provided (used) in operating activities \$ (1,556,747) Adjustments to reconcile net cash provided (used) in operating activities Depreciation and amortization expense 103,328 Common stock issued for services 28,760 Debt conversion to common stock 23,378 Warrant/optio
 expense 163,765 Common stock issued for compensation and interest 67,546 Effect on cash of changes in assets
 and liabilities: Decrease (increase) in accounts receivable, net 127,506 Decrease (increase) in inventory (52,000)
 (increase) in prepaid and other current assets (19,640) Decrease (increase) in security deposits 11,155 Increase
 (decrease) in accounts payable (985,242) Increase (decrease) in accrued expenses 702,040 Increase (decrease) in deferred
 taxes (92,568) ----- Net cash provided (used) in operating activities (1,479,263) ----- CASH FLOWS FROM
 INVESTING ACTIVITIES: Purchases of property and equipment (10,595) ----- Net cash provided (used) in
 investing activities (10,595) CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from equipment financing
 88,657 Proceeds from convertible debenture 650,000 Proceeds from advances 40,000 Preferred dividends 100,000
 Exercise of warrants 644,185 Exercise of stock options 44,342 Proceeds from convertible promissory notes 1,000,000
 provided (used) in financing activities # 1,477,469 ----- Net increase (decrease) in cash and cash equivalents
 Cash and cash equivalents at beginning of period 48,783 ----- Cash and cash equivalents at end of period
 ===== Supplemental disclosure of cash flow information -----
 Cash paid during the period for: Interest expense \$ 0.00 Income tax expense \$ 0.00 111 PART II. INFORMATION
 REQUIRED IN PROSPECTUS Indemnification of Directors and Officers The Certificate of Incorporation of the Company
 provides that all directors, officers, employees and agents of the Company shall be entitled to be indemnified by the
 Company to the fullest extent permitted by law. The Certificate of Incorporation also provides as follows: "The Company
 shall, to the fullest extent permitted by the Act, as the same may be amended and supplemented, indemnify and advance
 expenses to its directors, officers, employees, and agents of the corporation whom it shall have power to indemnify thereunder from
 and all of the expenses, liabilities, or other matters referred to therein or covered thereby. Such right to indemnification
 and advancement of expenses shall continue as to a person who has ceased to be a director, officer, employee, or agent of
 the corporation, and shall inure to the benefit of the heirs, executors, and administrators of such persons. The right to
 indemnification and advancement of expenses provided for herein shall not be deemed exclusive of any other rights to which
 such persons may be entitled under any bylaw, agreement, vote of stockholders or of directors or otherwise. The corporation
 shall have the right to purchase and maintain insurance on behalf of its directors, officers, employees, and agents to the
 full extent permitted by the Act, as the same may be amended or supplemented. SEC Registration Fee \$ 345.00
 Commission Policy Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") is
 permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, or to any person
 who may serve in such capacity in the future, the Company has been advised that in the opinion of the Securities and Exchange
 Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. Other
 Expenses of Issuance and Distribution of Securities to the securities being registered. The expenses shall be paid by the Registrant. SEC Registration Fee \$ 345.00
 Engraving Expenses \$ 2,000.00 Legal Fees and Expenses \$ 15,000.00 Accounting Fees and Expenses \$ 25,000.00
 Agent Fees \$ 2,000.00 Blue Sky Fees \$ 2,000.00 Miscellaneous \$ 5,000.00 ----- Total \$ 51,345.31
 Unregistered Securities Shares of common stock issued (1) In October 1998, Amanda issued 388,846 shares of
 common stock to BNC Bach International Ltd. Upon conversion of subordinated debentures of \$252,750. 112 (2) In
 October 1998, Amanda issued 157,935 shares of common stock to RBB Bank Aktiengrsellshaft. Upon conversion of subo
 rdinated debentures of \$107,668. (3) In November 1998, Amanda issued 30,000 shares of common stock at \$0.75 p
 er share to Heracles Holdings Limited upon exercise of warrants. (4) In November 1998, Amanda issued 20,000 share
 s of common stock at \$0.75 per share to Lawson Rollins upon exercise of warrants. (5) In December 1998, Amanda issu
 ed 20,000 shares of common stock at \$0.75 per share to Louis F. Centofanti upon exercise of warrants. (6) In December 199
 8, Amanda issued 20,000 shares of common stock at \$0.75 per share to Neyla Kizner upon exercise of warrants. (7) In Decem
 ber 1998, Amanda issued 10,000 shares of common stock at \$0.75 per share to Rahim Kaba upon exercise of warrant
 s. (8) In December 1998, Amanda issued 307,692 shares of common stock to RBB Bank Aktiengrsellshaft. upon co
 nversion of subordinated debentures of \$200,000. (9) In December 1998, Amanda issued 90,000 shares of common sto
 ck at \$0.75 per share to Gordon Mundy upon exercise of warrants. (10) In January 1999, Amanda issued 46,014 shares of
 common stock to BNC Bach International Ltd. upon conversion of subordinated debentures of \$50,846. (11) In January 1999,
 Amanda issued 103,956 shares of common stock to Dundee Securities. upon conversion of subordinated debentures of \$10

March 1999, Amanda issued 172,681 shares of common stock to BNC Bach International Ltd. upon conversion of subordinated debentures of \$127,784. (13) In March 1999, Amanda issued 104,372 shares of common stock to BNC Bach International Ltd. In fiscal 2000, there were 17,958,832 shares of common stock issued of which 16,698,832 were registered, and 1,260,000 were unregistered, as follows: (14) In April 2000, 411,112 shares of common stock were issued at \$.20 per share to BNC Bach International Ltd. Series B Preferred stock. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (15) In February 2000 through April 2000, there were 9,406,977 shares of common stock issued upon conversion of Series A Preferred stock. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (16) In September 2000, Amanda issued 1,055,540 shares of common stock in payment of accounts payable at \$.10 a share, or 50% of market price, in payment of accounts payable. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (17) In December 1999 through April 2000 3,041,668 shares of common stock were issued at \$.14 a share upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (18) In March of 2000, Amanda issued 315,000 shares of common stock at \$.27 a share upon conversion of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (19) In May and June of 2000, Amanda issued 1,397,328 shares of common stock for services rendered at \$.25 a share (approximately market price). These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (20) In May and June of 2000, Amanda issued 1,065,000 shares of common stock for services rendered at \$.22 a share (approximately market price) upon the exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. (21) In September 2000, Amanda issued 6,207 shares of common stock in payment of accounts payable at \$.01 per share (approximately 50% discount to market). These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investors of the stock were accredited investors. In fiscal 2001, there were 22,276,657 shares of common stock issued of which 10,666,657 were registered, and 11,610,000 were unregistered, as follows: (22) In October 2000, Amanda issued 95,000 shares of common stock at \$.16 a share (approximately market price) to Alan Weaver for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (23) In October 2000, Amanda issued 617,000 shares of common stock upon the exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (24) In October 2000, Amanda issued 667 shares of common stock at \$3.00 per share to retire debt owed. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (25) In October 2000, Amanda issued 3,200 shares of common stock at \$3.00 a share to Multitek to retire debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (26) In November 2000, Amanda issued 481,979 shares of common stock at \$.08 a share (approximately market price) to The Trade Group upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (27) In November 2000, Amanda issued 47,222 shares of common stock at \$.09 a share (approximately market price) to Milt Haber upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (28) In November 2000, Amanda issued 500,000 shares of common stock at \$.10 a share (approximately market price) to Bi-Coastal Consulting Group upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor.

involving a public offering." The investor of the stock was an accredited investor. (29) In November 2000, 200,000, shares of common stock at \$.03 a shares (approximately market price) to Josh Weinfeld upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (30) In December 2000, Amanda issued 450,000, shares of common stock at \$.02 a shares (a 50% discount to market price) to AMRO International upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (31) In December 2000, Amanda issued 475,000, shares of common stock at (approximately market price) to Ed Saverese upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (32) In January 2001, Amanda issued 75,000, shares of common stock at \$.06 (approximately market price) to Scott Sellers upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (33) In January 2001, Amanda issued 500,000, shares of common stock at \$.03 (approximately market price) to Bi-Coastal Consulting Group upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (34) In January 2001, Amanda issued 500,000, shares of common stock at \$.02 (approximately 50% discount to market price) to Ed Saverese upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (35) In February 2001, Amanda issued 117 shares of common stock at \$3.00 (settled price) to Vibra in payment of debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (36) In February 2001, Amanda issued 1,194 shares of common stock at \$3.00 (settled price) to AndersonECD in payment of debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (37) In February 2001, Amanda issued 5,000 shares of common stock at \$1.97 (settled price) to Pioneer Standard in payment of debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (38) In February 2001, Amanda issued 5,000 shares of common stock at \$1.97 (settled price) to Pioneer Standard in payment of debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (39) In May 2001, Amanda issued 416,667 shares of common stock at \$.04 a shares (approximately market price) to Austost Anstalt upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (40) In May 2001, Amanda issued 416,667 shares of common stock at (approximately market price) to Balmore Funds upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (41) In June 2001, Amanda issued 200,000, shares of common stock at \$.04 a shares (approximately market price) to Jay Chung upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (42) In June 2001, Amanda issued 1,217,039 shares of common stock at \$.03 a shares (approximately market price) to AMRO International upon exercise of warrants. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (43) In June 2001, Amanda issued 300,000 shares of common stock at \$.03 a shares (approximately market price) to Ashford Capital for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (44) In June 2001, Amanda issued 910,000 shares of common stock at (approximately market price) to Bi-Coastal Consulting Group for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (45) In July 2001, Amanda issued 500,000, shares of common stock at \$.03 a shares (approximately market price) to Milton Hauber for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor.

"transaction not involving a public offering." The investor of the stock was an accredited investor. (46) In July 2001, Amanda issued 100,000 shares of common stock at \$.03 a shares (approximately market price) to Christine Bonar for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (47) In July 2001, Amanda issued 500,000 shares of common stock at \$.03 a shares (approximately market price) to Christine Bonar for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (48) In July 2001, Amanda issued 300,000 shares of common stock at \$.03 a shares (approximately market price) to Robert Dietrich for services rendered. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (49) In July 2001, Amanda issued 250,000 shares of common stock at (approximately market price) to Finova Capital for settlement of debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (50) In August 2001, Amanda issued 500,000 shares of common stock at \$.03 a shares (approximately market price) to Finova Capital for Settlement of Debt. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (51) In August 2001, Amanda issued 250,000 shares of common stock at \$.03 a shares (approximately market price) to Austost Anstalt upon conversion of preferred stock. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (52) In July 2001, Amanda issued 392,157 shares of common stock at \$.03 a shares (approximately market price) to Baltimore Capital for conversion of preferred stock. These shares were issued pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." The investor of the stock was an accredited investor. (53) In December 2001, Amanda issued 236,174,041 shares of common stock pursuant to the "Final Merger Agreement Pen Interconnect, Inc./The Automatic Answer, Inc." dated October 23, 2001. (54) In April 2001, Amanda issued 28,119,856 shares of common stock pursuant to the "Final Merger Agreement Pen Interconnect, Inc./The Automatic Answer, Inc." dated October 23, 2001. Convertible Notes issued On March 8, 2001, Amanda issued three convertible debentures for an aggregate of \$200,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors. On May 14, 2001, Amanda issued a convertible debenture for an \$150,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors. On July 10, 2001, Amanda issued a convertible debenture for an \$100,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investor of this security is an accredited investor. On August 1, 2001, Amanda issued a convertible debenture for an \$100,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investor of this security is an accredited investor. On August 4, 2001, Amanda issued a convertible debenture for an \$250,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investor of this security is an accredited investor. On November 1, 2001, Amanda issued four convertible debentures for an aggregate of \$320,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors. On January 9, 2002, Amanda issued a convertible debenture for an amount of \$250,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investor of this security is an accredited investor. Within five days after the effectiveness of this registration statement, Amanda issued a convertible debenture for an amount of \$100,000 in cash in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investor of this security is an accredited investor. Warrants and options issued: ----- On October 4, 2001 Amanda issued a total of 8,055,583 warrants. Each warrant allows the holder to purchase 1 share of our common stock at an exercise price equal to \$02 per share. The warrants were issued in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors. On November 1, 2001, Amanda issued a total of 7,944,682 warrants. Each warrant allows the holder to purchase 1 share of our common stock at an exercise price equal to \$02 per share. The warrants were issued in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors.

exercise price equal to \$01 per share. These warrants expire November 26, 2006. The Warrant provides that the holder shall beneficially own more than 4.999% of our outstanding common stock. These warrants were issued in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). These securities were accredited investors. On January 11, 2002, Amanda issued a total of 8,571,429 warrants which allows the holder to purchase 1 share of our common stock at an exercise price per share equal to the lesser of (i) \$0.007 and (ii) the average of the lowest three (3) trading prices during the thirty (30) trading days immediately prior to exercise, discounted by 30%. The Warrant provides that in no event shall the holder beneficially own more than 4.999% of our outstanding common stock.. These warrants do not have an expiration date. These warrants were issued in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities were accredited investors. Five days after the effectiveness of this registration statement, Amanda will issue common stock purchase warrants for the right to purchase 8,571,429 shares of Common Stock of Amanda at an exercise price per share equal to the lesser of (i) \$.007 and (ii) the average of the lowest three (3) trading prices during the thirty (30) trading days immediately prior to exercise, discounted by 30%. These warrants will not have an expiration date. These warrants will be issued in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act"). The investors of these securities are accredited investors. Exhibits: 1. Underwriter's Warrant, including Form of Underwriter's Warrant, incorporated by reference to the Company's Registration Statement filed on Form SB-2, SEC File No. 33-96444. 3. Articles of Incorporation and By-Laws, incorporated by reference to the Company's Registration Statement filed on Form SB-2, SEC File No. 33-96444 4.1 Certificate of Amendment creating Series A Convertible Preferred Stock as amended, as filed February 10, 1999. See Exhibit to report on Form 8-K filed February 17, 1999. 4.2 Certificate of Amendment creating Series B Convertible Preferred Stock as amended. 5.1 Option Agreement between the Registrant and J.W. Charles & Co., Inc., dated February 10, 1999. 10.4 Form of Warrant between the Registrant and JW Charles Securities, Inc., BMC Bach International Ltd., Mundy, Louis Centofanti and Heracles Holdings. See Registration Statement filed on Form S-3, SEC File No. 33-96444. 10.5 Form of 1995 Stock Option Plan. See Registration Statement filed on Form SB-2, SEC File No. 33-96444 and Security Agreement between FINOVA and the Company. See Exhibit to Report on Form 10-KSB, dated February 17, 1997. 10.8 Employment Agreement between Stephen J. Fryer and the Company. See Exhibit to Report on Form 10-KSB, dated September 30, 1997. 10.11.1 Finder's Agreement between the Registrant and JW Charles Securities, Inc., dated February 10, 1999. See Registration Statement filed on Form S-3, SEC File No. 333-60451. 10.12 Convertible Preferred Stock Warrant Purchase Agreement between Pen, RBB Bank AG, Austost Anstalt Schaan, Balmore Funds SA and Pen International, SA dated as of February 12, 1999. See Exhibits to Report on Form 8-K filed February 17, 1999. 10.13 Amendment in Total and Complete Restatement of the Deferred Compensation Salary Continuation Plan and Employment Agreement between Pen and James S. Pendleton, dated as of July 23, 1999. 10.14 Amendment in Total and Complete Restatement of the Deferred Compensation Salary Continuation Plan and Employment Agreement between Pen and Grant T. Wright, and Rent A Profession, dated as of October 1, 1999. 10.15 Change in Pen's Auditors from Grant Thornton & company as have March 7, 2000, and FINOVA's foreclosure action on Pen's assets to recover its' loan to Pen International, Company. See Exhibits to Report on Form 8-K filed on March 14, 2000, SEC File No. 1-14072. 10.16 Amendment in Total and Complete Restatement of the Deferred Compensation Salary Continuation Plan and Employment Agreement between Pen and Grant T. Wright, dated as of October 1, 1999. 10.17 1999 Consulting Services Agreement and Compensation Plan for outside consultants. (Incorporated by reference to Form S-8, filed September 3, 1999. 10.18 2000 Consulting Services Agreement and Compensation Plan for outside consultants. (Incorporated by reference to Form S-8 filed May 17, 2000. 10.19 Consulting and Advisors Service Agreement for outside consultants (Incorporated by reference to Form S-8 filed on August 14, 2001; Form S-8 filed on August 14, 2001; Form S-8 filed on February 23, 2001 and Form S-8 filed on February 23, 2001. (1) 10.20 Convertible Note issued to AMRO Int'l S.A. dated August 24, 2000. (1) 10.21 Convertible Note issued to Anstalt Schaan dated August 24, 2000. (1) 10.22 Convertible Note issued to Balmore S.A dated August 24, 2000. (1) 10.23 Convertible Note issued to ALPHA CAPITAL AG dated March 8, 2001. (1) 10.24 Convertible Note issued to Alpha Capital S.A. dated March 8, 2001. (1) 10.25 Convertible Note issued to Woo Young Kim dated March 8, 2001. (1) 10.26 Convertible Debenture Purchase Agreement dated March 8, 2001. (1) 10.27 Registration Rights Agreement between Pen and Grant T. Wright, dated as of October 1, 1999. (1) 10.28 Convertible Note issued to Filter Int'l Corp. dated May 14, 2001.(1) 10.29 Convertible Note issued to George Furla dated July 9, 2001. (1) 10.30 Convertible Note issued to Howard Schraub dated July 16, 2001. (1) 10.31 Convertible Note Purchase Agreement, Filter Int'l, George Furla, Howard Schraub. (1) 10.32 Registration Rights Agreement, Filter Int'l, George Furla, Howard Schraub 10.33 convertible Note issued to Stonestreet LP dated

Executive officer /s/ Steve Fryer Steve Fryer Director May 17, 2002 /s/ E.Timothy Morgan E. Timothy Morgan
May 17, 2002 Exhibit 5.1 May 17, 2002 The Amanda Company 13765 Alton Parkway, suite F Irvine, Cali
Dear Sir or Madam: We have acted as counsel for The Amanda Company, a Utah corporation (the "Compa
connection with its Registration Statement on Form SB-2 (the "Registration Statement") being filed with th
Exchange Commission relating to the registration for resale of 196,652,672 shares of Common Stock, par
share, of which 193,158,333 are issuable upon conversion of convertible debentures and 3,494,339 shares
the exercise of warrants. In connection with the foregoing, we have examined, among other things, the Reg
Statement and originals or copies, satisfactory to us, of all such corporate records and of all such other agre
certificates and documents (including instruments evidencing or setting forth the terms and provisions of th
Securities) as we have deemed relevant and necessary as a basis for the opinion hereinafter expressed. In su
we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as ori
conformity with the original documents of documents submitted to us as copies. As to any facts material to
have, to the extent that relevant facts were not independently established by us, relied on certificates of pub
certificates, oaths and declarations of officers or other representatives of the Company. Based on our exam
above, we are of the opinion that the securities being sold pursuant to the Registration Statement are duly a
will be, when sold in the manner described in the Registration Statement, legally and validly issued, and fu
non-assessable. We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement
reference to our firm under "Legal Matters" in the related Prospectus. Very truly yours, /s/ Naccarato & As
10.54 THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED
SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE SECURITIES MAY NOT BE SOLD,
OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SI
UNDER SAID ACT, OR AN OPINION OF COUNSEL IN FORM, SUBSTANCE AND SCOPE CUSTO
OPINIONS OF COUNSEL IN COMPARABLE TRANSACTIONS THAT REGISTRATION IS NOT RE
UNDER SAID ACT OR UNLESS SOLD PURSUANT TO RULE 144 OR REGULATION S UNDER SA
SECURED CONVERTIBLE DEBENTURE Irvine, California January 12, 2002 \$300,000 FOR VALUE F
AMANDA COMPANY, a Utah corporation (hereinafter called the "Borrower"), hereby promises to pay to
BRISTOL INVESTMENT FUND, LTD. or registered assigns (the "Holder") the sum of Three Hundred TH
(\$300,000), on January 12, 2003 (the "Maturity Date"), and to pay interest on the unpaid principal balance
of eight percent (8%) per annum from January 12, 2002 (the "Issue Date") until the same becomes due and
at maturity or upon acceleration or by prepayment or otherwise. Any amount of principal or interest on this
which is not paid when due shall bear interest at the rate of fifteen percent (15%) per annum from the due d
the same is paid ("Default Interest"). Interest shall commence accruing on the issue date, shall be compute
365-day year and the actual number of days elapsed and shall be payable, at the option of the Holder, eithe
March 31, June 30, September 30 and December 31 of each year beginning on March 31, 2002, or at the ti
of the principal to which such interest relates in accordance with Article I below. All payments due hereun
not converted into common stock, par value \$0.01 per share, of the Borrower (the "Common Stock") in acc
terms hereof) shall be made in lawful money of the United States of America or, at the option of the Holde
part, in shares of Common Stock of the Borrower valued at the then applicable Conversion Price (as define
payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice
accordance with the provisions of this Debenture. Whenever any amount expressed to be due by the terms
is due on any day which is not a business day, the same shall instead be due on the next succeeding day wh
day and, in the case of any interest payment date which is not the date on which this Debenture is paid in fu
of the due date thereof shall not be taken into account for purposes of determining the amount of interest d
As used in this Debenture, the term "business day" shall mean any day other than a Saturday, Sunday or a
commercial banks in the city of Los Angeles, California are authorized or required by law or executive ord
closed. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed there
Securities Purchase Agreement, dated January 12, 2002, pursuant to which this Debenture was originally is
"Purchase Agreement"). This Debenture is free from all taxes, liens, claims and encumbrances with respect
thereof and shall not be subject to preemptive rights or other similar rights of stockholders of the Borrower
impose personal liability upon the holder thereof. The obligations of the Borrower under this Debenture sh

that certain Security Agreement dated by and between the Borrower and the Holder of even date herewith. terms shall apply to this Debenture: ARTICLE I. CONVERSION RIGHTS 1.1 Conversion Right. The Holder has the right from time to time, and at any time on or prior to the earlier of (i) the Maturity Date and (ii) the date of Default Amount (as defined in Article III) pursuant to Section 1.6(a) or Article III, the Optional Prepayment defined in Section 5.1 or any payments pursuant to Section 1.7, each in respect of the remaining outstanding amount of this Debenture to convert all or any part of the outstanding and unpaid principal amount of this Debenture into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or into any other capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed, at the conversion price (the "Conversion Price") determined as provided herein (a "Conversion"); provided, however, in the event shall the Holder be entitled to convert any portion of this Debenture in excess of that portion of this Debenture the conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of other securities, unconverted portion of the Debentures, or the unexercised or unconverted portion of any other security of the Borrower (including, without limitation, the warrants issued by the Borrower pursuant to the Purchase Agreement) subject to the limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Debenture with respect to which the determination of the Conversion Price is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations thereunder, except as otherwise provided in clause (1) of such proviso. The Holder of this Debenture may exercise the conversion limitations set forth herein by sixty-one (61) days written notice to the Borrower. The number of shares of Common Stock to be issued upon each conversion of this Debenture shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in accordance with the attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile (or by other means reasonably expected to result in, notice) to the Borrower before 3:00 p.m., Los Angeles, California time on the date (the "Conversion Date"). The term "Conversion Amount" means, with respect to any conversion of this Debenture, the sum of (1) the principal amount of this Debenture to be converted in such conversion plus (2) accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Debenture to the Conversion Date plus (3) Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) the amount of any option, any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof or pursuant to Section 2.1 of the Registration Rights Agreement, dated as of January 12, 2002, executed in connection with the initial issuance of this Debenture and the other Debentures issued on the Issue Date (the "Registration Rights Agreement"). 1.2 Conversion Price. (a) Calculation of Conversion Price. The Conversion Price shall be the lesser of (i) the Variable Conversion Price (as defined herein) and (ii) the Fixed Conversion Price (as defined herein) (subject, in each case, to adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower's securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary events or similar events). The "Variable Conversion Price" shall mean the Applicable Percentage (as defined herein) multiplied by the Market Price (as defined herein). "Market Price" means the average of the lowest three (3) Trading Prices (as defined herein) for the Common Stock during the thirty (30) Trading Day period ending one Trading Day prior to the date of the Notice is sent by the Holder to the Borrower via facsimile (the "Conversion Date"). "Trading Price" means, as of any date, the intraday trading price on the Over-the-Counter Bulletin Board (the "OTCBB") as reported by a reporting service mutually acceptable to and hereafter designated by Holders of a majority in interest of the Debentures of the Borrower or, if the OTCBB is not the principal trading market for such security, the intraday trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if the intraday trading price of such security is available in any of the foregoing manners, the average of the intraday trading prices of such security as reported by market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. If the Trading Price cannot be calculated for such security on such date in the manner provided above, the Trading Price shall be the market value as mutually determined by the Borrower and the holders of a majority in interest of the Debentures to be converted for which the calculation of the Trading Price is required in order to determine the Conversion Price.

Debentures. "Trading Day" shall mean any day on which the Common Stock is traded for any period on the principal securities exchange or other securities market on which the Common Stock is then being traded. "Percentage" shall mean 70%. The "Fixed Conversion Price" shall mean \$____. [average of the 3 lowest Trading Prices during the 30 Trading Days immediately prior to the closing date, discounted by 30%]. (b) Conversion Price During Announcements. Notwithstanding anything contained in Section 1.2(a) to the contrary, in the event the Borrower publicly announces that it intends to consolidate or merge with any other corporation (other than a merger in which the Borrower is the surviving or continuing corporation and its capital stock is unchanged) or sell or transfer all or substantially all of the assets of the Borrower or (ii) any person, group or entity (including the Borrower) publicly announces an offer to purchase 50% or more of the Borrower's Common Stock (or any other takeover scheme) (the date of such announcement referred to in clause (i) or (ii) is hereinafter referred to as the "Announcement Date"), then the Conversion Price shall, effective upon the Announcement Date and continuing through the Adjusted Conversion Price Termination Date (as defined below), be equal to the lower of (x) the Conversion Price which would have been applicable for the Debenture had the transaction occurring on the Announcement Date and (y) the Conversion Price that would otherwise be in effect. From the Adjusted Conversion Price Termination Date, the Conversion Price shall be determined as set forth in this Section 1.2(b). For purposes hereof, "Adjusted Conversion Price Termination Date" shall mean, with respect to any proposed tender offer (or takeover scheme) for which a public announcement as contemplated by this Section 1.2(b) has been made, the date upon which the Borrower (in the case of clause (i) above) or the person, group or entity (in the case of clause (ii) above) consummates or publicly announces the termination or abandonment of the proposed transaction or takeover scheme) which caused this Section 1.2(b) to become operative.

1.3 Authorized Shares. The Borrower shall, during the period the conversion right exists, reserve from its authorized and unissued shares a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon conversion of this Debenture and the other Debentures issued pursuant to the Purchase Agreement. The Borrower shall be required at all times to have authorized and reserved two times the number of shares that is actually issuable upon conversion of the Debentures (based on the Conversion Price of the Debentures or the Exercise Price of the Debentures, in effect from time to time) (the "Reserved Amount"). The Reserved Amount shall be increased from time to time in accordance with the Borrower's obligations pursuant to Section 4(h) of the Purchase Agreement. The Borrower shall, upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Debentures shall be convertible at the then current Conversion Price, the Borrower shall, at all times, make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Debentures. The Borrower (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Debenture, and (ii) agrees that its issuance of this Debenture shall constitute full authority to its officers and agents charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Debenture. If, at any time a Holder of this Debenture submits a Notice of Conversion, and the Borrower does not have sufficient authorized but unissued shares of Common Stock to effect such conversion in accordance with the provisions of this Article I (a "Conversion Default"), subject to the provisions of this Section 1.3, the Borrower shall issue to the Holder all of the shares of Common Stock which are then available to effect conversion. The portion of this Debenture which the Holder included in its Conversion Notice and which exceeds the amount of shares then convertible into available shares of Common Stock (the "Excess Amount") shall, notwithstanding anything to the contrary contained herein, not be convertible into Common Stock in accordance with the terms hereof until the date of the Holder's option at any time after) the date additional shares of Common Stock are authorized by the Borrower for conversion, at which time the Conversion Price in respect thereof shall be the lesser of (i) the Conversion Price in effect on the Conversion Default Date (as defined below) and (ii) the Conversion Price on the Conversion Date thereafter. The Borrower shall pay to the Holder in respect thereof. In addition, the Borrower shall pay to the Holder payments ("Conversion Default Payments") in the event of a Conversion Default in the amount of (x) the sum of (1) the then outstanding principal amount of this Debenture plus (2) accrued and unpaid interest on the unpaid principal amount of this Debenture through the Authorization Date (as defined below) plus (3) Default Interest, if any, on the amounts referred to in clauses (1) and/or (2), multiplied by (y) the Conversion Default Rate (as defined below) by (z) (N/365), where N = the number of days from the day the holder submits a Notice of Conversion giving rise to a Conversion Default (the "Conversion Default Date") to the date (the "Authorization Date") that the Borrower

sufficient number of shares of Common Stock to effect conversion of the full outstanding principal balance of this Debenture. The Borrower shall use its best efforts to authorize a sufficient number of shares of Common Stock to be issued as soon as practicable following the earlier of (i) such time that the Holder notifies the Borrower or that the Borrower becomes aware that there are or likely will be insufficient authorized and unissued shares to allow full conversion of this Debenture and (ii) a Conversion Default. The Borrower shall send notice to the Holder of the authorization of additional shares of Common Stock, the Authorization Date and the amount of Holder's accrued Conversion Default Payments. Conversion Default Payments for each calendar month shall be paid in cash or shall be convertible into Common Stock (at such time as there are sufficient authorized shares of Common Stock) at the applicable Conversion Price, at the Holder's option, as follows: (a) In the event Holder elects to take such payment in cash, cash payment shall be made on or before the fifth (5th) day of the month following the month in which it has accrued; and (b) In the event Holder elects to take such payment in Common Stock, the Holder may convert such payment amount into Common Stock at the Conversion Price then in effect at the time of conversion) at any time after the fifth day of the month following the month in which it has accrued in accordance with the terms of this Article I (so long as there is then a sufficient number of authorized shares of Common Stock). The Holder's election shall be made in writing to the Borrower at any time prior to 6:00 p.m., Los Angeles time, on the third day of the month following the month in which Conversion Default payments have accrued. If no election is made, the Holder shall be deemed to have elected to receive cash. Nothing herein shall limit the Holder's right to recover damages (to the extent in excess of the Conversion Default Payments) for the Borrower's failure to maintain a sufficient number of authorized shares of Common Stock, and each holder shall have the right to pursue all remedies available at law or in equity (including degree of specific performance and/or injunctive relief).

1.4 Method of Conversion. Subject to Section 1.1, this Debenture may be converted by the Holder in whole or in part at any time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile or other electronic means of communication dispatched on the Conversion Date prior to 3:00 p.m., Los Angeles, California time) and (B) subject to Section 1.4(b), surrendering this Debenture at the principal office of the Borrower. (b) Surrender of Debenture Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Debenture in accordance with the terms hereof, the Holder shall not be required to physically surrender this Debenture to the Borrower unless the entire unpaid principal amount of this Debenture is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other records that are reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Debenture upon such conversion. In the event of any dispute or discrepancy, such records of the Borrower shall be controlling and shall be determinative in the absence of manifest error. Notwithstanding the foregoing, if any portion of this Debenture is converted as aforesaid, the Holder may not transfer this Debenture unless the Holder first physically surrenders this Debenture to the Borrower, whereupon the Borrower will forthwith issue and deliver upon the order of the Holder a new Debenture of the same tenor, registered as the Holder (upon payment by the Holder of any applicable transfer taxes) may request, representing the aggregate of the remaining unpaid principal amount of this Debenture. The Holder and any assignee, by accepting this Debenture, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of this Debenture, the unpaid and unconverted principal amount of this Debenture represented by this Debenture shall be less than the amount stated on the face hereof. (c) Payment of Taxes. The Borrower shall not be required to pay any taxes that may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock or other securities or property on conversion of this Debenture in a name other than that of the Holder (or in street name), and the Borrower shall not be required to issue or deliver any such shares or other securities or property unless and until the payment of such taxes (other than the Holder or the custodian in whose street name such shares are to be held for the Holder's account) on the issuance thereof shall have been paid to the Borrower the amount of any such tax or shall have established to the satisfaction of the Borrower that such tax has been paid. (d) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver as soon as practicable cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon conversion within three (3) business days after such receipt (and, solely in the case of conversion of the entire principal amount hereof, surrender of this Debenture) (such second business day being hereinafter referred to as the "Deadline") in accordance with the terms hereof and the Purchase Agreement (including, without limitation, the requirements of Section 2(g) of the Purchase Agreement that certificates for shares of Common Stock

after the effective date of the Registration Statement upon conversion of this Debenture shall not bear any legend). (e) Obligation of Borrower to Deliver Common Stock. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the principal amount and the amount of accrued and unpaid interest on this Debenture shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations under this Article I, all rights with respect to this Debenture being so converted shall forthwith terminate except the right to receive the Common Stock, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, and without the consent with respect to any provision thereof, the recovery of any judgment against any person or any action or inaction on the part of the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record of this Debenture, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation of the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion. The Conversion Date specified in the Notice of Conversion shall be the Conversion Date so long as the Notice of Conversion is received by the Borrower before 3:00 p.m., Los Angeles, California, time, on such date. (f) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request by the Holder and its compliance with the provisions contained in Section 1.1 and in this Section 1.4, the Borrower shall use its transfer agent to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder's account of Holder's Prime Broker with DTC through its Deposit Withdrawal Agent Commission ("DWAC") program. In the event that Borrower's transfer agent is not eligible or is not currently participating in the DTC FAST program, the Borrower shall cause its transfer agent to take whatever action is necessary to become eligible to participate in the DTC FAST program within ten (10) business days following the Issue Date. (g) Failure to Deliver Common Stock Prior to Deadline. In the event of any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the Holder shall agree that if delivery of the Common Stock issuable upon conversion of this Debenture is more than two (2) business days after the Deadline (other than a failure due to the circumstances described in Section 1.3 above, which failure shall be governed by such Section) the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock. Such cash amount shall be paid to Holder by the fifth business day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Holder), shall be added to the principal amount of this Debenture, in which event interest shall accrue thereon in accordance with the terms of this Debenture and the principal amount shall be convertible into Common Stock in accordance with the terms of this Debenture. (h) Legend on the Shares. The shares of Common Stock issuable upon conversion of this Debenture may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope comparable to the opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to an exemption under the Act (or a successor rule) ("Rule 144") or (iv) such shares are transferred to an "affiliate" (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5. (i) Accredited Investor (as defined in the Purchase Agreement). Except as otherwise provided in the Purchase Agreement, subject to the removal provisions set forth below), until such time as the shares of Common Stock issuable upon conversion of this Debenture have been registered under the Act as contemplated by the Registration Rights Agreement, the shares of Common Stock may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date. (j) Legend on the Shares. Each certificate for shares of Common Stock issuable upon conversion of this Debenture that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, or as otherwise appropriate: "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SECURITIES MAY NOT BE SOLD, TRANSFERRED, MORTGAGED, PLEDGED, ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES ACT OF 1933, AS AMENDED."

SAID ACT, OR AN OPINION OF COUNSEL IN FORM, SUBSTANCE AND SCOPE CUSTOMARY FOR SUCH SALE OR TRANSFER OF COMMON STOCK OF COUNSEL IN COMPARABLE TRANSACTIONS, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT UNLESS SOLD PURSUANT TO RULE 144 OR REGULATIONS UNDER SAID ACT." The legend shall be removed and the Borrower shall issue to the Holder a new certificate therefor free of any transfer restrictions. The Borrower or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for such sale or transfer of common stock of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Stock may be made without registration under the Act and the shares are so sold or transferred, (ii) such Holder provides to the Borrower its transfer agent with reasonable assurances that the Common Stock issuable upon conversion of this Debenture (to the extent such securities are deemed to have been acquired on the same date) can be sold pursuant to Rule 144. In the case of the Common Stock issuable upon conversion of this Debenture, such security is registered for sale under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 without restriction as to the number of securities as of a particular date that can then be immediately sold. Nothing in this section shall (i) limit the Borrower's obligation under the Registration Rights Agreement or (ii) affect in any way the Borrower's obligations to comply with applicable prospectus delivery requirements upon the resale of the securities referred to in this section.

1.6 Effect of Certain Events. ----- (a) Effect of Merger, Consolidation, Etc. At the option of the Borrower, upon the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is transferred to another Person (as defined in Article III) or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined in Article III) or the sale, conveyance or disposition of all or substantially all of the assets of the Borrower to any other Person when the Borrower is not the survivor shall either: (i) be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a result of such transaction an amount equal to the Default Amount (as defined in Article III) or (ii) be treated pursuant to Section 1.6(b) hereof. "Person" shall mean any individual, corporation, limited liability company, partnership, association, trust, joint venture, entity or organization. (b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Debenture is outstanding and prior to conversion of all of the Debentures, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower or in connection with a plan of complete liquidation of the Borrower, then the Holder of this Debenture shall have the right to receive upon conversion of this Debenture, upon the basis and upon the terms and conditions specified in Article III, in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or other assets the Holder would have been entitled to receive in such transaction had this Debenture been converted in full prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such event the provisions shall be made with respect to the rights and interests of the Holder of this Debenture to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Debenture) shall thereafter be applicable, as nearly as may be practicable in relation to the assets or assets thereafter deliverable upon the conversion hereof. The Borrower shall not effect any transaction described in Section 1.6(b) unless (a) it first gives, to the extent practicable, thirty (30) days prior written notice (but in no event less than fifteen (15) days prior written notice) of the record date of the special meeting of stockholders to approve, consummate, or consummate such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Debenture) to the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of the Borrower under Section 1.6(b). The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or other similar events. (c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or any part of its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or other similar distribution or any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of the Borrower or its subsidiary (i.e., a spin-off) (a "Distribution"), then the Holder of this Debenture shall be entitled, upon any conversion of this Debenture after the date of record for determining shareholders entitled to such Distribution, to receive upon conversion such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon conversion had such Holder been the holder of such shares of Common Stock on the record date for the Distribution. (d) Purchase Rights. If, at any time when any Debentures are issued,

outstanding, the Borrower issues any convertible securities or rights to purchase stock, warrants, securities (the "Purchase Rights") pro rata to the record holders of any class of Common Stock, then the Holder of the Debenture shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon conversion of this Debenture (without regard to any limitations on conversion contained herein) immediately before the date such record is taken for the grant, issuance or sale of such Purchase Rights or, if no such record is taken, the date such record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price as a result of the events described in this Section 1.6, the Borrower, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to the Holder of a certificate setting forth such adjustment or readjustment and showing the facts upon which such adjustment or readjustment is based. The Borrower shall, upon the written request of the Holder, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities which at the time would be received upon conversion of the Debenture.

1.7 Trading Market Limitations. Unless otherwise prohibited by the applicable rules and regulations of the principal securities market on which the Common Stock is listed or traded, in no event shall the Borrower issue upon conversion of or otherwise pursuant to this Debenture or other Debentures issued pursuant to the Purchase Agreement more than the maximum number of shares of Common Stock that the Borrower can issue pursuant to any rule of the principal United States securities market on which the Common Stock is then traded (the "Maximum Share Amount"), which, as of the Issue Date shall be _____ shares (the "Maximum Share Amount"), subject to equitable adjustment from time to time for stock splits, dividends, combinations, capital reorganizations and similar events relating to the Common Stock occurring after the Issue Date hereof. Once the Maximum Share Amount has been issued (the date of which is hereinafter referred to as the "Maximum Conversion Date"), if the Borrower fails to eliminate any prohibitions under applicable law or the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the trading of its securities on the Borrower's ability to issue shares of Common Stock in excess of the Maximum Share Amount (the "Trading Market Prepayment Event"), in lieu of any further right to convert this Debenture, and in full satisfaction of the Borrower's obligations under this Debenture, the Borrower shall pay to the Holder, within fifteen (15) business days after the Maximum Conversion Date (the "Trading Market Prepayment Date"), an amount equal to 130% times the then outstanding principal amount of this Debenture immediately following the Maximum Conversion Date plus the accrued and unpaid interest on the unpaid principal amount of this Debenture to the Trading Market Prepayment Date.

(c) **Default Interest,** if any, on the amounts referred to in clause (a) and/or (b) above, plus (d) any optional amounts that may be added thereto at the Maximum Conversion Date by the Holder in accordance with the terms hereof (the "Default Interest"). The principal amount of this Debenture immediately following the Maximum Conversion Date, plus the amount of the Default Interest, clauses (b), (c) and (d) above shall collectively be referred to as the "Remaining Convertible Amount").

With respect to the Holder of Debentures, the Maximum Share Amount shall refer to such Holder's pro rata share thereof determined in accordance with Section 4.8 below. In the event that the sum of (x) the aggregate number of shares of Common Stock issuable upon conversion of this Debenture and the other Debentures issued pursuant to the Purchase Agreement plus (y) the aggregate number of shares of Common Stock that remain issuable upon conversion of this Debenture and the other Debentures issued pursuant to the Purchase Agreement, represents at least one hundred percent (100%) of the Maximum Share Amount (the "Triggering Event"), the Borrower will use its best efforts to seek and obtain Stockholder approval to obtain such other relief as will allow conversions hereunder in excess of the Maximum Share Amount) as soon as practicable following the Triggering Event and before the Maximum Conversion Date. As used herein, "Stockholder Approval" means approval by the stockholders of the Borrower to authorize the issuance of the full number of shares of Common Stock which would be issuable upon full conversion of the then outstanding Debentures but for the Maximum Share Amount.

1.8 Status as Stockholder. Upon submission of a Notice of Conversion by a Holder, (i) the portion of the Reserved Amount or Maximum Share Amount) shall be deemed converted into shares of Common Stock and (ii) the Holder's rights as a Holder of such converted portion of this Debenture shall cease and terminate, except for the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Borrower to comply with the terms of this Debenture.

Notwithstanding the foregoing, if a Holder has not received certificates for all shares of Common Stock prior to the tenth (10th) business day after the expiration of the Deadline with respect to a conversion of any portion of this Debenture for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Stock by so notifying the Borrower) the Holder shall regain the rights of a Holder of this Debenture with respect to such unconverted portion of this Debenture and the Borrower shall, as soon as practicable, return such unconverted portion of this Debenture to the Holder. If this Debenture has not been surrendered, adjust its records to reflect that such portion of this Debenture has not been surrendered. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive Conversion Default Payments pursuant to Section 1.3 to the extent required thereby for such Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions determined in accordance with Section 1.3) for the Borrower's failure to convert this Debenture.

ARTICLE II. COVENANTS

2.1 Distributions on Capital Stock. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not without the Holder's written consent (a) pay, declare or set apart for such payment, or make any other distribution (whether in cash, property or other securities) on shares of capital stock other than the shares of Common Stock solely in the form of additional shares of Common Stock or (b) directly or indirectly or through any subsidiary make any other payment or distribution in respect of its capital stock except for distributions pursuant to the Borrower's shareholders' rights plan which is approved by a majority of the Borrower's disinterested directors.

2.2 Repurchases. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not without the Holder's written consent redeem, repurchase or otherwise acquire (whether for cash or in exchange for property or securities or otherwise) in any one transaction or series of related transactions any shares of capital stock or any warrants, rights or options to purchase or acquire any such shares.

2.3 Borrowings. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not, without the Holder's written consent, create, incur or suffer to exist any liability for borrowed money, except (a) borrowings in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof, (b) indebtedness to trade credit institutions incurred in the ordinary course of business or (c) borrowings, the proceeds of which shall be used for the purposes of this Debenture.

2.4 Sale of Assets. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets in the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified amount of the proceeds of disposition.

2.5 Advances and Loans. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not, without the Holder's written consent, lend money, give credit or make advances to or for the benefit of any joint venture or corporation, including, without limitation, officers, directors, employees, subsidiaries and affiliates of the Borrower, except loans, credits or advances (a) in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof, (b) made in the ordinary course of business or (c) not in excess of \$50,000.

2.6 Contingent Liabilities. So long as the Borrower shall have any obligation under this Debenture, the Borrower shall not, without the Holder's written consent, assume, guarantee, endorse, contingently agree to purchase or become liable upon the obligation of any person, firm, partnership, joint venture or corporation, except by way of negotiable instruments for deposit or collection and except assumptions, guarantees, endorsements and commitments in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof, and (b) similar transactions in the ordinary course of business.

ARTICLE III. EVENTS OF DEFAULT

The following events of default (each, an "Event of Default") shall occur:

3.1 Failure to Pay Principal or Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Debenture, whether at maturity, upon acceleration or otherwise.

3.2 Conversion and the Shares. The Borrower fails to issue shares of Common Stock to the Holder (or announces or threatens that it will not honor its obligation to issue shares) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Debenture, that, if such failure is solely as a result of the circumstances governed by Section 1.3 and the Borrower is unable to complete its efforts to authorize a sufficient number of shares of Common Stock as soon as practicable, such failure shall constitute an Event of Default if the Borrower, within a period of sixty (60) days, fails to transfer or cause its transfer agent to transfer (electronically or in certificate form) a certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Debenture and when required by this Debenture or the Registration Rights Agreement, or fails to remove any restrictions on the shares or withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Debenture as and when required by this Debenture.

Registration Rights Agreement (or makes any announcement, statement or threat that it does not intend to honor its obligations described in this paragraph) and any such failure shall continue uncured (or any announcement or threat not to honor its obligations shall not be rescinded in writing) for ten (10) business days after the Borrower has been notified thereof in writing by the Holder. 3.3 Failure to Timely File Registration or Effect Registration. If the Borrower fails to file the Registration Statement within forty-five (45) days following the Filing Date (as defined in the Registration Rights Agreement) or obtain effectiveness with the Securities and Exchange Commission of the Registration Statement within one hundred thirty-five (135) days following the Filing Date or such Registration Statement lapses in effectiveness and cannot otherwise be made thereunder effective, whether by reason of the Borrower's failure to amend or supplement the prospectus included therein in accordance with the Registration Rights Agreement or otherwise) for more than five (5) consecutive days or forty-five (45) days in any twelve month period after the Registration Statement becomes effective, the Borrower shall be deemed to have committed a Breach of Covenants. The Borrower breaches any material covenant or other material term or condition of the Purchase Agreement, Sections 1.3, 1.6 or 1.7 of this Debenture, or Sections 4(c), 4(e), 4(h), 4(i), 4(j) or 5 of the Purchase Agreement, if such breach continues for a period of ten (10) days after written notice thereof to the Borrower from the Holder. 3.4 Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement and the Registration Rights Agreement), shall be false or misleading in any material respect if the Borrower made and the breach of which has (or with the passage of time will have) a material adverse effect on the business of the Borrower. 3.5 Holder with respect to this Debenture, the Purchase Agreement or the Registration Rights Agreement; 3.6 Events of Default. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business if a receiver or trustee shall otherwise be appointed; 3.7 Judgments. Any money judgment, writ or similar proceeding entered or filed against the Borrower or any subsidiary of the Borrower or any of its property or other assets in excess of \$100,000, and shall remain unvacated, unbonded or unstayed for a period of thirty (30) days unless otherwise consented to by the Holder, which consent will not be unreasonably withheld; 3.8 Bankruptcy. Bankruptcy, insolvency, liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors instituted by or against the Borrower or any subsidiary of the Borrower; or 3.9 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on at least one of the OTCBB, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, or the American Stock Exchange; 3.10 Default under other Debentures. An Event of Default has occurred and is continuing under any of the other Debentures issued by the Borrower pursuant to the Purchase Agreement (including without limitation the Additional Debentures (as defined in the Purchase Agreement)) upon the occurrence and during the continuation of any Event of Default specified in Section 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8 or 3.10, at the option of the Holders of a majority of the aggregate principal amount of the outstanding Debentures pursuant to the Purchase Agreement exercisable through the delivery of written notice to the Borrower by the Holder (the "Default Notice"), and upon the occurrence of an Event of Default specified in Section 3.6 or 3.8, the Debentures shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the greater of (i) 135% times the sum of (w) the then outstanding principal amount of this Debenture plus (x) accrued and unpaid interest on the unpaid principal amount of this Debenture to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and (x) plus any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof or pursuant to Section 2(c) of the Registration Rights Agreement (the then outstanding principal amount of this Debenture to the date of payment plus the amount referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Sum") or (ii) the "parity value" of the Debenture to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon the occurrence of the Event of Default otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Date (unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case the Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with interest thereon, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise

rights and remedies available at law or in equity. If the Borrower fails to pay the Default Amount within five (5) days of written notice that such amount is due and payable, then the Holder shall have the right at any time the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

ARTICLE IV MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in exercising any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. The remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available at law or in equity. Any notice herein required or permitted to be given shall be in writing and may be personally served or delivered by United States mail and shall be deemed to have been given upon receipt if personally served (whether by hand or by telephone line facsimile transmission) or sent by courier or three (3) days after being deposited in the United States mail, certified, with postage pre-paid and properly addressed, if sent by mail. For the purposes hereof, the address of the Holder shall be as shown on the records of the Borrower; and the address of the Borrower shall be 13765 Alton Parkway, Irvine, California 92618, facsimile number: 949-859-4380). Both the Holder and the Borrower may change their mailing address by service of written notice to the other as herein provided.

4.3 Amendments. This Debenture and any amendments hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "this Debenture" shall mean all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Debentures issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Debenture shall be binding upon the Borrower and its successors and assigns and shall inure to be the benefit of the Holder and its successors and assigns. Each transferee of this Debenture shall be an "accredited investor" (as defined in Rule 501(a) of the 1933 Act). Notwithstanding anything in this Debenture to the contrary, this Debenture may be pledged as collateral in connection with a bona fide margin account or other similar arrangement.

4.5 Cost of Collection. If default is made in the payment of this Debenture, the Borrower shall be liable for all hereof costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. THIS DEBENTURE SHALL BE ENFORCED, GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS. THE BORROWER HEREBY WAIVES THE EXCLUSIVE JURISDICTION OF THE UNITED STATES FEDERAL COURTS LOCATED IN NEW YORK WITH RESPECT TO ANY DISPUTE ARISING UNDER THIS DEBENTURE, THE AGREEMENTS MADE IN CONNECTION HERewith OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THE PARTIES IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH SUIT OR PROCEEDING. BOTH PARTIES FURTHER AGREE THAT SERVICE OF PROCESS ON THE PARTY MAILED BY FIRST CLASS MAIL SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE FOR SERVICE OF PROCESS UPON THE PARTY IN ANY SUCH SUIT OR PROCEEDING. NOTHING HEREIN SHALL AFFECT EITHER PARTY'S RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW. THE PARTIES AGREE THAT A FINAL NON-APPEALABLE JUDGMENT IN ANY SUCH SUIT OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON SUCH SUIT OR PROCEEDING OR IN ANY OTHER LAWFUL MANNER. THE PARTY WHICH DOES NOT PREVAIL IN SUCH DISPUTE ARISING UNDER THIS DEBENTURE SHALL BE RESPONSIBLE FOR ALL FEES AND EXPENSES, INCLUDING ATTORNEYS' FEES, INCURRED BY THE PREVAILING PARTY IN CONNECTION WITH SUCH DISPUTE.

4.7 Certain Amounts. Whenever pursuant to this Debenture the Borrower is required to pay an amount of the outstanding principal amount (or the portion thereof required to be paid at that time) plus accrued interest plus Default Interest on such interest, the Borrower and the Holder agree that the actual damages to the Holder upon receipt of cash payment on this Debenture may be difficult to determine and the amount to be so paid by the Borrower represents stipulated damages and not a penalty and is intended to compensate the Holder in part for loss of the opportunity to convert this Debenture and to earn a return from the sale of shares of Common Stock acquired upon conversion of this Debenture at a price in excess of the price paid for such shares pursuant to this Debenture. The Borrower and the Holder hereby agree that such amount of stipulated damages is not plainly disproportionate to the possible loss to the Holder upon the receipt of a cash payment without the opportunity to convert this Debenture into shares of Common Stock.

Allocations of Maximum Share Amount and Reserved Amount. The Maximum Share Amount and Reserved Amount shall be allocated pro rata among the Holders of Debentures based on the principal amount of such Debentures held by each Holder. Each increase to the Maximum Share Amount and Reserved Amount shall be allocated pro rata among the Holders of Debentures based on the principal amount of such Debentures held by each Holder at the time of the increase. In the event a Holder shall sell or otherwise transfer any of its Debentures, each transferee shall be allocated a pro rata portion of such transferor's Maximum Share Amount and Reserved Amount. Any portion of the Maximum Share Amount or Reserved Amount which remains allocated to any Holder which does not hold any Debentures shall be allocated to the remaining Holders of Debentures, pro rata based on the principal amount of such Debentures then held by such Holders.

4.9 Damages Shares. The shares of Common Stock may be issuable to the Holder pursuant to Sections 1.3 and 1.4(g) hereof and pursuant to Section 2(c) of the Rights Agreement ("Damages Shares") shall be treated as Common Stock issuable upon conversion of this Debenture for purposes hereof and shall be subject to all of the limitations and afforded all of the rights of the other shares of Common Stock issuable hereunder, including without limitation, the right to be included in the Registration Statement filed to the Registration Rights Agreement. For purposes of calculating interest payable on the outstanding principal amount hereof, except as otherwise provided herein, amounts convertible into Damages Shares ("Damages Amounts") shall bear interest but must be converted prior to the conversion of any outstanding principal amount hereof, until the outstanding Damages Amounts is zero.

4.10 Denominations. At the request of the Holder, upon surrender of this Debenture, the Borrower shall promptly issue new Debentures in the aggregate outstanding principal amount hereof, in the denominations of at least \$50,000 as the Holder shall request.

4.11 Purchase Agreement. By its acceptance of this Debenture, each Holder agrees to be bound by the applicable terms of the Purchase Agreement.

4.12 Notice of Events. Except as otherwise provided below, the Holder of this Debenture shall have no rights as a Holder of Common Stock unless and only to the extent that it converts this Debenture into Common Stock. The Borrower shall promptly notify the Holder with prior notification of any meeting of the Borrower's shareholders (and copies of proxy material and information sent to shareholders). In the event of any taking by the Borrower of a record of its shareholders for the purpose of determining shareholders who are entitled to receive payment of any dividend or other distribution, any recapitalization, for, purchase or otherwise acquire (including by way of merger, consolidation, reclassification or recapitalization) of any class or any other securities or property, or to receive any other right, or for the purpose of determining who are entitled to vote in connection with any proposed sale, lease or conveyance of all or substantially all of the assets of the Borrower or any proposed liquidation, dissolution or winding up of the Borrower, the Borrower shall notify the Holder, at least twenty (20) days prior to the record date specified therein (or thirty (30) days prior to the consummation of the transaction or event, whichever is earlier), of the date on which any such record is to be taken for the purpose of determining shareholders, dividend, distribution, right or other event, and a brief statement regarding the amount and character of such distribution, right or other event to the extent known at such time. The Borrower shall make a public announcement of such event requiring notification to the Holder hereunder substantially simultaneously with the notification to the shareholders in accordance with the terms of this Section 4.12.

4.13 Remedies. The Borrower acknowledges that a breach of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the terms and provisions contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Debenture will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower, that the Holder shall be entitled, in addition to all other available remedies at law and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or prohibiting the Borrower from doing any act of this Debenture and to enforce specifically the terms and provisions thereof, without the necessity of showing actual damage or loss and without any bond or other security being required.

ARTICLE V. OPTIONAL PREPAYMENT

5.1 Prepayment. Notwithstanding anything to the contrary contained in this Article V, so long as (i) no Event of Default or Trading Market Prepayment Event shall have occurred and be continuing, and (ii) the Borrower has a sufficient number of authorized shares of Common Stock reserved for issuance upon full conversion of the Debentures, then at any time after the Issue Date, the Borrower shall have the right, exercisable on not less than ten (10) Trading Days prior to the date of the notice, to the Holders of the Debentures (which notice may not be sent to the Holders of the Debentures until the Borrower has received the proceeds to prepay the Debentures pursuant to this Section 5.1), to prepay all of the outstanding Debentures in accordance with the terms of Section 5.1. Any notice of prepayment hereunder (an "Optional Prepayment") shall be delivered to the Holders of the Debentures at their registered addresses appearing on the books and records of the Borrower and shall state

Borrower is exercising its right to prepay all of the Debentures issued on the Issue Date and (2) the date of "Optional Prepayment Notice"). On the date fixed for prepayment (the "Optional Prepayment Date"), the Borrower shall make payment of the Optional Prepayment Amount (as defined below) to or upon the order of the Holders of the Debentures. If the Holders in writing to the Borrower at least one (1) business day prior to the Optional Prepayment Date, the Borrower exercises its right to prepay the Debentures, the Borrower shall make payment to the holders of an amount equal to 135% multiplied by the sum of (w) the then outstanding principal amount of this Debenture plus (x) accrued and unpaid interest on the unpaid principal amount of this Debenture to the Optional Prepayment Date plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and (x) plus (z) any amount due to the Holder pursuant to Sections 1.3 and 1.4(g) hereof or pursuant to Section 2(c) of the Registration Rights Agreement. The Optional Prepayment Sum shall collectively be known as the "Optional Prepayment Sum"). Notwithstanding notice of an Optional Prepayment Notice, the Holders shall at all times prior to the Optional Prepayment Date maintain the right to convert all or any portion of the Debentures in accordance with Article I and any portion of Debentures so converted after receipt of an Optional Prepayment Notice and prior to the Optional Prepayment Date set forth in such notice and payment of the aggregate Optional Prepayment Amount shall be deducted from the principal amount of Debentures which are otherwise subject to conversion pursuant to such notice. If the Borrower delivers an Optional Prepayment Notice and fails to pay the Optional Prepayment Amount due to the Holders of the Debentures within two (2) business days following the Optional Prepayment Date, the Borrower shall forever forfeit its right to redeem the Debentures pursuant to this Section 5.1. [REMAINDER OF PAGE INTENTIONALLY LEFT BLANK] IN WITNESS WHEREOF, Borrower has caused this Debenture to be signed and sealed in its name by its duly authorized officer this 12 day of January, 2002. THE AMANDA COMPANY By: /s/ Jose A. Candia Chief Executive Officer and President EXHIBIT A NOTICE OF CONVERSION (To be Executed by the Borrower in order to Convert the Debentures) The undersigned hereby irrevocably elects to convert \$_____ amount of the Debenture (defined below) into shares of common stock, par value \$0.01 per share ("Common Stock") of The Amanda Company, a Utah corporation (the "Borrower") according to the conditions of the convertible Debentures issued by the Borrower dated as of January __, 2002 (the "Debentures"), as of the date written below. If securities are to be delivered in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect to the securities upon delivering herewith such certificates. No fee will be charged to the Holder for any conversion, except for transfer taxes. A copy of each Debenture is attached hereto (or evidence of loss, theft or destruction thereof). The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the Holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DWAC Transfer"). Prime Broker: _____ Account Number: _____ The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock issuable pursuant to this Notice of Conversion by way of a DWAC Transfer. The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified below or, if additional space is necessary, on an attachment hereto: Name: _____ Address: _____ The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon conversion of the Debentures shall be made pursuant to registration of the securities under the Securities Act, as amended (the "Act"), or pursuant to an exemption from registration under the Act. Date of Conversion: _____ Applicable Conversion Price: _____ Number of Shares of Common Stock to be Issued Pursuant to Conversion of the Debentures: _____ Signature: _____ Name: _____ Address: _____ The Borrower shall issue and deliver shares of Common Stock by overnight courier not later than three business days following receipt of the original Debenture(s) to be converted. The Borrower shall make payments pursuant to the Debentures for the number of business days such issuance and delivery is delayed. THIS AGREEMENT IS A PART OF THE SECURITIES PURCHASE AGREEMENT SECURITIES PURCHASE AGREEMENT (this "Agreement") entered into on January 12, 2002, by and among The Amanda Company, a Utah corporation, with headquarters located at 10000 Parkview Parkway, Suite F, Irvine, California 92618 (the "Company"), and each of the purchasers set forth on the signature page hereof (the "Buyers"). WHEREAS: The Company and the Buyers are executing and delivering this Agreement upon the exemption from securities registration afforded by the rules and regulations as promulgated by the

Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act"), the Company's desire to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement, the 8% convertible debentures of the Company, in the form attached hereto as Exhibit "A", in the aggregate principal amount of Six Hundred Thousand Dollars (\$600,000) (together with any debenture(s) issued in replacement thereof or in addition thereto or otherwise with respect thereto in accordance with the terms thereof, the "Debentures"), convertible into common stock, \$0.01 par value per share, of the Company (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such Debentures and (ii) warrants, in the form attached hereto as Exhibit "B", to purchase _____ (_____) shares of Common Stock (the "Warrants"); Each Buyer wishes to purchase the Debentures and Warrants upon the terms and conditions stated in this Agreement, such principal amount of Debentures and number of Warrants set forth immediately below its name on the signature pages hereto; and Contemporaneous with the execution of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement, in the form attached hereto as Exhibit "C" (the "Registration Rights Agreement"), pursuant to which the Company has agreed to provide the Buyer with registration rights under the 1933 Act and the rules and regulations promulgated thereunder, and applicable state securities laws. NOW, THEREFORE, the Company and each of the Buyers severally (and not jointly) hereby agree to the terms of this PURCHASE AND SALE OF DEBENTURES AND WARRANTS. Purchase of Debentures and Warrants. On the Closing Date (as defined below), the Company shall issue and sell to each Buyer and each Buyer severally agrees to purchase from the Company such principal amount of Debentures and number of Warrants as is set forth immediately below its name on the signature pages hereto. Form of Payment. On the Closing Date (as defined below), (i) each Buyer shall pay the purchase price for the Debentures and the Warrants to be issued and sold to it at the Closing (as defined below) in the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the instructions in the written wiring instructions, against delivery of the Debentures in the principal amount equal to the Purchase Price and the number of Warrants as is set forth immediately below such Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such Debentures and Warrants duly executed on behalf of the Company, to such Buyer upon the delivery of such Purchase Price. Closing Date. Subject to the satisfaction (or written waiver) of the conditions set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Debentures and the Warrants pursuant to this Agreement (the "Closing Date") shall be 12:00 noon Pacific Standard Time on January __, 20__, or other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. BUYERS' REPRESENTATIONS AND WARRANTIES. Each Buyer severally (and not jointly) represents and warrants to the Company solely as to the following: Investment Purpose. As of the date hereof, the Buyer is purchasing the Debentures and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Debentures (including, without limitation, such shares of Common Stock, if any, as are (i) issuable on account of interest on the Debentures, (ii) as a result of the exercise of the Debentures, Sections 1.3 and 1.4(g) of the Debentures and Section 2(c) of the Registration Rights Agreement or (iii) in connection with the Debentures) and the Warrants and the shares of Common Stock being collectively referred to herein as the "Conversion Shares") and the Warrants and the shares of Common Stock issuable upon exercise thereof (the "Warrant Shares" and, collectively with the Debentures and the Conversion Shares, the "Securities") for its own account and not with a present view towards the public sale of the Securities thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that in making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum holding period and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act. Accredited Investor Status. The Buyer is an "accredited investor" as defined in Rule 501(a) of Regulation D (an "Accredited Investor"). Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of the Securities States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities. Information. The Buyer and its advisors, if any, have been, and for so long as the Debentures and Warrants remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Debentures and Warrants remain outstanding

assurances that such Security can be sold pursuant to Rule 144 or Regulation S. The Buyer agrees to sell all including those represented by a certificate(s) from which the legend has been removed, in compliance with prospectus delivery requirements, if any. Authorization; Enforcement. This Agreement and the Registration Agreement have been duly and validly authorized. This Agreement has been duly executed and delivered to the Buyer, and this Agreement constitutes, and upon execution and delivery by the Buyer of the Registration Rights Agreement, such agreement will constitute, valid and binding agreements of the Buyer enforceable in accordance with the law of the Buyer's Residency. The Buyer is a resident of the jurisdiction set forth immediately below such Buyer's name on the Registration Rights Agreement hereto. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to the Buyer that: Organization and Qualification. The Company and each of its Subsidiaries (as defined below), is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to conduct its business as and where now owned, leased, used, operated and conducted. Schedule 3(a) sets forth a list of the Subsidiaries of the Company and the jurisdiction in which each is incorporated. The Company and each of its Subsidiaries are duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which it is incorporated, the use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith. "Subsidiaries" means any corporation or other organization, whether incorporated or not, in which the Company owns, directly or indirectly, any equity or other ownership interest. Authorization; Enforcement. The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Registration Rights Agreement, the Debentures and the Warrants and to consummate the transactions contemplated hereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of the Registration Rights Agreement, the Debentures and the Warrants by the Company and the consummation of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Debentures, the Warrants and the issuance and reservation for issuance of the Conversion Shares and Warrant Shares issued in connection with the conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is an officer or other official representative with authority to sign this Agreement and the other documents executed in connection herewith, bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Buyer of the Registration Rights Agreement, the Debentures and the Warrants, each of such instruments will constitute, a valid, binding obligation of the Company enforceable against the Company in accordance with its terms. Capitalization. As of the date hereof, the authorized capital stock of the Company consists of (i) 500,000,000 shares of Common Stock of which 319,282,242 shares are issued and outstanding, _____ shares are reserved for issuance pursuant to the Company's stock option plans, _____ shares are reserved for issuance pursuant to securities (other than the Debentures and Warrants) exercisable for, or convertible into or exchangeable for shares of Common Stock and _____ shares are reserved for issuance upon conversion of the Debentures and the Additional Debentures (as defined in Section 4.1) and the exercise of the Warrants (subject to adjustment pursuant to the Company's covenant set forth in Section 4.1), (ii) 5,000,000 shares of preferred stock, of which 2,800,000 shares have been designated as Series A and B Preferred Stock, all of which are issued and outstanding. All of such outstanding shares of capital stock are, or upon issuance will be, authorized, validly issued, fully paid and nonassessable. No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of the stockholders of the Company or any liens or encumbrances created through the actions or failure to act of the Company. Except as disclosed in Schedule 3(c), as of the effective date of this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to the Company's capital stock or rights convertible into or exchangeable for any shares of capital stock of the Company or any of its Subsidiaries, (ii) there are no agreements or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries, (iii) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of its or their securities under the 1933 Act (ex

Registration Rights Agreement) and (iii) there are no anti-dilution or price adjustment provisions contained issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the Debentures, the Warrants, the Conversion Shares or Warrant Shares. The Company has furnished to the correct copies of the Company's Certificate of Incorporation as in effect on the date hereof ("Certificate of the Company's By-laws, as in effect on the date hereof (the "By-laws"), and the terms of all securities convertible exercisable for Common Stock of the Company and the material rights of the holders thereof in respect the Company shall provide the Buyer with a written update of this representation signed by the Company's Chief Officer or Chief Financial Officer on behalf of the Company as of the Closing Date. Issuance of Shares. The Shares and Warrant Shares are duly authorized and reserved for issuance and, upon conversion of the Debentures exercise of the Warrants in accordance with their respective terms, will be validly issued, fully paid and not free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to the rights or other similar rights of stockholders of the Company and will not impose personal liability upon the Company. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect of the issuance of Conversion Shares and Warrant Shares upon conversion of the Debentures or exercise of the Warrants. The Company further acknowledges that its obligation to issue Conversion Shares and Warrant Shares upon conversion of the Debentures or exercise of the Warrants in accordance with this Agreement, the Debentures and Warrants is absolute and unconditional regardless of the dilutive effect that such issuance may have on the interests of other stockholders of the Company. No Conflicts. The execution, delivery and performance of the Registration Rights Agreement, the Debentures and the Warrants by the Company and the consummation of the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of Conversion Shares and Warrant Shares) will not (i) conflict with or result in a violation of the Certificate of Incorporation or By-laws or (ii) violate or conflict with, or result in a breach of any provision that constitutes a default (or an event which with notice or lapse of time or both could become a default) under, or (iii) result in a violation of, any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, partnership agreement or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected. The Company understands that such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, in the aggregate, have a Material Adverse Effect). Neither the Company nor any of its Subsidiaries is in violation of the Certificate of Incorporation, By-laws or other organizational documents and neither the Company nor any of its Subsidiaries is in default (and no event has occurred which with notice or lapse of time or both could put the Company or any of its Subsidiaries in default) under, and neither the Company nor any of its Subsidiaries has taken any action or failed to take any action that would give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, except for possible defaults as would not, in the aggregate, have a Material Adverse Effect. The businesses of the Company and its Subsidiaries, if any, are being conducted, and shall not be conducted so long as a Buyer owns any of the Securities, in violation of any law, regulation or order of any governmental entity. Except as specifically contemplated by this Agreement and as required by the Securities Act of 1933 Act and any applicable state securities laws, the Company is not required to obtain any consent, authorization, approval of, or make any filing or registration with, any court, governmental agency, regulatory agency, self-regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under the Registration Rights Agreement, the Debentures or the Warrants in accordance with the terms hereof or to issue and sell the Debentures and Warrants in accordance with the terms hereof and to issue the Conversion Shares and Warrant Shares upon conversion of the Debentures and the Warrant Shares upon exercise of the Warrants. Except as disclosed in the preceding sentence, all consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the Over-the-Counter Bulletin Board (the "OTCBB") and does not reasonably anticipate that its Common Stock will be delisted by the OTCBB in the foreseeable future. The Company and its Subsidiaries are not aware of any facts or circumstances which might give rise to any of the foregoing. SEC Documents; Financial Statements

designed to be used prior to, during and after the calendar Year 2000, and the Information Technology used during such time period will accurately receive, provide and process date and time data (including, but not limited to, comparing and sequencing) from, into and between the 20th and 21st centuries, including the years 1999 and 2000, leap-year calculations, and will not malfunction, cease to function, or provide invalid or incorrect results as to date or time data, to the extent that other information technology, used in combination with the Information Technology, properly exchanges date and time data with it. The Company has delivered to the Buyers true and correct copies of all analyses, reports, studies and similar written information, whether prepared by the Company or another party, and whether the Information Technology is Year 2000 Compliant, if any. No Materially Adverse Contracts, Etc. Neither the Company nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judicial order, rule or regulation which in the judgment of the Company's officers has or is expected in the future to have a Material Adverse Effect. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement which in the judgment of the Company's officers has or is expected to have a Material Adverse Effect. Tax Status. Except as set forth on Schedule 3(l), the Company and each of its Subsidiaries has made or filed all federal, state and foreign income tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its Subsidiaries has set aside on its books provisions reasonably adequate for the payment of any unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are due in any amount, shown or determined to be due on such returns, reports and declarations, except those being contested in court, and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such tax liability. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. Except as set forth on Schedule 3(l), none of the Company's tax returns is being audited by any taxing authority. Certain Transactions. Except as set forth on Schedule 3(m) and except for the transactions pursuant to which the Company or any of its Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than the Company or any of its Subsidiaries could obtain from third parties and the grant of stock options disclosed on Schedule 3(c), none of the officers, directors, or employees of the Company is a party to any transaction with the Company or any of its Subsidiaries (other than for services as employee or director), including any contract, agreement or other arrangement providing for the furnishing of services to or from, or providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner. No Omissions. The information relating to or concerning the Company or any of its Subsidiaries set forth in this Agreement and the transactions contemplated hereby pursuant to Section 2(d) hereof and otherwise in connection with the transactions contemplated hereby is correct in all material respects and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No Undisclosed Circumstances. No circumstance has occurred or exists with respect to the Company or any of its Subsidiaries or its or their business, properties, prospects, operations or financial conditions, which, under applicable law, rule or regulation, requires disclosure or announcement by the Company but which has not been so publicly announced or disclosed (a "Material Adverse Change") for the purpose that the Company's reports filed under the 1934 Act are being incorporated into an effective registration statement filed by the Company under the 1933 Act). Acknowledgment Regarding Buyers' Purchase of Securities. The Company hereby acknowledges and agrees that the Buyers are acting solely in the capacity of arm's length purchasers with respect to the Agreement and the transactions contemplated hereby. The Company further acknowledges that no Buyer is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by any Buyer or any of their respective representatives in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation, but is merely incidental to the Buyers' purchase of the Securities. The Company further represents to each Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy or sell any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to

issuance of the Securities to the Buyers will not be integrated with any other issuance of the Company's securities (current or future) for purposes of any stockholder approval provisions applicable to the Company or its securities. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby. Permits and Compliance. The Company and each of its Subsidiaries is in possession of all franchises, grants, authorizations, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease, use, occupy its properties and to carry on its business as it is now being conducted (collectively, the "Company Permits"). Neither the Company nor any of its Subsidiaries is in conflict with, or in default or violation of, any of the Company Permits, except for any such conflicts, defaults or violations which, individually or in the aggregate, are not reasonably to be expected to have a Material Adverse Effect. Since December 31, 2000, neither the Company nor any of its Subsidiaries has received any notification with respect to possible conflicts, defaults or violations of applicable law or for notices relating to possible conflicts, defaults or violations, which conflicts, defaults or violations would be expected to have a Material Adverse Effect. Environmental Matters. ----- Except as set forth in Schedule 3(s), the Company, to the Company's knowledge, with respect to the Company or any of its Subsidiaries or any predecessor of the Company, has no past or present violations of Environmental Laws (as defined below), releases of any material into the environment, or any activities, circumstances, conditions, events, incidents, or contractual obligations which may give rise to or result in environmental liability or any liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or similar federal, state, local or foreign laws and neither the Company nor any of its Subsidiaries has received any notice with respect to any of the foregoing, nor is any action pending or, to the Company's knowledge, threatened in connection with any of the foregoing. The term "Environmental Laws" means all federal, state, local or foreign laws, regulations, orders, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, rules or regulations issued, entered, promulgated or approved thereunder. Other than those that are or were stored on or about any real property owned, leased or used by the Company or any of its Subsidiaries, and no Hazardous Materials were released from any real property previously owned, leased or used by the Company or any of its Subsidiaries during the period from January 1, 2000 to the date hereof, the Company and its Subsidiaries, except in the normal course of the Company and its Subsidiaries' business. Except as set forth in Schedule 3(s), there are no underground storage tanks on or under any real property owned, leased or used by the Company or any of its Subsidiaries that are not in compliance with applicable law. Title to Property. The Company and its Subsidiaries have good and marketable title in fee simple to all real property owned, leased or used by the Company and its Subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(s) or such as would not have a Material Adverse Effect. Any real property and facilities held under lease by the Company or its Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a Material Adverse Effect. Insurance. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company and its Subsidiaries deems prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect. The Company has provided to Buyer true and correct copies of all policies relating to directors' and officers' liability coverage, errors and omissions coverage, and commercial general liability coverage. Internal Accounting Controls. The Company and each of its Subsidiaries maintain a system of internal accounting controls sufficient, in the judgment of the Company's board of directors, to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded, processed and summarized in a manner to permit preparation of financial statements in conformity with generally accepted accounting principles and

asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Foreign Corrupt Practices. Neither the Company nor its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or its Subsidiaries, has, in the course of his actions for, or on behalf of, the Company, used any corporate funds for any unlawful purpose, including but not limited to: (i) made any gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee. [Intentionally Omitted] Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an "investment company" required to be registered under the Investment Company Act of 1940 (the "Investment Company Act"). The Company is not controlled by an Investment Company. Breach of Representations and Warranties by the Company. If the Company materially breaches any of the representations or warranties set forth in Section 3, and in addition to any other remedies available to the Buyers pursuant to this Agreement, the Company shall pay to the Buyer the Standard Liquidated Damages Amount in cash or in shares of Common Stock at the option of the Buyer until such breach is cured. If the Buyers elect to be paid the Standard Liquidated Damages Amounts in shares of Common Stock, such shares shall be issued at the Conversion Price at the time of payment. 4. COVENANTS. ----- a. General. The parties shall use their best efforts to satisfy timely each of the conditions described in Section 6 and 7 of this Agreement. b. Form D; Blue Sky Laws. If required by applicable securities laws, the Company agrees to file a registration statement with respect to the Securities as required under Regulation D and to provide a copy thereof to each Buyer promptly after filing. The Company shall, on or before the Closing Date, take such action as the Company shall reasonably determine to be necessary to qualify the Securities for sale to the Buyers at the applicable closing pursuant to this Agreement under applicable securities or "blue sky" laws of the states of the United States (or to obtain an exemption from such laws) and shall provide evidence of any such action so taken to each Buyer on or prior to the Closing Date. c. Reporting Requirements. Eligibility to Use Form SB-2 or Form S-1. The Company's Common Stock is registered under Section 12(g) of the Securities Act. The Company represents and warrants that it meets the requirements for the use of Form SB-2 (or if not eligible for the use of Form SB-2 as of the Filing Date (as defined in the Registration Rights Agreement), to use the form of registration for which it is eligible at that time) for registration of the sale by the Buyer of the Securities (as defined in the Registration Rights Agreement). So long as the Buyer beneficially owns any of the Securities, the Company shall timely file all reports required to be filed with the SEC pursuant to the 1934 Act, and shall not terminate its status as an issuer required to file reports under the 1934 Act even if the 1934 Act or the rules and regulations thereunder would permit such termination. The Company further agrees to file all reports required to be filed with the Company with the SEC in a timely manner so as to become eligible, and thereafter to maintain its eligibility for the use of Form S-3. The Company shall issue a press release describing the material terms of the transaction contemplated by this Agreement as soon as practicable following the Closing Date but in no event more than two (2) business days of the Closing Date, which press release shall be subject to prior review by the Buyers. The Company agrees that such press release shall not disclose the name of the Buyers unless expressly consented to in writing by the Buyers or unless required by law or regulation, and then only to the extent of such requirement. d. Use of Proceeds. The Company shall use the proceeds from the sale of the Debentures and the Warrants in the manner set forth in Schedule 4(d) attached hereto and shall not, directly or indirectly, use such proceeds for any loan to or investment in any other corporation, partnership, enterprise or other person (except in connection with its currently existing direct or indirect Subsidiaries). e. Other Offerings. Subject to the exceptions described below, the Company will not, without the prior written consent of a majority-in-interest of the Buyers, not to be unreasonably withheld, negotiate or contract with any party to any form of equity financing (including debt financing with an equity component) that involves (A) the issuance of Common Stock at a discount to the market price of the Common Stock on the date of issuance (taking into account the value of any options to acquire Common Stock issued in connection therewith) or (B) the issuance of convertible securities that are convertible into an indeterminate number of shares of Common Stock or (C) the issuance of warrants during the "Lock-up Period" beginning on the Closing Date and ending on the later of (i) two hundred twenty-five (225) days from the Closing Date and (ii) one hundred fifty (150) days from the date the Registration Statement (as defined in the Registration Rights Agreement) is declared effective (plus any days in which sales cannot be made thereunder). In addition

exceptions described below, the Company will not conduct any equity financing (including debt with an equity component) ("Future Offerings") during the period beginning on the Closing Date and ending two (2) years after the end of the Offering Period unless it shall have first delivered to each Buyer, at least twenty (20) business days prior to the closing of the Offering, written notice describing the proposed Future Offering, including the terms and conditions thereof, the definitive documentation to be entered into in connection therewith, and providing each Buyer an option during a fifteen (15) day period following delivery of such notice to purchase its pro rata share (based on the ratio that the aggregate principal amount of Debentures purchased by it hereunder bears to the aggregate principal amount of Debentures being offered hereunder) of the securities being offered in the Future Offering on the same terms as contemplated by such proposed Future Offering (the limitations referred to in this sentence and the preceding sentence are collectively referred to as the "Capital Raising Limitations"). In the event the terms and conditions of a proposed Future Offering are amended in any respect subsequent to the notice to the Buyers concerning the proposed Future Offering, the Company shall deliver a new notice describing the amended terms and conditions of the proposed Future Offering and each Buyer thereafter shall have the option during the fifteen (15) day period following delivery of such new notice to purchase its pro rata share of the securities being offered on the same terms as contemplated by such proposed Future Offering, as amended. The foregoing provisions shall apply to successive amendments to the terms and conditions of any proposed Future Offering. The Capital Raising Limitations shall not apply to any transaction involving (i) issuances of securities in a firm commitment underwritten offering (excluding a continuous offering pursuant to Rule 415 under the 1933 Act) or (ii) issuances of securities in connection with consideration for a merger, consolidation or purchase of assets, or in connection with any strategic partnership, joint venture (the primary purpose of which is not to raise equity capital), or in connection with the disposition of a business, product or license by the Company. The Capital Raising Limitations also shall not apply to the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities of the Company on the date hereof or to the grant of additional options or warrants, or the issuance of additional securities, under a stock option or restricted stock plan approved by the Stockholders of the Company. In the event that the Company completes a Future Offering on terms more favorable to another investor than the transaction contemplated by the terms of the Debentures and the Warrants will be amended to reflect such more favorable terms. f. Expenses. The Company shall reimburse Buyers for reasonable expenses incurred by it in connection with the negotiation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection with the offering ("Documents"), including, without limitation, attorneys' and consultants' fees and expenses, transfer agent fees, stock quotation services, fees relating to any amendments or modifications of the Documents or any consents required by the provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of registration of securities transactions contemplated by the Documents. When possible, the Company must pay these fees directly, and if not, the Company must make immediate payment for reimbursement to the Buyers for all fees and expenses immediately upon receipt of written notice by the Buyer or the submission of an invoice by the Buyer. If the Company fails to reimburse the Buyers in full within five (5) business days of the written notice or submission of invoice by the Buyer, the Company shall be liable on the total amount of fees to be reimbursed at a rate of 15% per annum. g. Financial Information. The Company shall send the following reports to each Buyer until such Buyer transfers, assigns, or sells all of the Securities: (i) within ten (10) days after the filing with the SEC, a copy of its Annual Report on Form 10-KSB, its Quarterly Reports on Form 10-QSB, and any Current Reports on Form 8-K; (ii) within one (1) day after release, copies of all press releases issued by the Company or any of its Subsidiaries; and (iii) contemporaneously with the making available or giving to the stockholders of the Company copies of any notices or other information the Company makes available or gives to such stockholders. h. Reservation of Shares. The Company shall at all times have authorized, and reserved for the purpose of issuance, a sufficient number of shares of Common Stock to provide for the full conversion or exercise of the outstanding Debentures, Warrants and issuance of the Conversion Shares and Warrant Shares in connection therewith (based on the Conversion Price of the Debentures or Exercise Price of the Warrants in effect from time to time) and as otherwise required by the terms of the Debentures. The Company shall not reduce the number of shares of Common Stock reserved for issuance upon conversion of Debentures and exercise of the Warrants without the consent of each Buyer. The Company shall at all times maintain the number of shares of Common Stock so reserved for issuance at an amount ("Reserved Amount") equal to not less than three (3) times the number that is then actually issuable upon full conversion of the Debentures and Additional Debentures upon exercise of the Warrants (based on the Conversion Price of the Debentures or the Exercise Price of the Warrants in effect from time to time). If at any time the number of shares of Common Stock authorized and reserved for

("Authorized and Reserved Shares") is below the Reserved Amount, the Company will promptly take all actions necessary to authorize and reserve a sufficient number of shares, including, without limitation, calling a special meeting of the stockholders to authorize additional shares to meet the Company's obligations under this Section 4(h), in the event of an insufficient number of authorized shares, obtain stockholder approval of an increase in such authorized number of shares and voting the management shares of the Company in favor of an increase in the authorized shares of the Company to ensure that the number of authorized shares is sufficient to meet the Reserved Amount. If the Company fails to obtain stockholder approval within forty-five (45) days following the date on which the number of Authorized and Reserved Shares exceeds the Reserved Amount, the Company shall pay to the Buyer the Standard Liquidated Damages Amount in shares of Common Stock at the option of the Buyer. If the Buyer elects to be paid the Standard Liquidated Damages Amount in shares of Common Stock, such shares shall be issued at the Conversion Price at the time of payment. The Company shall ensure that the Company has authorized a sufficient amount of shares to meet the Reserved Amount at all times during the term of this Agreement. The Company must deliver to the Buyer at the end of every month a list detailing (1) the current amount of shares of Common Stock authorized and reserved for the Buyer; and (2) amount of shares issuable upon conversion of the Debentures at the time of exercise of the Warrants and as payment of interest accrued on the Debentures for one year. If the Company fails to deliver such list within five (5) business days of the end of each month, the Company shall pay the Standard Liquidated Damages Amount, in cash or in shares of Common Stock at the option of the Buyer, until the list is delivered. If the Buyer elects to be paid the Standard Liquidated Damages Amount in shares of Common Stock, such shares shall be issued at the Conversion Price at the time of payment. i.Listing. The Company shall promptly secure any applicable listing of the Common Stock and Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which the Common Stock are then listed (subject to official notice of issuance) and, so long as any Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares and Warrant Shares from time to time issuable upon conversion of the Debentures or exercise of the Warrants. The Company will obtain and, so long as any Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCBB, the Nasdaq National Market ("Nasdaq"), the Nasdaq SmallCap Market ("Nasdaq SmallCap"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the reporting, filing and other obligations under the bylaws or rules of the National Association of Securities Dealers ("NASD") and such exchanges, as applicable. The Company shall promptly provide to each Buyer copies of any notices received from the OTCBB and any other exchanges or quotation systems on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such exchanges and quotation systems. j.Corporate Existence. So long as a Buyer beneficially owns any Debentures or Warrants, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or other transaction in which substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCBB, Nasdaq, Nasdaq SmallCap, NYSE or AMEX. k.No Integration. The Company shall not make any offers or sales of any security (other than the Securities being offered) in circumstances that would require registration of the Securities being offered or sold hereunder under the Securities Act of 1933, the offering of the Securities to be integrated with any other offering of securities by the Company for the purposes of the stockholder approval provision applicable to the Company or its securities. l.Subsequent Investment. The Company and the Buyers agree that, upon the declaration of effectiveness of the Registration Statement to be filed pursuant to the Securities Act of 1933, the Registration Rights Agreement (the "Effective Date"), the Buyers shall purchase additional debentures ("Additional Debentures") in an aggregate principal amount of Three Hundred Thousand Dollars (\$300,000) for an aggregate purchase price of Three Hundred Thousand Dollars (\$300,000), with the closing of such purchase to occur within five (5) business days of the Effective Date; provided, however, that the obligation of each Buyer to purchase the Additional Debentures shall be subject to satisfaction, at or before the closing of such purchase and sale, of the conditions set forth in Section 7; and, provided, further, that there shall not have been a Material Adverse Effect as of such effective date. The terms of the Additional Debentures shall be identical to the terms of the Debentures to be issued on the Closing Date. The Common Stock underlying the Additional Debentures shall be Registrable Securities (as defined in the Registration Rights Agreement) and shall be included in the Registration Statement to be filed pursuant to the Registration Rights Agreement. m.Covenants. If the Company materially breaches any of the covenants set forth in this Section 4, and in addition to the remedies available to the Buyers pursuant to this Agreement, the Company shall pay to the Buyers the Standard

Damages Amount, in cash or in shares of Common Stock at the option of the Buyer, until such breach is cured, shall be paid the Standard Liquidated Damages Amount in shares, such shares shall be issued at the Company's option at the time of payment.

5. TRANSFER AGENT INSTRUCTIONS. The Company shall issue irrevocable instructions to its transfer agent to issue certificates, registered in the name of each Buyer or its nominee, for the Conversion Shares and Warrant Shares in such amounts as specified from time to time by each Buyer to the Company upon conversion of the Debentures or exercise of the Warrants in accordance with the terms thereof (the "Irrevocable Transfer Agent Instructions"). Prior to registration of the Conversion Shares and Warrant Shares under the 1933 Act or the date on which the Conversion Shares and Warrant Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold, all such certificates shall bear the restrictive legend specified in Section 2(g) of this Agreement. The Company warrants that no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5, and stop transfer instructions to give effect to Section 2(f) hereof (in the case of Conversion Shares and Warrant Shares, prior to registration of the Conversion Shares and Warrant Shares under the 1933 Act or the date on which the Conversion Shares and Warrant Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold), will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company to the extent provided in this Agreement and the Registration Rights Agreement. Nothing in this Section shall affect the Buyer's obligations and agreement set forth in Section 2(g) hereof to comply with all applicable prospectus requirements, if any, upon re-sale of the Securities. If a Buyer provides the Company with (i) an opinion of counsel in substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of the Securities may be made without registration under the 1933 Act and such sale or transfer is effected or (ii) a Buyer provides reasonable assurances that the Securities can be sold pursuant to Rule 144, the Company shall permit the Buyer, and, in the case of the Conversion Shares and Warrant Shares, promptly instruct its transfer agent to issue certificates, free from restrictive legend, in such name and in such denominations as specified by such Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyers, by its negligence, intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach of the provisions of this Section, that the Buyers shall be entitled, in addition to all other remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of posting bond or other security and without any bond or other security being required.

6. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL. The obligation of the Company hereunder to issue and sell the Debentures and Warrants to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

- The applicable Buyer shall have executed this Agreement and the Registration Rights Agreement and delivered the same to the Company.
- The applicable Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.
- The representations and warranties of the applicable Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and the applicable Buyer shall have performed, satisfied and complied with the covenants, agreements and conditions required by this Agreement to be performed or complied with by the applicable Buyer at or prior to the Closing Date.
- No litigation, statute, rule, regulation, order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any governmental authority of competent jurisdiction or any self-regulatory organization having authority over the transactions contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. CONDITIONS TO EACH BUYER'S OBLIGATION TO PURCHASE. The obligation of each Buyer to purchase the Debentures and Warrants at the Closing is subject to the satisfaction, at or before the Closing Date, of the following conditions, provided that these conditions are for such Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

- The Company shall have executed this Agreement and the Registration Rights Agreement, and delivered the same to the Buyer.
- The Company shall have delivered to such Buyer duly issued Debentures (in such denominations as the Buyer shall request) and Warrants in accordance with Section 1(b) and the Irrevocable Transfer Agent Instructions, in form and substance satisfactory to a majority-in-interest of the Buyers, which have been delivered to and acknowledged in writing by the Company's Transfer Agent.
- The representations and

the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions of the Purchase Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by such Buyer in writing, but limited to certificates with respect to the Company's Certificate of Incorporation, By-laws and Board of Directors' resolutions relating to the transactions contemplated hereby. e.No litigation, statute, rule, regulation, executive order, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental body of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby that prohibits the consummation of any of the transactions contemplated by this Agreement. f.No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company. g.Trading in the Company's securities on the OTCBB shall not have been suspended by the SEC or the OTCBB. h.The Buyer shall have received an opinion of the Company's counsel, dated as of the Closing Date, in form, scope and substance reasonably satisfactory to the Buyer in substantially the same form as Exhibit "D" attached hereto. i.The Buyer shall have received an officer's certificate in Section 3(c) above, dated as of the Closing Date. 8. GOVERNING LAW; MISCELLANEOUS. a.GOVERNING LAW. THIS AGREEMENT SHALL BE ENFORCED, GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN THE STATE OF NEW YORK WITH SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS. THE PARTIES HERETO HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES FEDERAL COURTS LOCATED IN NEW YORK, NEW YORK WITH RESPECT TO ANY DISPUTE ARISING UNDER THIS AGREEMENT, THE AGREEMENTS ENTERED INTO IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. BOTH PARTIES IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH SUIT OR PROCEEDING. BOTH PARTIES FURTHER AGREE THAT SERVICE OF PROCESS UPON A PARTY MAILED BY FIRST CLASS MAIL SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON THE PARTY IN ANY SUCH SUIT OR PROCEEDING. NOTHING HEREIN SHALL AFFECT EITHER PARTY'S RIGHT TO SERVE PROCESS UPON THE OTHER PARTY IN ANY OTHER MANNER PERMITTED BY LAW. BOTH PARTIES AGREE THAT A FINAL NON-APPEALABLE JUDGMENT IN ANY SUCH SUIT OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTIONS BY SUIT ON SUCH JUDGMENT OR IN ANY OTHER LAWFUL MANNER. b.COUNTERPARTS. ANY INSTRUMENT WHICH DOES NOT PREVAIL IN ANY DISPUTE ARISING UNDER THIS AGREEMENT SHALL BE CONSIDERED VOID FOR ALL REASONABLE FEES AND EXPENSES, INCLUDING REASONABLE ATTORNEYS' FEES AND COSTS, TO BE PAID BY THE PREVAILING PARTY IN CONNECTION WITH SUCH DISPUTE. b.Counterparts; Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement. c.Headings. The headings of this Agreement are for convenience of reference only and shall not form part of the interpretation of, this Agreement. d.Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent thereof and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which is invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or otherwise agreed to by the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. e.No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the party to be charged with enforcement. f.Notices. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including overnight delivery service) or by facsimile and shall be effective five days after being placed in the mail, if sent by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized over-

service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be Company: The Amanda Company 13765 Alton Parkway Suite F Irvine, California 92618 Attention: Jose Candia Chief Executive Officer and President Telephone: 949-859-6279 Facsimile: 949-859-4380 Email: With copy to: Associates 19600 Fairchild, Suite 260 Irvine, California 92612 Attention: Owen Naccarato, Esq. Telephone: 949-851-9262 Facsimile: 949-851-9262 Email: onacc@jps.net If to a Buyer: To the address set forth immediately below or the name on the signature pages hereto. With copy to: Bristol DLP, LLC Investment Manager 6363 Sunset Boulevard Hollywood, CA 90028 Attention: Amy Wang Telephone: 323-769-2852 Facsimile: 323-468-8307 Email: amy@bristolcompanies.net Each party shall provide notice to the other party of any change in address. g. Survival. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor any Buyer shall assign this Agreement or any rights or obligations hereunder without the written consent of the other. Notwithstanding the foregoing, subject to Section 2(f), any Buyer may assign this Agreement hereunder to any person that purchases Securities in a private transaction from a Buyer or to any of its "affiliates" as that term is defined under the 1934 Act, without the consent of the Company. h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not enforceable by, nor may any provision hereof be enforced by, any other person. i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in Sections 3, 4, 5 and 8 shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyers. The Company agrees to defend, indemnify and hold harmless each of the Buyers and all their officers, directors, employees and agents for loss or damage, including reasonable result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in Sections 3 and 4 hereof or any of its covenants and obligations under this Agreement or the Registration Statement, including advancement of expenses as they are incurred. j. Publicity. The Company and each of the Buyers shall have the right to review a reasonable period of time before issuance of any press releases, SEC, OTCBB or other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of each of the Buyers, to make any press release or SEC, OTCBB or other public statement applicable trading market) or NASD filings with respect to such transactions as is required by applicable law. k. Further Acts. (although each of the Buyers shall be consulted by the Company in connection with any such press release or public statement and shall be provided with a copy thereof and be given an opportunity to comment thereon). k. Further Acts. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably require in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby. l. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against either party. m. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyers by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company agrees that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyers shall be entitled to, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable hereunder, to seek injunctive or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the provisions hereof, without the necessity of showing economic loss and without any bond or other security. [REMAINDER OF PAGE INTENTIONALLY LEFT BLANK] IN WITNESS WHEREOF, the undersigned, as of the date first above written, have caused this Agreement to be duly executed as of the date first above written. THE AMANDA COMPANY By: _____ /s/ Jose Candia By: _____ Jose Candia Chief Executive Officer and President INVESTMENT FUND, LTD. /s/ Diana Derycz Kessler By: _____ Diana Derycz Chief Financial Officer and Treasurer Director RESIDENCE: Cayman Islands ADDRESS: Caledonian House Jennett Street George Town Grand Cayman Cayman Islands Facsimile: 441-295-2305 Telephone: 441-298-5067 AGGREGATE SUBSCRIPTION AMOUNT: \$300,000 Aggregate Principal Amount of Debentures: \$300,000 Number of Warrants: _____ Aggregate Purchase Price: _____ Exhibit 10.56 REGISTRATION RIGHTS AGREEMENT REGISTRATION RIGHTS AGREEMENT (this Agreement) dated as of January 12, 2002, by and among The Amanda Company, a Utah corporation, with its headquarters at 13765 Alton Parkway, Suite F, Irvine, California 92618 (the "Company"), and each of the undersigned (together with their respective affiliates and any assignee or transferee of all of their respective rights hereunder, the "Initial Investors")

WHEREAS: In connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "Securities Purchase Agreement"), the Company has agreed, upon the terms and subject to the conditions set forth therein, to issue and sell to the Initial Investors (i) 8% convertible debentures in the aggregate principal amount of One Hundred Thousand Dollars (\$600,000) (the "Debentures") that are convertible into shares of the Company's Common Stock (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such Debentures and Warrants (the "Warrants") to acquire an aggregate 17,142,858 shares of Common Stock, upon the terms and subject to the limitations and conditions set forth in the Warrants dated January 12, 2002; and To induce the Company to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registrations under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor legislation (collectively, the "1933 Act"), and applicable state securities laws; NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each of the Initial Investors hereby agree as follows: DEFINITIONS. In this Agreement, the following terms shall have the following meanings: "Investors" means the Initial Investors and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with the terms hereof. "register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the 1933 Act and pursuant to Rule 415 under the 1933 Act or otherwise providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effecting a Registration Statement by the United States Securities and Exchange Commission (the "SEC"). "Registrable Securities" means the Conversion Shares issued or issuable upon conversion or otherwise pursuant to the Debentures and Warrants (as defined in the Securities Purchase Agreement) (including, without limitation, Damages Shares and Warrant Shares (the Debentures) issued or issuable pursuant to the Debentures, shares of Common Stock issued or issuable pursuant to the Standard Liquidated Damages Amount (as defined in the Securities Purchase Agreement), shares issued or issuable upon respect of interest or in redemption of the Debentures in accordance with the terms thereof) and Warrant Shares issued upon exercise or otherwise pursuant to the Warrants (including any Default Amounts (as defined in the Securities Purchase Agreement) and Additional Warrants (as defined in the Securities Purchase Agreement), and any shares of capital stock issued or issuable as a dividend on or in exchange for or otherwise with respect to any of the foregoing. "Registration Statement" means the registration statement of the Company under the 1933 Act. Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Securities Purchase Agreement or Convertible Debentures. REGISTRATION. Mandatory Registration. The Company shall prepare, and, on or prior to thirty (30) days prior to Closing (as defined in the Securities Purchase Agreement) (the "Filing Date"), file with the SEC a Registration Statement on Form SB-2 (or, if Form SB-2 is not then available, on such form of Registration Statement as is then available) for the registration of the Registrable Securities, subject to the consent of the Initial Investors, which consent will not be unreasonably withheld) covering the resale of the Registrable Securities underlying the Debentures and Warrants issued or issuable pursuant to the Securities Purchase Agreement, which Registration Statement, to the extent allowed by the 1933 Act and the rules and regulations promulgated thereunder (including Rule 416), shall state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon conversion of or otherwise pursuant to the Debentures and exercise of the Warrants to prevent dilution resulting from stock splits, stock dividends or similar transactions. The number of shares of Common Stock initially included in the Registration Statement shall be no less than an amount equal to three (3) times the sum of the number of Conversion Shares that are then issuable upon conversion of the Debentures and Additional Debentures (based on the Variable Conversion Price as would then be in effect and assuming the Variable Conversion Price is the Conversion Price at such time) plus the number of Warrant Shares that are then issuable upon exercise of the Warrants, without regard to any limitation on an Investor's ability to convert the Debentures or exercise the Warrants. The Company acknowledges that the number of shares initially included in the Registration Statement represents a good faith estimate of the maximum number of shares issuable upon conversion of the Debentures and upon exercise of the Warrants. Underwritten Offering. If any offering of Registrable Securities pursuant to Section 2(a) hereof involves an underwritten offering, the Investors who are in interest of the Registrable Securities subject to such underwritten offering, with the consent of a majority of the Initial Investors, shall have the right to select one legal counsel and an investment banker or bankers and one or more managers to administer the offering, which investment banker or bankers or manager or managers shall be selected by the Initial Investors satisfactory to the Company. Payments by the Company. The Company shall use its best efforts to obtain e

the Registration Statement as soon as practicable. If (i) the Registration Statement(s) covering the Registrable Securities required to be filed by the Company pursuant to Section 2(a) hereof is not filed by the Filing Date or declared effective by the SEC on or prior to one hundred twenty (120) days from the date of Closing, or (ii) after the Registration Statement has been declared effective by the SEC, sales of all of the Registrable Securities cannot be made pursuant to the Registration Statement, or (iii) the Common Stock is not listed or included for quotation on the Nasdaq National Market, the Nasdaq SmallCap Market ("Nasdaq SmallCap"), the New York Stock Exchange (the "NYSE") or the American Stock Exchange (the "AMEX") after being so listed or included for quotation, or (iv) the Common Stock ceases to be listed or included for quotation on the Over-the-Counter Bulletin Board (the "OTC BB") prior to being listed or included for quotation on one of the aforementioned markets, then the Company will make payments to the Investors in such amounts and at such times as shall be determined pursuant to this Section 2(c) as partial relief for the damages to the Investors by reason of any delay or reduction of their ability to sell the Registrable Securities (which remedy shall not be exclusive of any other remedy available at law or in equity). The Company shall pay to each holder of the Debentures or Registrable Securities an amount equal to the then outstanding principal amount of the Debentures (and, in the case of holders of Registrable Securities, the principal amount of Debentures from which such Registrable Securities were converted) ("Outstanding Principal Amount") multiplied by the Applicable Percentage (as defined below) times the sum of: (i) the number of months (prorated for partial months) after the Filing Date or the end of the aforementioned one hundred twenty (120) day period and prior to the Registration Statement is declared effective by the SEC, provided, however, that there shall be excluded from such calculation any delays which are solely attributable to changes required by the Investors in the Registration Statement or to information relating to the Investors, including, without limitation, changes to the plan of distribution, or to the inability of the Investors to conduct their review of the Registration Statement pursuant to Section 3(h) below in a reasonable and timely manner; (ii) the number of months (prorated for partial months) that sales of all of the Registrable Securities cannot be made pursuant to the Registration Statement after the Registration Statement has been declared effective (including, without limitation, when sales cannot be made by reason of the Company's failure to properly supplement or amend the Registration Statement included therein in accordance with the terms of this Agreement, but excluding any days during an Allowable Delay (as defined in Section 3(f)); and (iii) the number of months (prorated for partial months) that the Common Stock is not listed or included for quotation on the OTC BB, Nasdaq, Nasdaq SmallCap, NYSE or AMEX or that trading thereof is suspended on the Registration Statement has been declared effective. The term "Applicable Percentage" means two hundredths (.02) with respect to the first thirty (30) days of any calculation under clause (i) of the sentence in which the term is used and three hundredths (.03) for any other purpose. (For example, if the Registration Statement becomes effective one month after the end of such thirty-day period, the Company would pay \$5,000 for each \$250,000 of Outstanding Principal Amount. Thereafter, sales could not be made pursuant to the Registration Statement for an additional period of one (1) month, the Company would pay an additional \$7,500 for each \$250,000 of Outstanding Principal Amount.) Such amount shall be paid in cash or, at each Investor's option, in shares of Common Stock priced at the Conversion Price (as defined in Section 2(b)) on such payment date. Piggy-Back Registrations. Subject to the last sentence of this Section 2(c), prior to the expiration of the Registration Period (as hereinafter defined) the Company shall determine to file a Registration Statement relating to an offering for its own account or the account of others under the 1933 Act covering the Registrable Securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with any employee option or other employee benefit plans), the Company shall send to each Investor who is entitled to register pursuant to this Section 2(d) written notice of such determination and, if within fifteen (15) days after the effective date of such determination such Investor shall so request in writing, the Company shall include in such Registration Statement all or a portion of the Registrable Securities such Investor requests to be registered, except that if, in connection with any underwritten offering for the account of the Company the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the Registration Statement because, in such underwritten offering, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities as requested by such Investor which such Investor has requested inclusion hereunder as the underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not be obligated to include any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which

entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion of Registrable Securities; and provided, further, however, that, after giving effect to the immediately preceding exclusion of Registrable Securities shall be made pro rata with holders of other securities having the right to include their securities in the Registration Statement other than holders of securities entitled to inclusion of their securities in the Registration Statement by reason of demand registration rights. No right to registration of Registrable Securities pursuant to Section 2(d) shall be construed to limit any registration required under Section 2(a) hereof. If an offering in which an Investor is entitled to registration under this Section 2(d) is an underwritten offering, then each Investor's Registrable Securities are included in such Registration Statement shall, unless otherwise agreed by the Company, be sold such Registrable Securities in an underwritten offering using the same underwriter or underwriters and the provisions of this Agreement, on the same terms and conditions as other shares of Common Stock included in the underwritten offering. Notwithstanding anything to the contrary set forth herein, the registration rights of the Company pursuant to this Section 2(d) shall only be available in the event the Company fails to timely file, obtain effectiveness, or maintain effectiveness of any Registration Statement to be filed pursuant to Section 2(a) in accordance with this Agreement. Eligibility for Form S-3, SB-2 or S-1: Conversion to Form S-3. The Company represents and warrants that it meets the requirements for the use of Form S-3, SB-2 or S-1 for registration of the sale by the Initial Investors of the Registrable Securities. The Company agrees to file all reports required to be filed by the Company with the SEC in a timely manner so as to remain eligible or become eligible, as the case may be, and thereafter to maintain its eligibility, for the use of Form S-3. If the Company is not currently eligible to use Form S-3, not later than 45 days after the Company first meets the registration eligibility and transaction requirements for the use of Form S-3 (or such successor form) for registration of the offer and sale by the Initial Investors and any other Investors of Registrable Securities, the Company shall file a Registration Statement on Form S-3 (or such successor form) with respect to the Registrable Securities covered by the Registration Statement on Form SB-2 or Form S-1, whichever is applicable, pursuant to Section 2(a) (and include in such Registration Statement on Form S-3 the information required to be included under the 1933 Act) or convert the Registration Statement on Form SB-2 or Form S-1, whichever is applicable, pursuant to Section 2(a) to a Form S-3 pursuant to Rule 429 under the 1933 Act and cause such Registration Statement (or such amendment) to be declared effective no later than forty-five (45) days after filing. In the event of a breach by the Company of the provisions of this Section 2(e), the Company will be required to make payments pursuant to Section 2(f) hereof. OBLIGATIONS OF THE COMPANY. ----- In connection with the registration of Registrable Securities, the Company shall have the following obligations: The Company shall prepare promptly, and file with the SEC not later than the Filing Date, a Registration Statement with respect to the number of Registrable Securities covered by Section 2(a), and thereafter use its best efforts to cause such Registration Statement relating to Registrable Securities to become effective as soon as possible after such filing but in no event later than one hundred twenty (120) days after the date of Closing), and keep the Registration Statement effective pursuant to Rule 415 at all times until such date as (i) the date on which all of the Registrable Securities have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or prospectus (including without limitation as to volume by each holder thereof) under the 1933 Act (the "Registration Period"); the Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or make the statements therein misleading. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act with respect to the offering of all Registrable Securities of the Company covered by the Registration Statements until such time as all of the Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or issuer set forth in the Registration Statements. In the event the number of shares available under a Registration Statement pursuant to this Agreement is insufficient to cover all of the Registrable Securities issued or issuable upon the exercise of the Debentures and exercise of the Warrants, the Company shall amend the Registration Statement, or file a new Registration Statement (on the short form available therefore, if applicable), or both, so as to cover all of the Registrable Securities in each case, as soon as practicable, but in any event within fifteen (15) days after the necessity therefor arises. The Company shall also, in each case, as soon as practicable, but in any event within fifteen (15) days after the necessity therefor arises, adjust the market price of the Common Stock and other relevant factors on which the Company reasonably elects to register the Registrable Securities.

Company shall use its best efforts to cause such amendment and/or new Registration Statement to become as practicable following the filing thereof, but in any event within forty-five (45) days after the date on which the Company reasonably first determines (or reasonably should have determined) the need therefor. The provisions of Section 3(c) shall be applicable with respect to such obligation, with the one hundred twenty (120) days running from the date on which the Company reasonably first determines (or reasonably should have determined) the need therefor. The Company shall deliver to each Investor whose Registrable Securities are included in a Registration Statement and its legal counsel (or its representative in no event more than two (2) business days) after the same is prepared and publicly distributed, filed with the SEC and received by the Company, one copy of each Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and, in the case of the Registration Statement referred to in Section 2(a), each letter written by or on behalf of the Company to the SEC or the staff of the SEC, and one copy of each item of correspondence from the SEC or the staff of the SEC, in each case relating to such Registration Statement, and more than any portion of any thereof which contains information for which the Company has sought confidential treatment. (ii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto, and such other documents as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor. The Company will immediately notify each Investor by facsimile of the filing of each Registration Statement or any post-effective amendment. The Company will promptly (but in no event more than five (5) business days) respond to any and all comments received from the SEC (which comments shall promptly be made available to the Investors upon request), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable (but in no event more than two (2) business days) following the resolution or clearance of all SEC comments, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto is not subject to review and shall promptly file with the SEC a final prospectus as soon as practicable (but in no event more than two (2) business days) following receipt by the Company from the SEC of an order declaring the Registration Statement effective. In the event of a breach by the Company of the provisions of this Section 3(c), the Company will promptly make payments pursuant to Section 2(c) hereof. If required by applicable law, the Company shall use reasonable efforts to (i) register and qualify the Registrable Securities covered by the Registration Statements under such other applicable "blue sky" laws of such jurisdictions in the United States as the Investors who hold a majority in interest of the Registrable Securities being offered reasonably request, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions as may be necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any such jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to the laws of any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any indemnification that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which is determined by the Board of Directors of the Company to be contrary to the best interests of the Company and its stockholders. In the event Investors who hold a majority-in-interest of the Registrable Securities being offered in the offering (or their approval of a majority-in-interest of the Initial Investors) select underwriters for the offering, the Company shall enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, with respect to customary indemnification and contribution obligations, with the underwriters of such offering. As promptly as practicable after becoming aware of such event, the Company shall notify each Investor of the happening of any event which the Company has knowledge, as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein in order to make the statements therein not misleading, and use its best efforts promptly to prepare a supplement or amendment to any Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request; provided that, for not more than thirty (30) consecutive trading days (or a total of not more than forty-five (45) trading days in any twelve (12) months), the Company may delay the disclosure of material non-public information concerning the Company (as well as material information concerning Registration Statement updating) the disclosure of which at the time is not, in the good faith opinion of the

best interests of the Company (an "Allowed Delay"); provided, further, that the Company shall promptly (i) advise the Investors in writing of the existence of (but in no event, without the prior written consent of an Investor, shall the Company disclose to such investor any of the facts or circumstances regarding) material non-public information giving rise to the Allowed Delay and (ii) advise the Investors in writing to cease all sales under such Registration Statement until the expiration of the Allowed Delay. Upon expiration of the Allowed Delay, the Company shall again be bound by the first sentence of Section 3(f) with respect to the information giving rise thereto. The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such a stop order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof. The Company shall permit a single firm of counsel designated by the Initial Investors to review such Registration Statement and all amendments and supplements thereto (as well as all requests for acceleration of effectiveness thereof) a reasonable period of time prior to their filing with the SEC, and not file any document with the SEC which such counsel reasonably objects and will not request acceleration of such Registration Statement without the consent to such counsel. The sections of such Registration Statement covering information with respect to the beneficial ownership of Registrable Securities of the Company or the Investors intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Investors. The Company shall make such information generally available to its security holders as soon as practicable, but not later than ninety (90) days after the end of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next to the effective date of the Registration Statement. At the request of any Investor, the Company shall furnish, on the date such Registrable Securities are delivered to an underwriter, if any, for sale in connection with any Registration Statement, or if such securities are not being sold by an underwriter, on the date of effectiveness thereof (i) an opinion, dated as of the date from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Investors, and dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Investors. The Company shall make available for inspection by (i) any Investor, (ii) any underwriter participating in any disposition pursuant to a Registration Statement, (iii) one firm of attorneys and one firm of accountants or other agents retained by the Initial Investors, (iv) one firm of attorneys and one firm of accountants or other agents retained by all other Investors, and (v) one firm of attorneys retained by all such underwriters (collectively, the "Inspectors") all pertinent financial and other records, and pertinent corporate documents and properties of the Company, including without limitation, records of conversions by other holders of convertible securities issued by the Company, and the issuance of stock to such holders pursuant to the conversions (collectively, the "Records"), as shall be determined to be deemed necessary by each Inspector to enable each Inspector to exercise its due diligence responsibility, and shall require the Company's officers, directors and employees to supply all information which any Inspector may reasonably require for the purposes of such due diligence; provided, however, that each Inspector shall hold in confidence and shall not make any disclosure (except to an Investor) of any Record or other information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the disclosure of such Record or other information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (b) the release of such Record or other information is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, or (c) the information in such Records has been made generally available to the public other than by disclosure in violation of the terms of any other agreement. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into confidentiality agreements (in form and substance as shall be satisfactory to the Company) with the Company with respect thereto, substantially in the form of this Section 3(f). Each Investor agrees that it shall, upon learning that disclosure of such Records is sought in or by a court or government body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein (or in any other confidentiality agreement between the Company and any Investor) shall be construed to limit the Investor's ability to sell Registrable Securities in a manner which is otherwise consistent with applicable law and securities regulations. The Company shall hold in confidence and not make any disclosure of information concerning

provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in a Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, or (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Investor prior to making such disclosure, and request such Investor, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order regarding, such information. The Company shall (i) cause all the Registrable Securities covered by the Registration Statement to be listed on each national securities exchange on which securities of the same class or series issued by the Company are listed, or, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) if such securities of the same class or series are not then listed on a national securities exchange, secure the designation and quotation, of all the Registrable Securities covered by the Registration Statement on Nasdaq or, if not eligible for listing on Nasdaq SmallCap or, if not eligible for Nasdaq or Nasdaq SmallCap, on the OTC BB and, without limitation, in connection with the foregoing, to arrange for at least two market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities. The Company shall provide a transfer agent for the Registrable Securities which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement. The Company shall cooperate with the Investors who hold Registrable Securities being offered and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing legends) representing Registrable Securities to be offered pursuant to a Registration Statement and enable such Registrable Securities to be in such denominations or amounts, as the case may be, as the managing underwriter or underwriters, if any, and Investors may reasonably request and registered in such names as the managing underwriter or underwriters, if any, may request, and, within three (3) business days after a Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) an instruction in the form attached hereto as Exhibit 1 and the opinion of such counsel in the form attached hereto as Exhibit 2. At the request of the holders of a majority-in-interest of the Registrable Securities, the Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement and any prospectus used in connection with the Registration Statement as may be necessary in order to change the plan of distribution set forth in such Registration Statement. After the date of this Agreement, the Company shall not, and shall not agree to, allow the holders of any securities of the Company to include any of their securities in any Registration Statement under Section 2(a) hereof or any supplement thereto under Section 3(b) hereof without the consent of the holders of a majority-in-interest of the Registrable Securities. The Company shall take all other reasonable actions necessary to expedite and facilitate disposition of Registrable Securities pursuant to a Registration Statement. OBLIGATIONS OF THE INVESTORS

----- In connection with the registration of the Registrable Securities, the Investors shall have the following obligations: It shall be a condition precedent to the obligations of the Company to complete the registration of Registrable Securities pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall provide to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least three (3) business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the information the Company requires from each such Investor, and each Investor shall reply to such request within two (2) business days. Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Investor has notified the Company of such Investor's election to exclude all of such Investor's Registrable Securities from the Registration Statement. If the Investors holding a majority-in-interest of the Registrable Securities being registered (with the approval of the managing underwriter or underwriters) determine to engage the services of an underwriter, each Investor agrees to enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, c

indemnification and contribution obligations, with the managing underwriter of such offering and take such actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from such Registration Statement. Each Investor agrees that, upon receipt of any notice from the Company of the occurrence of any event of the kind described in Section 3(f) or 3(g), such Investor will immediately discontinue disposition of such Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor receives copies of the supplemented or amended prospectus contemplated by Section 3(f) or 3(g) and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Investor's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice. No Investor may participate in any underwritten registration hereunder unless such Investor (i) agrees to sell such Investor's Registrable Securities on the basis provided in any underwriting agreement in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, purchase agreements, attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and expenses in excess of those payable by the Company pursuant to Section 5 below. EXPENSES OF REGISTRATION

----- All reasonable expenses, other than underwriting discounts and commissions, incurred by the Company in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all reasonable fees and disbursements of one counsel selected by the Initial Investors pursuant to Sections 2(b) and 3(b), shall be borne by the Company. INDEMNIFICATION. In the event any Registrable Securities are included in the Registration Statement under this Agreement: To the extent permitted by law, the Company will indemnify, hold harmless and defend each Investor who holds such Registrable Securities, (ii) the directors, officers, partners, employees, agents, independent contractors, and any person who controls any Investor within the meaning of the 1933 Act or the Securities Exchange Act of 1934, as amended (the "1934 Act"), if any, (iii) any underwriter (as defined in the 1933 Act) for the Investors, and (iv) the directors, officers, partners, employees and each person who controls any such underwriter within the meaning of the 1933 Act, if any (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities and expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as they may arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or alleged omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading; (ii) any untrue statement or alleged untrue statement of a material fact contained in the preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the Commission) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein under the circumstances under which the statements therein were made, not misleading; or (iii) any violation or alleged violation of the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, rule or regulation thereunder relating to the offer or sale of the Registrable Securities (the matters in the foregoing (i) through (iii) being, collectively, "Violations"). Subject to the restrictions set forth in Section 6(c) with respect to the use of legal counsel, the Company shall reimburse the Indemnified Person, promptly as such expenses are incurred and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with the Company's defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification provided for in this Section 6(a): (i) shall not apply to a Claim arising out of or based upon a Violation which was known to be such upon and in conformity with information furnished in writing to the Company by any Indemnified Person or which was known to such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or amendment thereof or supplement thereto, if such prospectus was timely made available by the Company pursuant to Section 3(c) hereof; (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld; and (iii) with respect to the preliminary prospectus, shall not inure to the benefit of any Indemnified Person if the untrue statement or alleged untrue statement or material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as amended or supplemented, such corrected prospectus was timely made available by the Company pursuant to Section 3(c) hereof.

STATE, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS. THE PARTIES HERETO SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES FEDERAL COURTS LOCATED IN NEW YORK, NEW YORK WITH RESPECT TO ANY DISPUTE ARISING UNDER THIS AGREEMENT, THE AGREEMENTS ENTERED INTO IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. BOTH PARTIES IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH SUIT OR PROCEEDING. BOTH PARTIES FURTHER AGREE THAT SERVICE OF PROCESS UPON A PARTY MAILED BY FIRST CLASS MAIL SHALL BE DEEMED EFFECTIVE SERVICE OF PROCESS UPON THE PARTY IN ANY SUCH SUIT OR PROCEEDING. NOTHING HEREIN SHALL AFFECT EITHER PARTY'S RIGHT TO SERVE PROCESS IN ANY OTHER JURISDICTION PERMITTED BY LAW. BOTH PARTIES AGREE THAT A FINAL NON-APPEALABLE JUDGMENT IN SUCH SUIT OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS IN SUCH SUIT OR PROCEEDING OR IN ANY OTHER LAWFUL MANNER. THE PARTY WHICH DOES NOT COMPLY WITH SUCH JUDGMENT OR IN ANY OTHER LAWFUL MANNER SHALL BE RESPONSIBLE FOR ALL FEES AND EXPENSES, INCLUDING ATTORNEYS' FEES, INCURRED BY THE PREVAILING PARTY IN CONNECTION WITH SUCH DISPUTE. In the event that any provision of this Agreement is invalid or unenforceable under any statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove to be unenforceable under any law shall not affect the validity or enforceability of any other provision hereof. This Agreement, together with the Warrants and the Securities Purchase Agreement (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, covenants, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the Securities Purchase Agreement supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof. Subject to the requirements of Section 9 hereof, this Agreement shall be binding and enforceable to the benefit of the parties and their successors and assigns. The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or by electronic means. This Agreement bearing the signature of the party so delivering this Agreement. Each party shall do and perform, and shall be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, contracts, instruments and documents, as the other party may reasonably request in order to carry out the intent and the purposes of this Agreement and the consummation of the transactions contemplated hereby. Except as otherwise provided herein, all consents and other determinations to be made by the Investors pursuant to this Agreement shall be made by the Investors holding a majority of the Registrable Securities, determined as if the all of the Debentures then outstanding had been converted into Registrable Securities. The Company acknowledges that a breach by it of its obligations under this Agreement will cause irreparable harm to each Investor by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for breach of its obligations under this Agreement is inadequate and agrees, in the event of a breach or threatened breach by the Company of any of the provisions of this Agreement, that each Investor shall be entitled, in addition to all other available remedies in law or in equity, to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss, and without any bond or other security being required. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against either party. [REMAINDER OF PAGE INTENTIONALLY LEFT BLANK] IN WITNESS WHEREOF, the Company and the undersigned Initial Investors have caused this Agreement to be duly executed as of the date first above written.

AMANDA COMPANY /s/ Jose Candia ----- Jose Candia Chief Executive Officer
BRISTOL INVESTMENT FUND, LTD. /s/ Diana Derycz Kessler ----- Diana Derycz Kessler
Director Exhibit 23.1 May 17, 2002 The Amanda Company 13765 Alton Parkway, suite F Irvine, California 92618
or Madam: We have acted as counsel for The Amanda Company, a Utah corporation (the "Company"), in connection with its Registration Statement on Form SB-2 (the "Registration Statement") being filed with the Securities and Exchange Commission.

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Commission relating to the registration for resale of 196,652,672 shares of Common Stock, par value \$.01 which 193,158,333 are issuable upon conversion of convertible debentures and 3,494,339 shares are issuable upon exercise of warrants. In connection with the foregoing, we have examined, among other things, the Registrant's books and originals or copies, satisfactory to us, of all such corporate records and of all such other agreements, contracts and documents (including instruments evidencing or setting forth the terms and provisions of the Convertible Securities) which we have deemed relevant and necessary as a basis for the opinion hereinafter expressed. In such examination, we have examined the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity of all copies with the original documents of documents submitted to us as copies. As to any facts material to such opinion, we have assumed that relevant facts were not independently established by us, relied on certificates of public officials and on the oaths and declarations of officers or other representatives of the Company. Based on our examination mentioned above, we express the opinion that the securities being sold pursuant to the Registration Statement are duly authorized and validly issued in the manner described in the Registration Statement, legally and validly issued, and fully paid and non-assessable. We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement and to the reference to this opinion as "Legal Matters" in the related Prospectus. Very truly yours, /s/ Naccarato & Associates Exhibit 23.2 Board of Directors, Pen Interconnect, Inc. Amanda Company Irvine, California We consent to the use of our reports included herein and to the reference to our names under the heading "Experts" in the prospectus. Our reports, dated January 11, 2002 and May 25, 2001, contain an explanatory paragraph that states that working capital deficiencies and recurring losses, which raise substantial doubt about the abilities of Pen Interconnect, Inc. and The Automatic Answer, Inc. to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of these uncertainties. /s/ Pohl, McNabola, Berg, & Company Pohl, McNabola, Berg, & Company San Francisco, CA May 17, 2002