

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington D.C. 20549

**FORM SB-2**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**3DIcon Corporation**

(Name of small business issuer in its charter)

Oklahoma  
(State or other Jurisdiction  
of Incorporation or Organization)

3669  
(Primary Standard Industrial  
Classification Code Number)

73-1479206  
(I.R.S. Employer  
Identification No.)

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Tulsa, OK 74136  
(918) 492-5082  
(Address and telephone number of principal executive offices  
and principal place of business)

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**APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:**

From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Amount to be registered (1)</b>	<b>Proposed maximum offering price per share</b>	<b>Proposed maximum aggregate offering price</b>	<b>Amount of registration fee</b>
Common stock issuable upon conversion of debentures	3,040,909(2)	0.39(3)	1,845,954.51	\$ 36.40

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- (1) Includes shares of our common stock, par value \$0.002 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of convertible debentures held by the selling stockholder. The amount to be registered includes a good faith estimate of the number of shares issuable upon conversion of the debentures. In addition, the amount to be registered includes 200,000 shares which have been issued to a selling stockholder as compensation for services rendered. Should the conversion ratio of our convertible debentures result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.
- (2) Includes a good faith estimate of the shares underlying convertible debentures to account for market fluctuations.
- (3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, using the average of the high and low price as reported on the Pink Sheets on June 12, 2007, which was \$0.39 per share.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**3DICON CORPORATION  
3,040,909 SHARES OF  
COMMON STOCK**

This prospectus relates to the resale by the selling stockholders of up to 3,040,909 shares of our common stock including 2,840,909 shares, underlying a \$1.25 million convertible debenture and 200,000 shares which have been issued to a selling stockholder as compensation for services rendered. The conversion formula for the convertible debenture is the lesser of (i) \$2.00 or (ii) seventy percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The selling stockholder may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholder may be deemed an underwriter of the shares of common stock, which it is offering. We will pay the expenses of registering these shares.

Our common stock is listed on the Pink Sheets under the symbol "TDCP". The last reported sales price per share of our common stock as reported by the Pink Sheets on June 12, 2007, was \$0.42.

**Investing in these securities involves significant risks. See "Risk Factors" beginning on page 5.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2007.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by 3DIcon Corporation with the Securities and Exchange Commission. The selling stockholder may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

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## PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the notes to the financial statements.

### 3DICON CORPORATION

3DIcon Corporation is a development stage company. Our mission is to pursue, develop and market full-color, 360-degree person-to-person holographic technology that is both simple and portable. Through a "sponsored research agreement" with the University of Oklahoma, we have obtained the world-wide marketing rights to certain 3D display systems under development by the University. The development to date has resulted in the University filing three provisional patents and one utility patent on its technology. At this time, we do not own any intellectual property rights in holographic technologies, and, apart from the sponsored research agreement with the University of Oklahoma, have no contracts or agreements pending to acquire such rights or any other interest in such rights. We plan to market the technology developed by the University of Oklahoma by targeting various industries, such as retail, manufacturing, entertainment, medical, healthcare, and the military.

We have not had any revenues since our inception. For the three months ended March 31, 2007, we incurred a net loss of \$918,307. For the years ended December 31, 2006 and 2005, we incurred a net loss of \$1,469,888 and \$592,811, respectively. As a result of our insufficient revenues to fund development and operating expenses, our auditors in have expressed substantial doubt about our ability to continue as going concern.

Our principal offices are located at 7507 S. Sandusky, Tulsa, Oklahoma 74136, and our telephone number is (918) 492-5082 . Our website is [www.3DIcon.net](http://www.3DIcon.net) . We are an Oklahoma corporation.

#### The Offering

Common stock offered by selling stockholder

Up to 3,040,909 shares including 2,540,909 shares, underlying a convertible debenture in the amount of \$1,250,000, based on current market prices and assuming full conversion of the convertible debenture (includes a good faith estimate of the shares underlying convertible debenture and 200,000 shares which have been issued to a selling stockholder as compensation for services rendered). This number represents approximately 2.7% of our then current outstanding stock.

Common stock to be outstanding after the offering

Up to 115,454,866 shares assuming the full conversion of our initial \$1.25 million convertible debenture.

Use of proceeds

We will not receive any proceeds from the sale of the common stock. We have received gross proceeds of \$125,000 and expect to receive additional gross proceeds of \$1,125,000 in connection with the issuance of the convertible debenture to the selling stockholder. We plan to use the proceeds for research and development, general working capital purposes and the payment of professional fees.

Pink Sheets Ticker Symbol

TDCP

The above information regarding common stock to be outstanding after the offering is based on 112,413,957 shares of common stock outstanding as of June 12, 2007 and assumes the subsequent conversion of the \$1.25 million convertible debentures by our selling stockholder.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with Golden Gate Investors, Inc. ("Golden Gate") on November 3, 2006, as amended on December 15, 2006 (the "Purchase Agreement"), for the sale of a 6 ¼% convertible debenture of the Company in the principal amount of \$1,250,000. Pursuant to the Purchase Agreement, at such time as the principal balance of this debenture is less than \$400,000, the Company shall have the right to require Golden Gate to purchase a second debenture, also in the principal amount of \$1,250,000. On November 3, 2006, we also issued to Golden Gate a 6 ¼% convertible debenture in a principal amount of \$100,000 and warrants to purchase 1,000,000 shares of our common stock at an exercise price of \$10.90. **This prospectus relates to the resale of the common stock underlying the initial \$1.25 million convertible debenture only.**

Golden Gate provided us with \$125,000 upon execution of the Purchase Agreement. Pursuant to the Purchase Agreement, Golden Gate is required to provide us with an additional \$312,500 upon effectiveness of the registration statement of which this prospectus is a part. The balance of \$812,500 shall be wired to the escrow agent, which is required to release \$200,000 on the first day of each month, beginning with the second month following the effective date of the registration statement.

The debentures are convertible into our common stock, at the selling stockholder's option. The 6.15% \$1.25 million convertible debentures mature three years from the date of issuance. The 4.75% \$100,000 convertible debenture matures five years from the date of issuance. Interest on our 6 ¼% convertible debentures is payable monthly in cash or, at Golden Gate's option, in shares of common stock of the Company valued at the then applicable conversion price. The initial \$1.25 million convertible debenture is convertible into the number of our shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the initial \$1.25 million convertible debenture is the lesser of (i) \$2.00 or (ii) 70% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the second \$1.25 million convertible debenture is the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the \$100,000 convertible debenture is the lesser of (i) \$4.00 or (ii) 80% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debentures may be converted over time. If Golden Gate elects to convert a portion of the debenture and, on the day that the election is made, the volume weighted average price is below \$0.75, 3DIcon shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount.

In addition, 3DIcon entered into a registration rights agreement with Golden Gate pursuant to which the Company agreed to file, within 30 days after the closing, the registration statement of which this prospectus is a part covering the common stock issuable upon conversion of the initial \$1.25 million debenture only. In the event we fail to meet this schedule and other timetables provided in the registration rights agreement, liquidated damages and other potential penalties could be imposed (for example, the discount multiplier of 70% shall decrease by three percentage points for each month or partial month occurring after we fail to meet the timetables provided in the registration rights agreement). In addition, Golden Gate may demand repayment of one hundred and fifteen percent (115%) of the principal amount of the debenture, together with all accrued and unpaid interest on the principal amount of the debenture, in cash, if we fail to meet the timetables provided in the registration rights agreement.

We agreed to amend the securities purchase agreement ("Amendment No. 1") such that the issuance of the Second Debenture was now at our option, rather than as of right. In addition, we agreed to amend the securities purchase agreement, the debenture, the registration rights agreement and Amendment No. 1 to extend the deadline for effectiveness of the registration statement until June 15, 2007 and to provide for fixed conversion prices on all three debentures until such time as our common stock is quoted on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange. The conversion price of the initial \$1.25 million debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 70% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion. The conversion price of the second debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion. The conversion price on the third debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 80% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion.

In the event the Company elects, and Golden Gate fails, to enter into the second debenture, Golden Gate would be required to pay liquidated damages in the amount of \$250,000.

To obtain funding for ongoing operations, the Company entered into a Bridge Financing Agreement with Golden Gate which closed on June 11, 2007 (the "Financing Agreement"), for the sale of a 9.75% convertible debenture in the principal amount of \$700,000. Pursuant to the Financing Agreement, the Company agreed to file a registration statement with the SEC within three days of closing for the resale of the common stock underlying the initial \$1.25 million convertible debenture as discussed in Note 6.

The debenture may be converted, at Golden Gate's option, in whole or in part, into restricted shares of the Company's common stock. The conversion price will be \$0.28 until the earlier of, the Company's shares trading on the OTC Bulletin Board or other trading market that the SEC recognizes as a trading market, or January 1, 2008. Subsequently, the conversion price is equal to 72% of the average of the five lowest volume weighted average prices for the common stock for the 20 trading days prior to the conversion date. The convertible debenture matures June 11, 2007; subject to an option held by Golden Gate to extend the maturity for one period of six months. Interest on the convertible debenture is payable monthly in cash.

In addition to standard default provisions concerning timeliness of payments, delivery and notifications, any other event of default, as defined in the debenture, will accelerate the maturity date of the debenture, and all outstanding principal and accrued and unpaid interest along with \$250,000 in liquidated damages, will become immediately due and payable. Such events of default include: failure to observe or perform material covenants of any notes; the making of a representation or warranty in any material agreement, report of financial statement; filing of a voluntary or involuntary proceeding for bankruptcy by the Company; a default under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument; the common stock of the Company trades below \$0.21 per share; the Company is a party to any Change of Control Transaction and agrees to sell or dispose of all or in excess of 33% of its assets in one or more transactions (whether or not such sale would constitute a Change of Control Transaction) or shall redeem or repurchase more than ten percent (10%) of its outstanding shares of Common Stock or other equity securities of the Company; the Company does not file the Registration Statement, as amended to reflect the Company's responses to the latest comments made to such Registration Statement by the Commission relating to the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. by June 14, 2007 or the related Registration Statement is not declared effective by the Commission on or prior to September 14, 2007; if during the effectiveness period of such Registration Statement its effectiveness lapses or the selling stockholder is unable to sell its shares for a period of 20 days; the Company fails to deliver certificates following a conversion under the debenture within 3 days; or any monetary judgment, writ or similar final process shall be entered or filed against the Company, any Subsidiary or any of their respective property or other assets for more than \$250,000, and such judgment, writ or similar final process shall remain unvacated, unabandoned or unstayed for a period of 45 calendar days.

The Debenture is secured by the pledge of 11 million shares of common stock held by affiliates in the Company (the "Pledged Shares"). Such shares shall have been held by the Pledgors for a period of not less than two years. In the event of a default and the Company has not repaid all outstanding principal and accrued and unpaid interest, along with the liquidated damages of \$250,000 within one day of default, Golden Gate shall have the right to immediately sell the Pledged Shares in satisfaction of any amounts of principal and interest owing under the Debenture. Golden Gate shall only sell such amount of Pledged Shares to satisfy any principal and accrued interest, along with \$250,000 in liquidated damages and shall return unsold shares to the Pledgors.

See the "Selling Stockholders" and "Risk Factors" sections for a complete description of the convertible debentures.

## **RISK FACTORS**

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

### **Risks Relating to Our Business :**

#### **We have a limited operating history, as well as a history of operating losses.**

We have a limited operating history. We cannot assure you that we can achieve or sustain revenue growth or profitability in the future. We have a cumulative net loss of \$4,387,840 for the period from inception (January 1, 2001) to March 31, 2007. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. Unanticipated problems, expenses, and delays are frequently encountered in establishing a new business and marketing and developing products. These include, but are not limited to, competition, the need to develop customers and market expertise, market conditions, sales, marketing and governmental regulation. Our failure to meet any of these conditions would have a materially adverse effect upon us and may force us to reduce or curtail our operations. Revenues and profits, if any, will depend upon various factors. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on our business.

#### **Currently, our only significant asset is our sponsored research agreement with the University of Oklahoma, and our ability to accomplish our business plan relies entirely on the ability of the University of Oklahoma to successfully develop a marketable 3D communications system.**

Our only significant asset at the present time is our sponsored research agreement with the University of Oklahoma. If the University of Oklahoma is not successful in developing a portable 3D communications system that we have envisioned in our business plan, our ability to generate revenues from marketing of the product or products on which our business plan is based will be severely impacted, which could threaten the very existence of the Company.

Even if the University of Oklahoma is successful in developing a portable 3D communications system, because of the revolutionary nature of such a product (i.e., no similar product currently exists, and there are numerous unknowns relating to the product, such as manufacturing costs and operational costs), there can be no assurance that our marketing plans for the product will be successful.

Therefore, the fact that our success depends almost entirely on the efforts of others to develop a technologically challenging new product that will be in a form readily marketable and acceptable to a given market, and our ability to then successfully market such product, makes an investment in the Company much more risky than a comparable investment in other companies that may have a broad range of existing, proven products.

**We may not be able to compete successfully.**

Although the 3D imaging and display technology that the University of Oklahoma is attempting to develop is new, and although at present we are aware of only a limited number of companies that have publicly disclosed their attempts to develop similar technology, we anticipate a number of companies are or will attempt to develop products that compete or will compete with our products. Further, even if we are the first to market with a product of this type, and even if the technology is protected by patents or otherwise, because of the vast market and communications potential of such a product, we anticipate the market will be flooded by a variety of competitors (including traditional communications companies), many of which will offer a range of products in areas other than those in which we compete, which may make such competitors more attractive to prospective customers. In addition, many if not all of our competitors and potential competitors will initially be larger and have greater financial resources than we do. Some of the companies with which we may now be in competition, or with which we may compete in the future, have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, even given our relationship to the University of Oklahoma, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. Further, technology in this industry may evolve rapidly once an initially successful product is introduced, making timely product innovations and use of new technologies essential to our success in the marketplace. The introduction by our competitors of products with improved technologies or features may render any product we initially market obsolete and unmarketable. If we do not have available to us products that respond to industry changes in a timely manner, or if our products do not perform well, our business and financial condition will be adversely affected.

**The products being developed may not gain market acceptance.**

The products that the University of Oklahoma is currently developing utilize new technologies. As with any new technologies, in order for us to be successful, these technologies must gain market acceptance. Since the products that we anticipate introducing to the marketplace will exploit or encroach upon markets that presently utilize or are serviced by products from competing technologies, meaningful commercial markets may not develop for our products.

In addition, the development efforts of the University of Oklahoma on the 3D technology are subject to unanticipated delays, expenses or technical or other problems, as well as the possible insufficiency of funding to complete development. Our success will depend upon the ultimate products and technologies meeting acceptable cost and performance criteria, and upon their timely introduction into the marketplace. The proposed products and technologies may never be successfully developed, and even if developed, they may not satisfactorily perform the functions for which they are designed. Additionally, these products may not meet applicable price or performance objectives. Unanticipated technical or other problems may occur which would result in increased costs or material delays in their development or commercialization.



**If we are unable to retain the services of Martin Keating, or if we are unable to successfully recruit qualified personnel having experience in our business, we may not be able to continue our operations.**

Our success depends to a significant extent upon the continued service of Martin Keating, our founder, Chief Executive Officer, and a Director. Our success also depends on our ability to attract and retain other key executive officers. Loss of the services of Mr. Keating could have a material adverse effect on our growth, revenues, and prospective business. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified personnel having experience in business. Competition for qualified individuals in our industry is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

**Our auditors have included a going concern qualification in their opinion which may make it more difficult for us to raise capital.**

Our auditors have qualified their opinion on our financial statements because of concerns about our ability to continue as a going concern. These concerns arise from the fact that we are a development stage organization with insufficient revenues to fund development and operating expenses. If we are unable to continue as a going concern, you could lose your entire investment in us.

**We will need significant additional capital, which we may be unable to obtain.**

Our capital requirements in connection with our development activities and transition to commercial operations have been and will continue to be significant. We will require substantial additional funds to continue research, development and testing of our technologies and products, to obtain intellectual property protection relating to our technologies when appropriate, and to manufacture and market our products. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

**As a result of becoming a reporting company, our expenses will increase significantly.**

As a result of becoming a reporting company whose shares are registered pursuant to Section 12 of the Securities Act, our ongoing expenses are expected to increase significantly, including expenses in compensation to our officers, ongoing public company expenses, including increased legal and accounting expenses as a result of our status as a reporting company, expenses incurred in complying with the internal controls requirements of the Sarbanes-Oxley Act. Our failure to generate sufficient revenue and gross profit could result in reduced profits or increased losses as a result of the additional expenses.

**Risks Relating to Our Current Financing Arrangement :**

**There are a large number of shares underlying our 6 ¼% convertible debentures, and warrants that may be available for future sale and the sale of these shares may depress the market price of our common stock.**

As of June 12, 2007, we had approximately 112,413,957 shares of common stock issued and outstanding and convertible debentures outstanding that may be converted into an estimated 2,976,190 shares of common stock at current market prices. The number of shares of common stock issuable upon conversion of the outstanding \$1.25 million convertible debenture and \$100,000 convertible debenture may increase if the market price of our stock declines. We also have outstanding the warrants issued to Golden Gate to purchase 1,000,000 shares of common stock at an exercise price of \$10.90. Further, when the outstanding principal balance of our initial \$1.25 million debenture issued to Golden Gate is less than \$400,000, we may require Golden Gate to purchase a second \$1.25 million convertible debenture. In addition, on June 11, 2007, we issued a \$700,000 convertible debenture to obtain funding for ongoing operations. The sale of the shares underlying the convertible debentures and warrants may adversely affect the market price of our common stock.

**The conversion price of our 6.25% convertible debentures is \$0.35 until our common stock is quoted on the OTC Bulletin Board (“OTCBB”) or is otherwise trading on Nasdaq or a national securities exchange. Thereafter the conversion price feature of our convertible debentures is continuously adjustable, which could require us to issue a substantially greater number of shares, which will cause dilution to our existing stockholders.**

Our obligation to issue shares upon conversion of our convertible debentures following our common stock being quoted on the OTCBB or otherwise trading on Nasdaq or a national securities exchange is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our convertible debentures (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price as of June 12, 2007 of \$0.42.

% Below Market	Price Per Share	Effective Conversion Price	Number of Shares Issuable	% of Outstanding Stock
25%	\$ 0.315	\$ 0.221	5,656,108	5.0%
50%	\$ 0.210	\$ 0.147	8,503,401	7.6%
75%	\$ 0.105	\$ 0.074	16,891,891	15.0%

**The conversion price of our 9.75% convertible debentures is \$0.28 until our common stock is quoted on the OTC Bulletin Board (“OTCBB”) or is otherwise trading on Nasdaq or a national securities exchange or January 1, 2008, whichever shall occur first. Thereafter the conversion price feature of our convertible debentures is continuously adjustable, which could require us to issue a substantially greater number of shares, which will cause dilution to our existing stockholders.**

Our obligation to issue shares upon conversion of our convertible debentures following our common stock being quoted on the OTCBB or otherwise trading on Nasdaq or a national securities exchange or January 8, 2008 is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our convertible debentures (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price as of June 12, 2007 of \$0.42.

% Below Market	Price Per Share	Effective Conversion Price	Number of Shares Issuable	% of Outstanding Stock
25%	\$ 0.315	\$ 0.2268	3,086,419	5.0%
50%	\$ 0.210	\$ 0.1512	4,629,629	7.6%
75%	\$ 0.105	\$ 0.0756	9,259,259	15.0%

As illustrated, following our common stock being quoted on the OTCBB or otherwise trading on Nasdaq or a national securities exchange, the number of shares of common stock issuable upon conversion of our convertible debentures will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

**The continuously adjustable conversion price feature of our 6.25% and 9.75% convertible debentures following our common stock being quoted on the OTCBB or otherwise trading on Nasdaq or a national securities exchange may encourage investors to make short sales in our common stock, which could have a depressive effect on the price of our common stock.**

So long as the market price of our stock is below \$2.00 following our common stock being quoted on the OTCBB or otherwise trading on Nasdaq or a national securities exchange, the issuance of shares in connection with the conversion of the \$1.25 million convertible debenture results in the issuance of shares at an effective 30% discount to the trading price of the common stock prior to the conversion. Similarly, so long as the market price of our stock is below \$4.00, the issuance of shares in connection with the conversion of the \$100,000 convertible debenture results in the issuance of shares at an effective 20% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholder could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of debentures and warrants, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

**The issuance of shares upon conversion of the 6.25% and 9.75% convertible debentures and exercise of outstanding warrants may cause immediate and substantial dilution to our existing stockholders.**

The issuance of shares upon conversion of our 6 ¼% convertible debentures and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholder may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholder may not convert its convertible debentures and/or exercise their warrants if such conversion or exercise would cause it to own more than 9.9% of our outstanding common stock, this restriction does not prevent the selling stockholder from converting and selling some of their holdings and then converting the rest of their holdings. In this way, assuming the market price remains at a level acceptable to the selling stockholder, the selling stockholder could continue on a “conversion-sell-conversion” trend while never holding more than 9.99% of our common stock. Further, under the convertible debentures there is theoretically no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

**If we are unable to issue shares of common stock upon conversion of the convertible debenture as a result of our inability to increase our authorized shares of common stock or as a result of any other reason, we are required to pay penalties to Golden Gate, redeem the convertible debenture at 130% and/or compensate Golden Gate for any buy-in that it is required to make.**

If we are unable to issue shares of common stock upon conversion of the convertible debenture as a result of our inability to increase our authorized shares of common stock or as a result of any other reason, we are required to:

- pay late payments to Golden Gate for late issuance of common stock upon conversion of the convertible debenture, in the amount of \$100 per business day after the delivery date for each \$10,000 of convertible debenture principal amount being converted or redeemed.
- in the event we are prohibited from issuing common stock, or fail to timely deliver common stock on a delivery date, or upon the occurrence of an event of default, then at the election of Golden Gate, we must pay to Golden Gate a sum of money determined by multiplying up to the outstanding principal amount of the convertible debenture designated by Golden Gate by 130%, together with accrued but unpaid interest thereon
- if ten days after the date we are required to deliver common stock to Golden Gate pursuant to a conversion, Golden Gate purchases (in an open market transaction or otherwise) shares of common stock to deliver in satisfaction of a sale by Golden Gate of the common stock which it anticipated receiving upon such conversion (a "Buy-In"), then we are required to pay in cash to Golden Gate the amount by which its total purchase price (including brokerage commissions, if any) for the shares of common stock so purchased exceeds the aggregate principal and/or interest amount of the convertible debenture for which such conversion was not timely honored, together with interest thereon at a rate of 15% per annum, accruing until such amount and any accrued interest thereon is paid in full.

In the event that we are required to pay penalties to Golden Gate or redeem the convertible debentures held by Golden Gate, we may be required to curtail or cease our operations.

**We may be required to file a subsequent registration statement covering additional shares.**

Based on our current market price and the potential decrease in its market price as a result of the issuance of shares upon conversion of the convertible debentures, we have made a good faith estimate as to the amount of shares of common stock that it is required to register and allocate for conversion of the convertible debentures. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the convertible debentures and are registering hereunder will not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

**Risks Relating to Our Common Stock :**

**Fluctuations in our operating results and announcements and developments concerning our business affect our stock price.**

Our quarterly operating results, the number of stockholders desiring to sell their shares, changes in general economic conditions and the financial markets, the execution of new contracts and the completion of existing agreements and other developments affecting us, could cause the market price of our common stock to fluctuate substantially.

**Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.**

Our common stock is quoted on the Pink Sheets under the symbol "TDCP". To date there is a limited trading market in our common stock on the Pink Sheets. Failure to develop or maintain an active trading market could negatively affect the value of our shares and make it difficult for our shareholders to sell their shares or recover any part of their investment in us. The market price of our common stock may be highly volatile. In addition to the uncertainties relating to our future operating performance and the profitability of our operations, factors such as variations in our interim financial results, or various, as yet unpredictable factors, many of which are beyond our control, may have a negative effect on the market price of our common stock.

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

## USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholder. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we have received \$125,000 in connection with the issuance of the \$1.25 million convertible debenture to the selling stockholder, and expect to receive the balance of \$1.125 million following effectiveness of the registration statement. We have used the \$125,000 for the general working capital purposes and the payment of professional fees. We expect to use the additional proceeds for general working capital purposes.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Pink Sheets under the symbol "TDCP". For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

Quarter Ended	High (\$)	Low (\$)
June 30, 2007 (through June 12, 2007)	0.45	0.32
March 31, 2007	0.70	0.39
December 31, 2006	1.29	0.36
September 30, 2006	1.73	0.90
June 30, 2006	3.27	0.56
March 31, 2006	0.86	0.14
December 31, 2005	0.33	0.014
September 30, 2005	0.03	0.008
June 30, 2005	0.045	0.009
March 31, 2005	0.18	0.031
December 31, 2004	0.40	0.04
September 30, 2004	0.64	0.15
June 30, 2004	0.64	0.03
March 31, 2004	0.21	0.04

### Holders

As of June 12, 2007, we had approximately 397 active holders of our common stock. The number of active record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is Executive Registrar & Transfer, Inc., 315 South Huron Street, Suite 104, Englewood, CO 80110.

## DESCRIPTION OF BUSINESS

### Corporate History

3DIcon Corporation (the Company) was incorporated on August 11, 1995, under the laws of the State of Oklahoma as First Keating Corporation. The articles of incorporation were amended August 1, 2003 to change the name to 3DIcon Corporation. The initial focus of First Keating Corporation was to market and distribute books written by its founder, Martin Keating. During 2001, First Keating Corporation began to focus on the development of 360-degree holographic technology. The effective date of this transition is January 1, 2001. The Company has accounted for this transition as a reorganization and accordingly, restated its capital accounts as of January 1, 2001. From January 1, 2001, the Company's primary activity has been the raising of capital in order to pursue its goal of becoming a significant participant in the formation and commercialization of interactive, optical holography for the communications and entertainment industries.

## General Overview

3Dicon Corporation is a development stage company. Our mission is to pursue, develop and market full-color, 360-degree person-to-person 3D holographic technology that is both simple and portable. Through a “sponsored research agreement” with the University of Oklahoma, we have obtained the world-wide marketing rights to certain 3D display systems under development by the University. The development to date has resulted in the University filing three provisional patents and one utility patent on its technology. At this time, we do not own any intellectual property rights in holographic technologies, and, apart from the sponsored research agreement with the University of Oklahoma, have no contracts or agreements pending to acquire such rights or any other interest in such rights. We plan to market the technology developed by the University of Oklahoma by targeting various industries, such as retail, manufacturing, entertainment, medical, healthcare, and the military.

## Overview of Development of 3D Technology

Holography as a means of wavefront, or 3D image, reconstruction was first introduced by Dennis Gabor in 1948 when he developed a process for recording the amplitude and phase of an optical wavefront. The word “holography” is derived from the Greek words *holos* (whole) and *graphein* (to write), and Gabor coined the term “hologram” to refer to a “total recording.” The widespread practice of holography took off in the early 1960s with the invention of the laser. Since that time, holography has been used in a variety of applications, many in routine commercial use today. *Digital holography* refers to the use of digital computers to create holograms, sometimes referred to as *computer-generated holograms*. Upon undertaking this investigation into the use of digital holography as a viable technology for 3D imaging and visualization, we found that holography is often the starting point for technologists seeking to realize practical commercial systems, but in practice, many solutions involve other approaches such as stereoscopic and swept-volume techniques.

A team of researchers led by Harold Garner at the University of Texas Southwestern Medical School at Dallas is working on a *HoloTV* project to develop technology that can deliver 3D moving images for applications in medical imaging, “heads up” displays, video games, and air traffic control display. Current development efforts involve the use of the Digital Micromirror Device (DMD) from Texas Instruments, as well as eight-layer liquid-crystal screen. The DMD focuses image points on various locations throughout the screen to produce 3D images.

Stereoscopic techniques are being investigated as a means of achieving 3D imaging and display. A recent paper by Jang and Javidi describes a technique called 3D projection integral imaging to create 3D orthoscopic virtual images. The technique employs a micro-convex-mirror array to convert inputs from 2D image sensors to 3D images with a viewing angle of over 60 ° and has been successfully demonstrated in the laboratory. Another paper by Choi *et al* reports on the construction of a novel full-color autostereoscopic 3D display system using scaling constraints and phase quantization leveling to reduce the color dispersion and the phase difference. The system employs color-dispersion-compensated (CDC) synthetic phase holograms (SPHs) to create 3D images and video frames that don’t require the use of special glasses for viewing. While both of these technical approaches have been successfully demonstrated in a laboratory environment, neither easily lends itself to the kind of embodiment envisioned by 3DIcon.

Sato *et al* report identify *space projection method* for producing 3D images using DMDs. This method uses a volumetric screen of water particles upon which color 3D images can be projected using the combination of a white light laser, variable color filter, and DMD. The authors report that this so-called electro-holographic display is capable of producing color 3D images with a large viewing angle. We believe that this approach has merit, but also presents barriers to commercial implementation, particularly from a cost and size perspective.

Pursuant to the Sponsored Research Agreement, 3D Display Technology is being developed in three phases, as follows:

- Phase I - Swept Volume Displays

- Phase II - Static Volumetric Displays (Under Glass)
- Phase III Free-Space Volumetric Displays (Free Space)

The Phase I Swept Volume Display is designed to be an inexpensive 3D display system showing high resolution image generated from a diskette or similar medium. A prototype is projected to be available in early 2007. Initial target markets for swept volume displays include retail and manufacturing companies.

The Phase II technology will employ DMDs using infrared lasers to produce 3D images in advanced transparent nanotechnology materials, thereby enabling the creation, transmission and display of high resolution 3D images within a volume space, surrounded by glass or transparent screen. A prototype demonstration is planned for Summer 2007. Target markets for static volumetric displays include interactive entertainment, casino gaming, government, sales, medical and pharmaceutical development, military, and architectural.

The Phase III technology will build upon the Phase II technology so as to eliminate the need for an enclosed vessel, thereby enabling the creation, transmission and display of high resolution 3D images in free space utilizing a portable system. Initial research for this system is commenced in 2007. There is currently no estimated prototype date for this technology.

#### **University of Oklahoma - Tulsa Sponsored Research Agreement**

On April 20, 2004, we entered into a sponsored research agreement entitled "Investigation of Emerging Digital Holography Technologies" (Phase I) with the University of Oklahoma - Tulsa (University), which expired October 19, 2004. We have paid the University \$14,116 pursuant to this agreement. The purpose of this agreement was to conduct a pilot study to investigate digital holography as a candidate technology for the development of three-dimensional (3D) imaging and visualization systems. The purpose of the pilot study was to investigate the current state-of-the-art research and development activities taking place in the field of digital holography, particularly emerging technologies. The scope of work for the study encompassed the following tasks:

- Literature review to determine key leading edge research in relevant areas;
- Review of related commercial products to identify technological approaches and potential competitors and/or partners;
- Preliminary patent review;
- Recommendations for product research and development directions.

On July 15, 2005, we entered into a Sponsored Research Agreement with the University (Phase II), which expired on January 14, 2007. Under this agreement, the University conducted a research project entitled "Investigation of 3-Dimensional Display Technologies" and the Company agreed to pay the University \$453,584 at various dates from November 10, 2005 through July 15, 2006 to cover the costs of the research. Either party may terminate the agreement at any time by giving 60 days written notice. The goals for this research are as follows:

- To produce patentable and/or copyrightable intellectual property;
- To produce proof-of-concept technology that demonstrates the viability of the intellectual property;
- To assess opportunities for manufacturing technological products in Oklahoma;
- Investigate magnetic nanospheres (MNs) for use as a projection media;
- Develop a control platform to actively distribute (MNs) in an unbounded volumetric space;
- Investigate the doping of MNs with fluorescent materials for light emission at different wavelengths, i.e., develop fluorescent MNs (FMNs);
- Evaluate other display medium technologies for potential strategic partnerships;
- Evaluate the most appropriate (from a cost-to-benefit standpoint) solid-state light sources for projection applications;
- Develop software for displaying ideal 3D images;
- Investigate software interface issues with other image capture technologies.



The final payment of \$226,792, due on July 15, 2006, was not paid. On November 1, 2006 the sponsored research agreement was modified to provide \$125,259 additional funding, extend the term of the agreement through March 31, 2007, and revise the payment schedule to combine the July 15, 2005 remaining balance due of \$226,792 with the additional funding into a revised payment schedule. Under the terms of the agreement, we agreed to pay the combined remaining obligation of \$352,051 in four equal monthly installments of \$88,013 on December 31, 2006 through March 31, 2007. The Company is in default on its March 31, 2007 payment.

On February 23, 2007, the Company entered into a sponsored research agreement with the University of Oklahoma (Phase III) which expires on March 31, 2010. Under this agreement, the University will conduct a research project entitled "3-Dimensional Display Development". The Company will pay the University \$3,468,595 payable in monthly installments ranging from \$92,263 to \$112,777 beginning on April 30, 2007 and ending on March 31, 2010.

3DIcon owns all worldwide rights to commercial and government usage of the intellectual property being developed by the University of Oklahoma. The University of Oklahoma has applied for the following patents with the U.S. Patent and Trademark Office:

- Utility patent for Swept Volume Display, filed in September, 2006;
- Provisional patent for Colorful Translational Light Surface 3D Display filed in April, 2006;
- Provisional patent for 3D Light Surface Display filed in September, 2006;
- Provisional patent for Volumetric Liquid Crystal Display filed in April, 2006.

### **Marketing and Product Development**

3DIcon currently has no products or services. We envision the sale of products, the licensing of University-owned technology, or a combination of thereof beginning in 2007.

We have identified the following potential markets and uses for the technology being developed by the University of Oklahoma:

- Driver education, simulation and testing;
- Healthcare education;
- Plastic Surgery;
- Architectural plans and virtual structures;
- Training programs for pilots;
- Virtual live entertainment;
- Displays of art for museums;
- Digital signage;
- Fashion design;
- Casino gaming;
- Homeland security.

### **Competition**

There are numerous technologies which are under development to enable the display of 3D images. The following is a summary of research being conducted and products under development in the 3D display system marketplace of which we are currently aware.

Rosen *et al* report on a psychophysical comparison of visual perception for a 3D display (the Perspecta produced by Actuality Systems) and a high-resolution flat-panel display. The results indicated that the binocular view of Perspecta was similar or slightly better in performance than the monoscopic view of flat-panel display, because of its low contrast.

A collaborative paper from Cambridge University and the MIT Media Lab reports that a DMD can be used to launch view-sequential 3D images, leading to the construction a virtual 3D image. This paper provides further reinforcement of the utility of DMD devices for 3D imaging and display applications.

Matsuda and Kakeya propose a 3D camera system that implements combinational techniques using hardware and software to capture object images from both eyes of the viewer. An image captured by only one camera is not sufficient to supply the information needed to reconstruct a 3D image back from the viewpoint of a free observer. The authors propose the use of a stereo camera which, with the aid of 3D position sensors, can follow the viewer's motion and send the information back to a camera system using a computational algorithm. Such an approach might prove useful in recording images for subsequent display on 3D visualization systems.

Fujii and Tanimoto report the investigation of two types of real-time Ray-Space acquisition systems. The first system used 16 cameras, all connected via a PC cluster, to capture the information for subsequent 3D image display. The second system used a single high-speed camera with scanning optics and offered better performance due to the ability to capture a real-time Ray-Space at video rates.

The DepthCube™ Technology system consists of a rear projection volumetric computer monitor that produces 3D images. Unlike a conventional projection surface, the DepthCube incorporates an electronically-controlled multiplanar optical element (MOE) that allows the formation of 3D volumetric images. The display also incorporates Texas Instruments' (TI's) DLP technology and is capable of 1500 frames per second. While this is impressive technology for a variety of visualization applications, it does not represent the kind of technology 3DIcon intends to develop.

The FELIX Technology display is a technology that uses the swept volume technique, where a rotating projection screen sweeps out a volume upon which a 3D image can be formed. This FELIX 3D appears to represent a viable technology that would likely compete with 3DIcon on some level.

A related technology is the SOLID FELIX static volume 3D display which uses a solid cube of transparent crystalline material doped with rare earth ions. The rare earth ions are capable of producing visible light by a two-frequency upconversion (frequency-doubling) process when illuminated with intersecting infrared laser beams.

The Perspecta Spatial 3D Technology 3D display presents another example of a technology that utilizes a rotating projection screen. The display uses three of TI's DMDs to direct red, green, blue light beams onto the rotation screen at the appropriate times to form 3D volumetric images. Again, the Perspecta Spatial 3D display appears to represent a viable technology that would likely compete with 3DIcon on some level.

The VR4MAX Technology demonstrates another screen-based approach to 3D visualization. As in the case of the DepthCube, while VR4MAX is no doubt useful for a variety of visualization applications, it does not represent the kind of technology 3DIcon wants to develop.

The FogScreen technology by itself does not represent a 3D display. Rather, it may prove to be a viable volumetric screen for space projection implementations. A FogScreen unit consists of a water tank, water level controller, water filter, water fountain, and a number of hydrosonic generators. The unit produces a dry fog which can provide a source of small particles off of which light can be scattered to display images.

## **Employees**

3DIcon Corporation has three full-time employees. We have identified the need for additional personnel, including a marketing manager, a product manager and a product development engineer/manager. The marketing manager would lead the creation of the specifications of what we should build and create all necessary materials to successfully launch the product including an analysis of competitive technologies. The responsibilities of the product manager would include working with the University of Oklahoma and the marketing organization to develop detailed specifications of the product, maintain the schedule, and bring the product to market in a timely fashion. The responsibilities of the product development engineer/manager would include seeking out competent manufacturers, understanding the details of the design, and overseeing production of a product within the guidelines of manufacturability and serviceability.

## **DESCRIPTION OF PROPERTY**

Our executive offices are located at 7507 S. Sandusky, Tulsa, Oklahoma 74136. Our office space is provided to us by one of our officers at no cost to the Company.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND PLAN OF OPERATION**

Some of the information in this Form SB-2 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

**Overview**

This management discussion and analysis aims to provide greater transparency and understanding of material aspects of the financial condition and the plan of operation.

- (a) Plan of Operation: provides information on the activities that have had significant bearing on the performance of the company as well as forward looking plans for the forthcoming fiscal period.
- (b) Discussion of Financial Condition: provides explanation for significant items as provided in the financial results of the company. This section also provides the management plan to address key financial issues

**Plan of Operation**

**Background:**

The company is engaged in the development of 360° volumetric imaging and display technology, specifically in the areas identified by the initial in-depth investigation conducted by the University of Oklahoma (OU or University). The identified areas are two major complementary areas of technology that comprise the spectrum of the solution and application (1) a means of recording 3D objects as digital holographic data elements (capture); and (2) a means of reconstructing and displaying the 3D images (display).

Based on the investigation as well as review of existing patents and technologies, it was concluded that the area of 3-D image capture and recording had multiple solutions and technologies that adequately served the market. Therefore our primary area of focus is to develop products and intellectual property in the reconstruction and display of 3D images where we see the most opportunity. We aim to establish strategic partnerships with the assignees or license holders of existing 3D recording technologies as well as integrate our technologies with existing solutions.

The existing products reviewed can generally be broken down into two broad categories: stereoscopic - those that use multi-layer/element flat-panels to implement 3D displays, and those that implement volumetric 3D displays. The flat-panel approaches, as previously noted, do not support 3DIcon's planned embodiment of the technology. However, the application space of volumetric 3D displays supports 3DIcon's vision and appears to offer major opportunities for further technology development and creation of intellectual property through the University of Oklahoma, to which 3DIcon will have exclusive rights.

The research team at OU has been working to integrate open source image capture applications as well as to establish 3D image capture systems.

We continue to build intellectual property through the University of Oklahoma, to which 3DIcon has exclusive rights and engage in product research and development both directly related to the display as well as by-product technologies.

### **Current Activities and Operations**

Currently the company is pursuing the research and development of volumetric 3-D display technology through the Sponsored Research Agreement (SRA) with the University of Oklahoma (OU). Our efforts are focused on two technological approaches:

(a) Swept Volume Display Technology

(b) An alternate approach to the volumetric display in which certain media, such as nano-particles in a transparent or semi-transparent medium to produce an innovative volumetric “projection screen”. This, in addition to existing and rapidly evolving image projection technologies, such as DLP technology from Texas Instruments, are being innovatively incorporated to produce full-color, full-motion 3D visualization, and in harmony with 3DIcon’s vision for product development.

The company has expanded the scope of the initial SRA with OU to include the research and prototype development of the volumetric displays using nanotechnology.

The OU team has made significant progress toward development of a proof-of-concept prototype for the Swept Volume Display and we expect see the first working prototype displaying 3-D images by the second half of 2007.

Under the scope of the revised SRA, OU has assigned a second multi-disciplinary team to focus on the development of light sensitive nano-materials, the medium for dispersion of the nano-materials and the optics using digital micro-mirror devices including the controls thereof.

The following provisional patents are scheduled to be converted to utility and international filings over the course of 2007. The company will be undertaking the effort to convert these.

1. 06NOR033 - “Swept Volume Display”
2. 06TUL016 - “Colorful Translation Light Surface 3-D Display, Colorful Translation 3D Volumetric Display”
3. 06TUL038 - “Volumetric Liquid Crystal Display”
4. 07NOR016 - Directional 3-D Light Surface Display
5. 07TUL027 - “Computer System Interaction with Digital Micromirror Device”

Further, we are taking steps to explore areas that may be related to assist in the protection of intellectual property assets. In addition, the company has started the process of applying for trademarks related to our 3-D technologies. We believe both these additional efforts will be beneficial to the strategy of building and maintaining intellectual property assets.

Our research and development objectives for the 2007 calendar year are as follows. The work will mainly be done by researchers, students and faculty at the University of Oklahoma with oversight by 3DIcon personnel:

#### **I. Phase I Swept Volume Display**

- Provide 2<sup>nd</sup> proof-of-concept prototype with LEDs by mid 2007;
- Investigate alternate image pane technologies (3 Color LED; OLED) by September 1;
- If 3-color LED prototype is not satisfactory, develop new prototype by December 1

## II. Phase II Static Volumetric Display

- Develop single-color prototype and solve alignment issues;
- Develop Software;
- Develop multicolor prototype (materials dependent);
- Provide prototype demonstration in the summer of 2007.

## III. Nanomaterials - in support of Phase II Static Volume Display

- Identify and synthesize further optical upconversion nanosized materials;
- Synthesize and optimize aerogels;
- Embed light-emitting nanoparticles;
- Test 2-photon materials;
- Investigate encapsulating materials;
- Synthesize quantum dots, tune, and characterize quantum dots.

## IV. Patents (Intellectual Property)

- File utility patent for Colorful Translational Light Surface 3D Display;
- File utility patent for 3D Light Surface Display;
- File utility patent for Volumetric Liquid Crystal Display;

## V. Image Capture

- Image capture survey;
- Develop conversion/translation software;
- Continue with investigation of integral imaging techniques.

## **Financial Condition, Liquidity and Capital Resources**

Our current 12-month operating budget is expected to be approximately \$3,500,000, consisting of the following expenses:

- Research and development expenses pursuant to our Sponsored Research Agreement with the University of Oklahoma. This includes development of an initial demonstrable prototype and a second prototype with Phase II technology;
- Operating expenses: Salaries; Insurance; Investor related expenses; rent; travel etc.
- Hiring executive officers for operations and finance
- Professional fees for accounting and audit; legal services for securities and financing; patent research and protection;

As of March 31, 2007 we had a total stockholder deficiency of approximately \$1,101,055. The cash on hand as of March 31, 2007 is \$150,864. From the inception, through the end of this period, we have generated no revenues and have incurred operating losses in every period. We have a cumulative net loss of \$4,387,840 for the period from inception (January 1, 2001) to March 31, 2007.

In the opinion of the management the above results reported, specifically the non-generation of revenues, are consistent with the expectations of a development stage company engaged in the invention of unique technology. We do expect revenue generation to start in 2007. The revenue generated is not expected to be sufficient to cover the operating expenses for the next fiscal year.

Our independent registered public accountants, in their audit report accompanying our financial statements for the year ended December 31, 2006, expressed substantial doubt about our ability to continue as a going concern due to our status as a development stage organization with insufficient revenues to fund development and operating expenses.

The company has been actively engaged in efforts to raise additional capital through sale of stock as well as instruments of debt to fund the ongoing research and operational costs. Management expects to continue to seek sources of capital from financial institutions, private capital as well as explore the possibility of acquiring research funding from the government.

As of March 31, 2007, our accounts payable totaled \$394,945 and we had a working capital deficit of \$965,995. Our current cash balance is insufficient to pay the current accounts payable. We will need to obtain additional capital in order to sustain our operations beyond March 31, 2007. However, there can be no assurance that that any additional financing will become available to us, and if available, on terms acceptable to us.

On November 1, 2006, we modified the SRA to provide \$125,259 additional funding, extend the term of the agreement through March 31, 2007, and revise the payment schedule to combine the July 15, 2006 remaining balance due of \$226,792 with the additional funding into a revised payment schedule. Under the terms of the agreement, we agreed to pay the combined remaining obligation of \$352,051 in four equal monthly installments of \$88,013 on December 31, 2006 through March 31, 2007.

On February 23, 2007 the Company entered into a SRA with the University (Phase III) which expires March 31, 2010. Under this agreement the University will conduct a research project entitled "3-Dimensional Display Development" that seeks to make significant progress in the development of 3-dimensional display technologies. The company will pay the University \$3,468,595 payable in monthly installment ranging from \$92,263 to \$112,777 beginning April 30, 2007 and ending March 31, 2010.

The liquidity impact of our outstanding indebtedness is as follows:

The Company issued convertible debentures aggregating \$160,000 during 2005 and issued an additional \$125,000 during 2006 at par value for cash. The debentures bear interest at 8% per annum, and were due no later than December 31, 2007. The Company may prepay without penalty all of the outstanding principal amount and accrued interest. Upon receiving notice of the Company's intent to prepay, holders of the debentures may convert the principal amount due to common stock at the rate of one share of common stock for each \$.05 of principal amount converted. Upon conversion, the Company will pay all accrued interest. No fractional shares will be issued upon conversion of a debenture. During 2006 debentures totaling \$150,000 were converted to 3,000,000 shares of common stock, leaving \$125,000 principal balance outstanding.

#### Unsecured debentures payable

During the third quarter of 2006 the Company authorized the issuance of unsecured convertible debentures aggregating \$800,000. As of December 31, 2006 the Company has issued \$430,000 of these debentures at par value for cash. The debentures bear interest at 8% per annum, are convertible to common shares at \$0.40 per share and are due no later than March 31, 2007. At the option of the Company, interest may be paid in cash or common stock, valued at the bid price on the day immediately prior to the date paid. The debentures are not secured by any asset or pledge of the Company or any officer, stockholder or director. The Company has agreed to provide, with respect to the common shares issued upon conversion of the debentures, certain registration rights under the Securities Act of 1933. At December 31, 2006 the balance outstanding of \$430,000 in unsecured debentures payable may be converted to 1,075,000 shares of the Company's common stock. The company is in default with respect to providing the registration rights and hence the debentures are eligible for conversion at \$0.05 per share.

Since March 01, 2007 \$275,000 has been converted to 5,500,000 shares at \$0.05 per share and \$155,000 is eligible for conversion to 3,100,000 shares at \$0.05 per share.

## Golden Gate Debentures

On November 3, 2006, we issued two 6 ¼% convertible debentures to Golden Gate Investors, Inc. in an aggregate principal amount of \$1,350,000. Of this amount, Golden Gate has provided us with \$225,000. Golden Gate is required to provide us with an additional \$312,500 upon effectiveness of the registration statement. The balance of \$812,500 shall be wired to the escrow agent, which is required to release \$200,000 of on the first day of each month, beginning with the second month following the effective date of the registration statement.

The \$100,000 debenture bears interest at 4 ¾%, matures five years from the date of issuance, and is convertible into our common stock, at Golden Gate's option. The \$100,000 convertible debenture is convertible into the number of our shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the \$100,000 convertible debenture is \$.35 per share until the earlier of January 1, 2008 or the date the common stock is quoted on the NASDAQ or a national securities exchange and thereafter, the lesser of (i) \$4.00, (ii) 80% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion (the 80% figure is known as the "Discount Multiplier"). If Golden Gate elects to convert a portion of the debenture and, on the day that the election is made, the volume weighted average price is below \$1.00, 3DIcon shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount. The \$1.00 figure shall be adjusted, on the date that is one year after the closing date and every six months thereafter ("Adjustment Dates"), to a price equal to 65% of the average of the current market prices for the fifteen Trading Days prior to each Adjustment Date.

In connection with the \$100,000 debenture, we issued to Golden Gate warrants to purchase 1,000,000 shares of our common stock at an exercise price of \$10.90.

The \$1.25 million debenture bears interest at 6 ¼%, matures three years from the date of issuance, and is convertible into our common stock, at Golden Gate's option. The \$1.25 million convertible debenture is convertible into the number of our shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the \$1.25 million convertible debenture is \$.35 per share until the common stock is quoted on the OTC Bulletin Board or otherwise trading on the NASDAQ or a national securities exchange and thereafter, the lesser of (i) \$2.00, (ii) 70% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion (the 70% figure is known as the "Discount Multiplier"). If Golden Gate elects to convert a portion of the \$1.25 million debenture and, on the day that the election is made, the volume weighted average price is below \$0.75, 3DIcon shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount.

Interest on our 6 ¼% convertible debentures is payable monthly in cash or, at Golden Gate's option, in shares of common stock of the Company valued at the then applicable conversion price.

### **Subsequent Event Disclosures:**

#### *Hiring of Senior Management Officer*

On May 01, 2007 the company hired Mr. Vivek Bhaman, as President and Chief Operating Officer. Mr. Bhaman has over 15 years global experience, including experience with start-up and development companies in the high technology fields. The employment contract is valid for a period of one year and is renewable at the end of the period.

#### *Golden Gate Bridge Finance*

To obtain funding for ongoing operations, the Company entered into a Bridge Financing Agreement with Golden Gate which closed on June 11, 2007 (the "Financing Agreement"), for the sale of a 9.75% convertible debenture in the principal amount of \$700,000. Pursuant to the Financing Agreement, the Company agreed to file a registration statement with the SEC within three days of closing for the resale of the common stock underlying the initial \$1.25 million convertible debenture as discussed in Note 6.

The debenture may be converted, at Golden Gate's option, in whole or in part, into restricted shares of the Company's common stock. The conversion price will be \$0.28 until the earlier of, the Company's shares trading on the OTC Bulletin Board or other trading market that the SEC recognizes as a trading market, or January 1, 2008. Subsequently, the conversion price is equal to 72% of the average of the five lowest volume weighted average prices for the common stock for the 20 trading days prior to the conversion date. The convertible debenture matures June 11, 2007; subject to an option held by Golden Gate to extend the maturity for one period of six months. Interest on the convertible debenture is payable monthly in cash.

In addition to standard default provisions concerning timeliness of payments, delivery and notifications, the following events shall accelerate the maturity date of the Debenture, and all outstanding principal and accrued and unpaid interest along with \$250,000 in liquidated damages, all becoming immediately due and payable.

1. The Registration Statement for the November 3, 2006 6 ¼ % Debentures with Golden Gate and the November 3, 2006 \$100,000 Debenture with Golden Gate is not filed within 3 days of the closing of this transaction; and is not effective by September 14, 2007.
2. The common stock of the Company trades at a price per share of \$0.21 or lower, regardless of whether the trading price subsequently is higher than \$0.21 per share; or
3. Any scheduled monthly payment of interest under the Debenture is more than one day late.
4. A default or event of default (subject to applicable grace or cure period) under any Transaction Documents or Material Lease, document or instrument to which the company is obligated and not covered in (5) below.
5. The company is in default of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced my indebtedness for borrowed money or money due under any long term leasing or factoring arrangement of the Company in an amount exceeding \$250,000, that (a) involves m obligation greater than now exists and (b) results in such indebtedness being declared due and payable prior to the date on which it would otherwise become due and payable.
- 6 Any monetary judgment, writ or similar final process is filed or entered against the Company or any subsidiary thereof or any of their respective property or other assets for more than \$250,000 and such judgment, writ or final process remains unvacated, unstayed or unabandoned for a period of 45 calendar days.

The Debenture shall be secured by the pledge of 11 million shares of common stock held by affiliates in the Company (the "Pledged Shares"). Such shares shall have been held by the Pledgors for a period of not less than two years. In the event of a default and the Company has not repaid all outstanding principal and accrued and unpaid interest, along with the liquidated damages of \$250,000 within one day of default, Golden Gate shall have the right to immediately sell the Pledged Shares in satisfaction of any amounts of principal and interest owing under the Debenture. Golden Gate shall only sell such amount of Pledged Shares to satisfy any principal and accrued interest, along with \$250,000 in liquidated damages and shall return unsold shares to the Pledgors.

#### **Off Balance Sheet Arrangements**

3DIcon does not engage in any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

#### **Significant Accounting Policies**

##### **Research and Development Costs**

Statement of Accounting Standards No. 2, "Accounting for Research and Development Costs," requires that all research and development costs be expensed as incurred. Until we have developed a commercial product, all costs incurred in connection with the Sponsored Research Agreement with the University of Oklahoma, as well as all other research and development costs incurred, will be expensed. After a commercial product has been developed, we will report costs incurred in producing products for sale as assets, but we will continue to expense costs incurred for further product research and development activities.

##### **Stock-Based Compensation**

3DIcon has, since its inception, used its common stock, or warrants to purchase its common stock, as a means of compensating our employees and consultants. Statement of Financial Accounting Standards No. 123(R), "Share Based Payments," requires us to estimate the value of securities used for compensation and to charge such amounts to expense over the periods benefited. Since we do not have a stock option plan, employees have been granted shares of common stock for services. Such share are valued based on current prices in the over-the-counter market, discounted for such matters as Rule 144 trading restrictions and other factors affecting the lack of marketability of the stock.

#### **Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN 48 beginning January 1, 2007, as required, with no effect on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement establishes a framework for fair value measurements in the financial statements by providing a definition of fair value, provides guidance on the methods used to estimate fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is generally applied prospectively. We will assess the impact of SFAS No. 157 on our financial statements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" (SFAS No. 159). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. We will assess the impact of SFAS No. 159 on our financial statements.





## LEGAL PROCEEDINGS

Other than as set forth below, 3DIcon is not a party to any pending legal proceeding, nor is its property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of 3DIcon's business.

On April 17, 2006, 3DIcon filed an action in the District Court of Tulsa County, Oklahoma, against Andrew Stack and Lion Capital Holdings, Inc. stating claims for fraudulent inducement, breach of contract, unjust enrichment, breach of fiduciary duty, conversion, violation of the Oklahoma Deceptive Trade Practices Act and state securities fraud, breach of an accord. According to the Petition: Stack and his company, Lion Capital Holdings, solicited a contract with 3DIcon under which the defendants promised to raise capital for 3DIcon, which they never did; and the Defendants did retain, however, the shares of 3DIcon stock which were issued for the defendants' prospective shareholders.

On October 4, 2006, 3DIcon amended its Petition to name Joseph Padilla and John R. Shrewder as defendants. Claims for civil conspiracy, fraud, deceit, constructive fraud, accounting, restitution, injunctive relief, constructive trust, piercing the corporate veil, malpractice and violation of the Oklahoma Consumer Protection Act were added to the lawsuit.

3DIcon seeks disgorgement, restitution, actual and punitive damages, attorneys' fees, costs, interest, accounting, imposition of a constructive trust and other injunctive relief from the defendants, as stated in the Petition, as amended.

There are motions pending and the case is in the discovery phase.

## MANAGEMENT

The following table sets forth current information regarding our executive officers, senior managers and directors:

Name	Age	Position
Martin Keating	65	Chief Executive Officer, Director
Vivek Bhaman	41	President, Chief Operating Officer
Philip Suomu	52	Director
John O'Connor	52	Director

Martin Keating has been the President, Chief Executive Officer and a director of 3DIcon since 1998. Previously, Mr. Keating organized and managed private placement limited partnerships, ranging from real estate development to motion picture financing. Mr. Keating was also general counsel and director of investor relations for CIS Technologies, then a NASDAQ company. Mr. Keating wrote and published "The Final Jihad," a terrorist suspense novel. Mr. Keating is an attorney licensed to practice law in Oklahoma and Texas.

Vivek Bhaman has been the President and Chief Operating Officer of 3DIcon since May 2007. He has held leadership positions in VeriFone, Hewlett-Packard, and with global media giants Omnicom Group and the Interpublic Group. For more than 15 years, Mr. Bhaman has been at the forefront of introducing new technologies and products to markets across the world. His spectrum includes consumer and business technologies such as cell phones and secure e-commerce transaction systems for Verifone/HP, where he was responsible for launching and managing the Asia-Pacific operations of the Electronic Commerce division. His involvement extended from development to marketing/sales. Prior to joining 3DIcon, Mr. Bhaman successfully led the startup and marketing operations for an enterprise-software technology company, including its acquisition of marquee customers Walt Disney, Southern California Edison, and Freeman Group. Mr. Bhaman holds a Bachelors Degree in Engineering and an MBA with specializations in Marketing and Finance.

Philip Suomu has been a director of 3DIcon since October 2006 and its Director of Technology since May 2005. Mr. Suomu works for 3DIcon on a part-time basis. Since January, 2001, Mr. Suomu has served as President of PNERC Associates L.P., which provides financial and technical guidance for new business development. From April 1997 to September 2001, Mr. Suomu held the position of Director of Sales for CIENA Communications, which manufactures and markets advanced fiber optic equipment for the telecommunications industry.

John O'Connor has been a director of 3DIcon since October 2006. Since 1981, Mr. O'Connor has practiced law in Oklahoma, concentrating in the areas of corporate and commercial law. Mr. O'Connor served as President of the law firm of Newton, O'Connor, Turner & Ketchum from 2001 to 2005 and has served as its Chairman from 2001 to present.

**Employment Agreements**

None.

**Audit Committee**

We do not have a separately designated standing audit committee.

**Code of Ethics**

We have not adopted a Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of our officers, directors and employees.

**EXECUTIVE COMPENSATION**

The following table summarizes all compensation paid by the Company with respect to the fiscal years ended December 31, 2006 and 2005 for the Chief Executive Officer and all other executive officers whose total cash compensation exceeds \$100,000 in the fiscal years ended December 31, 2006 and 2005.

**SUMMARY COMPENSATION TABLE**

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Martin Keating CEO	2006	90,000	-	-	-	-	-	-	90,000
	2005	90,000	-	(1)14,792	-	-	-	-	104,792
	2004	90,000	-	(1) 1,980	-	-	-	-	91,980

(1) The Company issued 7,880,000 and 1,980,000 shares of common stock at various dates throughout 2005 and 2004, respectively, to its President and Chief Executive Officer for services rendered. The shares issued were valued at the closing price of the stock on or previous to the date of issuance less a 50% discount due to the restrictive nature of the stock, a 50% discount for lack of earnings or sales consistency of the Company, a 50% discount due to the dollar and share volume of sales of the Company's securities in the public market, and an additional 35% discount due to the trading market in which the Company's securities are sold. The shares issued to directors are valued using the same discount structure as the other common stock issued for services transactions, and ranged from \$.0002 to \$.0074 during 2005 and \$.001 to \$.014 during 2004. The Company recognized \$14,792 and \$1,980 in compensation expense in 2005 and 2004, respectively, related to these transactions.

**Options Grants in Last Fiscal Year**

None.

**Aggregate Option Exercises In Last Fiscal Year and Fiscal Year End Option Values**

None.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table indicates beneficial ownership of our common stock as of June 11, 2007 by each person or entity known by us to beneficially own more than 5% of the outstanding shares of our common stock; each of our executive officers and directors; and all of our executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o 3DIcon Corporation.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Class of Stock	Percentage Outstanding (1)
Martin Keating (2)	40,883,724	Common	36.4%
Judy Keating (2)	40,883,724	Common	36.4%
Philip Suomu	143,600	Common	*
John O'Connor (3)	210,000	Common	*
All directors and executive officers as a group (3 persons)	41,237,324		36.7%

\* less than 1%

- (1) Applicable percentage ownership is based on 112,213,957 shares of common stock outstanding as of June 12, 2007. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Options to acquire shares of common stock that are currently exercisable or exercisable within 60 days of November 15, 2006 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Represents (i) 38,977,452 shares of common stock owned by Mr. Keating and (ii) 1,906,272 shares of common stock owned by Mrs. Keating.
- (3) Represents (i) 110,000 shares of common stock owned by Mr. O'Connor and (ii) 100,000 shares of common stock owned by the John M. and Lucia D. O'Connor Revocable Living Trust over which Mr. O'Connor has voting and investment control.

#### DESCRIPTION OF SECURITIES BEING REGISTERED

The securities being offered are shares of common stock. Our authorized capital includes 250,000,000 shares of common stock, \$0.0002 par value per share.

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the shareholders. Shares of common stock do not have cumulative voting rights.

Holders of record of shares of common stock are entitled to receive dividends when and if declared by the board of directors. To date, the Company has not paid cash dividends. The Company intends to retain any earnings for the operation and expansion of its business and does not anticipate paying cash dividends in the foreseeable future.

Any future determination as to the payment of cash dividends will depend on future earnings, results of operations, capital requirements, financial condition and such other factors as the board of directors may consider.

Upon any liquidation, dissolution or termination of the Company, holders of shares of common stock are entitled to receive a pro rata distribution of the assets of the Company after liabilities are paid.

Holders of common stock do not have pre-emptive rights to subscribe for or to purchase any stock, obligations or other securities of 3DIcon.

#### PLAN OF DISTRIBUTION

The selling stockholder and any of its pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits the purchaser;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;

- privately-negotiated transactions;
- broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share;
- through the writing of options on the shares
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholder may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling stockholder shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling stockholder or its pledgees, donees, transferees or other successors in interest, may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholder and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. The selling stockholder cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholder. The selling stockholder and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be "underwriters" as that term is defined under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the rules and regulations under such acts. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling stockholder, but excluding brokerage commissions or underwriter discounts.

The selling stockholder, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into.

The selling stockholder may pledge its shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling stockholder and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholder or any other such person. In the event that the selling stockholder is deemed affiliated with purchasers or distribution participants within the meaning of Regulation M, then the selling stockholder will not be permitted to engage in short sales of common stock. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. In regards to short sells, the selling stockholder is contractually restricted from engaging in short sells. In addition, if such short sale is deemed to be a stabilizing activity, then the selling stockholder will not be permitted to engage in a short sale of our common stock. All of these limitations may affect the marketability of the shares.

We have agreed to indemnify the selling stockholder, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the selling stockholder or their respective pledgees, donees, transferees or other successors in interest, may be required to make in respect of such liabilities.

If the selling stockholder notifies us that it has a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholder and the broker-dealer.

## SELLING STOCKHOLDERS

The table below sets forth information concerning the resale of the shares of common stock by the selling stockholder. We will not receive any proceeds from the resale of the common stock by the selling stockholder. We will receive proceeds from the exercise of the warrants. Assuming all the shares registered below are sold by the selling stockholder, it will not continue to own any shares of our common stock.

The following table also sets forth the name of each person who is offering the resale of shares of common stock by this prospectus, the number of shares of common stock beneficially owned by each person, the number of shares of common stock that may be sold in this offering and the number of shares of common stock each person will own after the offering, assuming they sell all of the shares offered.

Name	Total Shares of Common Stock Issuable Upon Conversion of Debenture	Total Percentage of Common Stock, Assuming Full Conversion	Shares of Common Stock Included in Prospectus (1)	Beneficial Ownership Before Offering*	Percentage of Common Stock Owned Before Offering*	Beneficial Ownership After the Offering (4)	Percentage of Common Stock Owned After Offering (4)
Golden Gate Investors, Inc. (2)	2,840,909(3)	3.0%	Up to 2,840,909 shares of common stock	206,250	9.99%	—	—
Sichenzia Ross Friedman Ference LLP	200,000	**	200,000	—	—	—	—

\* These columns represents the aggregate maximum number and percentage of shares that the selling stockholder can own at one time (and therefore, offer for resale at any one time) due to their 9.9% limitation.

\*\* Less than 1%

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholder has sole or shared voting power or investment power and also any shares, which the selling stockholder has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the convertible debentures is subject to adjustment depending on, among other factors, the future market price of the common stock, and could be materially less or more than the number estimated in the table.

(1) Includes a good faith estimate of the shares issuable upon conversion of the convertible debenture based on current market prices. Because the number of shares of common stock issuable upon conversion of the convertible debenture is dependent in part upon the market price of the common stock prior to a conversion, the actual number of shares of common stock that will be issued upon conversion will fluctuate daily and cannot be determined at this time. Under the terms of the convertible debenture, if the convertible debenture had actually been converted on December 15, 2006, the conversion price would have been \$0.44. The actual number of shares of common stock offered in this prospectus, and included in the registration statement of which this prospectus is a part, includes such additional number of shares of common stock as may be issued or issuable upon conversion of the convertible debenture by reason of any stock split, stock dividend or similar transaction involving the common stock, in accordance with Rule 416 under the Securities Act of 1933. In addition, on June 11, 2007 the Company issued a 9.75% convertible debenture to the selling shareholder. Such issuance could potentially increase the number of shares beneficially owned. However the selling stockholder has contractually agreed to restrict their ability to convert their convertible debenture or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock as determined in accordance with Section 13(d) of the Exchange Act. Accordingly, the number of shares of common stock set forth in the table for the selling stockholder exceeds the number of shares of common stock that the selling stockholder could own beneficially at any given time through their ownership of the convertible debenture and the warrants. In that regard, the beneficial ownership of the common stock by the selling stockholder set forth in the table is not determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

- (2) The selling stockholder is an unaffiliated third party. In accordance with rule 13d-3 under the Securities Exchange Act of 1934, Norman Litz may be deemed a control person of the shares owned by the selling stockholder.
- (3) Includes 2,840,909 shares of common stock underlying our \$1,250,000 convertible debenture issued to Golden Gate Investors, Inc.
- (4) Assumes that all securities registered will be sold, which does not represent all of the shares of common stock potentially issuable upon conversion of the convertible debenture held by Golden Gate at current market prices.

#### Terms of Convertible Debenture

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with Golden Gate Investors, Inc. ("Golden Gate") on November 3, 2006, as amended on December 15, 2006 (the "Purchase Agreement"), for the sale of a 6 ¼% convertible debenture of the Company in the principal amount of \$1,250,000. Pursuant to the Purchase Agreement, at such time as the principal balance of this debenture is less than \$400,000, the Company shall have the right to require Golden Gate to purchase a second debenture, also in the principal amount of \$1,250,000. On November 3, 2006, we also issued to Golden Gate a 4.75% convertible debenture in a principal amount of \$100,000 and warrants to purchase 1,000,000 shares of our common stock at an exercise price of \$10.90. **This prospectus relates to the resale of the common stock underlying the initial \$1.25 million convertible debenture and the shares issued to the selling stockholder as consideration for services rendered for a total of 3,040,909 shares. Such amount represents approximately 4% of our "public float".**

Golden Gate provided us with \$125,000 upon execution of the Purchase Agreement. Pursuant to the Purchase Agreement, Golden Gate is required to provide us with an additional \$312,500 upon effectiveness of the registration statement of which this prospectus is a part. The balance of \$812,500 shall be wired to the escrow agent, which is required to release \$200,000 on the first day of each month, beginning with the second month following the effective date of the registration statement.

The debentures bear interest at 6 ¼%, and are convertible into our common stock, at the selling stockholder's option. The \$1.25 million convertible debentures mature three years from the date of issuance. The \$100,000 convertible debenture matures five years from the date of issuance. Interest on our 6 ¼% convertible debentures is payable monthly in cash or, at Golden Gate's option, in shares of common stock of the Company valued at the then applicable conversion price. The initial \$1.25 million convertible debenture is convertible into the number of our shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the initial \$1.25 million convertible debenture is the lesser of (i) \$2.00 or (ii) 70% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the second \$1.25 million convertible debenture is the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the \$100,000 convertible debenture is the lesser of (i) \$4.00 or (ii) 80% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debentures may be converted over time. If Golden Gate elects to convert a portion of the debenture and, on the day that the election is made, the volume weighted average price is below \$0.75, 3DIcon shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount.

In addition, 3DIcon entered into a registration rights agreement with Golden Gate pursuant to which the Company agreed to file, within 30 days after the closing, the registration statement of which this prospectus is a part covering the common stock issuable upon conversion of the initial \$1.25 million debenture only. In the event we fail to meet this schedule and other timetables provided in the registration rights agreement, liquidated damages and other potential penalties could be imposed (for example, the discount multiplier of 70% shall decrease by three percentage points for each month or partial month occurring after we fail to meet the timetables provided in the registration rights agreement). In addition, Golden Gate may demand repayment of one hundred and fifteen percent (115%) of the principal amount of the debenture, together with all accrued and unpaid interest on the principal amount of the debenture, in cash, if we fail to meet the timetables provided in the registration rights agreement.



In the event the Company elects, and Golden Gate fails, to enter into the second debenture, Golden Gate would be required to pay liquidated damages in the amount of \$250,000.

We agreed to amend the securities purchase agreement ("Amendment No. 1") such that the issuance of the Second Debenture was now at our option, rather than as of right. In addition, we agreed to amend the securities purchase agreement, the debenture, the registration rights agreement and Amendment No. 1 to extend the deadline for effectiveness of the registration statement until January 1, 2008 and to provide for fixed conversion prices on all three debentures until such time as our common stock is quoted on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange. The conversion price of the initial \$1.25 million debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 70% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion. The conversion price of the second debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion. The conversion price on the third debenture, as amended, is now \$0.35 per share until our common stock is listed on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange and thereafter the lesser of (i) \$2.00 or (ii) 80% of the average of the five lowest Volume Weighted Average Prices during the twenty (20) days prior to the conversion.

#### **Bridge Financing**

To obtain funding for ongoing operations, the Company entered into a Bridge Financing Agreement with Golden Gate which closed on June 11, 2007 (the "Financing Agreement"), for the sale of a 9.75% convertible debenture in the principal amount of \$700,000. Pursuant to the Financing Agreement, the Company agreed to file a registration statement with the SEC within three days of closing for the resale of the common stock underlying the initial \$1.25 million convertible debenture as discussed in Note 6.

The debenture may be converted, at Golden Gate's option, in whole or in part, into restricted shares of the Company's common stock. The conversion price will be \$0.28 until the earlier of, the Company's shares trading on the OTC Bulletin Board or other trading market that the SEC recognizes as a trading market, or January 1, 2008. Subsequently, the conversion price is equal to 72% of the average of the five lowest volume weighted average prices for the common stock for the 20 trading days prior to the conversion date. The convertible debenture matures June 11, 2007; subject to an option held by Golden Gate to extend the maturity for one period of six months. Interest on the convertible debenture is payable monthly in cash.

In addition to standard default provisions concerning timeliness of payments, delivery and notifications, any other event of default, as defined in the debenture, will accelerate the maturity date of the debenture, and all outstanding principal and accrued and unpaid interest along with \$250,000 in liquidated damages, will become immediately due and payable. Such events of default include: failure to observe or perform material covenants of any notes; the making of a representation or warranty in any material agreement, report of financial statement; filing of a voluntary or involuntary proceeding for bankruptcy by the Company; a default under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument; the common stock of the Company trades below \$0.21 per share; the Company is a party to any Change of Control Transaction and agrees to sell or dispose of all or in excess of 33% of its assets in one or more transactions (whether or not such sale would constitute a Change of Control Transaction) or shall redeem or repurchase more than ten percent (10%) of its outstanding shares of Common Stock or other equity securities of the Company; the Company does not file the Registration Statement, as amended to reflect the Company's responses to the latest comments made to such Registration Statement by the Commission relating to the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. by June 14, 2007 or the related Registration Statement is not declared effective by the Commission on or prior to September 14, 2007; if during the effectiveness period of such Registration Statement its effectiveness lapses or the selling stockholder is unable to sell its shares for a period of 20 days; the Company fails to deliver certificates following a conversion under the debenture within 3 days; or any monetary judgment, writ or similar final process shall be entered or filed against the Company, any Subsidiary or any of their respective property or other assets for more than \$250,000, and such judgment, writ or similar final process shall remain unvacated, unabandoned or unstayed for a period of 45 calendar days.

The Debenture is secured by the pledge of 11 million shares of common stock held by affiliates in the Company (the "Pledged Shares"). Such shares shall have been held by the Pledgors for a period of not less than two years. In the event of a default and the Company has not repaid all outstanding principal and accrued and unpaid interest, along with the liquidated damages of \$250,000 within one day of default, Golden Gate shall have the right to immediately sell the Pledged Shares in satisfaction of any amounts of principal and interest owing under the Debenture. Golden Gate shall only sell such amount of Pledged Shares to satisfy any principal and accrued interest, along with \$250,000 in liquidated damages and shall return unsold shares to the Pledgors.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Other than as set forth below, during the last two fiscal years there have not been any relationships, transactions, or proposed transactions to which 3DIcon was or is to be a party, in which any of the directors, officers, or 5% or greater stockholders (or any immediate family thereof) had or is to have a direct or indirect material interest.

3DIcon has engaged the law firm of Newton, O'Connor, Turner & Ketchum as its outside corporate counsel since 2005. John O'Connor, a director of 3DIcon, is the Chairman of Newton, O'Connor, Turner & Ketchum.

During 2004, the Company issued 25,000,000 additional shares to the Company's founder, President and Chief Executive Officer due to the reverse stock split in 2003 and the corporate reorganization that took place during 2004.

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

Not applicable.

#### **LEGAL MATTERS**

Sichenzia Ross Friedman Ference LLP, New York, New York will issue an opinion with respect to the validity of the shares of common stock being offered hereby. Sichenzia Ross Friedman Ference LLP has received 200,000 shares of the Company's common stock issued as compensation for legal services.

## EXPERTS

Tullius Taylor Sartain & Sartain LLP, Independent Registered Public Accountants, have audited, as set forth in their report thereon appearing elsewhere herein, our financial statements at December 31, 2006 and 2005 and for the years then ended that appear in the prospectus. The financial statements referred to above are included in this prospectus with reliance upon the auditors' opinion based on their expertise in accounting and auditing.

## AVAILABLE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of 3DIcon Corporation, filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission.

We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at 100 F Street N.E., Washington D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at <http://www.sec.gov>.

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3DIcon CORPORATION  
(A Development Stage Company)

March 31, 2007  
(Unaudited)  
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(A Development Stage Company)

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3DIcon CORPORATION  
(A Development Stage Company)

BALANCE SHEET

March 31, 2007  
(Unaudited)

<b>Assets</b>	
Current assets:	
Cash	\$ 150,864
Total current assets	150,864
Property and equipment, net	4,810
Debt issue costs, net	<u>135,130</u>
Total assets	<u>\$ 290,804</u>
<b>Liabilities and Stockholders' Deficiency</b>	
Current liabilities:	
Current maturities of convertible debentures payable	\$ 555,000
Accounts payable	384,945
Note payable - related party	192,500
Accrued interest on debentures	<u>34,414</u>
Total current liabilities	1,166,859
Convertible debentures payable, less current maturities	<u>225,000</u>
Total liabilities	1,391,859
Stockholders' deficiency:	
Common stock; \$.0002 par, 250,000,000 shares authorized and 101,407,656 shares issued and outstanding	20,282
Additional paid-in capital	3,266,503
Deficit accumulated during development stage	<u>(4,387,840)</u>
Total stockholders' deficiency	<u>(1,101,055)</u>
Total liabilities and stockholders' deficiency	<u>\$ 290,804</u>

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF OPERATIONS

Three months ended March 31, 2007 and 2006 and period  
from inception (January 1, 2001) to March 31, 2007

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Inception to March 31, 2007
<b>Income:</b>			
Sales	\$ -	\$ -	\$ -
<b>Expenses:</b>			
Research and development	104,611	240,355	593,482
General and administrative	800,652	157,697	3,875,796
Interest	<u>13,044</u>	<u>5,652</u>	<u>43,562</u>
Total expenses	<u>918,307</u>	<u>403,704</u>	<u>4,387,840</u>
Net loss	<u>\$ (918,307)</u>	<u>\$ (403,704)</u>	<u>\$ (4,387,840)</u>
<b>Loss per share:</b>			
Basic and diluted	<u>\$ (.009)</u>	<u>\$ (.005)</u>	
Weighted average shares outstanding, basic and diluted	<u>100,940,776</u>	<u>76,804,025</u>	

See notes to financial statements  
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3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

Three months ended March 31, 2007 and 2006 and period  
from inception (January 1, 2001) to March 31, 2007  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Par Value			
Balance, January 1, 2001 - as reorganized	27,723,750	\$ 27,724	\$ 193,488	\$ -	\$ 221,212
Adjustment to accrue compensation earned but not recorded	-	-	-	(60,000)	(60,000)
Stock issued for services	2,681,310	2,681	185,450	-	188,131
Stock issued for cash	728,500	729	72,121	-	72,850
Net loss for the year	-	-	-	(259,221)	(259,221)
Balance, December 31, 2001	31,133,560	31,134	451,059	(319,221)	162,972
Adjustment to record compensation earned but not recorded	-	-	-	(60,000)	(60,000)
Stock issued for services	3,077,000	3,077	126,371	-	129,448
Stock issued for cash	1,479,000	1,479	146,421	-	147,900
Net loss for the year	-	-	-	(267,887)	(267,887)
Balance, December 31, 2002	35,689,560	35,690	723,851	(647,108)	112,433
Adjustment to record compensation earned but not recorded	-	-	-	(90,000)	(90,000)
Stock issued for services	15,347,000	15,347	-	-	15,347
Stock issued for cash	1,380,000	1,380	33,620	-	35,000
Reverse split 1:10	(47,174,904)	-	-	-	-
Par value \$0.0001 to \$0.0002	-	(51,369)	51,369	-	-
Net loss for the year	-	-	-	(51,851)	(51,851)
Balance, December 31, 2003	5,241,656	1,048	808,840	(788,959)	20,929
Additional Founders shares issued	25,000,000	5,000	(5,000)	-	-
Stock issued for services	24,036,000	4,807	71,682	-	76,489
Stock issued for cash	360,000	72	28,736	-	28,808
Warrants issued to purchase common stock at \$.025	-	-	18,900	-	18,900
Warrants issued to purchase common stock at \$.05	-	-	42,292	-	42,292
Stock warrants exercised	2,100,000	420	60,580	-	61,000
Net loss for the year	-	-	-	(617,875)	(617,875)
Balance, December 31, 2004	56,737,656	11,347	1,026,030	(1,406,834)	(369,457)

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY (con't)

Three months ended March 31, 2007 and 2006 and period  
from inception (January 1, 2001) to March 31, 2007  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Par Value			
Stock issued for services	5,850,000	\$ 1,170	\$ 25,201	\$ -	\$ 26,371
Stock issued to settle liabilities	5,000,000	1,000	99,000	-	100,000
Stock issued for cash	1,100,000	220	72,080	-	72,300
Warrants issued to purchase common stock at \$.025	-	-	62,300	-	62,300
Warrants issued to purchase common stock at \$.05	-	-	140,400	-	140,400
Stock warrants exercised	5,260,000	1,052	172,948	-	174,000
Net loss for the year	-	-	-	(592,811)	(592,811)
Balance, December 31, 2005	73,947,656	14,789	1,597,959	(1,999,645)	(386,897)
Stock issued for services	4,700,000	940	205,597	-	206,537
Debentures converted	3,000,000	600	149,400	-	150,000
Stock issued for cash	200,000	40	16,160	-	16,200
Warrants issued to purchase common stock at \$.025	-	-	18,400	-	18,400
Warrants issued to purchase common stock at \$.05	-	-	15,400	-	15,400
Warrants converted to purchase common stock at \$.025	10,220,000	2,045	253,455	-	255,500
Warrants converted to purchase common stock at \$.05	6,260,000	1,252	311,748	-	313,000
Net loss for the year	-	-	-	(1,469,888)	(1,469,888)
Balance, December 31, 2006	98,327,656	19,666	2,568,119	(3,469,533)	(881,748)
Debentures converted	200,000	40	9,960	-	10,000
Warrants converted to purchase common stock at \$.025	1,200,000	240	29,760	-	30,000
Warrants converted to purchase common stock at \$.05	1,680,000	336	83,664	-	84,000
Options issued for services	-	-	575,000	-	575,000
Net loss for the period	-	-	-	(918,307)	(918,307)
Balance, March 31, 2007	<u>101,407,656</u>	<u>\$ 20,282</u>	<u>\$ 3,266,503</u>	<u>\$ (4,387,840)</u>	<u>\$ (1,101,055)</u>

See notes to financial statements



3DIcon CORPORATION  
(A Development Stage Company)  
STATEMENTS OF CASH FLOWS  
Three months ended March 31, 2007 and 2006 and period  
from inception (January 1, 2001) to March 31, 2007  
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Inception to March 31, 2007
<b>Cash Flows from Operating Activities</b>			
Net loss	\$ (918,307)	\$ (403,704)	\$ (4,387,840)
Adjustments to reconcile net loss to net cash used in operating activities:			
Options and stock issued for services	575,000	-	1,217,323
Depreciation	-	27	352
Asset impairments	-	-	292,203
Change in:			
Prepaid expenses and other assets	(30,534)	2,686	(135,130)
Accounts payable and accrued liabilities	15,774	103,769	448,358
Net cash used in operating activities	(358,067)	(297,222)	(2,564,734)
<b>Cash Flows from Investing Activities</b>			
Purchase of office furniture and equipment	-	-	(5,162)
<b>Cash Flows from Financing Activities</b>			
Proceeds from stock and warrant sales and exercise of warrants	114,000	272,388	1,588,250
Proceeds from issuance of debentures	192,500	-	1,132,500
Net cash provided by financing activities	306,500	272,388	2,720,750
Net increase (decrease) in cash	(51,567)	(24,834)	150,854
Cash, beginning of period	202,431	147,371	10
Cash, end of period	\$ 150,864	\$ 122,537	\$ 150,864
<b>Supplemental Disclosures</b>			
<b>Non-Cash Investing and Financing Activities</b>			
Conversion of debentures to common stock	\$ 10,000	\$ -	\$ 160,000

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS.

Three Months Ended March 31, 2007 and 2006 and period  
from Inception (January 1, 2001) to March 31, 2007

**Note 1 - Organization and Operations**

*Basis of Presentation*

The accompanying financial statements of 3DIcon Corporation (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's year end audited financial statements and related footnotes included in the registration statement on pages 18 through 28. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of March 31, 2007, and the statements of its operations, changes in stockholders' deficiency and cash flows for the three month periods ended March 31, 2007, and 2006 and the period from inception (January 1, 2001) to March 31, 2007, have been included. The results of operations for interim periods may not be indicative of the results which may be realized for the full year.

*Organization*

3DIcon Corporation was incorporated on August 11, 1995, under the laws of the State of Oklahoma as First Keating Corporation. The articles of incorporation were amended August 1, 2003 to change the name to 3DIcon Corporation. The initial focus of First Keating Corporation was to market and distribute books written by its founder, Martin Keating. During 2001, First Keating Corporation began to focus on the development of 360-degree holographic technology. The effective date of this transition is January 1, 2001, and the financial information presented is from that date through the current period. The Company has accounted for this transition as a reorganization and accordingly, restated its capital accounts as of January 1, 2001. From January 1, 2001, the Company's primary activity has been the raising of capital in order to pursue its goal of becoming a significant participant in the formation and commercialization of interactive, optical holography for the communications and entertainment industries.

**Note 1 - Organization and Operations (continued)**

The mission of the Company is to pursue, develop and market full-color, 360-degree person-to-person holographic technology. Its primary focus is to invest and participate in the commercialization of optical holographic technologies now planned and/or under development, particularly those employing derivative broadband, satellite-based systems.

*Uncertainties*

The accompanying financial statements have been prepared on a going concern basis. The Company is in the development stage and has no source of revenue to fund the development of its planned product or to pay operating expenses. This has resulted in the Company realizing a cumulative net loss of \$4,387,840 for the period from inception (January 1, 2001) to March 31, 2007. The Company is currently in default of its obligations under its Sponsored Research Agreement (SRA), (Note 5) and its 8% unsecured debentures due December 31, 2007. The ability of the Company to continue as a going concern during the next year depends on the successful completion of the Company's capital raising efforts to fund the development of its planned products. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management plans to fund the future operations of the Company with the proceeds from exercise of stock warrants of up to \$330,000 in 2007 and \$70,000 in 2008. Further, the Company has negotiated funding from Golden Gate Investors, Inc. (see Notes 6 and 10) and is continuing to pursue additional capitalization through Rule 144 stock sales, debentures, and other venture capital investments. There is also the possibility of revenue in 2007 from sales and licensing of the Company's products.

**Note 2 - Summary of Significant Accounting Policies***Research and development*

Research and development costs, including payments made to the University of Oklahoma pursuant to the Sponsored Research Agreement ("SRA"), are expensed as incurred. (Note 5)

*Stock-based compensation*

The Company accounts for stock-based compensation arrangements for employees in accordance with Statement of Accounting Standard (SFAS) No. 123(R), *Share-Based Payments*. The Company recognizes expenses for employee services received in exchange for stock based on the grant-date fair value of the shares awarded. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and the related Emerging Issues Task Force (EITF) Consensuses.

### *Income taxes*

The Company accounts for income taxes in accordance with *Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes*. *SFAS No. 109* requires the recognition of deferred tax assets and liabilities for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, *SFAS No. 109* requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. The amount of deferred tax liabilities or assets is calculated using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

In determining the quarterly provision for income taxes, the Company uses an annual effective tax rate based on expected annual income and statutory tax rates. Significant discrete items are separately recognized in the income tax provision in the quarter in which they occur.

#### *Net income (loss) per common share*

The Company computes net income (loss) per share in accordance with *SFAS No. 128, Earnings per Share* and *SEC Staff Accounting Bulletin No. 98 ("SAB 98")*. Under the provisions of *SFAS No. 128* and *SAB 98*, basic net income (loss) per common share is based on the weighted-average outstanding common shares. Diluted net income (loss) per common share is based on the weighted-average outstanding shares adjusted for the dilutive effect of warrants and options to purchase common stock and convertible debentures. Due to the Company's losses, such potential dilutive securities are antidilutive for all periods presented. The number of additional shares that would be issued if all warrants, options and convertible debentures were exercised or converted is 24,566,607 and 20,280,000 at March 31, 2007 and 2006, respectively.

#### *Use of estimates*

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from the estimates and assumptions used.

#### **Note 3 - Recent Accounting Pronouncements**

The following are summaries of recent accounting pronouncements that are relevant to the Company:

### **Note 3 - Recent Accounting Pronouncements (continued)**

In June 2006, the Financial Accounting Standards Board issued *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with *FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 beginning January 1, 2007, as required, with no effect on its financial statements.

In September 2006, the FASB issued *SFAS No. 157, "Fair Value Measurements"* (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its financial condition and results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objection of the statement is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. SFAS No. 159 is not expected to significantly impact the Company's financial statements.

### **Note 4 - Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

*Current assets and current liabilities* - The carrying value approximates fair value due to the short maturity of these items.

*Debentures payable* - The fair value of the Company's debentures payable has been estimated by the Company based upon the liability's characteristics, including interest rate. The carrying value approximates fair value.

### **Note 5 - Commitments and Contingencies**

On April 20, 2004, the Company entered into a SRA entitled "Investigation of Emerging Digital Holography Technologies" (Phase I) with the University of Oklahoma - Tulsa ("University"), which expired October 19, 2004. The Company paid the University \$14,116 pursuant to this agreement. On July 15, 2005, the Company entered into a SRA with the University (Phase II), which expired January 14, 2007. Under this agreement the University conducted a research project entitled "Investigation of Emerging 3-Dimensional Display Technologies" and the Company agreed to pay the University \$453,584 at various dates from November 10, 2005 through July 15, 2006 to cover the costs of the research. The final payment of \$226,792, due on July 15, 2006, was not paid and the agreement was modified in November 2006 to provide \$125,259 additional funding, extend the term of the agreement through March 31, 2007, and revise the payment schedule to combine the July 15, 2006 remaining balance due of \$226,792 with the additional funding into a revised payment schedule. Under the terms of the agreement the Company agreed to pay the combined remaining obligation of \$352,052 in four equal installments of \$88,013 on December 31, 2006 through March 31, 2007. The Company has not paid the March 31, 2007 payment. On February 23, 2007 the Company entered into a SRA with the University (Phase III) which expires March 31, 2010. Under this agreement the University will conduct a research project entitled "3-Dimensional Display Development" that seeks to make significant progress in the development of 3-dimensional display technologies. The company will pay the University \$3,468,595 payable in monthly installment ranging from \$92,263 to \$112,777 beginning April 30, 2007 and ending March 31, 2010.

**Note 5 - Commitments and Contingencies**

3DIcon has a consulting agreement with Concordia Financial Group. Concordia counsels 3DIcon regarding financial matters and the acquisition of capital, including rendering advice in the preparation of models for financial projections, identification of sources for capital in the start-up phase technology company capital market, development of business models, and assistance with the structuring of transactions involving the raising of capital. For its services under the agreement, in addition to cash compensation, Concordia will receive options to purchase common stock. In January 2007, Concordia was issued options to purchase 2,500,000 shares at \$.05 per share. An additional 2,500,000 shares could be granted by December 31, 2009. The options issued in 2007 were valued at \$575,000 and were charged to operations in the first quarter.

At March 31, 2007, 2,500,000 shares of common stock are held by a third party and are in dispute as to whether or not they are legally issued. Management contends that the shares were not legally issued and should be returned to the Company. However, they are reported as issued and outstanding at par value in the accompanying financial statements due to the uncertainty surrounding resolution of the issue. The Company paid approximately \$18,455 in legal fees for the period ended March 31, 2007 related to this issue, which is included in general and administrative expenses in the accompanying statement of operations.

**Note 6 - Debentures Payable**

Debentures payable consist of the following:

	March 31, 2007
<b>Senior Convertible Debentures:</b>	
8.00% Debentures due 2007	\$ 125,000
6.25% Debentures due 2009	125,000
4.75% Debentures due 2011	100,000
	<u>350,000</u>
<b>8.00% Unsecured Debentures due 2007</b>	<u>430,000</u>
<b>Total Debentures</b>	<b>780,000</b>
<b>Less - Current Maturities</b>	<u>(555,000)</u>
<b>Long-term Debentures</b>	<u><u>\$ 225,000</u></u>

**Note 6 - Debentures Payable (continued)**

*Senior debenture payable*

The Company issued convertible debentures aggregating \$160,000 during 2005 and issued an additional \$125,000 during 2006 at par value for cash. The debentures bear interest at 8% per annum, and are due no later than December 31, 2007. The Company may prepay without penalty all of the outstanding principal amount and accrued interest. Upon receiving notice of the Company's intent to prepay, holders of the debentures may convert the principal amount due to common stock at the rate of one share of common stock for each \$.05 of principal amount converted. Upon conversion, the Company will pay all accrued interest. No fractional shares will be issued upon conversion of a debenture. During the three months ended 2007 and the year ended December 31, 2006 debentures totaling \$10,000 and \$150,000 were converted to 3,200,000 shares of common stock, leaving \$125,000 principal balance outstanding.

*Unsecured debentures payable*

During the third quarter of 2006 the Company authorized the issuance of unsecured convertible debentures aggregating \$800,000. As of March 31, 2007 the Company has issued \$430,000 of these debentures at par value for cash. The debentures bear interest at 8% per annum and are due no later than March 31, 2007. At the option of the Company, interest may be paid in cash or Common Stock, valued at the bid price on the day immediately prior to the date paid. The debentures are not secured by any asset or pledge of the Company or any officer, stockholder or director. The Company has agreed to provide, with respect to the common shares issued upon conversion of the debentures, certain registration rights under the Securities Act of 1933. The Company is in default with respect to the unsecured debentures.

## Note 6 - Debentures Payable (continued)

As a result of the default, the debentures are due in cash on the demand of the holders, but can be converted into common stock at a conversion price of \$0.05 at the request of the holders at anytime. Subsequent to March 31, 2007, \$275,000 of debentures were converted into 5,500,000 shares.

### *Securities Purchase Agreement*

To obtain funding for the ongoing operations, the Company entered into a Securities Purchase Agreement with Golden Gate Investors, Inc. ("Golden Gate") on November 3, 2006, as amended on December 15, 2006 and February 6, 2007 (the "Purchase Agreement"), for the sale of a 6¼% convertible debenture of the Company in the principal amount of \$1,250,000. Pursuant to the Purchase Agreement, at such time as the principal balance of this debenture is less than \$400,000 as a result of conversion to common stock or payment, the Company shall have the right to require Golden Gate to purchase a second debenture, also in the principal amount of \$1,250,000. On November 3, 2006, the Company also issued to Golden Gate a 4¾% convertible debenture in a principal amount of \$100,000, due 2011, and warrants to buy 1,000,000 shares of the common stock at an exercise price of \$10.90 per share. The Company agreed to file a registration statement with the SEC for the resale of the common stock underlying the initial \$1.25 million convertible debenture only.

Golden Gate provided the Company with \$125,000 upon execution of the Purchase Agreement. Pursuant to the Purchase Agreement, Golden Gate is required to provide the Company with an additional \$312,500 upon effectiveness of the registration statement. The balance of \$812,500 shall be wired to the escrow agent, which is required to release \$200,000 on the first day of each month, beginning with the second month following the effective date of the registration statement.

The debentures bear interest at 6¼%, and are convertible into the Company's common stock, at the selling stockholder's option. The \$1.25 million convertible debentures mature three years from the date of issuance. The \$100,000 convertible debenture matures five years from the date of issuance. Interest on the 6¼% convertible debentures is payable monthly in cash or, at Golden Gate's option, in shares of common stock of the Company valued at the then applicable conversion price. The initial \$1.25 million convertible debenture is convertible into the number of the shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the initial \$1.25 million convertible debenture is (1) \$.35 per share until the common stock is quoted on the OTC Bulletin Board or otherwise trading on the NASDAQ or a national securities exchange and (2) thereafter the lesser of (i) \$2.00 or (ii) 70% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the second \$1.25 million convertible debenture is (1) \$.35 per share until the common stock is quoted on the OTC Bulletin Board or otherwise listed as trading on the NASDAQ or a national securities exchange and thereafter (2) the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the \$100,000 convertible debenture is \$.35 per share until the earlier of January 1, 2008 or the date the common stock is quoted on the OTC Bulletin Board or otherwise listed as trading on the NASDAQ or a national securities exchange and thereafter, the lesser of (i) \$4.00 or (ii) 80% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. If Golden Gate elects to convert a portion of the debenture and, on the day that the election is made, the volume weighted average price is below \$0.75, the Company shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount.



In addition, the Company entered into a registration rights agreement with Golden Gate pursuant to which the Company agreed to file a registration statement of which this prospectus is a part covering the common stock issuable upon conversion of the initial \$1.25 million debenture only. In the event the Company fails to meet this schedule and other timetables provided in the registration rights agreement, liquidated damages and other potential penalties could be imposed (for example, the discount multiplier of 70% shall decrease by three percentage points for each month or partial month occurring after the Company fails to meet the timetables provided in the registration rights agreement).

In addition, Golden Gate may demand repayment of one hundred and fifteen percent (115%) of the principal amount of the debenture, together with all accrued and unpaid interest on the principal amount of the debenture, in cash, if the Company fails to meet the timetables provided in the registration rights agreement.

In the event the Company elects, and Golden Gate fails to enter into the second debenture, Golden Gate would be required to pay liquidated damages in the amount of \$250,000.

**Note 7 - Note payable - related party**

During February and March of 2007, a shareholder whom is the Corporate Secretary and wife of the Chairman of the Company, advanced \$192,500 to the Company under a one-year, 6% convertible debenture agreement. The principal is convertible into 2,323,750 restricted shares of the company's stock.

**Note 8 - Common Stock and Paid-In Capital**

At various dates throughout 2006, 2005 and 2004, the Company sold 200,000, 1,100,000 and 360,000 shares, respectively, of common stock with warrants attached for \$.25 per share pursuant to an exempt offering. Each subscriber received one share of common stock with two separate warrants to purchase additional shares of Rule 144 stock as follows: (a) ten times the number of shares within one year of the date subscribed at \$.025 per share and (b) another ten times the number of shares within two years of the date subscribed at \$.05 per share. Warrants not exercised under their terms will be terminated. The Company received \$50,000, \$275,000 and \$90,000, respectively, in cash.

**Note 8- Common Stock and Paid-In Capital (continued)**

At various dates throughout 2006, 2005 and 2004, the Company issued 4,400,000, 1,740,000 and 340,000 shares, respectively, of its common stock pursuant to the exercise of \$.05 warrants by non-employees. The Company received \$220,000, \$86,000 and \$17,000, respectively, in cash.

At various dates throughout 2006, 2005 and 2004, the Company issued 8,020,000, 3,520,000 and 1,760,000, respectively, of its common stock pursuant to the exercise of \$.025 warrants by non-employees. The Company received \$200,500, \$88,000 and \$44,000, respectively, in cash.

As of March 31, 2007, there are warrants outstanding to purchase 6,600,000 shares of common stock at \$.05 per share expiring at various dates remaining in 2007, and warrants outstanding to purchase 1,400,000 shares of common stock at \$.05 per share expiring at various dates throughout 2008.

*Common stock issued for services*

During the first quarter of 2006, 800,000 shares of common stock were issued for consulting services for which the Company recognized \$11,050 of expense.

During 2005, 2,010,000 shares of common stock were issued for consulting services for which the Company recognized \$2,469 of expense. During 2004, 3,376,000 shares of common stock were issued for services for consulting which the Company recognized \$26,829 of expenses. Additionally, the Company issued 2,700,000, 7,880,000 and 1,980,000 shares of common stock at various dates throughout 2006, 2005 and 2004, respectively, to its President and Chief Executive Officer for services rendered. The Company issued 900,000, 960,000 and 1,660,000 shares at various dates throughout 2006, 2005 and 2004, respectively, to its employee for services rendered. The shares are valued using the same discount structure as the other common stock transactions and ranged from \$.01 to \$.09 during 2006, \$.0004 to \$.0074 during 2005 and \$.002 to \$.014 during 2004. The Company recognized \$191,100, \$23,903 and \$49,465 in compensation expense in 2006, 2005 and 2004, respectively, related to these transactions.

During 2004, the Company issued 25,000,000 additional founders shares due to the reverse stock split in 2003 and the corporate reorganization that took place during 2004. The shares were valued at par value.

The shares issued were valued at the closing price of the stock on or previous to the date of issuance less a 50% discount due to the restrictive nature of the stock, a 50% discount for lack of earnings or sales consistency of the Company, a 50% discount due to the dollar and share volume of sales of the Company's securities in the public market, and an additional 35% discount due to the trading market in which the Company's securities are sold.

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders. Shares of common stock do not have cumulative voting rights.

Holders of record of shares of common stock are entitled to receive dividends when and if declared by the board of directors. To date, the Company has not paid cash dividends. The Company intends to retain any earnings for the operation and expansion of its business and does not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of cash dividends will depend on future earnings, results of operations, capital requirements, financial condition and such other factors as the board of directors may consider.

**Note 8- Common Stock and Paid-In Capital (continued)**

Upon any liquidation, dissolution or termination of the Company, holders of shares of common stock are entitled to receive a pro rata distribution of the assets of the Company after liabilities are paid.

Holders of common stock do not have pre-emptive rights to subscribe for or to purchase any stock, obligations or other securities of 3DIcon.

**Note 9 - Income Taxes**

At March 31, 2007, the Company had accumulated net operating losses of approximately \$3,812,840 available to reduce future federal and state taxable income. Unless utilized, the loss carry forward amounts will begin to expire in 2013.

The operating loss carryforward, giving rise to deferred tax assets, are reduced by a valuation allowance. The Company has established a valuation allowance for its deferred tax assets due to the uncertainty of the future utilization of the loss carry forward.

The deferred tax asset consisted of the following at March 31, 2007:

Loss carry forward amount	\$	4,387,840
Effective tax rate		38%
Deferred tax asset		1,667,000
Less valuation allowance		(1,667,000)
Deferred tax asset	\$	<u><u>-</u></u>

**Note 10 - Subsequent Events**

*Options Granted*

On April 27, 2007, the Company granted its three Directors 1,500,000 options exercisable at \$.40 per share.

*Bridge Financing*

To obtain funding for ongoing operations, the Company entered into a Bridge Financing Agreement with Golden Gate which closed on June 11, 2007 (the "Financing Agreement"), for the sale of a 9.75% convertible debenture in the principal amount of \$700,000. Pursuant to the Financing Agreement, the Company agreed to file a registration statement with the SEC within three days of closing for the resale of the common stock underlying the initial \$1.25 million convertible debenture as discussed in Note 6.

**Note 10 - Subsequent Events (continued)**

The debenture may be converted, at Golden Gate's option, in whole or in part, into restricted shares of the Company's common stock. The conversion price will be \$0.28 until the earlier of, the Company's shares trading on the OTC Bulletin Board or other trading market that the SEC recognizes as a trading market, or January 1, 2008. Subsequently, the conversion price is equal to 72% of the average of the five lowest volume weighted average prices for the common stock for the 20 trading days prior to the conversion date. The convertible debenture matures June 11, 2007; subject to an option held by Golden Gate to extend the maturity for one period of six months. Interest on the convertible debenture is payable monthly in cash.

In addition to standard default provisions concerning timeliness of payments, delivery and notifications, the following events shall accelerate the maturity date of the Debenture, and all outstanding principal and accrued and unpaid interest along with \$250,000 in liquidated damages, all becoming immediately due and payable:

1. The Registration Statement for the November 3, 2006 6 ¼ % Debentures with Golden Gate and the November 3, 2006 \$100,000 Debenture with Golden Gate is not filed within 3 days of the closing of this transaction; and is not effective by September 14, 2007.
2. The common stock of the Company trades at a price per share of \$0.21 or lower, regardless of whether the trading price subsequently is higher than \$0.21 per share; or
3. Any scheduled monthly payment of interest under the Debenture is more than one day late.

The Debenture shall be secured by the pledge of 11 million shares of common stock held by affiliates in the Company (the "Pledged Shares"). Such shares shall have been held by the Pledgors for a period of not less than two years. In the event of a default and the Company has not repaid all outstanding principal and accrued and unpaid interest, along with the liquidated damages of \$250,000 within one day of default, Golden Gate shall have the right to immediately sell the Pledged Shares in satisfaction of any amounts of principal and interest owing under the Debenture. Golden Gate shall only sell such amount of Pledged Shares to satisfy any principal and accrued interest, along with \$250,000 in liquidated damages and shall return unsold shares to the Pledgors.

3DIcon CORPORATION  
(A Development Stage Company)

December 31, 2006 and 2005  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
3DIcon Corporation

We have audited the accompanying balance sheets of 3DIcon Corporation (a Development Stage Company) as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' deficiency and cash flows for the years then ended and for the period from inception (January 1, 2001) to December 31, 2006. 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 standards of the Public Company Accounting Oversight Board (United States). 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 3DIcon Corporation, as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended and for the period from inception (January 1, 2001) to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company is a development stage organization, having no revenues and insufficient capital commitments to fund the development of its planned products. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Tullius Taylor Sartain & Sartain LLP*

April 27, 2007

3DIcon CORPORATION  
(A Development Stage Company)

BALANCE SHEETS

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 202,431	\$ 147,371
Prepaid expenses	-	3,450
Net property and equipment	4,810	-
Debt issue costs, net	104,596	-
<b>Total assets</b>	<u>\$ 311,837</u>	<u>\$ 150,821</u>
<b>Liabilities and Stockholders' Deficiency</b>		
Current liabilities:		
Current maturities of convertible debentures payable	\$ 565,000	\$ -
Accounts payable	378,007	213,696
Accrued compensation due founder	-	164,022
Accrued interest on debentures	25,578	-
<b>Total current liabilities</b>	968,585	377,718
Convertible debentures payable, less current maturities	225,000	160,000
<b>Total liabilities</b>	1,193,585	537,718
Stockholders' deficiency:		
Common stock; \$.0002 par, 250,000,000 shares authorized and 98,327,656 and 73,947,656 shares issued and outstanding at December 31, 2006 and 2005, respectively	19,666	14,789
Additional paid-in capital	2,568,119	1,597,959
Deficit accumulated during development stage	(3,469,533)	(1,999,645)
<b>Total stockholders' deficiency</b>	<u>(881,748)</u>	<u>(386,897)</u>
<b>Total liabilities and stockholders' deficiency</b>	<u>\$ 311,837</u>	<u>\$ 150,821</u>

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF OPERATIONS

Years ended December 31, 2006 and 2005  
And period from Inception (January 1, 2001) to December 31, 2006

	2006	2005	Inception to December 31, 2006
<b>Income:</b>			
Sales	\$ -	\$ -	\$ -
<b>Expenses:</b>			
Research and development	247,687	227,042	488,871
General and administrative	1,191,683	365,769	2,950,144
Interest	30,518	-	30,518
Total expenses	<u>1,469,888</u>	<u>592,811</u>	<u>3,469,533</u>
Net loss	<u>\$ (1,469,888)</u>	<u>\$ (592,811)</u>	<u>\$ (3,469,533)</u>
<b>Loss per share:</b>			
Basic and diluted	<u>\$ (.017)</u>	<u>\$ (.009)</u>	
<b>Weighted average shares outstanding,</b>			
basic and diluted	<u>88,297,738</u>	<u>63,134,905</u>	

See notes to financial statements



3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

Period from Inception (January 1, 2001) to December 31, 2006

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Par Value			
Balance, January 1, 2001 - as reorganized	27,723,750	\$ 27,724	\$ 193,488	\$ -	\$ 221,212
Adjustment to accrue compensation earned but not recorded	-	-	-	(60,000)	(60,000)
Stock issued for services	2,681,310	2,681	185,450	-	188,131
Stock issued for cash	728,500	729	72,121	-	72,850
Net loss for the year	-	-	-	(259,221)	(259,221)
Balance, December 31, 2001	31,133,560	31,134	451,059	(319,221)	162,972
Adjustment to record compensation earned but not recorded	-	-	-	(60,000)	(60,000)
Stock issued for services	3,077,000	3,077	126,371	-	129,448
Stock issued for cash	1,479,000	1,479	146,421	-	147,900
Net loss for the year	-	-	-	(267,887)	(267,887)
Balance, December 31, 2002	35,689,560	35,690	723,851	(647,108)	112,433
Adjustment to record compensation earned but not recorded	-	-	-	(90,000)	(90,000)
Stock issued for services	15,347,000	15,347	-	-	15,347
Stock issued for cash	1,380,000	1,380	33,620	-	35,000
Reverse split 1:10	(47,174,904)	-	-	-	-
Par value \$0.0001 to \$0.0002	-	(51,369)	51,369	-	-
Net loss for the year	-	-	-	(51,851)	(51,851)
Balance, December 31, 2003	5,241,656	1,048	808,840	(788,959)	20,929
Additional Founders shares issued	25,000,000	5,000	(5,000)	-	-
Stock issued for services	24,036,000	4,807	71,682	-	76,489
Stock issued for cash	360,000	72	28,736	-	28,808
Warrants issued to purchase common stock at \$.025	-	-	18,900	-	18,900
Warrants issued to purchase common stock at \$.05	-	-	42,292	-	42,292
Stock warrants exercised	2,100,000	420	60,580	-	61,000
Net loss for the year	-	-	-	(617,875)	(617,875)
Balance, December 31, 2004	56,737,656	11,347	1,026,030	(1,406,834)	(369,457)
Stock issued for services	5,850,000	1,170	25,201	-	26,371
Stock issued to settle liabilities	5,000,000	1,000	99,000	-	100,000
Stock issued for cash	1,100,000	220	72,080	-	72,300
Warrants issued to purchase common stock at \$.025	-	-	62,300	-	62,300
Warrants issued to purchase common stock at \$.05	-	-	140,400	-	140,400
Stock warrants exercised	5,260,000	1,052	172,948	-	174,000
Net loss for the year	-	-	-	(592,811)	(592,811)
Balance, December 31, 2005	73,947,656	\$ 14,789	\$ 1,597,959	\$ (1,999,645)	\$ (386,897)

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

Period from Inception (January 1, 2001) to December 31, 2006

	<u>Common</u>	<u>Stock</u>	Additional	Deficit	
	Shares	Par Value	Paid-In	Accumulated	Total
			Capital	During the	
				Development	
				Stage	
Stock issued for services	4,700,000	940	205,597	-	206,537
Debentures converted	3,000,000	600	149,400	-	150,000
Stock issued for cash	200,000	40	16,160	-	16,200
Warrants issued to purchase common stock at \$.025	-	-	18,400	-	18,400
Warrants issued to purchase common stock at \$.05	-	-	15,400	-	15,400
Warrants converted to purchase common stock at \$.025	10,220,000	2,045	253,455	-	255,500
Warrants converted to purchase common stock at \$.05	6,260,000	1,252	311,748	-	313,000
Net loss for the year	-	-	-	(1,469,888)	(1,469,888)
Balance, December 31, 2006	<u>98,327,656</u>	<u>\$ 19,666</u>	<u>\$ 2,568,119</u>	<u>\$ (3,469,533)</u>	<u>\$ (881,748)</u>

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005  
and period from Inception (January 1, 2001) to December 31, 2006

	2006	2005	Inception to December 31, 2006
<b>Cash Flows from Operating Activities</b>			
Net loss	\$ (1,469,888)	\$ (592,811)	\$ (3,469,533)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock issued for services	206,537	26,371	642,323
Depreciation	352	-	352
Asset impairments	-	-	292,203
Change in:			
Prepaid expenses and other assets	(101,146)	(3,450)	(104,596)
Accounts payable and accrued liabilities	25,867	100,759	432,584
Net cash used in operating activities	(1,338,278)	(469,131)	(2,206,667)
<b>Cash Flows from Investing Activities</b>			
Purchase of office furniture and equipment	(5,162)	-	(5,162)
Net cash used in investing activities	(5,162)	-	(5,162)
<b>Cash Flows from Financing Activities</b>			
Proceeds from stock and warrant sales and exercise of warrants	618,500	449,000	1,474,250
Proceeds from issuance of debentures	780,000	160,000	940,000
Net cash provided by financing activities	1,398,500	609,000	2,414,250
Net increase in cash	55,060	139,869	202,421
Cash, beginning of year	147,371	7,502	10
Cash, end of year	\$ 202,431	\$ 147,371	\$ 202,431
<u>Supplemental Disclosures</u>			
<b>Non-Cash Investing and Financing Activities</b>			
Conversion of debentures to common stock	\$ 150,000	-	\$ 150,000

See notes to financial statements

3DIcon CORPORATION  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005 and period from inception  
(January 1, 2001) to December 31, 2006

**Note 1 - Organization and Operations**

*Organization*

3DIcon Corporation (the "Company") was incorporated on August 11, 1995, under the laws of the State of Oklahoma as First Keating Corporation. The articles of incorporation were amended August 1, 2003 to change the name to 3DIcon Corporation. The initial focus of First Keating Corporation was to market and distribute books written by its founder, Martin Keating. During 2001, First Keating Corporation began to focus on the development of 360-degree holographic technology. The effective date of this transition is January 1, 2001, and the financial information presented is from that date through the current period. The Company has accounted for this transition as a reorganization and accordingly, restated its capital accounts as of January 1, 2001. From January 1, 2001, the Company's primary activity has been the raising of capital in order to pursue its goal of becoming a significant participant in the formation and commercialization of interactive, optical holography for the communications and entertainment industries.

The mission of the Company is to pursue, develop and market full-color, 360-degree person-to-person holographic technology. Its primary focus is to invest and participate in the commercialization of optical holographic technologies now planned and/or under development, particularly those employing derivative broadband, satellite-based systems. At this time, the Company owns no intellectual property rights in holographic technologies and has no contracts or agreements pending to acquire such rights.

*Uncertainties*

The accompanying financial statements have been prepared on a going concern basis. The Company is in the development stage and has no source of revenue to fund the development of its planned product or to pay operating expenses. This has resulted in the Company realizing a cumulative net loss of \$3,469,533 for the period from inception (January 1, 2001) to December 31, 2006, and a net loss of \$1,469,888 and \$592,811 for the years ended December 31, 2006 and 2005, respectively. The Company is currently in default of its obligations under its Sponsored Research Agreement (SRA) (Note 4) and its 8% unsecured debentures due 2007. The ability of the Company to continue as a going concern during the next year depends on the successful completion of the Company's capital raising efforts to fund the development of its planned products. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**Note 1 - Organization and Operations (continued)**

*Uncertainties (continued)*

Management plans to fund the future operations of the Company with the proceeds from exercise of stock warrants of up to \$424,000 in 2007 and \$80,000 in 2008. Further, the Company has negotiated funding from Golden Gate Investors, Inc. (see Note 5) and is continuing to pursue additional capitalization through Rule 144 stock sales, debentures, and other venture capital investments. There is also the possibility of revenue in 2007 from sales and licensing of the Company's products.

**Note 2 - Summary of Significant Accounting Policies**

*Research and development*

Research and development costs, including payments made to the University of Oklahoma pursuant to the SRA, are expensed as incurred. (Note 4).

*Stock-based compensation*

The Company accounts for stock-based compensation arrangements for employees in accordance with *Statement of Financial Accounting Standards (SFAS) No. 123(R)*, *Share-Based Payments*. The Company recognizes expenses for employee services received in exchange for stock based on the grant-date fair value of the shares awarded. The Company accounts for stock issued to non-employees in accordance with the provisions of *SFAS No. 123, Accounting for Stock-Based Compensation*, and the related Emerging Issues Task Force (EITF) Consensus.

*Income taxes*

The Company accounts for income taxes in accordance with *Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes*. *SFAS No. 109* requires the recognition of deferred tax assets and liabilities for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, *SFAS No. 109* requires the recognition of future tax benefits, such as net operating loss carry forwards, to the extent that realization of such benefits is more likely than not. The amount of deferred tax liabilities or assets is calculated using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

**Note 2 - Summary of Significant Accounting Policies***Net income (loss) per common share*

The Company computes net income (loss) per share in accordance with *SFAS No. 128, Earnings per Share* and *SEC Staff Accounting Bulletin No. 98 ("SAB 98")*. Under the provisions of *SFAS No. 128* and *SAB 98*, basic net income (loss) per common share is based on the weighted-average outstanding common shares. Diluted net income (loss) per common share is based on the weighted-average outstanding shares adjusted for the dilutive effect of warrants to purchase common stock and convertible debentures. Due to the Company's losses, such potentially dilutive securities are anti dilutive for all periods presented. The weighted average number of potentially dilutive shares is 14,705,000 and 26,140,000 for the years ended December 31, 2006 and 2005, respectively.

*Use of estimates*

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from the estimates and assumptions used.

**Note 3 - Recent Accounting Pronouncements**

The following are summaries of recent accounting pronouncements that are relevant to the Company:

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections (SFAS 154)*, which replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement 3, *Reporting Accounting Changes in Interim Financial Statements*. This statement changes the requirements for the accounting for and reporting of a change in accounting principle, including all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires voluntary changes in accounting principles be recognized retrospectively to prior periods' financial statements, rather than recognition in the net income of the current period. Retrospective application requires restatements of prior period financial statements as if that accounting principle had always been used. This statement carries forward, without change, the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. The provisions of *SFAS No. 154* is beginning January 1, 2006. It had no effect on the accompanying financial statements.

### **Note 3 - Recent Accounting Pronouncements (continued)**

In June 2006, the Financial Accounting Standards Board issued *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with *FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have a material effect on its financial statements and related disclosures.

In September 2006, the FASB issued *SFAS No. 157, "Fair Value Measurements"* (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on our financial condition and results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objection of the statement is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. SFAS No. 159 is not expected to significantly impact the Company's Consolidated Financial Statements.

### **Note 4 - Commitments and Contingencies**

On April 20, 2004, the Company entered into a SRA entitled "Investigation of Emerging Digital Holography Technologies" (Phase I) with the University of Oklahoma - Tulsa ("University"), which expired October 19, 2004. The Company paid the University \$14,116 pursuant to this agreement. On July 15, 2005, the Company entered into a SRA with the University (Phase II), which expires January 14, 2007. Under this agreement the University conducted a research project entitled "Investigation of Emerging 3-Dimensional Display Technologies" and the Company agreed to pay the University \$453,584 at various dates from November 10, 2005 through July 15, 2006 to cover the costs of the research. The final payment of \$226,792, due on July 15, 2006, was not paid and the agreement was modified in November 2006 to provide \$125,259 additional funding, extend the term of the agreement through March 31, 2007, and revise the payment schedule to combine the July 15, 2006 remaining balance due of \$226,792 with the additional funding into a revised payment schedule. Under the terms of the agreement the Company agreed to pay the combined remaining obligation of \$352,052 in four equal installments of \$88,013 on December 31, 2006 through March 31, 2007. The Company is in default on its March 31, 2007 payment. On February 23, 2007 the Company entered into a SRA with the University (Phase III) which expires March 31, 2010. Under this agreement the University will conduct a research project entitled "3-Dimensional Display Development" that seeks to make significant progress in the development of 3-dimensional display technologies. The company will pay the University \$3,468,595 payable in monthly installment ranging from \$92,263 to \$112,777 beginning April 30, 2007 and ending March 31, 2010.

**Note 4 - Commitments and Contingencies (continued)**

3DIcon has a consulting agreement with Concordia Financial Group. Concordia counsels 3DIcon regarding financial matters and the acquisition of capital, including rendering advice in the preparation of models for financial projections, identification of sources for capital in the start-up phase technology company capital market, development of business models, and assistance with the structuring of transactions involving the raising of capital. 3DIcon pays a monthly fee for Concordia's services of approximately \$2,000 per month. 3DIcon paid Concordia approximately \$54,000 for the year ended December 31, 2006.

At December 31, 2006 and 2005, 17,000,000 shares of common stock are held by a third party and are in dispute as to whether or not they are legally issued. Management contends that the shares were not legally issued and should be returned to the Company. However, they are reported as issued and outstanding at par value in the accompanying financial statements due to the uncertainty surrounding resolution of the issue. The Company paid approximately \$255,000 in legal fees for the year ended December 31, 2006 related to this issue, which is included in general and administrative expenses in the accompanying statement of operations.

**Note 5 - Debentures Payable**

Debentures payable consist of the following:

	December 31, 2006	December 31, 2005
<b>Senior Convertible Debentures:</b>		
8.00% Debentures due 2007	\$ 135,000	\$ 160,000
6.25% Debentures due 2009	125,000	-
4.75% Debentures due 2011	100,000	-
	<u>360,000</u>	<u>160,000</u>
8.00% Unsecured Debentures due 2007	<u>430,000</u>	-
Total Debentures at December 31	790,000	160,000
Current Maturities	<u>(565,000)</u>	-
Long-term Debentures at December 31	<u>\$ 225,000</u>	<u>\$ 160,000</u>



## **Note 5 - Debentures Payable (continued)**

### *Senior debenture payable*

The Company issued convertible debentures aggregating \$160,000 during 2005 and issued an additional \$125,000 during 2006 at par value for cash. The debentures bear interest at 8% per annum, and are due no later than December 31, 2007. The Company may prepay without penalty all of the outstanding principal amount and accrued interest. Upon receiving notice of the Company's intent to prepay, holders of the debentures may convert the principal amount due to common stock at the rate of one share of common stock for each \$.05 of principal amount converted. Upon conversion, the Company will pay all accrued interest. No fractional shares will be issued upon conversion of a debenture. During 2006 debentures totaling \$150,000 were converted to 3,000,000 shares of common stock.

### *Unsecured debentures payable*

During the third quarter of 2006 the Company authorized the issuance of unsecured convertible debentures aggregating \$800,000. As of December 31, 2006 the Company has issued \$430,000 of these debentures at par value for cash. The debentures bear interest at 8% per annum, are convertible to common shares at \$0.40 per share and are due no later than March 31, 2007. At the option of the Company, interest may be paid in cash or Common Stock, valued at the bid price on the day immediately prior to the date paid. The debentures are not secured by any asset or pledge of the Company or any officer, stockholder or director. The Company has agreed to provide, with respect to the common shares issued upon conversion of the debentures, certain registration rights under the Securities Act of 1933. At December 31, 2006 the balance outstanding of \$430,000 in unsecured debentures payable may be converted to 1,075,000 shares of the Company's common stock. The Company is in default with respect to the unsecured debentures. As a result of the default, the debentures are due in cash on the demand of the holders, but can be converted into common stock at a conversion price of \$0.05 at the request of the holders at anytime.

### *Securities Purchase Agreement*

To obtain funding for the ongoing operations, the Company entered into a Securities Purchase Agreement with Golden Gate Investors, Inc. ("Golden Gate") on November 3, 2006, as amended on December 15, 2006 and February 6, 2007 (the "Purchase Agreement"), for the sale of a 6¼% convertible debenture of the Company in the principal amount of \$1,250,000. Pursuant to the Purchase Agreement, at such time as the principal balance of this debenture is less than \$400,000 as a result of conversion to common stock or payment, the Company shall have the right to require Golden Gate to purchase a second debenture, also in the principal amount of \$1,250,000. On November 3, 2006, the Company also issued to Golden Gate a 4¾% convertible debenture in a principal amount of \$100,000, due 2011, and warrants to buy 1,000,000 shares of the common stock at an exercise price of \$10.90. The Company agreed to file a registration statement with the SEC for the resale of the common stock underlying the initial \$1.25 million convertible debenture only.

**Note 5 - Debentures Payable (continued)**

Golden Gate provided the Company with \$125,000 upon execution of the Purchase Agreement. Pursuant to the Purchase Agreement, Golden Gate is required to provide the Company with an additional \$312,500 upon effectiveness of the registration statement. The balance of \$812,500 shall be wired to the escrow agent, which is required to release \$200,000 on the first day of each month, beginning with the second month following the effective date of the registration statement.

The debentures bear interest at 6%, and are convertible into the Company's common stock, at the selling stockholder's option. The \$1.25 million convertible debentures mature three years from the date of issuance. The \$100,000 convertible debenture matures five years from the date of issuance. Interest on the 6% convertible debentures is payable monthly in cash or, at Golden Gate's option, in shares of common stock of the Company valued at the then applicable conversion price. The initial \$1.25 million convertible debenture is convertible into the number of the shares of common stock equal to the dollar amount of the debenture divided by the conversion price. The conversion price for the initial \$1.25 million convertible debenture is (1) \$.35 per share until the common stock is quoted on the OTC Bulletin Board or otherwise trading on the NASDAQ or a national securities exchange and (2) thereafter the lesser of (i) \$2.00, (ii) 70% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the second \$1.25 million convertible debenture is (1) \$.35 per share until the common stock is quoted on the OTC Bulletin Board or otherwise listed as trading on the NASDAQ or a national securities exchange and thereafter (2) the lesser of (i) \$2.00 or (ii) 90% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. The conversion price for the \$100,000 convertible debenture is \$.35 per share until the earlier of January 1, 2008 or the date the common stock is quoted on the OTC Bulletin Board or otherwise listed as trading on the NASDAQ or a national securities exchange and thereafter, the lesser of (i) \$4.00 or (ii) 80% of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. If Golden Gate elects to convert a portion of the debenture and, on the day that the election is made, the volume weighted average price is below \$0.75, the Company shall have the right to prepay that portion of the debenture that Golden Gate elected to convert, plus any accrued and unpaid interest, at 135% of such amount.

In addition, the Company entered into a registration rights agreement with Golden Gate pursuant to which the Company agreed to file, within 30 days after the closing, the registration statement of which this prospectus is a part covering the common stock issuable upon conversion of the initial \$1.25 million debenture only. In the event the Company fails to meet this schedule and other timetables provided in the registration rights agreement, liquidated damages and other potential penalties could be imposed (for example, the discount multiplier of 70% shall decrease by three percentage points for each month or partial month occurring after the Company fails to meet the timetables provided in the registration rights agreement).

**Note 5 - Debentures Payable (continued)**

In addition, Golden Gate may demand repayment of one hundred and fifteen percent (115%) of the principal amount of the debenture, together with all accrued and unpaid interest on the principal amount of the debenture, in cash, if the Company fails to meet the timetables provided in the registration rights agreement.

In the event the Company elects, and Golden Gate fails to enter into the second debenture, Golden Gate would be required to pay liquidated damages in the amount of \$250,000.

**Note 6 - Common Stock and Paid-In Capital**

At various dates throughout 2006 and 2005, the Company sold 200,000 and 1,100,000 shares, respectively, of common stock with warrants attached for \$.25 per share pursuant to an exempt offering. Each subscriber received one share of common stock with two separate warrants to purchase additional shares of Rule 144 stock as follows: (a) ten times the number of shares within one year of the date subscribed at \$.025 per share and (b) another ten times the number of shares within two years of the date subscribed at \$.05 per share. Warrants not exercised under their terms will be terminated. The Company received \$50,000 and \$275,000, respectively, in cash from the exercise of the warrants.

At various dates throughout 2006 and 2005, the Company issued 6,260,000 and 1,740,000 shares, respectively, of its common stock pursuant to the exercise of \$.05 warrants by non-employees. The Company received \$313,000 and \$86,000, respectively, in cash.

At various dates throughout 2006 and 2005, the Company issued 10,220,000 and 3,520,000, respectively, of its common stock pursuant to the exercise of \$.025 warrants by non-employees. The Company received \$255,500 and \$88,000, respectively, in cash.

As of December 31, 2006, there are warrants outstanding to purchase 800,000 shares of common stock at \$.025 per share expiring at various dates throughout 2007; warrants outstanding to purchase 8,080,000 of common stock at \$.05 per share expiring at various dates throughout 2007; and warrants to purchase 1,600,000 shares of common stock at \$.05 per share expiring in 2008.

*Common stock issued for services*

During 2006, 1,100,000 shares of common stock were issued for consulting services for which the Company recognized \$15,438 of expense. During 2005, 2,010,000 shares of common stock were issued for consulting services which the Company recognized \$2,469 of expenses. Additionally, the Company issued 2,700,000 and 7,880,000 shares of common stock at various dates throughout 2006 and 2005, respectively, to its President and Chief Executive Officer for services rendered. The Company issued 900,000 and 960,000 shares at various dates throughout 2006 and 2005, respectively, to its employee for services rendered. The shares are valued using the same discount structure as the other common stock transactions and ranged from \$0.01 to \$0.09 during 2006 and \$.0004 to \$.0074 during 2005. The Company recognized \$191,100 and \$23,903 in compensation expense in 2006 and 2005, respectively, related to these transactions.

**Note 6 - Common Stock and Paid-In Capital (continued)**

During 2004, the Company issued 25,000,000 additional founders shares due to the reverse stock split in 2003 and the corporate reorganization that took place during 2004. The shares were valued at the closing price of the stock on or previous to the date of issuance less a 50% discount due to the restrictive nature of the stock, a 50% discount for lack of earnings or sales consistency of the Company, a 50% discount due to the dollar and share volume of sales of the Company's securities in the public market, and an additional 35% discount due to the trading market in which the Company's securities are sold.

*Common stock rights*

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the shareholders. Shares of common stock do not have cumulative voting rights.

Holders of record of shares of common stock are entitled to receive dividends when and if declared by the board of directors. To date, the Company has not paid cash dividends. The Company intends to retain any earnings for the operation and expansion of its business and does not anticipate paying cash dividends in the foreseeable future.

Any future determination as to the payment of cash dividends will depend on future earnings, results of operations, capital requirements, financial condition and such other factors as the board of directors may consider.

Upon any liquidation, dissolution or termination of the Company, holders of shares of common stock are entitled to receive a pro rata distribution of the assets of the Company after liabilities are paid.

Holders of common stock do not have pre-emptive rights to subscribe for or to purchase any stock, obligations or other securities of 3DIcon.

**Note 7 - Income taxes**

At December 31, 2006 and 2005, the Company had accumulated net operating losses of approximately \$3,115,000 and \$1,588,000, respectively, available to reduce future federal and state taxable income. Unless utilized, the loss carry forward amounts will begin to expire in 2013.

Deferred tax assets resulting from the operating loss carryforward, are reduced by a valuation allowance.

**Note 7 - Income taxes (continued)**

The deferred tax asset consisted of the following:

	December 31, 2006	December 31, 2005
Loss carry forward amount	\$ 3,115,000	\$ 1,588,000
Effective tax rate	38%	38%
Deferred tax asset	1,183,700	603,440
Less valuation allowance	(1,183,700)	(603,440)
Net deferred taxes	<u>\$ -</u>	<u>\$ -</u>

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Our bylaws provide that 3DIcon may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth an itemization of all estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

**NATURE OF EXPENSE AMOUNT**

SEC Registration fee	\$	197.58
Accounting fees and expenses		15,000*
Legal fees and expenses		50,000*
TOTAL	\$	<u>65,197.58*</u>

\* Estimated.

**ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.**

To obtain funding for ongoing operations, the Company entered into a Bridge Financing Agreement with Golden Gate which closed on June 11, 2007 (the "Financing Agreement"), for the sale of a 9.75% convertible debenture in the principal amount of \$700,000. Pursuant to the Financing Agreement, the Company agreed to file a registration statement with the SEC within three days of closing for the resale of the common stock underlying the initial \$1.25 million convertible debenture as discussed in Note 6.

The debenture may be converted, at Golden Gate's option, in whole or in part, into restricted shares of the Company's common stock. The conversion price will be \$0.28 until the earlier of, the Company's shares trading on the OTC Bulletin Board or other trading market that the SEC recognizes as a trading market, or January 1, 2008. Subsequently, the conversion price is equal to 72% of the average of the five lowest volume weighted average prices for the common stock for the 20 trading days prior to the conversion date. The convertible debenture matures June 11, 2007; subject to an option held by Golden Gate to extend the maturity for one period of six months. Interest on the convertible debenture is payable monthly in cash.

In addition to standard default provisions concerning timeliness of payments, delivery and notifications, any other event of default, as defined in the debenture, will accelerate the maturity date of the debenture, and all outstanding principal and accrued and unpaid interest along with \$250,000 in liquidated damages, will become immediately due and payable. Such events of default include: failure to observe or perform material covenants of any notes; the making of a representation or warranty in any material agreement, report of financial statement; filing of a voluntary or involuntary proceeding for bankruptcy by the Company; a default under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument; the common stock of the Company trades below \$0.21 per share; the Company is a party to any Change of Control Transaction and agrees to sell or dispose of all or in excess of 33% of its assets in one or more transactions (whether or not such sale would constitute a Change of Control Transaction) or shall redeem or repurchase more than ten percent (10%) of its outstanding shares of Common Stock or other equity securities of the Company; the Company does not file the Registration Statement, as amended to reflect the Company's responses to the latest comments made to such Registration Statement by the Commission relating to the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. by June 14, 2007 or the related Registration Statement is not declared effective by the Commission on or prior to September 14, 2007; if during the effectiveness period of such Registration Statement its effectiveness lapses or the selling stockholder is unable to sell its shares for a period of 20 days; the Company fails to deliver certificates following a conversion under the debenture within 3 days; or any monetary judgment, writ or similar final process shall be entered or filed against the Company, any Subsidiary or any of their respective property or other assets for more than \$250,000, and such judgment, writ or similar final process shall remain unvacated, unabandoned or unstayed for a period of 45 calendar days.

The Debenture is secured by the pledge of 11 million shares of common stock held by affiliates in the Company (the "Pledged Shares"). Such shares shall have been held by the Pledgors for a period of not less than two years. In the event of a default and the Company has not repaid all outstanding principal and accrued and unpaid interest, along with the liquidated damages of \$250,000 within one day of default, Golden Gate shall have the right to immediately sell the Pledged Shares in satisfaction of any amounts of principal and interest owing under the Debenture. Golden Gate shall only sell such amount of Pledged Shares to satisfy any principal and accrued interest, along with \$250,000 in liquidated damages and shall return unsold shares to the Pledgors.

During 2005, 2,010,000 shares of common stock were issued for consulting services for which the Company recognized \$2,469 of expense. During 2004, 3,376,000 shares of common stock were issued for services for consulting which the Company recognized \$26,829 of expenses.

Additionally, the Company issued 7,880,000 and 1,980,000 shares of common stock at various dates throughout 2005 and 2004, respectively, to its President and Chief Executive Officer for services rendered. The Company issued 960,000 and 1,660,000 shares at various dates throughout 2005 and 2004, respectively, to its employee for services rendered. The shares are valued using the same discount structure as the other common stock transactions and ranged from \$.0004 to \$.0074 during 2005 and \$.002 to \$.014 during 2004. The Company recognized \$23,903 and \$49,465 in compensation expense in 2005 and 2004, respectively, related to these transactions.

At various dates throughout 2005 and 2004, the Company sold 1,100,000 and 360,000 shares, respectively, of common stock with warrants attached for \$.25 per share pursuant to an exempt offering. Each subscriber received one share of common stock with two separate warrants to purchase additional shares of Rule 144 stock as follows: (a) ten times the number of shares within one year of the date subscribed at \$.025 per share and (b) another ten times the number of shares within two years of the date subscribed at \$.05 per share. Warrants not exercised under their terms will be terminated. The Company received \$275,000 and \$90,000, respectively, in cash.

At various dates throughout 2005 and 2004, the Company issued 1,740,000 and 340,000 shares, respectively, of its common stock pursuant to the exercise of \$.05 warrants by non-employees. The Company received \$86,000 and \$17,000, respectively, in cash.

At various dates throughout 2005 and 2004, the Company issued 3,520,000 and 1,760,000, respectively, of its common stock pursuant to the exercise of \$.025 warrants by non-employees. The Company received \$88,000 and \$44,000, respectively, in cash.

During 2004, the Company issued 25,000,000 additional shares to the Company's founder, President and Chief Executive Officer due to the reverse stock split in 2003 and the corporate reorganization that took place during 2004. The shares were valued at par value.

\* All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of 3DIcon Corporation or executive officers of 3DIcon Corporation, and transfer was restricted by 3DIcon Corporation in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

#### **ITEM 27. EXHIBITS.**

The following exhibits are included as part of this Form SB-2. References to "the Company" in this Exhibit List mean 3DIcon Corp., an Oklahoma corporation.

- 3.1 Certificate of Incorporation (1)
- 3.2 Bylaws (1)
- 3.3 Amended Certificate of Incorporation (1)
- 3.4 Amended Certificate of Incorporation (1)
- 3.5 Amended Certificate of Incorporation (1)
- 5.1 Consent of Sichenzia Ross Friedman Ference LLP (1)
- 10.1 Securities Purchase Agreement (1)
- 10.2 Amendment No. 1 to Securities Purchase Agreement and Debenture (1)
- 10.3 Registration Rights Agreement (1)
- 10.4 \$100,000 convertible debenture (1)
- 10.5 \$1.25 million convertible debenture (1)
- 10.6 Common Stock Purchase Warrant (1)
- 10.7 Sponsored Research Agreement by and between 3DIcon Corporation and the Board of Regents of the University of Oklahoma (1)
- 10.8 Sponsored Research Agreement Modification No. 1 by and between 3DIcon Corporation and the Board of Regents of the University of Oklahoma (1)
- 10.9 Sponsored Research Agreement Modification No. 2 by and between 3DIcon Corporation and the Board of Regents of the University of Oklahoma (1)
- 10.10 Amendment No. 2 to Securities Purchase Agreement, Debentures, and Registration Rights Agreement
- 10.11 Securities Purchase Agreement dated June 11, 2007
- 10.12 \$700,000 Convertible Debenture
- 23.1 Consent of Sichenzia Ross Friedman Ference LLP (see Exhibit 5.1)
- 23.2 Consent of Tullius Taylor Sartain & Sartain LLP

(1) Incorporated by reference to Form SB-2 as filed on December 15, 2006 (File No. 333-139420) and subsequently withdrawn on February 5, 2007



## ITEM 28. UNDERTAKINGS.

The undersigned registrant hereby undertakes to:

(1) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to: (i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act"); (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of a prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement, and (iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424; (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer; (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and (iv) Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(5) Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant, 3DIcon Corporation, certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized.

**3DICON CORPORATION**

*/s/ Martin Keating*

---

*Name: Martin Keating*

*Title: Chief Executive Officer  
(Principal Executive and Financial Officer)*

Each person whose signature appears below constitutes and appoints Martin Keating, his true and lawful attorney-in-fact and agent, acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any registration statement of the same offering which is effective upon filing pursuant to Rule 462(b) under the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agent, acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form SB-2 has been signed below by the following persons in the capacities and on the dates indicated:

<i>SIGNATURE</i>	<i>TITLE</i>	<i>DATE</i>
<i>By: /s/ Martin Keating</i> <hr/> <i>Martin Keating</i>	<i>Chief Executive Officer, Director</i>	<i>June 14, 2007</i>
<i>By: /s/ Vivek Bhaman</i> <hr/> <i>Vivek Bhaman</i>	<i>President, Chief Operating Officer</i>	<i>June 14, 2007</i>
<i>By: /s/ Philip Suomu</i> <hr/> <i>Philip Suomu</i>	<i>Director</i>	<i>June 14, 2007</i>
<i>By: /s/ John O'Connor</i> <hr/> <i>John O'Connor</i>	<i>Director</i>	<i>June 14, 2007</i>

**EXHIBIT 5.1**

**SICHENZIA ROSS FRIEDMAN FERENCE LLP**

61 Broadway, 32<sup>nd</sup> Floor  
New York, NY 10018  
Telephone: (212) 930-9700  
Facsimile: (212) 930-9725

June 14, 2007

**VIA ELECTRONIC TRANSMISSION**

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

RE: 3DIcon Corporation

**Form SB-2 Registration Statement (File No. 333-\_\_\_\_\_)**

Ladies and Gentlemen:

We refer to the above-captioned registration statement on Form SB-2 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"), filed by 3DIcon Corporation, an Oklahoma corporation (the "Company"), with the Securities and Exchange Commission.

We have examined the originals, photocopies, certified copies or other evidence of such records of the Company, certificates of officers of the Company and public officials, and other documents as we have deemed relevant and necessary as a basis for the opinion hereinafter expressed. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as certified copies or photocopies and the authenticity of the originals of such latter documents.

Based on our examination mentioned above, we are of the opinion that the securities being sold pursuant to the Registration Statement are duly authorized and will be, when issued in the manner described in the Registration Statement, legally and validly issued, 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 our firm under "Legal Matters" in the related Prospectus. In giving the foregoing consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act, or the rules and regulations of the Securities and Exchange Commission.

*/s/ Sichenzia Ross Friedman Ference LLP*

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Sichenzia Ross Friedman Ference LLP

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**COMBINED AMENDMENT NO. 2  
TO SECURITIES PURCHASE AGREEMENT, DEBENTURES,  
REGISTRATION RIGHTS AGREEMENT AND COMBINED AMENDMENT  
NO.1 TO SECURITIES PURCHASE AGREEMENT AND DEBENTURES**

This Combined Amendment No. 2 to Securities Purchase Agreement, Debentures Registration Rights Agreement and Combined Amendment No. 1 to Securities Purchase Agreement and Debentures (this "Amendment") is entered to be effective as of the 6th day of February, 2007, by and between 3DIcon Corporation, an Oklahoma corporation, with principal executive offices located at 7507 Sandusky Ave., Tulsa, Oklahoma 74136 (the "Company"), and Golden Gate Investors, Inc., a California corporation ("Holder").

WHEREAS, Holder and the Company desire to amend the terms of the Securities Purchase Agreement dated as of November 3, 2006, as amended (the "Securities Purchase Agreement"), and the terms of the \$1,250,000 6¼% Convertible Debenture dated November 3, 2006, as amended (the "First Debenture"), and the terms of the \$1,250,000 6¼% Convertible Debenture to be entered by the parties, as amended (the "Second Debenture"), and the terms of the \$100,000 6¼% Convertible Debenture dated November 3, 2006, as amended, (the "Third Debenture") in order to establish a fixed "Conversion Price" and conversion period for each of the First, Second and Third Debentures and the terms during which such Conversion Price shall be in effect, and,

WHEREAS, Holder and the Company desire to amend the terms of the First Debenture and the Registration Rights Agreement dated as of November 3, 2006 ("Registration Agreement") to provide for a new definition of "Deadline" as used in the First Debenture; and

WHEREAS, Holder and the Company desire to amend the terms of the Third Debenture in respect to the interest rate.

NOW, THEREFORE, in consideration of the above, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows.

All terms used herein and not otherwise defined herein shall have the meanings set forth in the Securities Purchase Agreement, the First Debenture, the Second Debenture, the Third Debenture and the Registration Agreement.

**ARTICLE I**

**AMENDMENT TO SECURITIES PURCHASE AGREEMENT**

1.1 Section I.C. of the Securities Purchase Agreement is hereby amended in its entirety as follows:

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**"C. Purchase of Second Debenture -- Additional Investment Right** At such time as the Principal Balance of the Debenture is less than \$400,000, and provided the Company is then in compliance with the terms of the Debenture and this Agreement, the Company shall have the option to require the Holder to purchase the Second Debenture, with the terms of the Second Debenture and payment of the purchase price thereof subject to the same terms and conditions of this Agreement and the Debenture, except that the Conversion Price in Section 3.1 for the Second Debenture shall be: (1) \$3.35 per share, during the period between the date hereof and the next Business Day following the date on which the Common Stock is quoted on the OTC Bulletin Board ("OTCBB") or is otherwise listed and trading on NASDAQ or a national securities exchange (the "Fixed Conversion Price Period"), and (2) thereafter, the lesser of: (i) \$2.00, or (ii) 90% of the average of the five lowest Volume Weighted Average Prices during the twenty Trading Days prior to Holder's election to convert. When the Second Debenture is issued, the term "Debenture" as used in this Agreement shall be deemed to include the Second Debenture in all respects. The closing of the purchase and sale of the Second Debenture shall occur within thirty days of the date that (i) the Principal Balance of the Debenture is less than \$400,000, and (ii) the Company gives written notice to the Holder exercising the option to require the sale of the Second Debenture ("Subsequent Closing Date"). In the event that Holder fails to fund the Second Debenture in accordance with the terms of this section, Holder shall pay the Company liquidated damages of \$250,000 within ten (10) days of the Second Closing Date."

1.2 All other terms and provisions of the Securities Purchase Agreement, as amended, in direct conflict with the amendments specifically set forth herein, are hereby amended to conform to these amendments; and except for these amendments, all other terms and conditions of the Securities Purchase Agreement shall remain unamended hereby and in full force and effect.

## ARTICLE II

### AMENDMENT TO FIRST DEBENTURE

2.1 The definition of "Deadline" as set forth in Section 1.1(xii) of the First Debenture is hereby deleted and replaced in its entirety with the following:

"Deadline" means June 15, 2007, provided, however, the Deadline shall be extended by such time as is necessary for the Company to respond to comments by the SEC, so long as the Company files the appropriate registration statement by March 7, 2007 and thereafter responds to all SEC comments within 10 Business Days of receipt thereof, and provided, further, that such 10 Business Day period shall be extended to a date that is the second Business Day following receipt by the Company of information necessary to formulate such response to the SEC in the event such information must be provided by the Holder or an Affiliate of the Holder, and such information is not provided to the Company on or before eight Business Days from the original receipt of the SEC comments."

2.2 The third sentence of the first paragraph of Section 3.1 of the First Debenture is hereby deleted and replaced with the following sentence:

"The "Conversion Price" shall be: (i) \$3.35 per share, during the period between the date hereof and the next Business Day following the date on which the Common Stock is quoted on the OTC Bulletin Board or is otherwise listed and trading on NASDAQ or a national securities exchange (the "Fixed Conversion Price Period"), and thereafter, (ii) the lesser of: (A) \$2.00, or (B) 70% of the average of the five lowest Volume Weighted Average Prices during the twenty Trading Days prior to Holder's election to convert (the percentage figure being a "Discount Multiplier")"

2.3 The first sentence of Section 3.5 of the First Debenture is hereby deleted and replaced with the following sentence:

"So long as any of the Principle Amount of this Debenture is outstanding, the Holder shall not have the right, and the Company shall not have the obligation, to convert any portion of this Debenture: (a) before the earlier of January 31, 2008, or the expiration of the Fixed Price Conversion Period; or (b) at any time thereafter, if, following a Conversion Notice from the Holder, the result would be that the Holder would be deemed the beneficial owner of more than 9.99% of the then Outstanding shares of Common Stock"

2.4 All other terms and provisions of the First Debenture, as amended, in direct conflict with the amendments specifically set forth herein, are hereby amended to conform to these amendments; and except for these amendments, all other terms and conditions of the First Debenture, as amended, shall remain unamended hereby and in full force and effect.

### ARTICLE III

#### AMENDMENT TO SECOND DEBENTURE

3.1 The third sentence of the first paragraph of Section 3.1 of the Second Debenture is hereby deleted and replaced with the following sentence:

"The "Conversion Price" shall be: (i) \$3.35 per share, during the period between the date hereof and the next Business Day following the date on which the Common Stock is quoted on the OTC Bulletin Board or is otherwise listed and trading on NASDAQ or a national securities exchange (the "Fixed Conversion Price Period"), and thereafter, (ii) the lesser of: (A) \$2.00, or (B) 90% of the average of the five lowest Volume Weighted Average Prices during the twenty Trading Days prior to Holder's election to convert (the percentage figure being a "Discount Multiplier")"

3.2 The first sentence of Section 3.5 of the Second Debenture is hereby deleted and replaced with the following sentence:

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"So long as any of the Principle Amount of this Debenture is outstanding, the Holder shall not have the right, and the Company shall not have the obligation, to convert any portion of this Debenture: (a) before the earlier of January 31, 2008, or the expiration of the Fixed Price Conversion Period; or (b) at any time thereafter, if, following a Conversion Notice from the Holder, the result would be that the Holder would be deemed the beneficial owner of more than 99% of the then Outstanding shares of Common Stock."

3.3 All other terms and provisions of the Second Debenture, as amended, in direct conflict with the amendments specifically set forth herein, are hereby amended to conform to these amendments; and except for these amendments, all other terms and conditions of the Second Debenture, as amended, shall remain unamended hereby and in full force and effect

#### ARTICLE IV

##### AMENDMENT TO THIRD DEBENTURE

4.1 The term "Debenture Interest Rate," for all purposes is hereby amended to refer to an annual interest rate of four and three quarters percent (4 ¾ %), rather than an annual interest rate of six and one quarter percent (6 ¼ %)

4.2 The third sentence of the first paragraph of Section 3.1 of the Third Debenture is hereby deleted and replaced with the following sentence:

"The "Conversion Price" shall be: (i) \$ 35 per share, during the period between the date hereof and the earlier of January 31, 2008, or the next Business Day following the date on which the Common Stock is quoted on the OTC Bulletin Board or is otherwise listed and trading on NASDAQ or a national securities exchange (the "Fixed Conversion Price Period"), and thereafter, (ii) the lesser of: (A) \$4.00, or (B) 80% of the average of the five lowest Volume Weighted Average Prices during the twenty Trading Days prior to Holder's election to convert (the percentage figure being a "Discount Multiplier")."

4.3 The first sentence of Section 3.5 of the Third Debenture is hereby deleted and replaced with the following sentence:

"So long as any of the Principle Amount of this Debenture is outstanding, the Holder shall not have the right, and the Company shall not have the obligation, to convert any portion of this Debenture: (a) before the earlier of January 31, 2008, or the expiration of the Fixed Price Conversion Period; or (b) at any time thereafter, if, following a Conversion Notice from the Holder, the result would be that the Holder would be deemed the beneficial owner of more than 99% of the then Outstanding shares of Common Stock."

4.4 All other terms and provisions of the Third Debenture, as amended, in direct conflict with the amendments specifically set forth herein, are hereby amended to

conform to these amendments; and except for these amendments, all other terms and conditions of the Third Debenture, as amended, shall remain unamended hereby and in full force and effect

#### ARTICLE V

##### AMENDMENT TO REGISTRATION AGREEMENT

5.1 The first sentence of Section 2(A) of the Registration Agreement is hereby deleted and replaced with the following sentence:

"(A) Filing and Effectiveness of Registration Statement. The Company shall prepare and file with the Commission on or before March 7, 2007 a Registration Statement relating to the offer and sale of the Registrable Securities and shall use its best efforts to cause the Commission to declare such Registration Statement effective under the Securities Act as promptly as practical but in no event later than the Deadline (as defined in the Debenture)."

5.2 All other terms and provisions of the Registration Agreement, as amended, in direct conflict with the amendments specifically set forth herein, are hereby amended to conform to these amendments; and except for these amendments, all other terms and conditions of the Registration Agreement, as amended, shall remain unamended hereby and in full force and effect.

#### ARTICLE VI

##### EFFECT OF AMENDMENTS

6.1 Entire Agreement. This Amendment incorporates all terms of the "Combined Amendment No. 1 to Securities Purchase Agreement and Debenture" dated as of December 15, 2006, so that this Second Amendment, together with the Securities Purchase Agreement, the First Debenture, the Registration Rights Agreement, the Second Debenture, the Third Debenture and the Warrant to Purchase Common Stock dated November 3, 2006, collectively embody the entire agreement and understanding between the Company and Holder relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

6.2 Severability. If any provision of this Amendment, or the application of such provisions to any Person or circumstance, shall be held invalid, the remainder of this Amendment, or the application of such provision to Persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

6.3 Counterparts. This Amendment may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. A facsimile transmission of this signed Amendment shall be legal and binding on all parties hereto.

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IN WITNESS WHEREOF, the parties hereto have duly caused this Amendment to be executed and delivered on the date first above written.

3DIcon Corporation

By: Martin [Signature]

Title: PRESIDENT

Golden Gate Investors, Inc

By: [Signature]

Title: PORTFOLIO MGR.

## SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (this "Agreement") is dated as of June 8, 2007 among 3DIcon Corporation, an Oklahoma corporation (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "Purchaser" and collectively the "Purchasers").

**WHEREAS**, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

**NOW, THEREFORE, IN CONSIDERATION** of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

### ARTICLE 1

#### DEFINITIONS

1.1 **Definitions.** In addition to the terms defined elsewhere in this Agreement:

(a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Note (as defined herein), and

(b) the following terms have the meanings indicated in this Section 1.1:

**"2006 Note"** means the 6 ¼ % Convertible Debenture dated November 3, 2006 between the Company and Golden Gate Investors Inc., as amended.

**"2006 Note Shares"** means the shares of Common Stock issued and issuable upon conversion of the Notes in accordance with the terms of the 2006 Note.

**"Action"** shall have the meaning ascribed to such term in Section 3.1(j).

**"Affiliate"** means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144 under the Securities Act. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

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**"Business Day"** means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of Oklahoma are authorized or required by law or other governmental action to close.

**"Closing Date"** means, collectively, the dates of the Closing.

**"Closings"** means collectively, the closing of the purchase and sale of the Securities pursuant to Section 2.1.

**"Commission"** means the Securities and Exchange Commission.

**"Common Stock"** means the common stock of the Company, par value \$0.002 per share, and any other class of securities into which such securities may hereafter have been reclassified or changed into.

**"Common Stock Equivalents"** means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

**"Company Counsel"** means Sichenzia Ross Friedman Ference LLP with offices located at 61 Broadway, New York, New York, 1006.

**"Conversion Price"** shall have the meaning ascribed to such term in the Notes.

**"Disclosure Schedules"** shall have the meaning ascribed to such term in Section 3.1.

**"Escrow Agreement"** means the Escrow Agreement between the Company, the Purchasers and Sichenzia Ross Friedman Ference LLP, as escrow agent, in the form of Exhibit A.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

**"GAAP"** shall have the meaning ascribed to such term in Section 3.1(h).

**"Intellectual Property Rights"** shall have the meaning ascribed to such term in Section 3.1(o).

**"Legend Removal Date"** shall have the meaning ascribed to such term in Section 4.1(c).

**"Liens"** means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

**"Material Adverse Effect"** shall have the meaning assigned to such term in Section 3.1(b).

**"Material Permits"** shall have the meaning ascribed to such term in Section 3.1(m).

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**"Maximum Rate"** shall have the meaning ascribed to such term in Section 5.17.

**"Note"** means the 9.75% Convertible Note due, subject to the terms therein issued by the Company to the Purchasers hereunder in the Form of Exhibit B hereto.

**"Person"** means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

**"Proceeding"** means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

**"Purchaser Party"** shall have the meaning ascribed to such term in Section 4.11.

**"Registration Statement"** means the registration statement meeting the requirements set forth in the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. and covering the resale of the 2006 Note Shares by each Purchaser as provided for in the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc.

**"Required Approvals"** shall have the meaning ascribed to such term in Section 3.1(e).

**"Required Minimum"** means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future pursuant to the Transaction Documents, including any Underlying Shares issuable upon conversion in full of the Note, ignoring any conversion limits set forth therein, and assuming that the Conversion Price is at all times on and after the date of determination 20% of the then Conversion Price on the Trading Day immediately prior to the date of determination.

**"Rule 144"** means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

**"Securities"** means the Note and the Underlying Shares.

**"Securities Act"** means the Securities Act of 1933, as amended.

**"Short Sales"** shall include all "short sales" as defined in Rule 200 of Regulation SHO under the Exchange Act.

**"Stock Pledge Agreement"** means the Stock Pledge Agreement among the Pledgor and the Purchasers, dated as of June 8, 2007 as amended, modified or supplemented from time to time in accordance with its terms.

**"Subscription Amount"** means, as to each Purchaser, the aggregate amount to be paid for any Note purchased hereunder as specified below such Purchaser's name on the signature

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page of this Agreement and next to the heading "Subscription Amount", in United States Dollars and in immediately available funds.

**"Subsidiary"** means any subsidiary of the Company as set forth on Schedule 3.1(a).

**"Trading Day"** means a day on which the Common Stock is traded on a Trading Market.

**"Trading Market"** means any of the following markets or exchanges on which the Common Stock is listed, quoted or reported for trading on the date in question: the Nasdaq Capital Market, the American Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the OTC Bulletin Board or the Pink Sheets published by the Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices).

**"Transaction Documents"** means this Agreement, the Note, the Pledge Agreement, the Escrow Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

**"Underlying Shares"** means the shares of Common Stock issued and issuable upon conversion of the Notes in accordance with the terms of the Notes.

**"VWAP"** means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. New York City Time to 4:02 p.m. New York City Time); (b) if the OTB Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; (c) if the Common Stock is not then listed or quoted on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by the Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Purchasers and reasonably acceptable to the Company.

## ARTICLE 2 PURCHASE AND SALE

2.1 **Closing.** Upon the terms and subject to the conditions set forth herein, the Company agrees to sell, and each Purchaser agrees to purchase in the aggregate, severally and not jointly, up to \$700,000 principal amount of the Note in the amount set forth on the signature pages hereto. Each Purchaser shall deliver to the Escrow Agent via wire transfer in immediately available funds equal to such Purchaser's Subscription Amount. Upon satisfaction of the conditions set forth in Sections 2.2 and 2.3, the Closings shall occur at the offices of Sichenzia Ross Friedman Ference LLP, 61 Broadway, New York, New York 10006 or such other location as the parties shall mutually agree.

2.2 **Deliveries.**

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(a) At or prior to the Closing, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) this Agreement duly executed by the Company;
- (ii) a legal opinion of Company Counsel, in a form reasonably acceptable to the Purchasers, regarding the legality of the transaction;
- (iii) a Note with a principal amount equal to such Purchaser's Subscription Amount, registered in the name of such Purchaser;
- (iv) reserved;
- (v) the Stock Pledge Agreement, duly executed by Martin Keating (the "Pledgor") in favor of the Purchasers, in the form of Exhibit D attached hereto.
- (vi) the Escrow Agreement duly executed by the Company;
- (vii) a certificate signed by the Secretary of the Company attaching (i) the charter and By-Laws of the Company, and (ii) resolutions passed by its Board of Directors to authorize the transactions contemplated hereby and by the other Transaction Documents, and certifying that such documents are true and complete copies of the originals and that such resolutions have not been amended or superseded, it being understood that such Purchaser may rely on such certificate as a representation and warranty of the Company made herein;
- (viii) a certificate, signed by the Chief Executive Officer of the Company, certifying that the conditions specified in this Section have been fulfilled as of the Closing, it being understood that such Purchaser may rely on such certificate as though it were a representation and warranty of the Company made herein;
- (ix) a representation, in the form of a letter from the pledgor, as to the issuance date of the Pledged Shares (as defined in the Stock Pledge Agreement), a copy of which is attached hereto as Exhibit D; and
- (x) a representation, in the form of a letter from the transfer agent, as to the issuance date of the pledged securities, a copy of which is attached hereto as Exhibit E.

(b) On the Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

- (i) this Agreement duly executed by such Purchaser;
- (ii) such Purchaser's Subscription Amount by wire transfer to the account specified in the Escrow Agreement;
- (iii) the Escrow Agreement duly executed by such Purchaser;

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- (iv) reserved;
- (v) the Stock Pledge Agreement duly executed by such Purchaser; and
- (vi) An irrevocable voting proxy in the form of Exhibit C attached hereto.

2.3 **Closing Conditions.**

(a) The obligations of the Company hereunder in connection each Closing are subject to the following conditions being met:

- (i) the accuracy when made and the Closing Date of the representations and warranties of the Purchasers contained herein;
- (ii) all obligations, covenants and agreements of the Purchasers required to be performed at or prior to the Closing Date shall have been performed; and
- (iii) the delivery by the Purchasers of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of the Purchasers hereunder in connection with the Closing are subject to the following conditions being met:

- (i) the accuracy on the Closing Date of the representations and warranties of the Company contained herein;
- (ii) all obligations, covenants and agreements of the Company required to be performed at or prior to such Closing Date shall have been performed;
- (iii) the delivery by the Company and/or the Pledgor, as applicable, of the items set forth in Section 2.2(a) of this Agreement;
- (iv) there shall have been no Material Adverse Effect with respect to the Company since the date hereof; and
- (v) from the date hereof to the Closing Date trading in securities generally as reported by Bloomberg shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the United States or New York State authorities nor shall there have occurred any outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of each Purchaser, makes it impracticable or inadvisable to purchase the Notes at the Closing.

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## ARTICLE 3

## REPRESENTATIONS AND WARRANTIES

3.1 **Representations and Warranties of the Company.** Except as set forth under the corresponding section of the disclosure schedules delivered to the Purchasers concurrently herewith (the "Disclosure Schedules") which Disclosure Schedules shall be deemed a part hereof, the Company hereby makes the representations and warranties set forth below to each Purchaser as of the date hereof and as of the applicable Closing Date as follows:

(a) **Subsidiaries.** All of the direct and indirect subsidiaries of the Company are set forth on Schedule 3.1(a). The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. If the Company has no subsidiaries, then all other references in the Transaction Documents to the Subsidiaries or any of them will be disregarded.

(b) **Organization and Qualification.** The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) **Authorization; Enforcement.** The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its stockholders in connection therewith other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the

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terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the other transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect. Payments of cash on account of principal of or interest under the Note, upon any Event of Default under the Note, as a result of liquidated damages under any Transaction Document or upon a Buy-In under and as such term is defined in the Note or Warrant will not require the consent of, any payment to, or the creation of any Lien in favor of any lender to or creditor of the Company or any Subsidiary (under a credit facility, loan agreement or otherwise) and will not result in a default under any such credit facilities, loans or other agreements.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to Section 4.6, (ii) the filing with the Commission of the Registration Statement and (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "Required Approvals").

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Underlying Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company. The Company has reserved from its duly authorized capital stock a number of shares of Common Stock necessary for issuance of all of the Underlying Shares.

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(g) Capitalization. The number of shares and type of all authorized, issued and outstanding capital stock of the Company, and all shares of Common Stock reserved for issuance pursuant to convertible, exercisable or exchangeable securities of the Company or under the Company's various option and incentive plans, is specified in Schedule 3.1(g). The Company has not issued any capital stock since May 31, 2007, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of shares of Common Stock to employees pursuant to the Company's employee stock purchase plan and pursuant to the conversion or exercise of outstanding Common Stock Equivalents. Except as set forth on Schedule 3.1(g) (i), no Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as set forth on Exhibit 3.1(g) (ii) or as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder, the Board of Directors of the Company or others is required for the issuance and sale of the Securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) Financial Statements. The audited financial statements of the Company for the fiscal year ended December 31, 2006 are attached hereto as Schedule 3.1(h) (the "Financial Statements"). Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments

(i) Material Changes. Since the date of the Financial Statements (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables, accrued expenses and other liabilities incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP (iii) the Company has not altered its method of accounting or identity of its auditors, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, (v) the Company has not issued any equity securities to any officer, director or Affiliate, except

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pursuant to existing Company stock option plans and other compensation arrangements, (vi) except as set forth on Schedule 3.1(i), the Company has not incurred any indebtedness.

(j) Litigation. Except as set forth on Schedule 3.1(J), there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company. None of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company, and neither the Company or any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and, the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours.

(l) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business except in each case as could not have a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as listed on Schedule

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3.1(m), except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them, in each case free and clear of all Liens, except for Liens as do not affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(o) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses and which the failure to so have could have, or reasonably be expected to have, a Material Adverse Effect (collectively, the "Intellectual Property Rights"). Neither the Company nor any Subsidiary has received a notice (written or otherwise) that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights of others. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged, including, but not limited to, product liability insurance and directors and officers liability insurance coverage each at least equal to the aggregate Subscription Amount. To the knowledge of the Company, such insurance contracts and policies are accurate and complete. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Reserved.

(r) Reserved.

(s) Transactions With Affiliates and Employees. Except as set forth in Schedule 3.1(s), none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), includ-

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ing any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of \$60,000 other than (i) for payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) for other employee benefits, including stock option or stock grant agreements under any stock plans of the Company.

(t) Internal Controls. Unless set forth on Schedule 3.1(t), the Company and the Subsidiaries maintain a system of internal accounting controls which the Company believes is sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain 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

(u) Certain Fees. Except as set forth on Schedule 3.1(u), no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(v) Private Placement. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers' as contemplated hereby.

(w) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(x) Registration Rights. Other than each of the Purchasers and except as set forth on Schedule 3.1 (x), no Person has any right to cause the Company to effect the registration of its securities (including pursuant to piggy-back registration rights) under the Securities Act of any securities of the Company.

(y) Listing. The Company is currently not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Common Stock is currently traded over the counter via the "pink sheets" through the Interdealer Trading and Quotation System ("Pink Sheets") and the Company has not received any notice re-

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garding, and to its knowledge there is no threat of, the termination or discontinuance of the eligibility of the Common Stock for such trading.

(z) Reserved.

(aa) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, with respect to the representations and warranties made herein are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(bb) No Integrated Offering. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of the Securities Act which integration would negate the exemptions relied upon in this transaction.

(cc) Solvency. Based on the financial condition of the Company as of the Closing Date after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder, (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature and (ii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. Schedule 3.1(cc) sets forth as of the dates thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" shall mean (a) any liabilities for borrowed money or amounts owed (other than trade accounts payable incurred in the ordinary course of business) in excess of \$50,000, (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the

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notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of \$50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(dd) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(ee) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

(ff) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(gg) Accountants. The Company's auditors are set forth on Schedule 3.1(gg) of the Disclosure Schedule.

(hh) Absence of Any Undisclosed Liabilities. There are no liabilities of the Company or any Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than (i) those liabilities provided for in the Company's financial statements and (ii) other undisclosed liabilities which, individually or in the aggregate, could not have, or reasonably be expected to result in, a Material Adverse Effect.

(ii) Indebtedness and Seniority. As of the date hereof, all indebtedness and liens of the Company are as set forth on Schedule 3.1(ii). As of the Closing Date, no indebtedness or other claim against the Company is senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby).

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(jj) No Disagreements with Auditors and Lawyers. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the company and the auditors and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its auditors and lawyers.

(kk) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(ll) Reserved.

(mm) Material Agreements. Schedule 3.1(mm) sets forth all agreements of the Company that would otherwise be required to be filed with the Commission pursuant to the Exchange Act, if the Company were subject to the reporting requirements of the Exchange Act.

(nn) Accounts Receivables. All accounts receivable of the Company and its Subsidiaries that are reflected on the Company's balance sheet or interim balance sheet or on the accounting records of the Company and its Subsidiaries as of the Closing Date (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business. Unless paid prior to the Closing Date, the Accounts Receivable are or will be as of the Closing Date current and collectible net of the respective reserves shown on the balance sheet or interim balance sheet or on the accounting records of the Company and its Subsidiaries as of the Closing Date (which reserves are adequate and calculated consistent with past practice and, in the case of the reserve as of the Closing Date, will not represent a greater percentage of the Accounts Receivable as of the Closing Date than the reserve reflected in the interim balance sheet represented of the Accounts Receivable reflected therein and will not represent a material adverse change in the composition of such Accounts Receivable in terms of aging).

3.2 Representations and Warranties of the Purchasers. Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants as of the date hereof and as of the applicable Closing Date to the Company as follows:

(a) Organization; Authority. If such Purchaser is not an individual, such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents

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and otherwise to carry out its obligations hereunder and thereunder. If such Purchaser is not an individual, the execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no arrangement or understanding with any other persons regarding the distribution of such Securities (this representation and warranty not limiting such Purchaser's right to sell the Securities in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it converts any part of the Note it will be either: (i) an "accredited investor" as defined in Rule 501 under the Securities Act or (ii) a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Short Sales and Confidentiality Prior To The Date Hereof. Other than the transaction contemplated hereunder, such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, executed any disposition, including Short Sales (but not including the location and/or reservation of

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borrowable shares of Common Stock), in the securities of the Company during the period commencing from the time that such Purchaser first received a term sheet from the Company or any other Person setting forth the material terms of the transactions contemplated hereunder until the date hereof ("Discussion Time"). Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

The Company acknowledges and agrees that no Purchaser has made or makes any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

#### ARTICLE 4 OTHER AGREEMENTS OF THE PARTIES

##### 4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to Rule 144, to the Company or to an Affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1(b), the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1(b), of a legend on any of the Securities in the following form:

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY ARE CONVERTIBLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE

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SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an "accredited investor" as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities.

(c) Certificates evidencing the Underlying Shares shall not contain any legend (including the legend set forth in Section 4.1(b) hereof):

- (i) reserved
- (ii) following any sale of such Underlying Shares pursuant to Rule 144, or
- (iii) if such Underlying Shares are eligible for sale under Rule 144(k), or
- (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company shall cause its counsel to issue a legal opinion to the Company's transfer agent promptly after the events set forth above if required by the Company's transfer agent to effect the removal of the legend hereunder.

If all or any portion of a Note is converted at a time when such Underlying Shares may be sold under Rule 144(k) or if such legend is not otherwise required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission) then such Underlying Shares shall be issued free of all legends. The Company agrees that at such time as such legend is no longer required under this Section 4.1(c), it will, no later than three (3) Trading Days following the delivery by a Purchaser to the Company or the Company's transfer agent of a certificate representing Underlying Shares, as applicable, issued with a restrictive legend (such third Trading Day, the "Legend Removal Date"), deliver or cause to be delivered to such Purchaser a certificate representing such shares that is free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to any transfer agent of the Company that enlarge the restrictions on transfer set forth in this Section. Certificates for Underlying Shares subject to legend removal hereunder shall be

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transmitted by the transfer agent of the Company to the Purchasers by crediting the account of the Purchaser's prime broker with the Depository Trust Company System.

(d) In addition to such Purchaser's other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, for each \$1,000 of Underlying Shares (based on the VWAP of the Common Stock on the date such Securities are submitted to the Company's transfer agent) delivered for removal of the restrictive legend and subject to Section 4.1(c), \$10 per Trading Day for each Trading Day after the Legend Removal Date until such certificate is delivered without a legend. Nothing herein shall limit such Purchaser's right to pursue actual damages for the Company's failure to deliver certificates representing any Securities as required by the Transaction Documents or otherwise, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

(e) Each Purchaser, severally and not jointly with the other Purchasers, agrees that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Company's reliance that the Purchaser will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom.

**4.2 Acknowledgment of Dilution.** The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. Additionally, the Company acknowledges that a Purchaser's trading activity prior to, or during, any conversion of its Note could result in a substantial decrease in the market price of the Common Stock at the time of the conversion resulting in the issuance by the Company of a greater number of shares of Common Stock to the Purchaser pursuant to such conversion, causing further dilution of the outstanding shares of Common Stock. The Company further acknowledges that its obligations under the Transaction Documents, including without limitation its obligation to issue the Underlying Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

**4.3 Furnishing of Information.** If after the date hereof the Company becomes subject to the reporting requirements of the Exchange Act and as long as any Purchaser owns Securities, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. As long as any Purchaser owns Securities and the Company is subject to the reporting requirement of the Exchange Act, the Company will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) such information as is required for the Purchasers to sell the Securities under Rule 144. As long as any Purchaser owns Securities and the Company is subject to the reporting requirement of the Exchange Act, the Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

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4.4 **Integration.** The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market if such integration would negate the exemptions relied upon in this transaction.

4.5 **Conversion Procedures.** The form of Notice of Conversion included in the Note sets forth the totality of the procedures required of the Purchasers in order to convert the Note. No additional legal opinion or other information or instructions shall be required of the Purchasers to convert their Note. The Company shall honor conversions of the Note and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.6 **Securities Laws Disclosure; Publicity.** The Company and each Purchaser shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any such press release or otherwise make any such public statement in connection with the transactions contemplated hereby without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except (i) as required by federal securities law; (ii) in connection with the registration statement contemplated by the Registration Rights Agreement; and (iii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under sub clause (i), (ii) or (iii).

4.7 **Reserved.**

4.8 **Non-Public Information.** The Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing representations in effecting transactions in securities of the Company.

4.9 **Use of Proceeds.** Except as set forth on Schedule 4.8 attached hereto, the Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and not for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), to redeem any Common Stock or Common Stock Equivalents or to settle any outstanding litigation.

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4.10 Reserved

4.11 Indemnification of Purchasers. The Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title, each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling person (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Purchaser, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser may have with any such stockholder or any violations by the Purchaser of state or federal securities laws or any conduct by such Purchaser which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall notify the Company in writing not later than fifteen (15) days after receipt by Purchaser Party of notice of the commencement of such action, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party, but the omission so to notify the Company will not relieve the Company from any liability which it may have to any Purchaser Party otherwise than under this Agreement or to the extent that such failure to so notify the Company has not had a materially adverse impact on the ability of the Company to assume the defense of such action. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (i) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents.

4.12 Reservation and Listing of Securities.

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(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may be required to fulfill its obligations in full under the Transaction Documents.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors of the Company shall use commercially reasonable efforts to amend the Company's certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 75th day after such date.

4.13 **Reserved**

4.14 **Reserved**

4.15 **Short Sales and Confidentiality after the Date Hereof.** Each Purchaser, severally and not jointly with the other Purchasers, covenants that neither it nor any Affiliates acting on its behalf or pursuant to any understanding with it will execute any Short Sales, sell any put options or other similar instruments with respect to the Company's Common Stock during the period commencing on the date hereof and ending on the day after the full principal balance of the Note is paid or converted. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in Section 4.6, such Purchaser will maintain the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction), provided however, that the Company shall make public disclosure of the transactions contemplated by this Agreement no later than four days after the Closing Date.

4.16 **Form D; Blue Sky Filings.** The Company agrees to timely file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof, promptly upon request of any Purchaser. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Purchasers at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Purchaser.

4.17 **Waiver.** Reference is made to the (i) Securities Purchase Agreement by and between the Company and Golden Gate Investors, Inc. ("Golden Gate"), dated as of November 3, 2006 (the "Golden Gate Securities Purchase Agreement"); (ii) the 6 ¼ Convertible Debenture dated November 3, 2006 issued to Golden Gate in the principal amount of \$1,250,000; (iii) the 6 ¼ Convertible Debenture, dated November 3, 2006, issued to Golden Gate in the principal amount of 100,000 and (iv) the Registration Rights Agreement between the Company and Golden Gate, dated November 3, 2006 (the "Registration Rights Agreement"), with respect to the execution by the Company of the Transaction Documents and the Company's performance of its obligations under the transaction documents, Golden Gate hereby waives the Company's compliance with Section III K of the Securities Purchase Agreement, Section 5.6 of each of aforementioned Notes, Section 2 D of the Registration Rights Agreement and any other

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events or default under the aforementioned notes which may be caused by the Company's execution of the Transaction Documents.

## ARTICLE 5

### MISCELLANEOUS

#### 5.1 Reserved.

5.2 Fees and Expenses. The Company shall deliver, prior to the Closing, a completed and executed copy of the Closing Statement, attached hereto as Annex A. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto prior to 5:30 p.m. (CST) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (CST) on any Trading Day, (c) the second (2<sup>nd</sup>) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and each Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

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5.6 **Headings.** The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. 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 any party.

5.7 **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof of the Transaction Documents that apply to the "Purchasers".

5.8 **No Third-Party Beneficiaries.** This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

5.9 **Governing Law.** All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in San Diego County, California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in San Diego County, California for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution or defense of such action or proceeding.

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5.10 **Survival.** The representations, warranties, covenants and other agreements contained herein shall survive the Closing and the delivery, and/or conversion of the Securities, as applicable for the applicable statute of limitations.

5.11 **Execution.** This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

5.12 **Severability.** If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 **Rescission and Withdrawal Right.** Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided, then such Purchaser may, in addition to any other remedies that may be available to Purchaser, rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, in the case of a rescission of a conversion of a Note, the Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice.

5.14 **Replacement of Securities.** If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

MK 5.15 **Remedies.** In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the

Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agrees to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 **Payment Set Aside.** To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 **Usury.** To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the effective date forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, the manner of handling such excess to be at such Purchaser's election.

5.18 **Reserved**

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5.19 **Liquidated Damages.** The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or se-

curity pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.20 **Construction.** The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

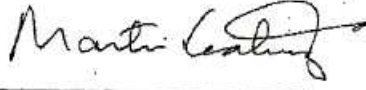
*(Signature Pages Follow)*

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IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

3DICON CORPORATION



By: \_\_\_\_\_  
Name: MARTIN KEATING  
Title: Chairman & CEO

Address for Notice:

3Dicon Corporation  
Attn. Martin Keating  
7507 S. Sandusky  
Tulsa, OK 74136  
Fax No. 918 \_\_\_\_\_

with a copy to (which shall not constitute notice)

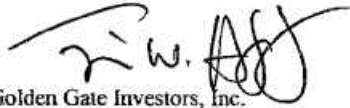
John M. O'Connor  
Newton. O'Connor, Turner 7 Ketchum, P. C.  
15 W. 6<sup>th</sup> Street, Suite 2700  
Tulsa, OK 74119  
Fax No. 918 587 0102

**SIGNATURE PAGE FOR PURCHASER FOLLOWS**

**REMAINDER OF PAGE INTENTIONALLY LEFT BLANK**

PURCHASER SIGNATURE PAGES TO 3DICON CORPORATION PURCHASE AGREEMENT

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.



Name of Purchaser: : Golden Gate Investors, Inc.  
Signature of Authorized Signatory of Purchaser  
Name of Authorized Signatory: Travis W. Huff  
Title of Authorized Signatory: Vice President, Portfolio Manager  
Fax No. (858) 551-8779  
Email Address of Purchaser:  
Address for Notice of Purchaser:

7817 Herschel Avenue, Suite 200  
La Jolla, CA 92037

Address for Delivery of Securities for Purchaser (if not same as above):

Closing Subscription Amount: \$700,000

**SIGNATURE PAGES CONTINUE**

**INVESTOR QUESTIONNAIRE CERTIFICATION**

**3DICON CORPORATION  
INVESTOR QUESTIONNAIRE  
(ALL INFORMATION WILL BE TREATED CONFIDENTIALLY)**

To: 3DIcon Corporation

This Investor Questionnaire ("Questionnaire") must be completed by each potential investor in connection with the offer and sale of the shares of restricted common stock and warrants of 3DIcon Corporation (the "Securities"). The Securities are being offered and sold by 3DIcon Corporation (the "Company") without registration under the Securities Act of 1933, as amended (the "Act"), and the securities laws of certain states, in reliance on the exemptions contained in Section 4(2) of the Act and on Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws. The Company must determine that a potential investor meets certain suitability requirements before offering or selling Securities to such investor. The purpose of this Questionnaire is to assure the Company that each investor will meet the applicable suitability requirements. The information supplied by you will be used in determining whether you meet such criteria, and reliance upon the private offering exemptions from registration is based in part on the information herein supplied. This Questionnaire does not constitute an offer to sell or a solicitation of an offer to buy any security. Your answers will be kept strictly confidential. However, by signing this Questionnaire, you will be authorizing the Company to provide a completed copy of this Questionnaire to such parties as the Company deems appropriate in order to ensure that the offer and sale of the Securities will not result in a violation of the Act or the securities laws of any state and that you otherwise satisfy the suitability standards applicable to purchasers of the Securities. All potential investors must answer all applicable questions and complete, date and sign this Questionnaire. Please print or type your responses and attach additional sheets of paper if necessary to complete your answers to any item.

A. BACKGROUND INFORMATION

Name: Golden Gate Investors, Inc.

Business Address: 7817 Herschel Ave., Suite 200, La Jolla, CA 92037

Telephone Number: 858-551-8789

If an individual:

Age: \_\_\_\_\_ Citizenship: \_\_\_\_\_

If a corporation, partnership, limited liability company, trust or other entity:

Type of entity: Corporation

State of formation: California Date of formation: February 18, 2004

Social Security or Taxpayer Identification No. 34-1986525

B. STATUS AS ACCREDITED INVESTOR

The undersigned is an "accredited investor" as such term is defined in Regulation D under the Act, as at the time of the sale of the Securities the undersigned falls within one or more of the following categories (Please initial one or more, as applicable):<sup>1</sup>

<sup>1</sup> As used in this Questionnaire, the term "net worth" means the excess of total assets over total liabilities. In computing net worth for the purpose of subsection (4), the principal residence of the investor must be valued at cost, including cost of improvements, or at recently appraised value by an institutional lender making a secured loan, net of encumbrances. In determining income, the investor should add to the investor's adjusted gross income any

\_\_\_\_ (1) a bank as defined in Section 3(a)(2) of the Act, or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; an insurance company as defined in Section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with the investment decisions made solely by persons that are accredited investors;

\_\_\_\_ (2) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;

X (3) an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Securities offered, with total assets in excess of \$5,000,000;

\_\_\_\_ (4) a natural person whose individual net worth, or joint net worth with that person's spouse, at the time of such person's purchase of the Securities exceeds \$1,000,000;

\_\_\_\_ (5) a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

\_\_\_\_ (6) a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; and

\_\_\_\_ (7) an entity in which all of the equity owners are accredited investors (as defined above).

IN WITNESS WHEREOF, the undersigned has executed this Questionnaire this 8 day of JUNE, 2007, and declares under oath that it is truthful and correct.

\_\_\_\_\_  
Print Name TRAVIS W. HUFF  
By: \_\_\_\_\_  
Signature  
Title: PORTFOLIO MGR  
(required for any purchaser that is a corporation, partnership, trust or other entity)

amounts attributable to tax exempt income received, losses claimed as a limited partner in any limited partnership, contributions to an IRA or KEOGH retirement plan, alimony payments, and any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income.



**SECURITIES PURCHASE AGREEMENT**

**SCHEDULE 3.1(a)**

**Subsidiaries**

There are no direct or indirect subsidiaries of 3DIcon Corporation.

SCHEDULE 3.1(g)  
Capitalization

The Company has only one class of stock:		Common Stock
Shares authorized:		250,000,000
Shares issued and outstanding:		112,213,957
Shares issued to 12/31/06:	98,327,656	
Shares issued 1/07 to 5/14/07:	<u>13,886,301</u>	
Total:	112,213,957	
Shares reserved:		31,278,452
Debentures – multiple holders:	3,100,000	
Golden Gate Debentures:		
1 <sup>st</sup> Debenture:	4,808,830	Registrable Shares <sup>1</sup>
3 <sup>rd</sup> Debenture:	5,045,872	
Judy Keating Debenture:	2,323,750	
Concordia options:		
Earned:	2,500,000	
Reserved:	2,500,000	
Warrants:	9,000,000	
<u>To Employees and Directors:</u>		
President V. Bhaman options:	500,000	
Directors' options:	1,500,000	
<u>To Outside Consultants:</u>		
Sichenzia Ross Friedman Ference LLP	200,000	
Total:		31,478,452 <sup>2</sup>

<sup>1</sup> Includes shares of our common stock, par value \$0.002 per share, which may be offered pursuant to the registration statement to be filed pursuant to the Golden Gate Investors, Inc. First Debenture, which shares are issuable upon conversion of convertible debenture held by Golden Gate Investors, Inc. The amount to be registered includes a good faith estimate of the number of shares issuable upon conversion of the debenture. Should the conversion ratio of our convertible debenture result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary estimated, using the average of the high and low price as reported on the Pink Sheets for the twenty days ending on May 11, 2007, which was \$0.384 per share.

**SCHEDULE 3.1(g)(i)****Capitalization – Persons with right to participate in transactions**

Effective on the date of the Registration Statement covering shares to be registered pursuant to agreements dated November 3, 2006, between Company and Golden Gate Investors, Inc. becomes effective, Golden Gate has a right of first refusal on transactions by which Company raises capital.

**SCHEDULE 3.1(g)(ii)****Capitalization – Outstanding commitments for issuance of common stock**

CEO M. Keating:	Up to 9,600,000 Shares at \$0.40/share to replace collateral to be pledged in this Transaction
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And see SCHEDULE 3.1(g) above

**SCHEDULE 3.1(h)****Financial Statements**

See attached audited financial statements for the fiscal year ended December 31, 2006.

**SCHEDULE 3.1(i)****Material Changes**

1. Sponsored Research Agreement with the University of Oklahoma with a contract price of \$4,047,439.00
2. Employment agreement with Vivek Bhaman, President and Chief Operating Officer

**SCHEDULE 3.1(j)****Litigation**

3DIcon Corporation has recently been involved in the following litigation proceedings:

1. Clean Air Council v. 3DIcon, Case No. CV-0000288-05, District Court, Dauphin County, Pennsylvania

The Clean Air Council, which is not a governmental agency, claims it received unsolicited facsimile advertisements / solicitations from 3DIcon in violation of

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<sup>2</sup> Such shares will be issued as consideration for legal services relating to this transaction

federal law. 3DIcon has never sent unsolicited facsimile advertisements / solicitations. The case was dismissed and the Clean Air Council has refilled its case pursuant to Pennsylvania law.

The Clean Air Council filed a Praecipe for Voluntary Discontinuance of the matter in the Court of Common Pleas, Dauphin County, Pennsylvania on May 2, 2006. The matter is closed.

2. 3DIcon v. William Andrew Stack and Lion Capital Holdings, Case No. CJ-2006-02455, Tulsa County, Oklahoma

3DIcon has sued William Andrew Stack, Andrew Stack Enterprises, Lion Capital Holdings, Inc. Jay Shrewder, Joseph Padilla, and various "Does" to recover 17 million shares of 3DIcon common stock or its value, which was issued as a result of fraud and conversion allegedly perpetrated by one or more defendants.

There are no counterclaims filed against 3DIcon in this action.

No other actions, suits, inquiries, notices of violation, proceedings or investigations are pending or threatened against or affecting 3DIcon Corporation, its directors or officers, at this time, with the exception of an action pending against John O'Connor, described generally as follows: *John B. Acott v. John M. O'Connor and Newton, O'Connor, Turner & Ketchum, P.C.*, No. CJ 2004 06396, in the District Court of Tulsa County, Oklahoma. This is a suit over a fee dispute. No securities were involved in the legal services and no claim of securities fraud was made.

This action relates to legal services rendered in 1994-1995 by the firm, with John M. O'Connor as lead counsel, in which the firm represented a guardian of an individual injured in a motor vehicle collision. The guardian obtained probate / guardianship court approval of the engagement, the fee agreement, the settlement of the claims and the legal fee paid to the law firm.

On October 14, 2004, one year after the injured person was restored to capacity, he brought suit against the law firm and John M. O'Connor alleging that the firm charges and was paid a fee higher than the fee agreement. He alleged that, even though the guardian and court approved the fee, the fee exceeded the contracted amount. On these facts, he sued for breach of contract, fraud and breach of a fiduciary duty.

**SCHEDULE 3.1(m)**  
**Regulatory Permits**

Certificate of Incorporation from the Oklahoma Secretary of State dated August 11, 1995.

**SCHEDULE 3.1(s)**  
**Transactions With Affiliates and Employees**

## 9.75% Convertible Note

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS CONVERTIBLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

Original Issue Date: June 8, 2007

9.75% CONVERTIBLE NOTE

DUE JUNE 8, 2008 (Subject to Extension)

FOR VALUE RECEIVED, the 3DIcon Corporation (the "Company") promises to pay to Golden Gate Investors, Inc. or its registered assigns (the "Holder"), or shall have paid pursuant to the terms hereunder, the principal sum of \$700,000 by June 8, 2008 (the "Initial Maturity Date"), provided, however, the Holder may extend the Initial Maturity Date to October 8, 2008 (the "Extended Maturity Date") by providing the Company with written notice of the extension of the Initial Maturity Date at least ten business days prior to the Initial Maturity Date, subject to earlier payment of the Note as is required or permitted hereunder (the Initial Maturity Date and the Extended Maturity Date and any earlier date the Note is required or permitted to be repaid is referred to herein as the "Maturity Date"), and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof. This Note is subject to the following additional provisions:

Section 1. **Definitions.** For the purposes hereof, in addition to the terms defined elsewhere in this Note: (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement, and (b) the following terms shall have the following meanings:

"2006 Note" means the 6 ¼ % Convertible Debenture dated November 3, 2006 between the Company and Golden Gate Investors Inc., as amended.

"Alternate Consideration" shall have the meaning set forth in Section 5(d).

**"Business Day"** means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

**"Buy-In"** shall have the meaning set forth in Section 4(d)(v).

**"California Courts"** shall have the meaning set forth in Section 9(d).

**"Change of Control Transaction"** means the occurrence after the date hereof of any of (i) an acquisition after the date hereof by an individual or legal entity or "group" (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Company, by contract or otherwise) of in excess of 33% of the voting securities of the Company, or (ii) the Company merges into or consolidates with any other Person, or any Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than 66% of the aggregate voting power of the Company or the successor entity of such transaction, or (iii) the Company sells or transfers all or substantially all of its assets to another Person and the stockholders of the Company immediately prior to such transaction own less than 66% of the aggregate voting power of the acquiring entity immediately after the transaction, or (iv) a replacement at one time or within a two year period of more than one-half of the members of the Company's board of directors which is not approved by a majority of those individuals who are members of the board of directors on the date hereof (or by those individuals who are serving as members of the board of directors on any date whose nomination to the board of directors was approved by a majority of the members of the board of directors who are members on the date hereof), or (v) the execution by the Company of an agreement to which the Company is a party or by which it is bound, providing for any of the events set forth in clauses (i) through (iv) above.

**"Common Stock"** means the common stock, par value \$0.002 per share, of the Company and stock of any other class of securities into which such securities may hereafter be reclassified or changed into.

**"Conversion Date"** shall have the meaning set forth in Section 4(a).

**"Conversion Price"** shall have the meaning set forth in Section 4(b).

**"Conversion Shares"** means collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

**"Event of Default"** shall have the meaning set forth in Section 8.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

**"Fundamental Transaction"** shall have the meaning set forth in Section 5(d).

**"Interest Payment Date"** shall have the meaning set forth in Section 2(a).

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"Late Fees" shall have the meaning set forth in Section 2(d).

"Note Register" shall have the meaning set forth in Section 2(c).

"Notice of Conversion" shall have the meaning set forth in Section 4(a).

"Original Issue Date" means the date of the first issuance of this Note, regardless of the number of transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

"Permitted Indebtedness" means (a) the Indebtedness existing on the Original Issue Date and set forth on Schedule 3.1(cc) attached to the Purchase Agreement, (b) lease obligations and purchase money indebtedness of up to \$100,000, incurred in connection with the acquisition of capital assets and lease obligations with respect to newly acquired or leased assets, (c) factoring agreements of the Company relating to the Company's account receivables in the ordinary course of its business consistent with past practice, (d) indebtedness incurred in connection with the issuance and sale by the Company of its Common Stock or Common Stock Equivalents in a single or multiple transactions involving a subscription amount(s) equal to or less than \$1,000,000, and (e) the sale of a note or other type of negotiable instrument to Judy Keating in an amount not to exceed \$250,000.

"Permitted Lien" means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of the Company) have been established in accordance with GAAP, (b) Liens imposed by law which were incurred in the ordinary course of the Company's business, such as carriers', warehousemen's and mechanics' Liens, statutory landlords' Liens, and other similar Liens arising in the ordinary course of the Company's business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Company and its consolidated Subsidiaries or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien and (c) Liens incurred in connection with Permitted Indebtedness under clause (b), (c) or (d) thereunder, provided that with respect to clause (b) such Liens are not secured by assets of the Company or its Subsidiaries other than the assets so acquired or leased.

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"Purchase Agreement" means the Securities Purchase Agreement among the Company and the original Holders, dated as of June 8, 2007 as amended, modified or supplemented from time to time in accordance with its terms.

*MK* "Registration Statement" means the registration statement meeting the requirements set forth in the Registration Rights Agreement dated November 3, 2006 between the Company and

Golden Gate Investors Inc. and covering the resale of the 2006 Note Shares by each Purchaser as provided for in the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. For the purposes of this Note, "2006 Note Shares" means the shares of common stock of the Company issued and issuable upon conversion of the 2006 Note in accordance with the terms of the 2006 Note.

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"**Share Delivery Date**" shall have the meaning set forth in Section 4(d).

"**Subsidiary**" shall have the meaning set forth in the Purchase Agreement.

"**Trading Day**" means a day on which the Common Stock is traded on a Trading Market.

"**Trading Market**" means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the American Stock Exchange, the Nasdaq Capital Market, the Nasdaq National Market, the New York Stock Exchange, the OTC Bulletin Board or Pink Sheets published by the Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices).

"**Transaction Documents**" shall have the meaning set forth in the Purchase Agreement.

"**VWAP**" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted for trading as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)); (b) if the OTC Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; (c) if the Common Stock is not then quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holder and the Company.

Section 2. Interest.

(a) Payment of Interest. The Company shall pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note at the rate of 9.75% per annum, payable monthly beginning on the date hereof and such interest shall be paid within three days of the beginning of each month that such interest is due, on each Conversion Date (as to that principal amount then being converted), and on the Maturity Date (except that, if any such date is not a Business Day, then such payment shall be due on the next succeeding Business Day) (each such date, an "Interest Payment Date"), in cash.

(b) Reserved.



(c) Interest Calculations. Interest shall be calculated on the basis of a 360-day year and shall accrue daily commencing on the Original Issue Date until payment in full of the principal sum, together with all accrued and unpaid interest, liquidated damages and other amounts which may become due hereunder, has been made. Interest shall cease to accrue with respect to any principal amount converted, provided that the Company actually delivers the Conversion Shares within the time period required by Section 4(d)(ii). Interest hereunder will be paid to the Person in whose name this Note is registered on the records of the Company regarding registration and transfers of this Note (the "Note Register").

(d) Late Fee. All overdue accrued and unpaid interest to be paid hereunder shall be subject to a late fee at an interest rate of 18% per annum in lieu of the interest referenced in Section 2(a) ("Late Fees") which shall accrue daily from the date such interest is due hereunder through and including the date of payment in full.

(c) Prepayment. The Company may not prepay any portion of the principal amount of this Note without the prior written consent of the Holder.

### Section 3. Registration of Transfers and Exchanges.

(a) Different Denominations. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

(b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

(c) Reliance on Note Register. Prior to due presentment for transfer to the Company of this Note, the Company and any agent of the Company may treat the Person in whose name this Note is duly registered on the Note Register as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

### Section 4. Conversion.

(a) Voluntary Conversion. Any time after the Original Issue Date until this Note is no longer outstanding, this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder at any time and from time to time (subject to the conversion limitations set forth in Section 4(c) hereof). The Holder shall effect conversions by delivering to the Company a Notice of Conversion, the form of which is attached hereto as Annex A (a "Notice of Conversion"), specifying therein the principal amount of this Note to be converted and the date on which such conversion shall be effected (a "Conversion Date"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to the Company

unless the entire principal amount of this Note plus all accrued and unpaid interest thereon has been so converted or there is no outstanding balance due on this Note at such time. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and the Company shall maintain records showing the principal amount converted and the date of such conversions. The Company may deliver an objection to any Notice of Conversion within seven Business Days of delivery of such Notice of Conversion. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.

(b) Conversion Price. Subject to adjustment as provided herein, the conversion price in effect on any Conversion Date shall be seventy two percent (72%) of the average of the five (5) lowest VWAP for the Common Stock for the twenty (20) trading days prior to the Conversion Date (the "Conversion Price"), provided, however, and not withstanding anything to the contrary herein, until the earlier to occur of (i) the Company's common stock is traded on a the OTC Bulletin Board or any other trading market recognized as a trading market by the Securities and Exchange Commission, or (ii) January 1, 2008, the conversion price in effect on any Conversion Date shall be \$.28 per share.

(c) Conversion Limitations.

(i) Holder's Restriction on Conversion. The Company shall not effect any conversion of this Note, and a Holder shall not have the right to convert any portion of this Note, to the extent that after giving effect to the conversion, as set forth on the applicable Notice of Conversion, such Holder (together with such Holder's Affiliates, and any other person or entity acting as a group together with such Holder or any of such Holder's Affiliates) would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates shall include the number of shares of Common Stock issuable upon conversion of this Note with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which are issuable upon (A) conversion of the remaining, unconverted principal amount of this Note beneficially owned by such Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein (including, without limitation, any other Notes or warrants to purchase shares of the Company's Common Stock) beneficially owned by such Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 4(c)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. To the extent that the limitation contained in this Section 4(c)(i) applies, the determination of whether this Note is convertible (in relation to other securities owned by such Holder together with any Affiliates) and of which principal amount of this Note is convertible shall be in the sole discretion of such Holder, and the submission of a Notice of Conversion shall be deemed to be such Holder's determination of whether this Note may be converted (in relation to other securities owned by such Holder

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together with any Affiliates) and which principal amount of this Debenture is convertible, in each case subject to such aggregate percentage limitations. To ensure compliance with this restriction, each Holder will be deemed to represent to the Company each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this paragraph and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 4(c)(ii), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock provided to the Holder in writing by the Company after Holder makes such request or in the event that the Company files, any of the following with the Securities and Exchange Commission, the most recent of the following: (A) the Company's most recent Form 10-QSB or Form 10-KSB, as the case may be, (B) a more recent public announcement by the Company; or (C) a more recent notice by the Company or the Company's transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding on the records of the Company as of the date of the request. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Note, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of this Note held by the Holder. The Beneficial Ownership Limitation provisions of this Section 4(c)(i) may be waived by such Holder, at the election of such Holder, upon not less than 61 days' prior notice to the Company, to, at the sole discretion of the Holder, either change the Beneficial Ownership Limitation to (i) 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon conversion of the Note held by the Holder and the provisions of this Section 4(c)(ii) shall continue to apply, or (ii) remove any Beneficial Ownership Limitation under this Note. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 4(c) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. If any court of competent jurisdiction shall determine that the foregoing limitation is ineffective to prevent a Holder from being deemed the beneficial owner of more than 9.99% of the then outstanding shares of Common Stock, then the Company shall prepay such portion of this Note as shall cause such Holder not to be deemed the beneficial owner of more than 9.99% of the then outstanding shares of Common Stock. Upon such determination by a court of competent jurisdiction, the Holder shall have no interest in or rights under such portion of the Note. Any and all interest paid on or prior to the date of such determination shall be deemed interest paid on the remaining portion of this Note held by the Holder. Such prepayment shall be for cash at a prepayment price of one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of prepayment. The limitations contained in this paragraph shall apply to a successor holder of this Note.

(d) Mechanics of Conversion.

(i) Conversion Shares Issuable Upon Conversion of Principal

Amount. The number of shares of Common Stock issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the outstanding principal amount of this Note to be converted by (y) the Conversion Price.

(ii) Delivery of Certificate Upon Conversion. Not later than three

Trading Days after each Conversion Date, (the "Share Delivery Date") the Company shall deliver, or cause to be delivered, to the Holder (A) a certificate or certificates representing the Conversion Shares which, on or after the Effective Date, shall be free of restrictive legends and trading restrictions (other than those which may then be required by the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of this Note and (B) cash via wire transfer in the amount of accrued and unpaid interest. The Company shall, if available and if allowed under applicable securities laws, use its best efforts to deliver any certificate or certificates required to be delivered by the Company under this Section electronically through the Depository Trust Company or another established clearing corporation performing similar functions.

(iii) Failure to Deliver Certificates. If in the case of any Notice of

Conversion such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the Holder shall, in addition to any other remedies that may be available to Holder under the terms of this Note or otherwise, be entitled to elect by written notice to the Company at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Company shall promptly return to the Holder any original Note delivered to the Company and the Holder shall promptly return the Common Stock certificates representing the principal amount of this Note tendered for conversion to the Company.

(iv) Obligation Absolute; Partial Liquidated Damages. The Company's

obligations to issue and deliver the Conversion Shares upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of such Conversion Shares; provided, however, that such delivery shall not operate as a waiver by the Company of any such action the Company may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof, the Company may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason. If the Company fails for any reason to deliver to the Holder such certificate or certificates pursuant to Section 4(d)(ii) by the third Trading Day after the Conversion Date, in addition to any other remedies available to Holder, including without limitation, the payment of liquidated damages in connection with an Event of Default under the

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terms of this Note, the Company shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after the second Trading Day following the Share Delivery Date until such certificates are delivered. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to Section 8 hereof for the Company's failure to deliver Conversion Shares within the period specified herein and such Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

(v) Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if the Company fails for any reason to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 4(d)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Holder of the Conversion Shares which the Holder was entitled to receive upon the conversion relating to such Share Delivery Date (a "Buy-In"), then the Company shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that such Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion or deliver to the Holder the number of shares of Common Stock that would have been issued if the Company had timely complied with its delivery requirements under Section 4(d)(ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of this Note with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

MK (vi) Reservation of Shares Issuable Upon Conversion. The Company covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of this Note provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Notes), not less than such aggregate number of shares of the Common Stock as shall (subject to the terms and conditions set forth in the

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Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5) upon the conversion of the outstanding principal amount of this Note. The Company covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

(vii) Fractional Shares. Upon a conversion hereunder the Company shall not be required to issue stock certificates representing fractions of shares of Common Stock, but may if otherwise permitted, make a cash payment in respect of any final fraction of a share based on the VWAP at such time. If the Company elects not, or is unable, to make such a cash payment, the Holder shall be entitled to receive, in lieu of the final fraction of a share, 1 whole share of Common Stock.

(viii) Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

Section 5. Certain Adjustments.

(a) Stock Dividends, Combinations and Stock Splits. If, at any time while this Note is outstanding, the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Common Stock in shares of Common Stock, the Conversion Price shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock Outstanding immediately prior to such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification. To determine the Conversion Price for this subsection the Company shall consider the record date for the determination of stockholders entitled to receive such dividend or distribution to be a the Conversion Date.

(b) Reserved.

(c) Pro Rata Distributions. If the Company, at any time while this Note is outstanding, distributes to any holders of Common Stock (and not to the Holders) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security, then in each such case the Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution (to determine the

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Conversion Price for this sub Section the Company shall consider the Record Date to be the Conversion Date) shall be by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors of the Company in good faith. In either case the adjustments shall be described in a statement delivered to the Holder describing the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(d) **Fundamental Transaction.** If, at any time while this Note is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one transaction, or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of Common Stock (the "Alternate Consideration"). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new Note consistent with the foregoing provisions and evidencing the Holder's right to convert such Note into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (d) and insuring that this Note (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. To determine the Conversion Price for purposes of this subsection, the Company shall consider a date determined by the Company's board of directors, in its reasonable discretion to be the Conversion Date.

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(e) Calculations. All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 5, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares, of the Company) issued and outstanding.

(f) Notice to the Holder.

(i) Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any of this Section 5, the Company shall promptly mail to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

(ii) Notice to Allow Conversion by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be delivered to the Holder at its last address as it shall appear upon the Note Register, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to convert this Note during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice.

Section 6. [INTENTIONALLY OMITTED]

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Section 7. Negative Covenants. As long as any portion of this Note in excess of a principal balance of \$200,000 remains outstanding, without the consent of the Holder, which shall not unreasonably be withheld, the Company shall not and shall not permit any of its Subsidiaries to directly or indirectly:

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(a) other than Permitted Indebtedness, enter into, create, incur, assume guarantee or suffer to exist any indebtedness for borrowed money of any kind, including but not limited to, guarantee, on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom;

(b) other than Permitted Liens, enter into, create, incur, assume or suffer to exist any Liens of any kind on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom;

(c) amend its charter documents, including without limitation, the certificate of incorporation and bylaws in any manner that materially and adversely affects any rights of the Holder;

(d) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock or Common Stock Equivalents other than as to the Conversion Shares or Warrant Shares as permitted or required under the Transaction Documents or otherwise heretofore granted by the Company; or

(e) pay cash dividends or distributions on any equity securities of the Company.

Section 8. Events of Default

(a) "Event of Default" means, wherever used herein, any of the following events which occur while any portion of the principal or accrued and unpaid interest due under the Note remains outstanding (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

(i) any default in the payment of (A) the principal amount of any Note, or (B) interest, liquidated damages and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on a Conversion Date, or the Maturity Date or by acceleration or otherwise) which default has not been cured within three days of the date written notice from the Holder of such default is received by the Company;

(ii) the Company shall fail to observe or perform any other material covenant contained in the Notes (other than a breach by the Company of its obligations to deliver shares of Common Stock to the Holder upon conversion which breach is addressed in clause (xi) below or the failure of the Company's Common Stock to trade at the value specified in clause (vii) below as addressed in clause (vii) below) which failure is not cured, if possible to cure, within the earlier to occur of (A) 3 Trading Days after notice of such failure sent by the Holder or by any other Holder or (B) 3 Trading Days after the Company has become or should have become aware of such failure; TWH  
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MK (iii) a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents or (B) any other material agreement, lease, document or instrument to TWH

which the Company or any Subsidiary is obligated (and not covered by clause (vi) below), including the 2006 Note;

(iv) any representation or warranty made in this Note, any other Transaction Documents or in any other report, financial statement or certificate made or delivered to the Holder or any other Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

(v) (i) the Company or any of its Subsidiaries shall commence a case, as debtor, a case under any applicable bankruptcy or insolvency laws as now or hereafter in effect or any successor thereto, or the Company or any Subsidiary commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Company or any Subsidiary thereof or (ii) there is commenced a case against the Company or any Subsidiary thereof, under any applicable bankruptcy or insolvency laws, as now or hereafter in effect or any successor thereto which remains undismissed for a period of 60 days; or (iii) the Company or any Subsidiary thereof is adjudicated by a court of competent jurisdiction insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or (iv) the Company or any Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property which continues undischarged or unstayed for a period of 60 days; or (v) the Company or any Subsidiary thereof makes a general assignment for the benefit of creditors; or (vi) the Company or any Subsidiary thereof shall call a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts; or (vii) the Company or any Subsidiary thereof shall by any act or failure to act expressly indicate its consent to, approval of or acquiescence in any of the foregoing; or (viii) any corporate or other action is taken by the Company or any Subsidiary thereof for the purpose of effecting any of the foregoing;

(vi) the Company or any Subsidiary shall default on any of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement of the Company in an amount exceeding \$250,000, that (a) involves an obligation greater than now exists and (b) results in such indebtedness being declared due and payable prior to the date on which it would otherwise become due and payable;

(vii) the Common Stock shall trade at a price per share that is \$0.21 per share or lower at any time during the term of this Note;

(viii) (i) the Company shall be a party to any Change of Control Transaction or Fundamental Transaction, (ii) shall agree to sell or dispose of all or in excess of 33% of its assets in one or more transactions (whether or not such sale would constitute a Change of Control Transaction) or (iii) shall redeem or repurchase more than ten percent (10%)  
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(ix) (i) the Company does not file the Registration Statement, as amended to reflect the Company's responses to the latest comments made to such Registration

Statement by the Commission as of the date hereof, relating to the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc. within three days following the date hereof; or (ii) the related Registration Statement shall not have been declared effective by the Commission on or prior to September 14, 2007;

(x) if, during the Effectiveness Period (as defined in the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc.), either the effectiveness of the Registration Statement lapses for any reason or the Holder shall not be permitted to resell Registrable Securities (as defined in the Registration Rights Agreement dated November 3, 2006 between the Company and Golden Gate Investors Inc.) under the Registration Statement, for a period of more than 60 Trading Days during any 12 month period;

(xi) the Company shall fail for any reason to deliver certificates to a Holder prior to the third Trading Day after a Conversion Date pursuant to and in accordance with Section 4(d) or the Company shall provide at any time notice to the Holder including by way of public announcement, of the Company's intention to not honor requests for conversions of any Notes in accordance with the terms hereof; or

(xii) any monetary judgment, writ or similar final process shall be entered or filed against the Company, any Subsidiary or any of their respective property or other assets for more than \$250,000, and such judgment, writ or similar final process shall remain unvacated, unabandoned or unstayed for a period of 45 calendar days.

(b) Remedies Upon Event of Default. If any Event of Default occurs, the outstanding principal amount of this Note, plus accrued but unpaid interest, Note Liquidated Damages and other amounts owing in respect thereof, through the date of acceleration shall become immediately due and payable in cash. Commencing five days after the occurrence of any Event of Default that results in the eventual acceleration of this Note, the interest rate on this Note shall accrue at an interest rate equal to 18% per annum. If an Event of Default occurs, the Company shall within three business days of the occurrence of such Event of Default, pay the Holder as partial liquidated damages and not as a penalty an amount equal to \$250,000 ("Note Liquidated Damages"). Upon the payment in full of this Note (including any accrued but unpaid interest and liquidated damages) the Holder shall promptly surrender this Note to or as directed by the Company. In connection with such acceleration described herein, the Holder need not provide and the Company hereby waives any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law.

#### Section 9. Miscellaneous.

(a) Notices. Any and all notices or other communications or deliveries to be provided by the Holder hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service, addressed to the Company, at the address set forth above, facsimile number 918-492-5367, Attn: President, at 3DIcon Corporation 7507 S. Sandusky, Tulsa, OK

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74136, (with a copy to Gregory Sichenzia, at Sichenzia Ross Friedman Ference LLP 61 Broadway, New York, New York 10006 and to John M. O'Connor, at 15 W. 6<sup>th</sup> Street, Suite 2700, Tulsa, OK 74119) or such other address or facsimile number or address as the Company may specify for such purpose by notice to the Holder delivered in accordance with this Section 9. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile number or address of such Holder appearing on the books of the Company, or if no such facsimile number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section 9 prior to 5:30 p.m. (CST), (ii) the date immediately following the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section 9 between 5:30 p.m. (CST) on any date and earlier than 11:59 p.m. (CST) on any such date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

(b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, interest and liquidated damages, and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of the Company.

(c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof and indemnity if requested, all reasonably satisfactory to the Company.

(d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective affiliate, directors, officers, shareholders, employees or agents) shall be commenced and conducted in the state and federal courts sitting in San Diego County, California (the "California Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the California Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such California Courts, or such California Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal

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service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. If either party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution or defense of such action or proceeding.

(e) Amendment and Waiver. This Note may not be amended without the prior written consent of each of the Company and the Holder. Any waiver by the Company or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Company or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note. Any waiver by the Company or the Holder must be in writing.

(f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law.

(g) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

(h) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

(i) Assumption. Any successor to the Company or any surviving entity in a Fundamental Transaction shall (i) assume in writing all of the obligations of the Company under this Note and the other Transaction Documents pursuant to written agreements in form and substance satisfactory to the Holder (such approval not to be unreasonably withheld or delayed) and (ii) issue to the Holder a new Note of such successor entity evidenced by a written instrument substantially similar in form and substance to this Note, including, without limitation, having a principal amount and interest rate equal to the principal amount and the interest rates of this Notes and having similar ranking to this Note, which shall be satisfactory to the Holder (any such approval not to be unreasonably withheld or delayed). The provisions of this Section 9(i) shall apply similarly and equally to successive Fundamental Transactions and shall be applied without regard to any limitations of this Note.

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(j) Assignment. This Note may be assigned by Holder in Holder's sole discretion without the consent of the Company. This Note may not be assigned by the Company except to a successor in the event of a Fundamental Transaction, as set forth in Section 9(i).

(k) No Stockholder Rights. Except as otherwise provided herein, this Note shall not entitle the Holder to any of the rights of a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions, or to receive any notice of, or to attend, meetings of stockholders or any other proceedings of the Company, unless and to the extent converted into shares of Common Stock in accordance with the terms hereof.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by a duly authorized officer as of the date first above indicated.

3DICON CORPORATION



By: \_\_\_\_\_  
Name: MARTIN KEATING  
Title: Chairman & CEO

MK

TWH



ANNEX A

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal under the 9.75% Convertible Note of 3DIcon Corporation, a Oklahoma corporation (the "Company"), due on \_\_\_\_\_, 2008, into shares of common stock, par value \$0.002 per share (the "Common Stock"), of the Company according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Company in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

By the delivery of this Notice of Conversion the undersigned represents and warrants to the Company that its ownership of the Common Stock does not exceed the amounts determined in accordance with Section 13(d) of the Exchange Act, specified under Section 4 of this Note.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion: \_\_\_\_\_

Principal Amount of Note to be Converted: \_\_\_\_\_

Payment of Interest in Common Stock

Yes \_\_\_\_\_

No \_\_\_\_\_

If yes, \$ \_\_\_\_\_ of Interest Accrued on Account of Conversion at Issuc.

Number of shares of Common Stock to be issued: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_



**Schedule I**

**CONVERSION SCHEDULE**

The 9.75% Convertible Note in the aggregate principal amount of \$700,000 issued by 3DIcon Corporation. This Conversion Schedule reflects conversions made under Section 4 of the above referenced Note.

Dated:

Date of Conversion (or for first entry, Original Issue Date)	Amount of Conversion	Aggregate Principal Amount Remaining (or Original Principal Amount)	Company Attest
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**EXHIBIT 23.2**

**CONSENT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

We consent to the use in this Registration Statement on Form SB-2 of 3DIcon Corporation of our report dated April 27, 2007, relating to our audits of the financial statements appearing in the Prospectus, which is part of this Registration Statement. Our report dated April 27, 2007 relating to the financial statements includes an emphasis paragraph relating to an uncertainty as to the Company's ability to continue as a going concern. We also consent to the reference to our firm under the captions "Experts" in such Prospectus.

Tulsa, Oklahoma  
June 14, 2007

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Sichenzia Ross Friedman Ference LLP  
61 Broadway, 32<sup>nd</sup> Floor  
New York, New York 10006

Securities and Exchange Commission  
Washington, DC 20549  
Mail Stop 3720  
Attention: Larry Spigel, Esq. Assistant Director

Re: 3DIcon Corporation  
Form SB-2  
File No. 333-139420  
Filed December 15, 2006

Ladies and Gentlemen:

On February 5, 2007, 3DIcon Corporation (the "Company"), withdrew the above captioned Form SB-2. On June 14, 2007, the Company is re-filing the aforementioned SB-2 in accordance with the Staff's comments of January 3, 2007. The Company did not file a red-lined version with such filing as the original filing was withdrawn but would be happy to do so upon the Staff's request. Set forth below is the Company's response to the Staff's comments.

General

1. The private placement of the shares of the 6 ¼% convertible debenture, which has a conversion rate tied to the market price, cannot be completed until the terms of the transaction are fixed. In this regard, we believe that trading on the Pink Sheets only does not constitute an existing market for your common stock, and therefore there has been no meeting of the minds as to the conversion price. Accordingly, please remove from the registration statement the shares issuable upon conversion of the convertible debenture until the terms of conversion are revised to be a fixed price or the shares are quoted on the OTC Bulletin Board.

Response:

The securities purchase agreement and the debenture have been amended such that they now provide for fixed conversion prices on all three debentures until such time as our common stock is quoted on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange. The Company has disclosed the fixed price nature of the conversion feature on pages five (5) and thirty-one (31) of its Form SB-2.

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Executive Compensation, page 25

2. Once the terms of conversion are revised to be a fixed price or shares are quoted on the OTC Bulletin Board, update your executive compensation information for 2006.

Response:

As stated in the response to Comment 6, the securities purchase agreement and the debenture have been amended such that they now provide for fixed conversion prices on all three debentures until such time as our common stock is quoted on the OTCBB or is otherwise listed and trading on NASDAQ or a national securities exchange. In connection with the Company's current SB-2 filing, the executive compensation information beginning on page twenty-five (25) of Form SB-2.

If you have any further comments and/or questions, please contact the undersigned at (212) 930 9700.

Very truly yours,

*/s/ Sean F. Reid*

Sean F. Reid

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