

BROADCASTER INC
Form 10QSB
February 15, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 10-QSB

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

For the quarterly period ended December 31, 2006

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from: _____ to _____

Commission File Number 0-15949

BROADCASTER, INC.

(Exact name of small business issuer as specified in its charter)

CALIFORNIA
(State or other jurisdiction of incorporation or
organization)

9201 Oakdale Avenue, Suite 200, Chatsworth, California 91311

94-2862863
(IRS Employer Identification No.)

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(Address of principal executive offices)

(818) 206-9274

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of February 13, 2007, 64,906,069 shares of the issuer's common stock, no par value, were outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

BROADCASTER, INC.

AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BROADCASTER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2006 (Unaudited)	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,083	\$ 14,107
Receivables, less allowances for doubtful accounts, discounts and returns of \$0 as of December 31, 2006 and \$0 as of June 30, 2006.	545	254
Notes Receivable	98	1,604
Receivables, other		175
Other current assets	365	420
Assets related to discontinued operations	131	181
Total current assets	11,222	16,741
Fixed assets, net	346	306
Intangible assets		
Goodwill	39,688	30,198
Other intangible assets, net	19,479	18,700
Total intangible assets	59,167	48,898
Total assets	\$ 70,735	\$ 65,945
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short term debt	50	52
Short term debt related party	1,725	1,725
Trade accounts payable	1,558	1,928
Accrued and other liabilities	1,127	1,846
Liabilities related to discontinued operations	70	89
Deferred revenues	434	674
Total current liabilities	4,964	6,314

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Long-term debt and other obligations	180	178
Unearned contract fees	95	122
Deferred Tax	6,737	7,180
Total liabilities	11,976	13,794
Shareholders equity		
Common stock, no par value; 300,000,000 authorized; 64,731,529 issued and outstanding as of December 31, 2006 and 63,124,518 issued and outstanding as of June 30, 2006.	88,363	76,304
Accumulated deficit	(29,746)	(24,483)
Accumulated other comprehensive income	142	330
Total shareholders equity	58,759	52,151
Total liabilities and shareholders equity	\$ 70,735	\$ 65,945

See Notes to Condensed Consolidated Financial Statements

BROADCASTER, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME /
(LOSS)****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended December 31,		Six months ended December 31,	
	2006	2005	2006	2005
Net revenues	\$ 3,148	\$ 1,516	\$ 7,782	\$ 3,233
Product costs	1,894	549	3,727	1,223
Gross margin	1,254	967	4,055	2,010
Costs and expenses				
Sales and marketing	2,196	660	4,331	1,306
General and administrative	2,956	452	5,513	1,209
Research and development	71	58	142	95
Total operating expenses	5,223	1,170	9,986	2,610
Operating loss	(3,969)	(203)	(5,931)	(600)
Other income and (expense)				
Interest and other, net	98	(2)	196	(5)
Loss before income tax	(3,871)	(205)	(5,735)	(605)
Income tax (benefit) provision	(253)	39	(395)	39
Loss from continuing operations	(3,618)	(244)	(5,340)	(644)
Income (loss) from discontinued operations, net of income tax	44	(4)	77	(712)
Income (loss) from the sale of discontinued		369		(474)

operations,
net of income tax

Net (loss) income	(3,574)	121	(5,263)	(1,830)
Other comprehensive income (loss)				
Unrealized loss on restricted securities		(478)		
Foreign currency translation adjustments		3	(188)	191
Comprehensive (loss) Income	\$ (3,574)	\$ (354)	\$ (5,451)	\$ (1,639)
Basic and diluted earnings (loss) per share				
Loss from continuing operations	\$ (0.05)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Income (loss) from discontinued operations, net of income tax	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.02)
Gain (loss) from the sale of discontinued operations, net of income tax	\$ 0.00	\$ 0.01	\$ 0.00	\$ (0.02)
Net Income (loss)	\$ (0.05)	\$ 0.00	\$ (0.08)	\$ (0.06)
Shares used in computing basic earnings (loss) per share	64,741	29,821	64,065	29,755
Shares used in computing diluted earnings (loss) per share	64,741	31,831	64,065	29,755

See Notes to Condensed Consolidated Financial Statements

BROADCASTER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Six Months ended December 31, 2006

(In thousands, except share amounts)

(Unaudited)

	Common Stock		Accumulated	Accumulated	Total
	Shares	Amount	deficit	other comprehensive income (loss)	
Balance at July 1, 2006	63,124,518	\$ 76,304	\$ (24,483)	\$ 330	\$ 52,151
Issuance of common stock related to:					
Stock options exercised	465,550	297			297
Acquisitions	1,000,000	984			984
Stock issuance for prior year acquisition		9,555			9,555
Warrants exercised	126,341				
Consulting services	15,120	20			20
Stock compensation expense		1,203			1,203
Net loss			(5,263)		(5,263)
Foreign currency translation adjustment, net of income tax				(188)	(188)
Balance at December 31, 2006	64,731,529	\$ 88,363	\$ (29,746)	\$ 142	\$ 58,759

See Notes to Condensed Consolidated Financial Statements

BROADCASTER, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six months ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net cash used in operating activities	\$ (5,195)	\$ (753)
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	1,500	9,466
Acquisition of subsidiaries		(1,807)
Acquisition of intangible assets	(500)	
Other		(8)
Cash provided by discontinued operations in investing activities		1,495
Net cash provided by (used in) investing activities	1,000	9,146
Cash flows from financing activities:		
Repayments of notes	(2)	(250)
Proceeds from warrants and options exercised	297	73
Cash used in discontinued operations in financing activities		(2,702)
Net cash provided by (used in) financing activities	295	(2,879)
Effect of exchange rate change on cash and cash equivalents	(124)	(12)
Net (decrease) increase in cash and cash equivalents	(4,024)	5,502
Cash and cash equivalents at beginning of period	14,107	4,347
Cash and cash equivalents at end of the period	\$ 10,083	\$ 9,849

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 46	\$ 55
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SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES

Notes payable incurred in conjunction with acquisition of subsidiaries		1,000
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Capital stock issued in conjunction with acquisition of subsidiaries		1,046
Capital stock issued in conjunction with acquisition of intangible assets	10,539	
Warrants issued in conjunction with short-term debt		68

See Notes to Condensed Consolidated Financial Statements

BROADCASTER, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim condensed consolidated financial statements have been prepared from the records of Broadcaster, Inc., a California corporation, and subsidiaries (Broadcaster, we or the Company) without audit. All significant inter-company balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments, which consist of only normal recurring adjustments, to present fairly the financial position at December 31, 2006 and the results of operations and cash flows for the three and six months ended December 31, 2006 and 2005, have been made. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-KSB, as amended, for the fiscal year ended June 30, 2006. The results of operations for the three and six months ended December 31, 2006 are not necessarily indicative of the results to be expected for any other interim period or for the full year.

Use of Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result.

Reclassifications

Reclassifications have been made to the amounts reported for the three and six months ended December 31, 2006 to conform to the current period s presentation. The amounts reported for the three and six months ended December 31, 2006 present results of operations of the Software segment as discontinued operations due to the sale of Precision Design on June 9, 2006.

2.

STOCK BASED AWARDS

On July 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004),

Share-Based Payment, (SFAS 123(R)) which requires the measurement and recognition of compensation expense in the statement of operations for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Using the modified prospective transition method of adopting SFAS 123(R), the Company began recognizing compensation expense for stock-based awards granted or modified after June 30, 2006 and awards that were granted prior to the adoption of SFAS 123(R) but were still unvested at June 30, 2006. Under this method of implementation, no restatement of prior periods is required or has been made.

Stock-based compensation expense recognized under SFAS 123(R) in the unaudited condensed consolidated statement of operations for the three and six months ended December 31, 2006 related to stock options was \$696,000 and \$1,203,000. The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. As a result of adopting SFAS 123(R), the Company's loss before income taxes and net loss for the three and six months ended December 31, 2006 was increased by \$696,000 and \$1,203,000. The implementation of SFAS 123(R) reduced basic and diluted earnings per share by \$0.01 and \$0.02 for the three and six months ended December 31, 2006. The implementation

of SFAS 123(R) did not have an impact on cash flows from operations during the six months ended December 31, 2006. SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statements of operations. Prior to July 1, 2006, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method under APB 25 and related interpretations. Stock-based compensation expense recognized in the Company's statement of operations for the three and six months ended December 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of June 30, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of Statement of Financial Accounting Standards No. 123,

Accounting for Stock-Based Compensation (SFAS 123). Effective July 1, 2006, as new grants occur, our stock-based compensation expense will also include compensation expense for the share-based payment awards granted subsequent to June 30, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the consolidated statement of operations for the three and six months ended December 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to July 1, 2006, the Company accounted for forfeitures as they occurred.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. This FSP provides a practical transition election related to the accounting for the tax effects of share-based payment awards to employees, as an alternative to the transition guidance for the additional paid-in capital pool (APIC pool) in paragraph 81 of SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R). The guidance in this FSP is effective after November 10, 2005. The Company may take up to one year from the later of adoption of SFAS 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. The Company is currently evaluating the transition alternatives.

3.

DISCONTINUED OPERATIONS

Sale of Precision Design

In June 2006, we sold Precision Design, our legacy software business as part of our overall strategy to position the Company solely as an on-line business. We received a combination of \$6.5 million in cash of which \$0.5 million was deposited in an escrow to back our representations and warranties in the sale Agreement, and an interest free note of \$1.5 million which was paid in full on July 3, 2006. The escrow was released subsequent to the quarter on February 6, 2007. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles.

Operating results of Precision Design, which was formerly included in the Software segment, are as follows:

(In thousands)	Six months ended December 31,		Three months ended December 31,		
	2006	2005	2006	2005	
Net revenues	\$	\$	4,451	\$	2,203
Pre-tax loss			(712)		(4)
Sale of Allume					

On July 1, 2005, we sold 100% of the issued and outstanding capital stock of Allume to Smith Micro Software, Inc. for \$11 million cash and 397,547 unregistered shares of its common stock, having a market value (based on a 10 day trading average covering \$4.40) of \$1.75 million. A portion of the purchase price, including \$1.25 million cash and shares of common stock having a closing date market value of \$750,000 was deposited in an indemnity escrow to secure certain representations and warranties included in the stock purchase agreement. The loss on sale of Allume for the quarter ended September 30, 2005 was approximately \$843,000. This amount does not include the cash or value of the Smith Micro common stock held in escrow at September 30, 2005 and released in subsequent periods. At September 30, 2006, an amount of \$312,000 was still held in the indemnity escrow account. This amount is expected to be released in the quarter ending March 31, 2007. The gain on sale of Allume from the date of closing to September 30, 2006 was approximately \$302,000, all of which was recognized in fiscal 2006.

4.

PRODUCT LINE AND OTHER ACQUISITIONS

Weinmaster Homes, Ltd. Acquisition

On July 1, 2005, Houseplans, Inc, our wholly owned subsidiary consummated the acquisition of all the stock of Weinmaster Homes, Ltd. (WHL), pursuant to a Stock Purchase Agreement, dated July 1, 2005, between Weinmaster Homes, Ltd., Bruce Weinmaster and Janice Weinmaster and Houseplans, Inc.

The purchase price of approximately \$4.2 million was comprised as follows:

(In thousands)		Amount
Description		
Fair value of common stock	\$	1,021
Cash		2,000
Promissory note		1,000
Expenses		146
Total	\$	4,167

The fair value of our common stock was determined based on 826,583 shares issued and priced using the average market price of our common stock over the five day period immediately preceding and including June 28, 2005.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values was as follows:

(In thousands)

Description	Amounts (unaudited)
Cash acquired	\$ 297
Other tangible assets acquired	115
Amortizable intangible assets	
Domain names	640
Designer agreements / relationships	1,100
Trademarks	20
Proprietary plans	610
Customer lists	40
Goodwill	2,499
Liabilities assumed	(160)
Deferred tax liability	(994)
Total	\$ 4,167

The assets will be amortized or depreciated over a period of years shown on the following table:

Description	Estimated remaining life (years)
Tangible assets	
Furniture and equipments	3 5
Software and computer equipment	3
Amortizable intangible assets	
Trade names / trademarks / domain names	5 8
Designer agreements / relationships	5 8
Broker agreements / relationships	5 8
Proprietary plans	15 20
Customer lists	1 2

\$2,499,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually.

The following attributes of the combination of the WHL and Houseplans businesses were considered significant factors to the establishment of the purchase price, resulting in the recognition of goodwill:

WHL is the operator of the #2 Google ranked global Houseplans.com website as well as the Canadian focused Weinmaster.com. WHL, one of the leading marketers of stock house plans in Canada, has operated its plans business in the United States and Canada for more than 25 years, and is one of the leading innovators in the market. In addition to more than 14,800 plans available to customers, which includes over 500 proprietary Weinmaster plans, WHL has an impressive array of content and tools to help homeowners and their builders economically build their dream homes.

AccessMedia Acquisition

On December 16, 2005, Broadcaster and AccessMedia, Inc. entered into a definitive agreement whereby Broadcaster agreed to acquire 100% of the outstanding capital stock of AccessMedia. The acquisition was completed on June 1, 2006. Broadcaster accounted for the business combination as a purchase.

The purchase price of approximately \$41.7 million was comprised as follows:

(In thousands)

Description	Amount
Fair value of common stock	\$ 37,975
Direct transaction costs	3,690
Total	\$ 41,665

The calculation is based on the issuance of 29,000,000 shares of Broadcaster common stock to the shareholders of AccessMedia on June 1, 2006 and 7,000,000 shares issued as of December 31, 2006 as a result of attainment of the first milestone of an earnout pursuant to the definitive merger agreement. The purchase price includes \$32.1 million on June 1, 2006 and \$9.6 million on December 31, 2006. We also issued 2,450,000 and will issue 350,000 shares of our common stock to Baytree Capital Associates, LLC on June 1, 2006 and as of December 31, 2006 respectively. Baytree is controlled by a former AccessMedia shareholder. For the shares Baytree received on June 1, 2006, 1,450,000 were a financial advisory fee and 1,000,000 shares were for consulting services. The definitive merger agreement was announced on December 16, 2005.

As part of Baytree's Consulting Agreement, it receives 5% of all shares under the AccessMedia earnout. As a result, Baytree will be issued 5% or 350,000 shares of the 7,000,000 shares of our common stock relating to the first milestone which was met in the quarter ended December 31, 2006. In the quarter ending March 31, 2007, at least two additional milestones have been met. On approval of the Board of Directors, we will issue the former AccessMedia shareholders 14,000,000 shares of our common stock and an additional 5% to Baytree or 700,000 shares. Due to the issuance of a total of 7,350,000 shares as part of the first milestone of the earnout, goodwill increased \$9,555,000 for the quarter ended December 31, 2006. Our goodwill will also increase by approximately \$20,947,500 for the quarter ended March 31, 2007 as a result of the issuance of the 14,700,000 shares under the second and third milestones.

The value of AccessMedia's net tangible and intangible assets is based upon their estimated fair value as of the date of the completion of the business combination. The estimated fair value is independent of the preliminary values historically recorded on the books and records of AccessMedia. The allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values was as follows:

(In thousands)

Description	Amounts (unaudited)
Cash acquired	\$ 134
Other tangible assets acquired	719
Amortizable intangible assets	
Software	9,800
Domain names	80
Media content	5,800

Goodwill	35,456
Liabilities assumed	(3,943)
Deferred tax liability	(6,381)
Total	\$ 41,665

\$15,680,000 has been allocated to amortizable intangible assets with useful lives ranging from 10 to 30 years as follows: software 10 years, domain names and content 30 years.

The residual purchase price of \$35,456,000 has been recorded as goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill will not be amortized and will be tested for impairment at least annually. The agreement provides that 35 million additional shares may be earned and awarded to the current shareholders of AccessMedia. Any additional shares earned would be a future addition to goodwill.

During the quarter ended December 31, 2006, our Board of Directors agreed to amend the definitive merger agreement to include, unique visitors in the calculation of the earnout of the additional shares. The earnout is based on revenues from AccessMedia's broadcaster.com website and is not related to earnings. Under the amendment, each unique visitor is equal to \$1.00.

AccessMedia's acquired technology includes certain additional products with market opportunities. These opportunities were significant contributing factors to the establishment of the purchase price, resulting in the recognition of a significant amount of goodwill. In addition, the acquisition provides an experienced workforce, development of certain technology assets permitting the Company to deliver content to consumers over the Internet, existing business knowledge and practice supporting the proposed products and services, marketing programs and a base level of customers.

Acquisition of America's Biggest, Inc. Assets

On September 29, 2006, Broadcaster completed the acquisition of 100% of the assets of America's Biggest, Inc. The consideration paid to America's Biggest consisted of 1,000,000 shares of Broadcaster stock and \$500,000 in cash. America's Biggest is an online grassroots talent showcase for actors, comedians, dancers, models as well as bands and musicians. America's Biggest empower its artist membership with technology and business tools to enable them to build their own brand and fan base independent of big labels.

The allocation of the purchase price to the assets acquired based on their estimated fair values was as follows:

(In thousands)

Description	Amounts	
	(unaudited)	
Amortizable intangible assets		
Domain names	\$	525
Software		350
Customer lists		250
Trademark		150
Marketing materials		209
Total	\$	1,484

Pro Forma Information

The following pro forma financial information for the quarter ended December 31, 2005 gives effect to the acquisition of AccessMedia as if that acquisition had occurred on the first day of the fiscal year.

Six months ended			Three months ended		
December 31, 2005			December 31, 2005 (unaudited)		
As	AccessMedia	Pro	As	AccessMedia	Pro
Originally		Forma	Originally		Forma

	Stated			Stated		
Net revenues	\$3,233	\$1,477	\$4,710	\$1,516	\$1,083	\$2,599
Net Income	(1,830)	(2,540)	(4,370)	121	(1,370)	(1,249)
Earnings (loss) per share	(0.06)	(0.09)	(0.15)	0.00	(0.04)	(0.04)

The unaudited pro forma financial information has been prepared by Broadcaster for illustrative purposes only and is not necessarily indicative of the condensed combined consolidated financial position or results of operations in future periods, or the results that actually would have been realized had Broadcaster and AccessMedia been a combined company during the specified periods.

5.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, trade receivables, trade payables and debt approximates carrying value due to the short maturity of such instruments.

6.

INTANGIBLE ASSETS

Software Development Costs and License Fees

Costs incurred in the initial design phase of software development are expensed as incurred in research and development. Once the point of technological feasibility is reached, direct production costs are capitalized in compliance with Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. We cease capitalizing computer software costs when the product is available for general release to customers. Costs associated with acquired completed software are capitalized.

We amortize capitalized software development costs and visual content license fees on a product-by-product basis. The amortization for each product is the greater of the amount computed using (a) the ratio of current gross revenues to the total of current and anticipated future gross revenues for the product or (b) 18, 36, or 60 months, depending on the product. We evaluate the net realizable value of each software product at each balance sheet date and record write-downs to net realizable value for any products for which the carrying value is in excess of the estimated net realizable value.

Other Intangible Assets

Other intangible assets other than goodwill represent Internet domain names, acquired customer lists and contracts, distribution rights and relationships, proprietary plans, trade names and trademarks. These assets are amortized using the straight-line method over the estimated useful lives, generally five to fifteen years.

Impairment of Long-Lived Assets

We review long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. We did not recognize any impairment loss for long-lived assets for the six months ended December 31, 2006 and 2005.

Goodwill

In accordance with SFAS No. 142, *Goodwill and Intangible Assets*, goodwill is assessed for impairment annually (in our first fiscal quarter) or more frequently if circumstances indicate impairment. We had goodwill in the amount of \$39.7 million and \$30.2 million as of December 31, 2006 and June 30, 2006, respectively, mainly related to the acquisition of AccessMedia. We have not recognized any impairment related to goodwill for the six months ended December 31, 2006 and 2005.

7.

DEBT

The following table details our outstanding debt as of December 31, 2006:

	As of December 31, 2006
(In thousands)	
Short-term	
Acquisition related obligations	\$ 50
Demand notes payable to related party	1,725
Subtotal short-term	1,775
Long-term	
Acquisition related obligations	180
Subtotal long-term	180
Grand total	\$ 1,955

Short-term notes payable consisted of a 4% secured note payable to a related party amounting to \$1,725,000 and a 10% unsecured note payable to a non-related party amounting to \$50,000. The related party notes are owed to Mr. Nolan Quan, our principal shareholder, and are secured by the assets of AccessMedia, a subsidiary company. Long term debt consists of non-interest bearing obligations related to the acquisition of product lines. The imputed interest rate on this loan is 6%.

8.

SEGMENT INFORMATION

We have two reportable operating segments which are based on our product families that generate revenues and incur expenses related to the sale of our software and Internet content. All inter-company amounts are eliminated through consolidation. Certain general and administrative expenses are allocated among our different segments.

(In thousands)	Three months ended December, 31 2006			Three months ended December, 31 2005		
	Broadcaster	Houseplans	Total	Broadcaster	Houseplans	Total
Net revenues	\$ 1,906	\$ 1,242	\$ 3,148	\$ 1,516	\$ 1,516	\$ 1,516
Gross margin	489	765	\$ 1,254	967	\$ 967	\$ 967
Operating loss	(3,287)	(682)	\$ (3,969)	(203)	\$ (203)	\$ (203)
Total assets	\$ 61,379	\$ 9,356	\$ 70,735	\$ 4,759	\$ 4,759	\$ 4,759

(In thousands)	Six months ended December, 31 2006			Six months ended December, 31 2005		
	Broadcaster	Houseplans	Total	Broadcaster	Houseplans	Total
Net revenues	\$ 4,842	\$ 2,940	\$ 7,782	\$ 3,233	\$ 3,233	\$ 3,233
Gross margin	2,239	1,816	\$ 4,055	2,010	\$ 2,010	\$ 2,010
Operating loss	(5,001)	(930)	\$ (5,931)	(600)	\$ (600)	\$ (600)
Total assets	\$ 61,379	\$ 9,356	\$ 70,735	\$ 4,759	\$ 4,759	\$ 4,759

The following table details the breakdown of our net revenues and total assets by geographical location. The International column includes revenues relating to our wholly owned subsidiary, Weinmaster Homes Ltd., in Canada.

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(In thousands)	Three months ended December, 31 2006			Three months ended December, 31 2005		
	Domestic	International	Total	Domestic	International	Total
Net revenues	\$ 2,284	\$ 864	\$ 3,148	\$ 982	\$ 534	\$ 1,516
Total assets	\$ 69,024	\$ 1,711	\$ 70,735	\$ 385	\$ 4,374	\$ 4,759

(In thousands)	Six months ended December, 31 2006			Six months ended December, 31 2005		
	Domestic	International	Total	Domestic	International	Total
Net revenues	\$ 5,714	\$ 2,068	\$ 7,782	\$ 2,205	\$ 1,028	\$ 3,233
Total assets	\$ 69,024	\$ 1,711	\$ 70,735	\$ 385	\$ 4,374	\$ 4,759

9.

EARNINGS PER SHARE POTENTIALLY DILUTIVE SECURITIES

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon on exercise of stock options and warrants (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. The following table summarizes the weighted average shares outstanding:

	Three months ended December 31,	
	2006	2005
Basic weighted average shares outstanding	64,741	29,821
Total stock options outstanding	3,872	4,565
Less: anti dilutive stock options due to loss	(3,872)	(4,189)
Total warrants outstanding	4,386	6,324
Less: anti dilutive warrants due to loss	(4,386)	(4,690)
Contingent shares issuable	7,350	
Less: anti dilutive contingent shares issuable due to loss	(7,350)	
Diluted weighted average shares outstanding	64,741	31,831

	Six months ended December 31,	
	2006	2005
Basic weighted average shares outstanding	64,065	29,755
Total stock options outstanding	3,872	4,565
Less: anti dilutive stock options due to loss	(3,872)	(4,565)
Total warrants outstanding	4,386	6,324
Less: anti dilutive warrants due to loss	(4,386)	(6,324)
Contingent shares issuable	7,350	
Less: anti dilutive contingent shares issuable due to loss	(7,350)	
Diluted weighted average shares outstanding	64,065	29,755

The contingent shares became issuable after the Company accomplished the first revenue milestone pursuant to the merger with AccessMedia. In accordance with Statement of Financial Accounting Standards No. 28 Earnings per Share, the calculation of basic weighted average shares outstanding reflects the contingent shares as outstanding from December 31, 2006 the date the contingency was satisfied.

10.

STOCK-BASED AWARDS

The Company has two stock option plans, The 2004 Incentive Stock Option Plan (the 2004 Plan) adopted during fiscal 2004 and the 1993 Incentive Option Plan adopted on June 30, 1993 (the 1993 Plan). The purpose of the 2004 and the 1993 Plans was to further the growth and general prosperity of Broadcaster by enabling our employees to acquire our common stock, increasing their personal involvement in the Company and thereby enabling Broadcaster to attract and retain our employees. No further options are available for grant under the 2003 Plan.

Under existing federal tax laws, certain benefits are not applicable to stock options granted under plans adopted more than 10 years prior. In particular, options granted more than 10 years after adoption of the 1993 Plan are not eligible for incentive stock option treatment within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. Broadcaster believes that the ability to grant incentive stock options to its employees is critically important. We hope to offer incentive compensation to such employees on par with those provided by our competition and others in the high-tech industry. In addition, tax laws and incentive compensation policies have changed since adoption of the 1993 Plan. As a result, our Board of Directors has adopted and our

shareholders approved the 2004 Plan to permit Broadcaster to offer a wide range of incentives, including incentive and non-statutory stock options and stock purchase rights.

Stock options are granted at an exercise price equivalent to the closing fair market value on the date of grant. All options are granted at the discretion of the Company's Board of Directors and have a term of not greater than 10 years from the date of grant. Options are exercisable when vested. Vesting requires continuous employment up to the vesting date and the vesting schedule is determined by the Board of Directors at the time of each option grant.

The 2004 Plan

The 2004 Plan provides for the granting of options to purchase up to an aggregate of 10,500,000 common shares to employees, directors and other service providers of Broadcaster. Any options that expire prior to exercise will become available for new grants from the pool of ungranted options. Options that are granted under the 2004 Plan may be either options that qualify as incentive stock options under the Internal Revenue Code (Incentive Options), or those that do not qualify as such incentive stock options (Non-Qualified Options).

The Incentive Options may not be granted at a purchase price less than the fair market value of the Common Shares on the date of the grant (or, for an option granted to a person holding more than 10% of the Company's voting stock, at less than 110% of fair market value) and Non-Qualified Options may not be granted at a purchase price less than 85% of fair market value on the date of grant. The term of each option, under the 2004 Plan, which is fixed at the date of grant, may not exceed 10 years from the date the option is granted (by law, an Incentive Option granted to a person holding more than 10% of the Company's voting stock may be exercisable only for five years). At June 30, 2006, 6,500,000 options were available for future grants under the 2004 Plan. The 6,500,000 shares were approved by Broadcaster shareholders at the Annual Meeting held in May 2006. As of the date of this Report, 409,500 shares remain available for grant.

The following table summarizes options at December 31, 2006.

	Number of Shares		Weighted Average Exercise Price
Outstanding, June 30, 2005	4,507,929	\$	1.10
Granted	1,575,500		1.33
Exercised	(904,688)		0.74
Cancelled	(657,234)		1.23
Outstanding, June 30, 2006	4,521,507	\$	1.19
Granted	500,000		1.07
Exercised	(465,550)		0.89
Cancelled	(683,740)		1.16
Outstanding, December 31, 2006	3,872,217	\$	1.22

The following table summarizes options at December 31, 2006.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$000 s)
Outstanding	3,872,217	\$ 1.22	8.33	\$ 783
Vested and Expected to Vest	3,582,685	1.21	8.29	776
Exercisable	3,316,560	1.17	8.13	737

At December 31, 2006, the Company had \$2,523,000 of unrecognized compensation expense, net of forfeitures, related to stock options that will be recognized over the weighted average remaining vesting period of 1.39 years.

Warrants

Warrants have been granted from time to time in conjunction with financings, debt settlements, Board of Directors and employee compensation and consulting arrangements. The following table summarizes warrant activity for the year ended June 30, 2006 and the six months ended December 31, 2006.

	Number of Warrants		Average Exercise Price
Outstanding, June 30, 2005	6,398,244	\$	1.40
Granted	126,250		1.13
Exercised			
Exercised cashless	(1,987,501)		
Expired			
Outstanding, June 30, 2006	4,536,993	\$	1.72
Granted			
Exercised			
Exercised cashless	(150,000)		
Expired			
Outstanding, December 31, 2006	4,386,993	\$	1.72

The amount of shares issued under cashless exercise warrants was 126,341 shares.

Other Information Regarding Stock Options and Warrants

Additional information regarding common stock options and warrants outstanding as of December 31, 2006 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Avg. Remaining Life	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
\$0.20-\$0.60	107,000	7.06	\$ 0.48	107,000	0.48
\$0.61-\$0.71	81,426	6.49	\$ 0.71	81,426	0.71
\$0.72-\$1.06	1,167,364	8.51	\$ 0.92	1,054,530	0.91
\$1.07-\$1.44	1,664,459	8.25	\$ 1.19	1,461,074	1.19
\$1.45-\$4.17	851,968	8.51	\$ 1.79	612,530	1.76
	3,872,217		\$ 1.21	3,316,560	1.17

	Warrants Outstanding		Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
\$0.21 - \$0.75	361,952	\$ 0.56	361,952	0.56
\$0.81	1,887,500	\$ 0.81	1,887,500	0.81
\$0.90	147,000	\$ 0.90	147,000	0.90
\$1.03 - \$1.26	996,250	\$ 1.15	981,250	1.15
\$1.65 - \$2.30	600,000	\$ 1.98	600,000	1.98
\$5.00 - \$14.85	394,291	\$ 9.05	394,291	9.05
	4,386,993		4,371,993	

Prior to July 1, 2006, the Company had adopted the disclosure only provisions of SFAS 123. Had compensation cost for the stock-based compensation plans been determined based upon the fair value at grant dates for awards under those plans consistent with the method prescribed by SFAS 123, net loss would have been increased to the pro forma amounts indicated below. The pro forma consolidated financial information should be read in conjunction with the related historical information and is not necessarily indicative of actual results.

	Three months ended December 31, 2006	Six months ended December 31, 2005
(In thousands, except per share amounts)		
Net income (loss), as reported	\$ 121	\$ (1,830)
Intrinsic compensation charge recorded under APB 25	18	18
Pro Forma compensation charge under SFAS 123, net of tax	(83)	(159)
Pro Forma net income (loss)	\$ 56	\$ (1,971)
Earnings Per Share:		
Basic as reported	\$ (0.00)	\$ (0.07)
Basic pro forma	\$ (0.00)	\$ (0.07)
Diluted as reported	\$ (0.00)	\$ (0.07)
Diluted pro forma	\$ (0.00)	\$ (0.07)

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

	Three months ended December 31, 2006		2005	
Risk-free interest rates	4.7 %		4.3 %	
Expected dividend yields				
Expected volatility	88 %		72 %	
Expected option life (in years)	5		10	
	Six months ended December 31, 2006		2005	

Risk-free interest rates	4.59 %	4.2 %
Expected dividend yields		
Expected volatility	82 %	75 %
Expected option life (in years)	5	10

The weighted average fair value as of the grant date for grants made during the quarter ended December 31, 2006 and 2005 were \$0.96 and \$0.71, respectively.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Following Discussion Should Be Read Together with the Information Contained in the Financial Statements and Related Notes Included Elsewhere in this Form 10-QSB.

Overview

We historically operated as a software company. Prior to the acquisition of AccessMedia Networks, Inc. (AccessMedia) on June 1, 2006, we operated in two business segments: (i) computer aided design and precision engineering (Precision Design) and (ii) house plans and architectural drawings (Houseplans). As discussed below, we subsequently disposed of Precision Design and, as a result, we now operate in two business segments, Broadcaster and Houseplans. In order to reflect the change in our business model we have renamed the Accessmedia segment to Broadcaster. This segment is comprised of a newly formed subsidiary, Broadcaster Interactive Group (BIG) and Accessmedia. The Houseplans segment includes Houseplans and WHL.

Prior to November 2006, AccessMedia's business model consisted of an online entertainment portal that charged users a monthly subscription fee. In November of 2006, the Company decided to focus its efforts and resources related to building a user base. Because of this the Company incorporated BIG, which will focus on building innovative products online and offering our community numerous content offerings. We continue to offer our subscription model. It attracts far less traffic than our free business model, and revenues in the quarter ended December 31, 2006 from our subscription model declined from revenues in the quarter ended September 30, 2006. We do not presently generate revenues from our free business model. We are currently concentrating on building an increasing number of unique monthly visitors and repeat use of broadcaster.com by these visitors.

The Company released iGrab and studioPro as new tools for customers to download and use. In addition the Company anticipates releasing several new tools that will continue to enhance the user experience and provide a safe environment for users

In 2004, we began exploring various ways to enhance shareholder value, including the further migration of Broadcaster from a traditional or packaged software company to offering downloadable media and content over the Internet. We believe that the growth and reach of the Internet coupled with the predictability of recurring revenues should lead to enhanced Broadcaster shareholder value. As such, during 2005 we began discussions with AccessMedia, a developer of a platform for delivering real-time and interactive media over the Internet through its unique virtual set-top box technology. Concurrent with the completion of the acquisition of AccessMedia, we changed our name to Broadcaster, Inc.

Highlights for the six months ended December 31, 2006 consisted of:

-

As a result of our new business model, we recorded 13,383,755 absolute unique visitors for the month of December as tracked by Google Analytics.

-

Release of new innovative products such as iGrab, StudioPro and BroadcasterLive.

•

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)), effective July 1, 2006, resulting in a non-cash expense of \$1,203,000 for the six months ended December 31, 2006 and \$696,000 for the three months ended December 31, 2006;

•

We completed the move of our headquarters from Northern California to Southern California.

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Despite a continued downturn in the housing market and increased interest rates, revenues at our Houseplans segment remained stable.

Broadcaster is a free entertainment community that empowers users to create, view and organize compelling and original rich-media content. Since its launch in the quarter ended December 31, 2006, Broadcaster.com has amassed loyal audiences that upload and view millions of video files each month. Broadcaster's ever expanding library content offers a wide variety of full-length movies, music videos, news feeds, original and proprietary content. In addition, Broadcaster offers several multimedia applications that streamline the user's ability to not only find and organize online entertainment but also create their own original podcasts, videos, and live webcasts.

We provide users with delivery of both short and long form digital entertainment content – giving them the power to download content to their desktop computer, laptop, PSP, video iPod or preferred mobile device. We enable consumers to easily find, organize, download and enjoy the growing volumes of high quality content available online. Our capabilities span our proprietary media library, media under license, and media readily available on the Internet. We are also in discussions with major studios, cable and television networks, music labels, and game producers to become a gateway for the direct delivery of first run movies, popular television shows, music and online games.

Our innovative products and content offerings redefine the user experience on the Internet. Here is a list of our innovative products and content offerings.

Innovative Products

Broadcaster's technologies are utilized throughout its product suite to create innovative, leading edge products for the support of video entertainment on demand:

- ***Broadcaster Live!*** allows the Broadcaster community to enable their webcams and start broadcasting to the world.
- ***Broadcaster's iGrab*** a powerful media search tool that allows users to find, download and organize videos and images to their hard drive.
- ***Broadcaster Video*** empowers users to upload and share video content within the Broadcaster community. Registered members can leave messages with other community members.
- ***Broadcaster's StudioPRO*** allows users to capture and re-broadcast any video playing on their desktop, including live streaming video, pre-recorded video clips, and picture images.
- ***Broadcaster's Deskbar*** notifies users of interesting content based upon their preferences; subject to future release.
- ***Broadcaster's Parental Control*** assures that only authenticated users are able to access mature content while surfing anywhere on the Internet; subject to future release.

Content Offerings

-

User-Generated Content as one of its most popular features, Broadcaster Video offers users the ability to upload and share their own clips and short movies with other users within the Broadcaster community and around the Internet.

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On Demand Entertainment users can search countless movie and music facts and reviews. In addition, users can download or stream full-length movies, television shows, music videos and hi-definition content.

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Breaking News users can access real-time news articles, photos and video downloads covering everything from entertainment and sports to world news and celebrity gossip.

•

Music In addition to hundreds of thousands of artist profiles and album reviews, users can watch over 6,000 music videos and listen to over 600,000 sample MP3 s.

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Games and Mobile Media Broadcaster offers a variety of interactive computer games and flash videos. Users can also download viral videos, podcasts and vodcasts directly to their PSP, iPod or mobile device by accessing our *Mobile Media* channel

Houseplans

In addition to our Internet entertainment network, we are also a leading on-line distributor of stock architectural house plans. We have an extensive library of over 25,000 unique architectural house plans and have more than 150,000 registered members. Our house plans are sold to developers, builders, architects and individuals allowing our customers to substantially reduce upfront planning and building costs.

Acquisition of AccessMedia

We completed the merger with AccessMedia (the Merger) on June 1, 2006 pursuant to which we issued 29,000,000 shares of our common stock and agreed to issue up to an additional 35,000,000 shares of our common stock upon achievement of certain revenue milestones to the former shareholders of AccessMedia. An additional 2,450,000 shares of Broadcaster common stock were issued in payment of Merger related fees.

During the quarter ended December 31, 2006, our Board of Directors amended the revenue milestone to include unique visitors with each visitor equal to \$1.00. The Company accomplished the first milestone in the quarter ended December 31, 2006. As a result, the former shareholders of AccessMedia accrued an additional 7 million shares. Pursuant to the definitive merger agreement, Baytree Capital will receive a 5% fee, payable in shares.

AccessMedia is led by seasoned Internet entrepreneurs. This team has been one of the foremost innovators of technologies, marketing, and advertising strategies for Internet-based consumer media offerings, and until now this team has operated in a private company environment. Additionally, this team has been a leader in providing web site development, traffic, database management, and hosting for many of the largest worldwide media companies.

As part of Baytree's Consulting Agreement, it receives 5% of all shares under the AccessMedia earnout. As a result, Baytree will be issued 5% or 350,000 shares of the 7,000,000 shares of our common stock relating to the first milestone which was met in the quarter ended December 31, 2006. In the quarter ending March 31, 2007, at least two additional milestones have been met. On approval of the Board of Directors, we will issue the former AccessMedia shareholders 14,000,000 shares of our common stock and an additional 5% to Baytree or 700,000 shares. Due to the issuance of a total of 7,350,000 shares as part of the first milestone of the earnout, goodwill increased \$9,555,000 for the quarter ended December 31, 2006. Our goodwill will also increase by approximately \$20,947,500 for the quarter ended March 31, 2007 as a result of the issuance of the 14,700,000 shares under the second and third milestones.

Sale of Precision Design

In June 2006, we sold Precision Design, our legacy software business as part of our overall strategy to position the Company solely as an on-line business. We received a combination of \$6.5 million in cash and an interest free note of \$1.5 million, which was paid in full on July 3, 2006. \$0.5 million of the purchase price is deposited in an indemnity escrow to secure certain representations and warranties included in the asset purchase agreement. Included in the assets sold were the TurboCad and DesignCAD product lines as well as other design and personal productivity titles. We received the escrow payment on February 6, 2007.

Strategy and Growth

We believe that consistent growth of both the revenues and operating earnings can be achieved through internally developed products and services, and through acquisitions. Management believes that good value target companies are present in the marketplace and that business combinations with these entities would help us achieve our growth

potential in addition to providing synergies that would improve profitability.

Critical Accounting Policies

Those material accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition are discussed below.

Our significant accounting policies are more fully described in the notes to our consolidated financial statements. The policies discussed immediately below, are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management to determine the appropriate assumptions to be used in the determination of certain estimates.

Revenue Recognition

Revenues are recognized in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions*. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), product or service has been delivered, the fee is fixed and determinable, and collection of the resulting account is probable.

-

For software and content delivered via the Internet, revenues are recorded when the customer downloads the software, activates the subscription account or is shipped the content.

-

Subscription revenues are recognized ratably over the contract period.

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Revenues related to the display of advertisements on its Internet properties as impressions (the number of times that an advertisement appears in pages viewed by users) are delivered, as long as no significant obligations remain at the end of the period. To the extent that significant obligations remain at the end of the period, the Company defers recognition of the corresponding revenues until the remaining guaranteed amounts are achieved.

-

Revenues from the display of text-based links to the websites of its advertisers are recognized as the click-throughs (the number of times a user clicks on an advertiser's listing) occur.

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Revenues related to the sale of Houseplans are recognized when the plan is shipped to the customer.

Impairment

Property, equipment, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenues. We account for the impairment and disposition of long-lived assets in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with SFAS 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

In accordance with SFAS No. 142, *Goodwill and Intangible Assets*, goodwill is being assessed for impairment annually or more frequently if circumstances indicate impairment. The Company's assessment of goodwill at September 30, 2006 indicated that no impairment exists at that date.

Stock Based Awards

On July 1, 2006, the Company adopted SFAS 123(R) which requires the measurement and recognition of compensation expense in the statement of operations for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

Results of Operations

The following table sets forth our results of operations for the three months ended December 31, 2006 and 2005 in absolute dollars and as a percentage of net revenues. It also details the changes from the prior fiscal year in absolute dollars and in percentages.

Three Months Ended December 31, 2006 Compared to the Three Months Ended December 31, 2005

(In Thousands)	Three months ended December 31,					
	2006		2005		\$ Change from previous year	
	\$	As % of sales	\$	As % of sales	Variance	%
Net revenues	\$ 3,148	100 %	\$ 1,516	100 %	\$ 1,632	108 %
Product cost	1,894	60 %	549	36 %	1,345	245 %
Gross margin	1,254	40 %	967	64 %	287	30 %
Operating expenses						
Sales & marketing	2,196	70 %	660	44 %	1,536	233 %
General & administrative	2,956	94 %	452	30 %	2,504	554 %
Research & development	71	2 %	58	4 %	13	22 %
Total operating expenses	5,223	166 %	1,170	77 %	4,053	346 %
Operating loss	(3,969)	-126 %	(203)	-13 %	(3,766)	1,855 %
Other income (expenses)						
Interest expense	(16)	-1 %	(2)	0 %	(14)	700 %
Interest income	114	4 %		0 %	114	
Total other income (expense)	98	3 %	(2)	0 %	100	-5,000 %
Loss before income tax	(3,871)	-123 %	(205)	-14 %	(3,666)	1,788 %
Income tax benefit (provision)	253	-8 %	(39)	3 %	292	749 %
Income loss from continuing operations	(3,618)	-115 %	(244)	-16 %	(3,374)	1,383 %
Income (Loss) from discontinued operations, net of	44	1 %	(4)	0 %	48	1,200 %

income tax

Gain (loss) from the sale of
discontinued operations, net of
income tax

0 % 369 24 % (369) -100 %

Net income (loss) **\$ (3,574)** **-114 %** **\$ 121** **8 %** **\$ (3,695)** **-3,054 %**

Six Months Ended December 31, 2006 Compared to the Six Months Ended December 31, 2005

(In Thousands)	Six months ended December 31,					
	2006		2005		\$ Change from previous year	
	\$	As % of sales	\$	As % of sales	Variance	%
Net revenues	\$ 7,782	100 %	\$ 3,233	100 %	\$ 4,549	141 %
Product cost	3,727	48 %	1,223	38 %	2,504	205 %
Gross margin	4,055	52 %	2,010	62 %	2,045	102 %
Operating expenses						
Sales & marketing	4,331	56 %	1,306	40 %	3,025	232 %
General & administrative	5,513	71 %	1,209	37 %	4,304	356 %
Research & development	142	2 %	95	3 %	47	49 %
Total operating expenses	9,986	128 %	2,610	81 %	7,376	283 %
Operating loss	(5,931)	-76 %	(600)	-19 %	(5,331)	889 %
Other income (expenses)						
Interest expense	(46)	-1 %	(5)	0 %	(41)	820 %
Interest income	242	3 %		0 %	242	
Total other income	196	3 %	(5)	0 %	201	4,020 %
Loss before income tax	(5,735)	-74 %	(605)	-19 %	(5,130)	848 %
Income tax benefit (provision)	395	5 %	(39)	-1 %	434	-1,113 %
Loss from continuing operations	(5,340)	-69 %	(644)	-20 %	(4,696)	729 %
Gain (Loss) from discontinued operations, net of income tax	77	1 %	(712)	-22 %	789	111 %
Gain (loss) from the sale of discontinued operations, net of income tax		0 %	(474)	-15 %	474	100 %

Revenues generated by this segment declined slightly during the three months ended September 30, 2006 as compared to the same period in the previous fiscal year from \$1,717,000 to \$1,699,000 a 1.0% decrease. Excluding the acquisition of Weinmaster, revenues grew from \$1,117,000 to \$1,204,000 a 7.8% increase.

Net Revenues

Net revenues increased to \$7,782,000 for the six months ended December 31, 2006 from \$3,233,000 for the six months ended December 31, 2005 or an increase of approximately 141%. The increase is due to the acquisition of AccessMedia revenues since the acquisition date of June 1, 2006.

Gross Profit

Our consolidated gross profit increased from \$967,000 and \$2,010,000 to \$1,254,000 and \$4,055,000 or 30% and 102% for the three and six months ended December 31, 2005 and December 31, 2006 respectively. Gross margin decreased from 64% to 40%. The decrease in gross margin is a result of decreased sales in AccessMedia. We expect our gross profit to decrease until July 2007 at which time we expect to begin generating revenues from BIG.

AccessMedia's cost of revenue consists of costs related to the products and services AccessMedia provides to customers. These costs include materials, salaries and related expenses for product support personnel, depreciation and maintenance of equipment used in providing services to customers and facilities expenses. The cost of revenues increased as a function of increasing activity over the periods and as result of amortization of assets acquired during 2005. Alchemy Communications, Inc., a company controlled by Mr. Nolan Quan, our principal shareholder, provides us with services including Internet connectivity, hosting services, programming services and equipment and office facilities. During the three and six months ended December 31, 2006, cost of sales included \$130,000 and \$310,000 related to these services.

Sales and Marketing

Sales and marketing expenses increased from \$660,000 and \$1,306,000 to \$2,196,000 and \$4,331,000, or 233% and 232% for the three and six months ended December 31, 2005 and December 31, 2006, respectively. This increase was principally due to the Merger with AccessMedia, and the launch of BIG.

Sales and marketing expense for AccessMedia consists primarily of salaries and related expenses for sales, support and marketing personnel, commissions, costs and expenses for customer acquisition programs and referrals, a portion of facilities expenses and depreciation and amortization of equipment. AccessMedia's expense levels have increased because of staffing and costs involved in testing and prototyping programs for selling its software, advertising and text-based links. AccessMedia anticipates that sales and marketing expense will continue to increase in absolute dollars as AccessMedia adds sales and marketing personnel and increases its customer acquisition activities.

General and Administrative

General and administrative expense consists primarily of salaries and related expenses for administrative, finance, legal, human resources and executive personnel, fees for professional services and costs of accounting and internal control systems to support its operations. Expenses have increased primarily due to the addition of headcount in management and administration to support the increasing activity levels and as a result of amortization of assets acquired during 2006. Additionally, the adoption of SFAS 123 (R) resulted in an expense of \$507,000 and \$1,203,000 for the three and six months ended December 31, 2006. We expect we will incur approximately \$2,522,754 of

non-cash stock option expense over the next six quarters related to the fair value of options unvested at December 31, 2006.

We anticipate that general and administrative expense will continue to increase in absolute dollars as AccessMedia builds its management team and hires additional administrative personnel and incurs increased costs such as professional fees. AccessMedia expects to secure a number of services from a related party at a market rate. During the three and six months ended December 31, 2006, general and administrative expenses included \$71,000 and \$51,000 related to services provided by Alchemy Communications, a company controlled by Mr. Nolan Quan, our principal shareholder.

Research and Development

Our research and development expenses consist primarily of salaries and benefits for research and development employees and payments to independent contractors, mainly our third party contract development teams.

Interest and Other, Net

Interest and other, net, changed from a net expense of \$5,000 to a net gain of \$196,000 for the six months ended December 31, 2005 and December 31, 2006 respectively. The change was principally due to an increase in cash balances and a reduction in debt obligations resulting from the deployment of proceeds from the sale of Precision Design.

Provision for State and Federal Income Taxes

We recorded income tax benefit of \$253,000 and \$395,000 for the three and six months ended December 31, 2006. The tax benefit for the three and six months ended December 31, 2006 primarily represented the release of deferred tax provision on amortization of intangible assets offset by accrued Canadian income taxes.

We have not recorded a tax benefit for domestic tax losses because of the uncertainty of realization. We adhere to SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Consistent with our past practice, we have recorded a full valuation allowance at December 31, 2006 as the realizability of our net operating loss carry-forwards is not determinable.

Discontinued Operations***(Loss) from discontinued operations, net of income tax******Sale of Allume***

On July 1, 2005, we sold all of the issued and outstanding capital stock of Allume to Smith Micro for an aggregate sales price of \$12.8 million made up as follows:

(In millions)		
Description		Amount
Cash	\$	11.0
Fair value of 397,547 unregistered shares of our Smith Micro common stock		1.8
Total	\$	12.8

The fair value of the common stock was based on the five-trading-day average price of Smith Micro's common stock surrounding the date the business combination was announced.

At closing an indemnity escrow was established to secure certain representations and warranties included in our stock purchase agreement with Smith Micro. The following sale proceeds were deposited into the escrow.

(In millions)

Description	Amount
Cash	\$ 1.25
170,398 unregistered shares of our Smith Micro common stock	0.784
Total	\$ 2.034

The value of the common stock was based on the date of closing.

On November 2, 2005, we replaced the shares of Smith Micro common stock in escrow with cash, as permitted by the escrow agreement.

On November 10, 2005, we sold 100% of our holdings of Smith Micro shares at a gain of \$923,000 which was shown in Other Income as Realized Gain on Securities in the December quarter.

Pursuant to the stock purchase agreement, Smith Micro released \$500,000 plus interest of \$7,000 and \$750,000 plus interest of \$26,000 of the escrowed cash to us in December 2005 and March 2006, respectively. These amounts, when released, added to our calculation of gain or loss on the sale.

As a result of this sale we recorded a loss on the sale of discontinued operations of \$843,000 during the three months ended September 30, 2005. This loss calculation does not consider the remaining cash held in escrow of approximately \$0.3 million. The balance of escrow is expected to be in the 3rd quarter ended March 31 2007.

Sale of Precision Design

On June 9, 2006 Broadcaster sold substantially all of the assets used in the operation of the segment of our business referred to as the Precision Design Software Business. The assets were sold to IMSI Design, LLC, a California limited liability company (the Purchaser) which was newly formed for the purpose of the acquisition.

In consideration for the transfer of the assets, the Purchaser paid \$6,500,000 in cash, of which \$500,000 was deposited in an escrow to back our representations and warranties in the sale Agreement, and the Purchaser delivered its promissory note, due July 3, 2006, in the principal amount of \$1,500,000. In addition, the Purchaser assumed certain liabilities, and agreed to perform a number of contracts that were associated with the Precision Design Software Business.

As a result of this sale, we have categorized the assets, liabilities and operations of the Precision Design as discontinued operations for the twelve months ended June 30, 2006.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result.

Liquidity and Capital Resources

As of December 31, 2006, we had \$10,083,000 in cash and cash equivalents. This represents a \$2,843,000 decrease from the \$12,926,000 balance as of September 30, 2006 and a \$4,024,000 decrease from the \$14,107,000 balance as of June 30, 2006. Working capital at December 31, 2006 was \$6,258,000. This represents an decrease of \$2,953,000 over the working capital at September 30, 2006 of \$9,211,000 and a decrease of \$4,169,000 over working capital at June 30, 2006 of \$10,427,000.

Net cash used in operating activities was (\$5,215,000) for the six months ended December 31, 2006 in contrast to (\$753,000) for the six months ended December 31, 2005.

Net cash provided by investing activities was \$1,000,000 for the six months ended December 31, 2006 in contrast to \$9,146,000 in the six months ended December 31, 2006. A principal factor for the six months ended December 31, 2006 consisted of \$1,500,000 received from the sale of Precision Design. For the six months ended December 31, 2005, the principal factor consisted of \$9,466,000 received from the sale of Allume offset by (\$1,807,000) used in discontinuing operations and investing activities from the same sale.

Our net cash used in financing activities for the six months ended December 31, 2006 was \$295,000 consisting of proceeds received from the exercise of options and warrants, offset by the repayment of notes. For the six months ended December 31, 2005, our net cash used in financing activities was (\$2,879,000) consisting of cash used in discontinuing operations and financing activities.

At December 31, 2006, we had \$10,083,000 in cash which is sufficient to meet all of our working capital needs during this current fiscal year and beyond. We have no material indebtedness, other than a note payable to a related party discussed in the paragraph below.

We may seek, in the future, additional equity and/or debt financing to sustain our growth strategy. However, we believe that we have sufficient funds to support our operations at least for the next 12 months, based on our current cash position, equity sources and borrowing capacity.

Related-Person Transactions

When we acquired AccessMedia on June 1, 2006, we acquired its demand note payable of \$1,725,000 payable to Mr. Nolan Quan, who became our principal shareholder in conjunction with the AccessMedia acquisition. The note pays below market interest of 4% per annum. Mr. Quan controls Alchemy Communications which provides us with services described under Results of Operations, above. Mr. Quan controls four limited liability companies that own a significant number of shares in the company. They provide no other services to the company. The remaining shareholder of AccessMedia was Mr. Michael Gardner. Mr. Gardner as the sole member of Baytree Capital Associates, LLC received 2,450,000 shares of our common stock in connection with the merger, 1,450,000 shares as a financial advisory fee in connection with the merger and 1,000,000 shares as a consulting fee. Baytree Capital continues to provide consulting services, and earns 5% of shares issued as part of the Accessmedia Merger earnout. These services consist primarily of managerial advice, strategic advice, capital markets advice and working with our lawyers in connection with, among other things, our filings with the Securities and Exchange Commission.

Forward-Looking Statements

This quarterly report on Form 10-QSB contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including our growth and profit opportunities, the timing of our substantial revenue growth and positive cash flow, our completion of acquisitions, the favorable impact from the Weinmaster acquisition and our liquidity. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this report, including statements regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans, and objectives, are forward-looking statements. When used in this report, the words will, believe, anticipate, plan, intend, estimate, expect, project and similar are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we cannot assure you that these plans, intentions, or expectations will be achieved. Actual results may differ materially from those stated in these forward-looking statements as a result of a variety of factors including acceptance by consumers of our current and future products, including the continued growth of our new business model, our ability to complete development of new products, our ability to reach agreements with third parties relating to acquisitions, our ability to integrate Weinmaster and the risk factors contained in our Form 10-KSB, as amended, for the year ended June 30, 2006. We do not undertake any duty to update these forward-looking statements.

ITEM 3 - CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as of December 31, 2006, the end of the period covered by this quarterly report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

(b) We have evaluated our accounting procedures and control processes in place as of December 31, 2006 related to material transactions to ensure they are recorded timely and accurately in the financial statements. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II - OTHER INFORMATION**ITEM 6 - EXHIBITS****Exhibits**

The following exhibits are filed as part of, or incorporated by reference into this Report:

Number	Exhibit Title	Note
10.1	Amendment to Amended and Restated Agreement and Plan of Merger, dated December 29, 2006 by and between Broadcaster, Inc. and the shareholders of AccessMedia Networks, Inc.	(1)
10.2	Consulting Agreement with Baytree Capital Associates, LLC	(2)
10.3	Nolan Quan Consulting Agreement	
10.4	Executive Employment Agreement, dated October 24, 2006, by and between Broadcaster and Kathryn Felice	(3)
<u>31.1</u>	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
<u>31.2</u>	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
<u>32.1</u>	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
<u>32.2</u>	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

Notes

(1)

Contained as Exhibit 10.1 of Broadcaster's Current Report on Form 8-K filed on January 4, 2007.

(2)

This Exhibit replaces Exhibit 10.16 to Form 10-KSB filed on October 13, 2006, which inadvertently did not contain handwritten changes.

(3)

Contained as Exhibit 10.29 to Amendment No. 1 to Broadcaster's Registration Statement on Form SB-2 filed on November 30, 2006.

SIGNATURES

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

BROADCASTER, INC.

Date: February 14, 2007

By: */s/ Martin Wade, III*

Martin Wade, III

Director & Chief Executive Officer

By: */s/ Blair Mills*

Blair Mills

Chief Financial Officer (Principal Accounting Officer)

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