IMAX CORP
Form SC 13G/A
February 13, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1)

IMAX Corporation

(Name of Issuer)

Common Stock

(Title of Class of Securities)

45245E109

(CUSIP Number)

December 31, 2008

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[ ] Rule 13d-1(b)
[x] Rule 13d-1(c)
[ ] Rule 13d-1(d)

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities and Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 45245E109

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1. Names of Reporting Persons.
I.R.S. Identification Nos. of above persons (entities only).

Hedgehog Capital LLC

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2. Check the Appropriate Box if a Member of a Group. (See Instructions)

(a) [x]

(b) [ ]

---

3. SEC Use Only.

---

4. Citizenship or Place of Organization.

DE

Number of Shares Beneficially Owned by Each Reporting Person With:	
	5. Sole Voting Power. 1,568,236
	6. Shared Voting Power.
	7. Sole Dispositive Power. 1,568,236
	8. Shared Dispositive Power.

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9. Aggregate Amount Beneficially Owned by Each Reporting Person.
1,568,236

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares. (See Instructions) [ ]

11. Percent of Class Represented by Amount in Row. (9)
3.6%

12. Type of Reporting Person. (See Instructions)

OO

CUSIP No. 45245E109

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1. Names of Reporting Persons.

I.R.S. Identification Nos. of above persons (entities only).

David T. Lu

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2. Check the Appropriate Box if a Member of a Group. (See Instructions)

(a) [ ]

(b) [ ]

---

3. SEC Use Only.

---

4. Citizenship or Place of Organization.

USA

Number of Shares Beneficially Owned by Each Reporting Person With:	
	5. Sole Voting Power. 1,568,236*
	6. Shared Voting Power.
	7. Sole Dispositive Power. 1,568,236*
	8. Shared Dispositive Power.

---

9. Aggregate Amount Beneficially Owned by Each Reporting Person.
1,568,236*
*1,568,236 shares are owned by Hedgehog Capital LLC. David T. Lu managing member of Hedgehog Capital LLC has sole dispositive and voting power over these shares.

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares. (See Instructions) [ ]

11. Percent of Class Represented by Amount in Row. (9)
3.6%

12. Type of Reporting Person. (See Instructions)
IN

CUSIP No. 45245E109

Item 1.

(a) Name of Issuer.
IMAX Corporation Inc.

(b) Address of Issuer's Principal Executive Offices.
2525 Speakman Drive,
Mississauga, Ontario, Canada

Item 2.

(a) Name of Person Filing.

(1) Hedgehog Capital LLC

(2) David T. Lu

David T. Lu is the managing member of Hedgehog Capital LLC and has sole voting and dispositive power with respect to shares owned by Hedgehog Capital LLC. David T. Lu is the managing member of Hold River LLC and has sole voting and dispositive power with respect to shares owned by Hold River LLC. David T. Lu has sole voting and dispositive power with respect to shares owned by David T. Lu.

(b) Address of Principal Business Office or, if none, Residence.
1117 E. Putnam Ave #320
Riverside, CT 06878

(c) Citizenship.

(1) DE

(2) USA

(d) Title of Class of Securities.

Common Stock

(e) CUSIP Number.

45245E109

Item 3. (1)

(2)

(3)

Item 4. Ownership.

Hedgehog Capital LLC

(a) Amount beneficially owned: 1,568,236

(b) Percent of class: 3.6%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote 1,568,236

(ii) Shared power to vote or to direct the vote _________________.

(iii) Sole power to dispose or to direct the disposition of 1,568,236

(iv) Shared power to dispose or to direct the disposition of _______________.

David T. Lu

(a) Amount beneficially owned: 1,568,236*

(b) Percent of class: 3.6%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote 1,568,236*

(ii) Shared power to vote or to direct the vote _________________.

(iii) Sole power to dispose or to direct the disposition of 1,568,236

(iv) Shared power to dispose or to direct the disposition of _______________. *1,568,236 shares are owned by Hedgehog Capital LLC. David T. Lu managing member of Hedgehog Capital LLC has sole dispositive and voting power over these shares.

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

Item 8. Identification and Classification of Members of the Group.

Item 9. Notice of Dissolution of Group.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: 2/13/09

By: /s/ Hedgehog Capital LLC by David T. Lu

David T. Lu, Managing Member

By: /s/ David T. Lu

David T. Lu

Net increase in cash from reverse acquisition of Cenuco

6,002,887

Proceeds from note receivable

93,285

Acquisitions, net of cash acquired

(11,091,456

)

Purchase of property, plant and equipment

(1,361,252

)

(481,157

)

(4,103,373

)

Disposal of fixed assets

26,097

Purchase of intellectual property

(47,270,343

)

(422,837

)

Net cash used in investing activities

(42,509,326

)

(903,994

)

(15,194,829

)

Cash flows from financing activities

Bridge loan proceeds

80,000,000

Net (repayments) borrowings of short-term debt/ revolver

(5,698,935

)

729,158

7,469,777

Proceeds from machinery and equipment term loans

1,467,000

Proceeds from real estate term loans

2,450,000

Proceeds from subordinated note

4,500,000

Financing costs

(2,912,360

)

(93,750

)

Repayments of long-term debt

(7,520,743

)

(676,853

)

(240,374

)

Repayments of capital lease

(53,409

)

(58,572

)

Equity contribution

2,000

Proceeds from exercise of warrants

131,500

Net cash provided by (used in) financing activities

63,946,053

(100,017

)

15,648,403

Effect of exchange rates on cash

(202,170

)

(26,354

)

Net increase in cash and cash equivalents

1,844,531

29,936

1,827

Cash and cash equivalents at the beginning of period

31,763

1,827

Cash and cash equivalents at the end of period

$

1,876,294

$

31,763

$

1,827

Supplemental disclosures of cash flow information:

Cash paid for interest

$

2,816,311

$

984,973

$

661,927

Assets acquired under capital leases

144,860

Reverse acquisition, excluding cash acquired (Note 1):

Fair value of tangible assets acquired

1,199,715

Goodwill and identifiable intangible assets acquired

38,974,680

Liabilities assumed

(473,590

)

Net assets acquired

$

39,700,805

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated/ Combined Financial Statements February 28, 2006

NOTE 1 DESCRIPTON OF BUSINESS AND REORGANIZATION

Introduction

Ascendia Brands, Inc. (Ascendia , or the Company , the Registrant , we or us) manufactures and markets a portfol nationally and internationally known branded products in the health and beauty care categories. The brand portfolio includes *Baby Magic*, *Binaca*, *Mr. Bubble*, *Lander*, *Lander essentials*, *Ogilvie*, *Tek*, *Dorothy Gray* and *Tussy*, competing in the Bath Products, Baby Toiletries, Deodorant/Antiperspirant, Home Permanent Treatment, Mouthwash, Portable Breath Sprays and Drops, Manual Toothbrush, and Skin Care segments within the personal care products category. Ascendia sells its brands through a variety of channels, concentrating primarily on the mass merchandiser, drug, grocery and dollar store outlets. The Company also develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform.

Corporate Structure

On May 9, 2006 the Company (previously known as Cenuco, Inc.) changed its name to Ascendia Brands, Inc. The chart below depicts the current structure of the Ascendia group and the discussion that follows summarizes the functions and role of each company in the group.

Ascendia Brands, Inc. (Ascendia , the Company or the Registrant). The Company is a holding company, organized under Delaware law, with its principal office in Hamilton, New Jersey. It owns directly the stock of Hermes Acquisition Company I LLC and Cenuco, Inc.

Hermes Acquisition Company I LLC (HACI). Hermes is a Delaware limited liability company that acts as the holding company for the Company s health and beauty care division.

Ascendia Brands Co., Inc. (Ascendia Brands). Ascendia Brands is a New Jersey corporation with its executive offices in Hamilton, New Jersey. As of May 1, 2006, Ascendia Brands assumed the manufacturing and distribution operations formerly conducted through Lander Co., Inc. As the successor to Lander Co., Inc., Ascendia Brands manufactures and sells branded health and beauty care products in the value and premium value categories, through mass market retailers (such as Wal-Mart and K-Mart), dollar stores, supermarkets and pharmacies. Ascendia s brands include *Baby Magic*, *Binaca*, *Mr. Bubble*, *Lander*, *Lander essentials*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray* and *Tussy*. Ascendia Brands operates a manufacturing plant in Binghamton, New York, which is leased from a related party, Ascendia Real Estate LLC.

Lander Co., Inc. (Lander). Lander is a Delaware corporation with its executive offices in Wilmington, Delaware. During the period ended February 28, 2006, Lander was the principal operating company in Ascendia s health and beauty care division. Following the transition of manufacturing and distribution activities to Ascendia Brands, Lander acts as an intellectual property holding company for trademarks and other intellectual property associated with the *Lander* brands.

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Lander Co. Canada Ltd (Lander Canada). Lander Canada, a Canadian limited company, is the Canadian manufacturing and distribution arm of Ascendia. Lander Canada operates a manufacturing facility in Toronto, Ontario, which it leases from a third party.

Ascendia Real Estate LLC (f/k/a Hermes Real Estate I LLC) (Ascendia Real Estate). Ascendia Real Estate, a New York limited liability company, is a real estate holding company. Its sole asset is the Binghamton plant, which it leases to Ascendia Brands.

Lander Intangibles Corporation (Lander Intangibles). Lander Intangibles is a Delaware corporation with its executive offices in Wilmington, Delaware. Lander Intangibles is as an intellectual property holding company that was formed to acquire and hold certain of the intellectual property that the Company purchased from Playtex Products Inc. and its affiliates (Playtex) on November 16, 2005.

Cenuco, Inc. (Cenuco Wireless). Cenuco Wireless is a Florida corporation that is wholly-owned by the Company. Cenuco Wireless develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform.

THE MERGER

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., a public company, ICU) merged (the Merger) with HACI.

The Merger was completed through the issuance of 2,553.7 shares of Cenuco, Inc. s Series A Junior Participating Preferred Stock (representing 65 percent of the aggregate outstanding voting power of Cenuco capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander, Ascendia Real Estate, and Lander Canada, became wholly owned subsidiaries of Cenuco.

For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco, Inc. by HACI for a purchase price equivalent to the total market value of Cenuco, Inc. s stock outstanding prior to the Merger, plus the fair value of the options that automatically vested on the date of the Merger (approximately $45.7 million in the aggregate). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of the Company, Inc. prior to the date of the Merger reflect the financial position and results of operations of HACI and Ascendia Real Estate, with the results of operations of Cenuco, Inc. being included commencing on May 20, 2005. Effective with the completion of the Merger, Cenuco, Inc. changed its fiscal year end to be the last day of February, consistent with HACI s prior fiscal year.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company determined the fair value of the assets acquired and liabilities assumed in the reverse acquisition of Cenuco, as revised in the fourth quarter, to be as follows:

Cash and cash equivalents	$6,002,887
Other current assets	496,526

Total current assets	6,499,413
Property, plant, and equipment	111,382
Goodwill	30,974,680
Intangibles - acquired software technology	8,000,000
Other Assets	591,807
Total assets acquired	46,177,282
Total liabilities assumed	(473,590)
Estimated fair value of net assets acquired	$45,703,692

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The initial estimated allocation of the purchase price equivalent was made by the Company in the thirteen weeks ended May 28, 2005 and included an allocation to customer lists and brand name intangibles assets totaling $2,473,025. In the quarter ended February 28, 2006, the Company determined that an allocation of value to these intangible assets was not appropriate and, with the input of a third party valuation expert, identified the above noted core software technology intangible asset and estimated the related value to be $8,000,000. This revision resulted in $5,526,975 less being allocated to goodwill. Goodwill of $30,974,680 related to the acquisition was assigned entirely to the WAD operating division. This goodwill is not deductible for income tax purposes. The difference in the amortization of the core software technology intangible asset since May 20, 2005 (based on a 5 year expected life) and the corresponding amount for the originally identified customer lists and brand name intangible assets amounted to $ 913,546. This amount has been reflected in the results of operations for the year ended February 28, 2006.

Following the Merger, the Company s principal business activity has been the manufacture and distribution of health, beauty and oral-care products, as described above. In addition, through its Cenuco Wireless subsidiary, the Company is engaged in a wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment. This led to a Goodwill impairment of $16.4 million being recorded in the statement of operations.

ACQUISITION FOLLOWING FORMATION

HACI was formed to acquire the business activities of Lander and Lander Canada. Effective May 31, 2003, HACI purchased certain assets and assumed certain liabilities associated with the Lander business operations and acquired 100 percent of the outstanding stock of Lander Canada for an aggregate purchase price of $11,091,456, including acquisition costs of $1,160,456. In addition, HREI purchased the Lander production plant located in Binghamton, New York for a purchase price of $3,304,864, including acquisition costs of $254,864, on October 15, 2003. Property, plant and equipment was recorded at fair value reduced by the excess of fair value of net assets acquired over the purchase price of $1,095,813. In accounting for these acquisitions, the Company followed the provisions of SFAS 141. This Statement requires the purchase method of accounting be used for all business combinations and provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. On March 1, 2005, HREI became a wholly owned subsidiary of HACI. Prior thereto, HACI and Ascendia Real Estate (then know as Hermes Real Estate I) were under common control.

The Company is subject to various risks, including, but not limited to, (i) the ability to obtain adequate financing to fund operations, (ii) a limited operating history, (iii) reliance on certain markets, and (iv) reliance on key personnel.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying financial statements of Ascendia as of and for the years ended February 28, 2006 and February 28, 2005 and for the period (inception) April 25, 2003 to February 29, 2004 have been prepared in accordance with generally accepted accounting principles. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

A summary of the Ascendia s significant accounting policies follows:

Basis of Consolidation: As of February 28, 2006 and for the period from the date of the Merger to February 28, 2006, the statements are prepared on a consolidated basis. For the period from March 1, 2005 to May 19, 2005, and as of and for the year ended February 28, 2005 and for the period from April 25, 2003 (inception) to February 29, 2004, the statements are prepared on a combined basis. The accompanying consolidated financial statements include the accounts of Ascendia Brands, Inc. and subsidiaries. All intercompany accounts have been eliminated in consolidation.

Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Accounts Receivable: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

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Miscellaneous Receivables: In the normal course of business, the Company generates minor non-trade receivables. As of February 28, 2006, the balance was $1.7 million, which included a miscellaneous receivable of $1.4 million from Playtex with respect to the transition services agreement associated with the Playtex asset acquisition (see Note 3).

Inventories: Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company s health, beauty and oral care products, as well as, finished goods that consist of the Company s product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

Note Receivable: On September 30, 2004, Cenuco Wireless sold substantially all of its assets of the then existing education subsidiary for a net price of $800,000. At closing Cenuco Wireless received $300,000 in cash and a note receivable for $500,000. At February 28, 2006 the note receivable had a balance of approximately $400,000.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

Impairment of Long-Lived Assets: Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less cost to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, the Company estimates the assets future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

Goodwill and Indefinite Lived Intangibles

As a result of the Merger on May 20, 2005 (see Note 1), the Company recorded goodwill of $30,974,680. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in $16,924,477 being allocated to intangible assets (brand names and product formulas), initially estimated to have indefinite lives. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires goodwill and other intangibles that have indefinite lives to not be amortized but to be

reviewed annually for impairment or more frequently if impairment indicators arise. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment. This led to a Goodwill impairment of $16,421,000 being recorded in the statement of operations.

Amortizable Intangible Assets

SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment. As a result of the merger on May 20, 2005, and as revised in the quarter ended February 28, 2006, the Company recorded intangible assets of $8,000,000, related to acquired core software technology, with an estimated useful life of five years. Amortization expense for the acquired software technology was $1,249,315 for the year ended February 28, 2006. There was no amortization expense on these intangible assets in prior years.

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For the Playtex asset acquisition on November 16, 2005, an allocation of the purchase price resulted in $30,393,673 being allocated to customer relationships. The estimated useful lives are 10 years, to be amortized on a straight-line basis. The amortization expense recorded for the year ended February 28, 2006 was $866,012.

Management s review of amortizable intangible assets concluded that there is no impairment at February 28, 2006.

Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the fiscal year ended February 28, 2006 are as follows:

Beginning balance	$
Goodwill as a result of the Merger	30,974,680
Goodwill impairment	(16,421,000)
Ending Balance	$14,553,680

In the fourth quarter of fiscal 2006, the Company completed its impairment tests of goodwill and concluded an impairment of $16,421,000 was necessary.

Balances of acquired intangible assets, excluding goodwill are as follows:

	Purchased Technology	**Formulae And Tradenames**	**Customer Relationships**	**Total**
Intangible assets as of February 28, 2006:				
Original cost	$ 8,000,000	$ 16,924,477	$ 30,393,673	$55,318,150
Accumulated amortization	(1,249,315)		(866,012)	(2,115,327)
Carrying value	$ 6,750,685	$ 16,924,477	$ 29,527,661	$53,202,823
Weighted average original life (in years)	5	indefinite	10	

Amortization expense for fiscal year 2006 is $2,115,327.

Estimated aggregate amortization expense based on the current carrying value of intangible assets is as follows:

Fiscal Year	**Amount**

2007	$4,639,367
2008	4,639,367
2009	4,639,367
2010	4,639,367
2011	3,390,052
thereafter	14,330,826
	$36,278,346

Other Assets, Net: Other assets, net consist of deferred financing costs of approximately $1.3 million related to the Bridge Loan (see Note 3) with an initial term of six months as well as other deferred financing costs from prior years. The deferred financing costs are being amortized on a straight-line basis over the respective terms of the related financing arrangements, including the originally anticipated six-month term of the Bridge Loan ending May 15, 2006. Amortization expense related to deferred financing costs was $1,950,507 and $166,246, respectively, for the years ended February 28, 2006 and 2005 and $93,825 for the period (inception) from April 25, 2003 to February 29, 2004.

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Fair Value of Financial Instruments: The carrying amounts reported in the accompanying balance sheets for accounts receivable, accounts payable, accrued expenses and financing debt approximate fair value due to the short-term nature of these accounts. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer s financial condition, credit history, and current economic conditions.

Revenue Recognition: For the Health & Beauty Care division, revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Wireless Application Development (WAD) division recognizes revenue as services are performed on a pro-rata basis over the contract term or when products are delivered. WAD periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

Cooperative Advertising: Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Task Force 01-09, Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor s Products in the period in which the related sales are recognized. Cooperative advertising expenses were approximately $160,000, $186,000 and $139,000, respectively for fiscal 2006 and 2005 and for the period from April 25, 2003 (inception) to February 29, 2004.

Foreign Currency Translation: In accordance with SFAS No. 52, *Foreign Currency Translation*, the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated into U.S. dollars at the fiscal period-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are reflected as a separate component of stockholders equity until there is a sale or liquidation of the underlying foreign investment.

Foreign currency gains and losses resulting from transactions are included in the consolidated statements of operations.

Estimates: The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, income taxes and contingencies. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily

apparent from other sources. Actual results could differ from these estimates.

Concentration of Credit Risk: Ascendia provides credit to its customers in the normal course of business and does not require collateral. To reduce credit risk, Ascendia performs ongoing credit evaluations of its customers.

Five trade customers comprised 47 percent of Ascendia s net sales, (with the top two customers comprising approximately 32 percent and 7 percent respectively) for the year ended February 28, 2006. At February 28, 2006 the same five trade customers represented 54 percent of receivables, with one customer comprising 39 percent.

Five trade customers comprised 46 percent of Ascendia s net sales, (with the top two customers comprising approximately 25 percent and 13 percent respectively) for the year ended February 28, 2005. At February 28, 2005 the same five trade customers represented 52 percent of receivables, with one customer comprising 33 percent and the other four at less than 10 percent each.

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Five trade customers comprised 58% of the Company s net sales, with two customers comprising more than 10%, for the period from April 25, 2003 (inception) to February 29, 2004.

Income Taxes: Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 rates is recognized in income in the period that includes the enactment date. As a limited liability company prior to the Merger, the Company elected to be treated as a corporation for income tax purposes.

In accessing the Company s ability to realize deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A full valuation allowance at February 28, 2006 and February 28, 2005 has been recorded by management due to the uncertainty that future income will be generated and the related deferred tax assets realized.

Earnings per share: Emerging Issues Task Force (EITF) 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* (EITF 03-6) provides guidance in determining when the two-class method, as defined in SFAS128, *Earnings per Share*, must be utilized in calculating earnings per share by a Company that has issued securities other than common stock that contractually entitles the holder to participate in dividends and earnings of the Company when, and if, the Company declares dividends on its common stock. Under the two-class method earnings are allocated to common stock and participating securities to the extent that each security may share in such earnings and as if such earnings for the period had been distributed. Under the two-class method losses are allocated to participating securities to the extent that such security is obligated to fund the losses of the issuing entity or the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. In accordance with EITF 03-6, basic earnings per share for the Company s common stock and Series A Junior Participating Preferred Stock (Series A Preferred) would be calculated by dividing net income allocated to common stock and Series A Preferred by the weighted average number of shares of common stock and Series A Preferred outstanding, respectively. Diluted earnings per share for the Company s common stock would be calculated similarly, except that the calculation includes the effect, if dilutive, of the assumed exercise of stock options issuable under the Company s stock-based employee compensation plan and the assumption of the conversion of all of the Company s Series A Preferred stock to common stock. Basic and diluted loss per share for the Company s common stock is calculated by dividing the net loss for the period during which such shares were outstanding by the weighted average number of shares outstanding. No losses are allocated to the Series A Preferred for the period during which the Company s common stock is outstanding since the holders of the Series A Preferred are not obligated to share in the Company s losses as described above.

NOTE 3 PLAYTEX ASSET ACQUISITON AND RELATED BRIDGE LOAN

On November 16, 2005, Lander and Lander Intangibles acquired certain brands and brand-related assets from Playtex. The acquired brands included *Baby Magic*, *Binaca*, *Mr. Bubble,Ogilvie*, *Tek*, *Dorothy Gray*, and *Tussy*. At the closing, Lander and Lander Intangibles paid a total cash purchase price of $59.1 million, including $2.1 million of costs related to acquisition. The $57.0 million purchase price paid to Playtex was subject to certain post closing adjustments dependent upon the amount of product inventory delivered to Lander at the closing. In December 2005, this adjustment was determined to result in a purchase price reduction of approximately $1.3 million (bringing the total to $57.8 million, including acquisition costs). In accordance with SFAS 142, the Company allocated the total purchase price to the assets acquired based on relative fair value. The allocation is as follows:

Inventory	$9,600,000
Property, Plant and Equipment	900,000
Brand Names and Product Formulae	16,924,477
Customer Relationships	30,393,673
Total Purchase Price	$57,818,150

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In order to finance the acquisition of the brands from Playtex ($57.8 million), fund financing fees ($2.8 million), repay certain existing indebtedness of the Company and its subsidiaries including the Seller Note and the Financing Arrangement referred to below under Long-Term Debt (approximately $13.8 million in total) and provide working capital for the operations of Lander (approximately $5.6 million), on November 15, 2005, Cenuco, Lander, HACI and Lander Intangibles (collectively, the Borrowers), entered into an $80.0 million Bridge Loan Term Agreement (the Bridge Loan) with Prencen, LLC (Prencen) and Highgate House Funds Ltd. (Highgate), as lenders, and Prencen, as agent for the lenders.

For the first 90 days following closing, the Bridge Loan bore interest at an annual rate of 5.5 percent above the three-month LIBOR (set 2 days in advance on November 14, 2005 at 4.34 percent). The interest rate margin over LIBOR increased by 5 percent per annum at the end of that 90-day period to 10.5 percent. Also at the end of the 90-day period the three-month LIBOR was reset on February 12, 2006 for the next 90 days (February 15, 2006 to May 15, 2006). The reset three-month LIBOR rate of 4.74 percent plus the increased interest rate margin of 10.5 percent generated an interest rate on the Bridge Loan of 15.24 percent for the period February 15, 2006 to May 15, 2006. Upon the occurrence and during the continuance of an event of default, the annual rate of interest will increase by 5.5 percent over the rate of interest otherwise in effect. Interest accrues monthly, in arrears.

The Bridge Loan was originally due and payable on May 15, 2006. The Bridge Loan term was extended to coincide with the closing of the Second and Restated Securities Purchase Agreement described in Note 6, with interest accrued and paid at closing. The Bridge Loan principal was refinanced with the long-term financing described in Note 6 and, accordingly, has been classified as long-term as of February 28, 2006. The borrowings under the Bridge Loan are secured by a first priority lien against all assets of the Borrowers and HREI, and by a pledge of the shares in Ascendia owned by two shareholders.

NOTE 4 INVENTORIES

Inventory consists of the following:

	FEBRUARY 28, 2006	FEBRUARY 28, 2005
Raw materials	$ 3,707,920	$ 2,900,803
Finished goods	12,561,454	5,825,149
	$ 16,269,374	$ 8,725,952

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	FEBRUARY 28, 2006	FEBRUARY 28, 2005
Land	$ 660,000	$ 660,000
Computer equipment and software	1,093,049	890,020
Furniture and fixtures	252,916	252,717
Building	2,644,864	2,644,864
Machinery and equipment	3,952,652	2,961,469
Dies and molds	87,397	75,731
Leasehold improvements	138,749	118,571
Construction in progress	279,742	77,959
	9,109,369	7,681,331
Less accumulated depreciation and amortization	(2,606,928)	(1,663,798)
	$ 6,502,441	$ 6,017,533

Depreciation and amortization expense related to property, plant and equipment was $961,630 and $983,807, respectively for the years ended February 28, 2006 and 2005 and $652,942 for the period from April 25, 2003 (inception) to February 29, 2004.

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As of February 28, 2006 and February 28, 2005, machinery and equipment includes assets under capital leases totaling $153,559. Accumulated amortization on the capital leases was $39,669 and $24,314 as of February 28, 2006 and February 28, 2005, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense for the years ended February 28, 2006 and February 28, 2005 and for the period April 25, 2003 (inception) to February 29, 2004.

As of February 28, 2006 and February 28, 2005, $487,537 and $36,091, respectively was required to complete construction in progress. The Company does not capitalize interest.

NOTE 6 LONG-TERM DEBT

(a) On October 1, 2005, Ascendia (the parent of HACI following the merger (see Note 1), entered into agreements with Prencen and Highgate (both of which are also lenders under the Bridge Loan described in Note 3) for the provision of long-term debt and equity financing (the Debt/Equity Financing) to repay the Bridge Loan. The terms of these agreements were amended on November 15, 2005, concurrently with the closing of the Bridge Loan. Prior to its maturity, the parties agreed to an extension of the Bridge Loan pending the completion of discussions on further modifications to the Debt/Equity Financing. The parties also agreed to defer the payment of certain interest under the Bridge Loan pending its maturity. On June 30, 2006, Ascendia (i) agreed with Prencen and Highgate to amend and re-state the Debt/Equity Financing and (ii) in connection with such restatement, entered into a Second and Restated Securities Purchase Agreement (the Securities Purchase Agreement) with Prencen and Prencen Lending, LLC (Prencen Lending), which closed on August 3, 2006, as described below, the obligations to Highgate having been acquired by Prencen Lending.

(b) Under the Securities Purchase Agreement, the Company sold Prentice senior convertible notes (the Notes) in the principal amount of $91.0 million (and warrants described below) in exchange for the settlement of obligations under the Bridge Loan ($80.0 million) and $11.0 million in funding which was used to pay accrued interest on the Bridge Loan ($4.1 million), fees associated with the refinancing ($4.2 million) and produce net cash proceeds to the Company of approximately $2.7 million.

The Notes have a term of 10 years (subject to the put and call rights described below) and bear interest at the rate of 9 percent per annum, provided that during the first six months of the term, Ascendia will have the option to accrue and capitalize interest. In the event of Ascendia making an acquisition in the consumer products area that shall in form and substance be satisfactory to a majority of the holders of the Notes (an Approved Acquisiton), it may elect to defer and capitalize interest for the balance of the term of the Notes. In addition, upon the consummation of such an Approved Acquisition, Ascendia may redeem up to $40.0 million of the balance outstanding under the Notes at a premium of 15 percent.

Any portion of the balance due under the Notes is convertible at any time, at the option of the holders(s), into the common stock of Ascendia at a price of $1.75 per share (subject to certain ant-dilution adjustments), provided that the holders may not convert any amounts due under the Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively own more than 9.99 percent of the aggregate number of shares of common stock of Ascendia outstanding following such conversion. Given the nature of the conversion feature and the penalties involved for untimely registration of the related underlying shares of common stock (see below), the conversion

option on the Notes may be separated under EITF 00-19 and recorded as a liability at its fair value, with an offsetting debt discount that would be amortized to interest expense under the effective interest method. Such liability, if recorded, would be adjusted to market value at each subsequent reporting date with the differential in value between reporting dates recorded as a component of interest expense in the related period. While management has not yet determined if a liability should be recorded for such conversion option, the impact of such accounting on subsequent interest expense could be material to future results of operations. If the provisions of EITF 00-19 are not applicable, the Company would follow the provisions of EITF 98-5 and 00-27, the result of which could also have a material impact on future interest expense and future reported results of operations.

At any time after the fifth anniversary of the issuance of the Notes, Ascendia may redeem or any holder may require the Company to redeem all or any portion of the balance outstanding under the Notes at a premium of 5 percent. Such 5 percent premium will be accreted to the recorded liability for the Notes over the first five years and be charged to interest expense under the effective interest method. In the event of t default or a change in control of Ascendia, the holders of the Notes may require the Company to redeem the Notes at a premium of 25 percent.

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As part of the Registration Rights Agreement, the Company is required to file a Registration Statement to register the shares of common stock issuable upon the conversion of the Notes, the exercise of warrants described below, and other shares. Failure to file such Registration Statement by October 2, 2006 or have it declared effective by January 30, 2007, would constitute an event of default under the Notes. In the event of such a default, the holders of the Notes are entitled to a cash penalty in the amount of 2% of the face amount of the Notes for each 30 day period until such time as the default has been cured, subject to a maximum of 10%. In addition, in the event that holders of the Notes request conversion of all or a portion of their Notes, or the holders of the warrants described below present such warrants for exercise, and the Company is unable to timely deliver the related shares, the holders of such Notes or warrants will be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery is not provided.

The Notes rank as senior secured debt of Ascendia, provided however that the Notes are subordinated to the new revolving credit facility of up to $13.0 million secured by inventory and accounts receivable (described below). The Notes are also subordinated to indebtedness incurred in connection with an Approved Acquisition, in an amount up to $250 million.

In connection with the amendment and restatement of the Debt/Equity Financing agreements and the sale of the Notes, Ascendia also issued certain warrants (the Series A warrants) entitling Prencen to purchase 3.053.358 shares of its common stock at an exercise price of $2.10. In addition, Ascendia commited to the issuance of certain warrants (the Series B warrants) entitling Prencen to purchase shares of its common stock under terms that are contingent upon the balance outstanding on the Notes at the earlier to occur of an Approved Acquisition or October 31, 2006. If the balance outstanding under the Notes on such date is greater or less than $61.0 million, Ascendia is required to issue to Prencen up to 3 million Series B warrants, at exercise prices ranging from $1.15 to $1.95. In the event the balance outstanding under the Notes is $61.0 million, no Series B warrants will be issued. The fair market value of the Series A and B warrants, when estimated, may be recorded separately as a liability at the date of issuance with an offsetting debt discount that would be amortized to interest expense under the effective interest method. Subsequent adjustments to the market value of the liability at each reporting date thereafter would be recorded as a component of interest expense in the period of such change.

Upon closing of the Long-Term Financing, Ascendia paid Prentice Capital Management, LP, an affiliate of Prencen and Prencen Lending, a closing fee of $3,667,500 and reimbursed Prencen Lending for certain disbursements related to the transaction. In addition, Ascendia paid fees and expenses of $5,525,171 to Stanford Group Company (Stanford). At closing, Ascendia issued to Stanford warrants for the purchase of its common stock as follows: (i) 137,615 warrants at an exercise price of $3.76 per share, and (ii) 552,632 warrants at an exercise price of $4.37 per share. Such cash costs and the value of the warrants issued to Stanford will be treated as a cost of the related financing and be amortized to interest expense under the effective interest method.

Revolver

On August 3, 2006, the Company closed on a revolving line of credit with a major financial institution for a $13.0 million three year facility. This facility will be used to fund approximately $1.8 million of the above noted cash costs associated with the Long-Term Financing and approximately $3.6 was used to redeem certain shares of the Company s Series A Preferred Stock from MarNan LLC and Dana Holdings LLC (see Note 13), with the remainder availability to

be used in the future for working capital and general corporate purposes. The facility is secured with the Company s United States accounts receivable and inventory.

The Revolver contains the following key provisions:

Line of credit A revolving line of credit providing for revolving advances up to the lesser of (a) $13,000,000 or (b) the sum of (herein the Borrowing Base): (i) eighty-five percent of eligible domestic (US) accounts receivable, subject to dilution of 5%, plus (ii) eighty-five percent (85%) of the net orderly liquidation value as a percentage of cost of eligible US finished goods and raw materials inventory. The total inventory sublimit will not exceed $8,000,000. The Agreement requires excess availability of $2,000,000 at closing and a permanent availability block against the Borrowing Base of $750,000.

Interest rate Interest will be computed and payable monthly on all outstanding revolving loans at a rate equivalent to the Chase Bank Rate per annum or, at the Company s option, Libor plus two and one quarter percent (2¼%).

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Fees A loan facility fee of $100,000 earned at closing and payable: $25,000 upon signing of commitment letter, $25,000 payable at closing and $50,000 payable six (6) months from closing. A collateral management fee of $30,000 per year, earned at closing and on each Anniversary Date, payable monthly.
Termination fee A termination fee is charged of 1% of total facility if terminated prior to first Anniversary Date, three quarters percent (¾%) if terminated prior to second Anniversary Date, and one half percent (½%) if terminated anytime thereafter prior to an Anniversary Date.

Long-term debt consists of the following:

	FEBRUARY 28, 2006	FEBRUARY 28, 2005
Bridge Loan	$ 80,000,000	$ 0
Revolving line of credit loans	0	8,198,935
Machinery and equipment loans	0	1,039,125
Real estate term loans	0	1,981,618
Subordinated notes	0	4,500,000
Capital leases	31,749	85,158
	80,031,749	15,804,836
Less current portion	31,749	8,929,540
	$ 80,000,000	$ 6,875,296

In connection with the acquisitions that occurred in 2003 (see Note 1), HACI/HREI obtained long-term financing commitments (Financing Arrangement) from a financial institution. As indicated in the table above and discussed further in Note 3, all components of the Financing Arrangement were repaid in November 2005 from the proceeds of the Bridge Loan. The Financing Arrangement was comprised of the following (collectively the Loans):

Revolving line of credit facility of $11,000,000 with a three-year term expiring in June 2006. Annual renewals of the facility were available in one-year increments after the initial term. Available borrowings were determined by a borrowing base calculation using eligible receivables and inventories of Lander and Lander Canada, which were the collateral for this facility. As of February 28, 2005 the unused availability amounted to $567,995. Interest on outstanding balance was payable monthly. For purposes of classifying the outstanding debt in the February 28, 2005 balance sheets the Company had reflected $8,198,935 of borrowings under the revolving line of credit facility as a current liability, since it was subject to collection lock-box arrangements and contains a subjective acceleration clause. On November 16, 2005, the outstanding balance was paid in full with the proceeds from the short-term Bridge Loan and this revolving line of credit was terminated.

Machinery and equipment term loans with initial principal amounts aggregating $1,467,000 had a six-year amortization term expiring in June 2009. Such loans were subject to termination upon the expiration of the revolving line of credit and were collateralized by the machinery and equipment of Lander and Lander Canada. Principal

payments aggregating $20,375 plus interest were payable monthly. On November 16, 2005, the outstanding balance of this loan was paid in full with the proceeds from the short-term Bridge Loan.

Real estate term loan with initial principal amount of $2,450,000 had a six-year amortization term expiring in December 2009. Such loan was subject to termination upon the expiration of the revolving line of credit and was collateralized by the Lander production plant located in Binghamton, New York. Principal payments aggregating $36,029 plus interest were payable monthly. On November 16, 2005, the outstanding balance of this loan was paid in full with the proceeds from the short-term Bridge Loan.

Interest on the Loans was at an annual interest rate of a national bank s prime rate plus 1.25 percent. HACI/Ascendia Real Estate had the option of converting all or a portion of the Loans outstanding to an annual interest rate of the one-, two- or three-month LIBOR rate plus 3.75 percent. The Loans contained financial and non-financial covenants including a limitation of $1,250,000 on capital expenditures during any fiscal year and maintaining on a monthly basis a fixed charges coverage ratio of no less than 1.0 to 1.0. The fixed charge ratio was calculated by dividing earnings before interest, depreciation and amortization less any unfunded capital expenditures and improvements by fixed charges. Fixed charges include interest expense, capital lease obligations, principal payments on indebtedness and payments for income tax obligations.

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As part of the Acquisition of the Lander business by HACI, HACI also had long term financing from the seller in the form of a $4,500,000 subordinated note (Seller Note) with a three-year term expiring in June 2006. The Seller Note was subordinate to the Financing Agreement. Interest was payable quarterly at an annual interest rate of 10 percent. Annual principal payments of $1,166,667 were required under this Seller Note; however a provision in the Financing Agreement permitted the Company to defer principal payments if it did not meet certain financial targets. As a result of the Company not achieving these financial targets in fiscal years 2004 and 2005, principal payments due in June 2004 and June 2005 had been deferred until June 2006. Additionally, the terms if the Seller Note permitted the deferral of interest payments in the event of non-compliance with certain covenants contained in the Financing Agreement. Accordingly, HACI had not paid any interest accrued on the Seller Note from July 1, 2004. Accrued interest on the Seller Note was $257,773 as of February 28, 2005.

On March 16, 2005, HACI and the seller entered into a Settlement and Release Agreement whereby HACI had the option to pay $2,000,000, plus interest at 10 percent, to satisfy the $4,500,000 principal amount of the Seller Note. In addition, HACI would be required to pay interest accrued on the $4,500,000 Seller Note from July 1, 2004 through March 16, 2005 and interest on the $2,000,000 from March 17, 2005 through the date of payment. Such option was available to HACI up to November 30, 2005. In exchange for this option, HACI, agreed to release the seller from certain indemnity claims arising under the agreement for the purchase of Lander and Lander Canada. On November 16, 2005, $2,000,000 plus accrued interest of $519,201 was paid on the Seller Note. On December 1, 2005, a final interest payment of $640 was made in full payment of the Seller Note. The payments were made from the proceeds of the short-term Bridge Loan. As a result of the repayment and full settlement of the Seller Note, the Company recorded a gain of $2,500,000, which is included in other income on the accompanying statement of operations for the year ended February 28, 2006.

The aggregate maturities of long-term debt are as follows:

FEBRUARY 28, 2006	
2007	$31,749
2008	0
2009	0
2010	0
2011	0
2012	80,000,000
	$80,031,749

NOTE 7 PENSION AND 401(K) PLANS

Pension Plans

The Company has two non-contributory defined benefit pension plans (the Plans) that cover substantially all employees in the United States and Canada. It is the Company s policy to fund, at a minimum, pension contributions as required by the Employee Retirement Income Security Act of 1974 (ERISA) each year. On May 1, 2004 the U.S. Plan was frozen and no longer available to new employees for participation.

At February 28, 2006, the U.S. Plan assets consisted of fixed return contracts. The Canadian Plan assets consisted primarily of equities and fixed income instruments. The pension liabilities and their related costs are computed in accordance with the laws of the US and Canada and the appropriate actuarial practices.

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Net periodic pension costs of the defined benefit pension plans for the year ended February 28, 2006 were as follows:

	US	Canada	Total
Service costs on benefits earned during the year	$81,908	$208,536	$290,444
Interest cost on projected benefit obligation	100,543	176,581	277,124
Expected return on plan assets	(99,126)	(170,855)	(269,981)
Net periodic pension cost	$83,325	$214,262	$297,587

The present value of benefit obligations and funded status of the Plans as computed by the actuaries as of February 28, 2006 were as follows:

	US	Canada	Total
Projected benefit obligation	$(1,811,228)	$(3,441,049)	$(5,252,277)
Plan assets at fair value	1,584,084	2,736,684	4,320,768
Funded status	(227,144)	(704,365)	(931,509)
Unrecognized net loss	(150,866)	(196,301)	(347,167)
Net pension liability	$(378,010)	$(900,666)	$(1,278,676)

As of February 28, 2006, the accumulated benefit obligation was $1,962,094 for the U.S. Plan and $3,169,280 for the Canadian Plan.

Amounts recognized in the consolidated balance sheet as of February 28, 2006 consist of:

	US	Canada	Total
Current portion of accrued benefit liability, included in accrued expenses	$(103,278)	$(208,012)	$(311,290)
Long term portion of accrued benefit liability, included in other long term liabilities	(274,732)	(692,554)	(967,386)
Net amount recognized	$(378,010)	$(900,666)	$(1,278,676)

Weighted-average assumptions used in developing the projected benefit obligation and net cost as of and for the year ended February 28, 2006 were as follows:

	US	Canada
Discount rate	5.50 %	5.00 %
Rate of increase in compensation	0.00 %	3.00 %
Rate of return on plan assets	6.50 %	7.00 %

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Plans Assets

The weighted-average asset allocation of the U.S. and Canadian pension benefits were as follows:

	February 28, 2006		February 28, 2005	
	US	Canada	US	Canada
Equity Securities	0 %	75 %	0 %	75 %
Debt securities	100 %	22 %	100 %	22 %
Other	0 %	3 %	0 %	3 %
Total	100 %	100 %	100 %	100 %

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The Company s investment policies and strategies for the pension plans utilize target allocations for the individual asset categories. The Company s investment goals are to maximize returns subject to specific risk management policies.

Cash Flows

For the U.S. Plan the benefits expected to be paid in each year ending February 28, 2007-2011 are $49,026, $50,720, $56,976, $65,490, and $73,188, respectively. The aggregate benefits expected to be paid in the five years from 2012-2016 are $488,005.

For the Canadian Plan the benefits expected to be paid in each year ending February 28, 2007-2011 are $403,017, $121,356, $75,439, $170,608 and $229,342, respectively. The aggregate benefits to be paid in the five years from 2012-2016 are $1,897,483.

The expected benefits are based on the same assumptions used to measure the Company s benefit obligation at February 28 and include estimated future employee service.

Following is a roll forward of the projected benefit obligation and the plan assets for fiscal 2006:

	US	Canada	Total
Benefit obligation at February 28, 2005	$1,847,272	$2,942,532	$4,798,804
Service cost	81,908	208,536	290,444
Interest cost	100,543	176,581	277,124
Plan participants contributions		69,632	69,632
Actuarial (gain) /loss	108,114	166,049	274,163
Other		211,504	211,504
Benefits paid	(175,743)	(137,484)	(313,227)
Benefit obligation at February 28, 2006	$1,962,094	$3,637,350	$5,599,444
Fair value of plan assets at February 28, 2005	$1,589,586	$2,208,106	$3,797,692
Actual return on plan assets	52,325	221,939	274,264
Employer contributions	117,916	215,777	333,693
Plan participant contributions		69,632	69,632
Other		158,714	158,714
Benefits paid	(175,743)	(137,484)	(313,227)
Fair value of plan assets at February 28, 2006	$1,584,084	$2,736,684	$4,320,768

Net periodic pension costs of the defined benefit pension plans for the year ended February 28, 2005 were as follows:

	US	Canada	Total
Service costs on benefits earned during the period	$80,544	$183,379	$263,923
Interest cost on projected benefit obligation	99,262	156,446	255,708
Expected return on plan assets	(99,100)	(147,411)	(246,511)
Net periodic pension cost	$80,706	$192,414	$273,120

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The present value of benefit obligations and funded status of the Plans as computed by the actuaries as of February 28, 2005 were as follows:

	US	Canada	Total
Projected benefit obligation	$(1,847,272)	$(2,942,532)	$(4,789,804)
Plan assets at fair value	1,589,586	2,208,106	3,797,692
Funded status	(257,686)	(734,426)	(992,112)
Unrecognized net loss		75,882	75,882
Net liability	$(257,686)	$(658,544)	$(916,230)

As of February 28, 2005, the accumulated benefit obligation was $1,847,272 for the U.S. Plan and $2,587,511 for the Canadian Plan. Amounts recognized in the combined balance sheet as of February 28, 2005 consist of:

	US	Canada	Total
Current portion of accrued benefit liability, included in accrued expenses	$(120,000)	(136,206)	$(256,206)
Long term portion of accrued benefit liability, included in other long term liabilities	$(137,686)	(535,642)	$(673,328)
Net amount recognized	$(257,686)	(671,848)	$(929,534)

Weighted-average assumptions used in developing the projected benefit obligation and net cost for the year ended February 28, 2005 were as follows:

	US	Canada
Discount rate	5.75 %	5.25 %
Rate of increase in compensation	0.00 %	3.00 %
Rate of return on plan assets	6.50 %	7.00 %

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Following is a roll forward of the projected benefit obligation and the plan assets for the year ended February 28, 2005:

	US	Canada	Total
Benefit obligation at February 28, 2004	$1,822,198	$2,605,331	$4,427,529
Service cost	80,544	183,380	263,924
Interest cost	99,262	156,446	255,708
Plan participants contributions		68,391	68,391
Actuarial gain and other	(41,221)	201,607	160,386
Benefits paid	(113,511)	(272,623)	(386,134)
Benefit obligation at February 28, 2005	$1,847,272	$2,942,532	$4,789,804
Fair value of plan assets at February 28, 2004	$1,506,631	$2,105,121	$3,611,752
Actual return on plan assets	65,379	101,498	166,877
Employer contributions	131,087	205,719	336,806
Plan participants contributions		68,391	68,391
Benefits paid	(113,511)	(272,623)	(386,134)
Fair value of plan assets at February 28, 2005	$1,589,586	$2,208,106	$3,797,692

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Notes to Consolidated/ Combined Financial Statements February 28, 2006

Net periodic pension costs of the defined benefit pension plans covering the period April 25, 2003 (inception) to February 29, 2004 were as follows:

	US	Canada	Total
Service costs on benefits earned during the period	$68,401	$119,071	$187,472
Interest cost on projected benefit obligation	73,719	99,885	173,604
Expected return on plan assets	(70,047)	(84,483)	(152,282)
Net periodic pension cost	$72,073	$134,473	$206,546

Weighted-average assumptions used in developing the projected benefit obligation and net cost for the period from April 25, 2003 (inception) to February 29, 2004 were as follows:

	US	Canada
Discount rate	5.75 %	5.75 %
Rate of increase in compensation	0.00 %	3.00 %
Rate of return on plan assets	6.50 %	7.00 %

401(k) Plan:

The Company also has a defined contribution plan under Section 401(k) of the Internal Revenue Code for all United States employees. Employees can elect to contribute up to certain maximum percentages of their weekly gross pay. The Company matches are discretionary. The Company had no discretionary matches for the Fiscal years ended February 28, 2005 and 2006 or for the period from April 25, 2003 (inception) to February 28, 2006.

NOTE 8 INCOME TAXES

As a result of the net operating loss incurred for the years ended February 28, 2006 and 2005, and for the period from April 25, 2003 (inception) to February 29, 2004, there is no income tax provision in the accompanying financial statements. Due to the uncertainty that future taxable income will be generated during the periods in which the temporary differences underlying the Company s deferred tax assets become deductible, management has applied a full valuation allowance to the net deferred tax assets at February 28, 2006 and February 28, 2005.

Pre-tax loss (income) for the years ended February 28, 2006 and 2005 and for the period from April 25, 2003 (inception) to February 29, 2004 is as follows:

	2006	2005	4/25/2003 to

			2/29/2004
United States	$29,661,664	$3,963,260	$1,815,455
Foreign	550,752	25,502	(96,620)
	$30,212,416	$3,988,762	$1,718,835

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The significant components of the Company s net deferred tax assets at February 28, 2006 and 2005 are as follows:

Deferred tax assets (liabilities):

	February 28, 2006	**February 28, 2005**
Accounts receivable	$180,000	$170,000
Inventory	240,000	183,000
Fixed asset depreciation and amortization	(305,000)	(212,000)
Cenuco Intangibles	(2,633,000)	
Accrued expenses and other	530,000	348,000
Net operating loss carry forward	7,755,000	2,164,000
Total deferred tax assets	5,767,000	2,653,000
Valuation allowance	(5,767,000)	(2,653,000)
Net deferred tax assets	$	$

The Company has a consolidated net operating loss carry forward of approximately $22,900,000 ($18,900,000 for U.S. income tax purposes) which will begin to expire in 2022. Of this amount, approximately $2,400,000 is subject to certain limitations as a result of the change in control which occurred with the Merger. The Lander Canada net operating loss carry forward of approximately U.S. $1,040,000 will begin to expire in 2011.

A reconciliation summary of the differences between the statutory federal rate and the Company s effective tax rate for the years ended February 28, 2006 and 2005 and for the period from April 25, 2003 to February 29, 2004 is as follows:

Statutory tax expense (benefit)	(34.00)%
State income taxes, net of federal benefit	(5.00)%
Valuation allowance	39.00%
Effective tax rate	0.00%

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Company has various noncancelable operating leases for manufacturing and office facilities. Rent expense was $724,641, $680,640 and $620,328, respectively in fiscal years 2006, 2005 and for the period from April 25, 2003 (inception) to February 29, 2004. Future minimum lease payments under noncancelable operating leases (with initial

or remaining lease terms in excess of one year) and future minimum capital lease payments for each period are as follows:

	CAPITAL LEASES	OPERATING LEASES
2007	$ 32,730	$ 888,440
2008		742,760
2009		620,335
2010		620,989
2011		524,528
thereafter		106,133
Total minimum lease payments	$ 32,730	$ 3,503,185
Less amounts representing interest	(981)	
Present value of future minimum lease payments	$ 31,749	

Also the Company had purchase obligations of $573,300 as of February 28, 2006.

Cenuco Wireless is currently the defendant in a patent infringement case commenced on February 1, 2005 in Federal District Court for the Southern District of New York (Joao v. Cenuco, Inc., 05 Civ. 1037 (CM) (MDF)). The plaintiff, Raymond Anthony Joao, asserts in his complaint that Cenuco Wireless is infringing certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130, which cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has timely answered the complaint denying infringement, and intends to defend this case vigorously on the merits. Management believes that the patents relied on by Joao are invalid and that the chances of Joao prevailing are remote. Nonetheless, there can be no assurance as to the outcome of the case, and a judicial determination that Cenuco Wireless is infringing Joao s patents, while unlikely, could have a material adverse effect on the ability of Cenuco Wireless to market and sell its current product line. Similarly, there is no assurance that Cenuco Wireless would be able to develop, at a reasonable cost, within a reasonable length of time or at all, a workaround to eliminate any patent infringement found to exist.

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The Company is subject to certain claims and litigation in the normal course of business. Management believes, after consulting with legal counsel, that the ultimate liability resulting from these matters will not materially affect the consolidated results of operations or financial position of the Company.

NOTE 10 STOCK OPTIONS AND WARRANTS

For the year ended February 28, 2006 and all prior periods, the Company accounted for stock options issued to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS 148, Accounting for Stock-Based Compensation -Transition and Disclosure , which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS No. 123.

The exercise prices of all options granted by the Company equaled the market price at the dates of grant. From the date of the Merger to February 28, 2006 no options were issued. Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 123, Accounting for Stock Based Compensation , the Company s net loss and loss per share would not have changed.

As a result of the Merger on May 20, 2005, all previously issued options that were unvested on that date became automatically vested. Since the date of the Merger, none of the 556,668 exercisable options have been exercised.

The following information applies to options outstanding at February 28, 2006:

	Options Outstanding and Exercisable	
Range of Prices	**Weighted - Average Remaining Contractual Life (Years)**	**Shares**
$0.42	6.50	73,332
$0.55	0.82	40,000
$1.15	7.77	218,335
$1.55	6.86	35,001
$2.00	5.00	130,000
$3.71	8.40	40,000
$4.00	8.40	20,000

556,668

From the date of the Merger to February 28, 2006, 131,500 warrants, have been exercised at an exercise price of $1 per share. No warrants have been issued from the date of the Merger to February 28, 2006.

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The following information applies to all warrants outstanding at February 28, 2006:

	Warrants Outstanding and Exercisable	
Range of Prices	**Weighted - Average Remaining Contractual Life (Years)**	**Shares**
$1.00	2.79	150,000
$4.00	3.32	105,784
$4.50	3.19	1,387,760
$5.00 to $6.50	3.25	350,000
$6.00	4.22	500,000
		2,493,544

NOTE 11 CAPITAL STRUCTURE AND NET LOSS PER COMMON SHARE

Capital Structure:

At February 28, 2006, the outstanding share capital of the Company is comprised of: (i) 13,882,056 shares of common stock (Common Stock), and (ii) 2,553.7 shares of Series A Junior Participating Preferred Stock (the Series A Preferred Stock).

The Series A Preferred Stock was issued in connection with the completion of the Merger as described in Note 1 to the consolidated financial statements. The holders of the Series A Preferred Stock are entitled to receive when, as and if declared by the Board of Directors, quarterly cumulative dividends commencing on March 31, 2006 in an amount per share equal to $0.001. In addition to the dividends payable to the holders of Series A Preferred Stock, the Company shall declare a dividend or distribution on the Series A Preferred Stock equal to any amount declared on the Common Stock. Holders of the Series A Preferred Stock (using the number of common shares into which each share of Series A Preferred Stock is convertible) and the holders of Common Stock vote together as one class on all matters submitted to a vote of stockholders of the Company, provided however that the holders of the Series A Preferred Stock are not entitled to any voting rights on any matter relating to the Merger. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock are entitled to liquidation preferences over all other classes of capital stock. The holders of Series A Preferred Stock shall receive an amount equal to $1,000 per share of the Series A Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions prior to any distribution to the holders of any other class of capital stock. If the assets available for distribution are sufficient to permit a full payment of the above amounts then, after such amounts have been fully distributed, holders of the Series A Preferred Stock shall share equally with holder of the Common Stock on a per share basis (using the number of common shares into which each share of Series A Preferred Stock is convertible). Each share of Series A Preferred

Stock carries the voting rights on a basis such that the rights of the Series A Preferred Stock as a whole correspond to 65 percent of the aggregate rights of the Series A Preferred Stock and Common Stock outstanding as of the completion of the Merger. Upon the approval of the holders of the Common Stock and an increase in the Company s authorized share capital, each share of Series A Preferred Stock will automatically convert into shares of Common Stock on such a basis that, following conversion, the holders of the Series A Preferred Stock will hold the same proportional rights to general distributions and voting rights that they held immediately prior to such conversion. The Series A Preferred Stock is not redeemable.

On May 3, 2006, at the shareholders meeting, approval was obtained to increase the number of authorized number of shares of common stock to 225,000,000.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated/ Combined Financial Statements February 28, 2006

Net loss per share:

The following table shows how the net loss was allocated using the two-class method (see Note 2) for the year ended February 28, 2006:

Allocation of net loss	
Basic and Diluted:	
- Common Stock	$(28,378,422)
- Series A Preferred	(1,833,994)
Net loss	$ (30,212,416)

The following table illustrates the weighted average number of shares of Common Stock and Series A Preferred Stock outstanding during the period utilized in the calculation of loss per share:

Weighted average number of Common Stock shares - basic and diluted	13,795,100
Weighted average number of Series A Preferred shares - basic and diluted	2,554
Basic and diluted net loss per share - common	$(2.06)
Basic and diluted net loss per share - Series A Preferred	$(718)

NOTE 12 SEGMENT AND GEOGRAPHIC INFORMATION

The results related to the Playtex asset acquisition are reported in the HBC Division. The Company operated in only one division prior to the Merger on May 20, 2005. Accordingly, only geographic information is presented for periods prior to the current fiscal year ended February 28, 2006.

YEAR ENDED FEBRUARY 28, 2006

DIVISION	**HBC**	**WAD**	**TOTAL**
Net Sales	$79,518,368	$43,851	$79,562,219
Loss from operations	(8,842,959)	(18,882,682)	(27,725,641)
Net loss	(11,373,482)	(18,838,934)	(30,212,416)
Total Assets	$80,827,933	$22,118,243	$102,946,176

GEOGRAPHIC	**NET SALES**	**LONG -LIVED ASSETS**

Year ended February 28, 2006:		
United States	$54,907,353	$73,614,864
Canada	15,938,200	644,111
Other foreign countries	8,716,666	
Total	$79,562,219	$74,258,975

GEOGRAPHIC	**NET SALES**	**LONG -LIVED ASSETS**
Year ended February 28, 2005:		
United States	$45,954,190	$6,150,610
Canada	15,310,361	559,740
Other foreign countries	8,596,251	
Total	$69,860,802	$6,710,350

GEOGRAPHIC	**NET SALES**
For the period from April 25, 2003 (inception) to February 29, 2004:	
United States	$35,082,786
Canada	13,358,400
Other foreign countries	6,604,829
Total	$55,046,015

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated/ Combined Financial Statements February 28, 2006

NOTE 13 TRANSACTIONS WITH RELATED PARTIES

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services and (until June 2005) leased office facilities to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of $411,143 for professional fees, facility usage and reimbursable expenses for the year ended February 28, 2006 and $523,933 for the year ended February 28, 2005. For the period from April 25, 2003 (inception) to February 29, 2004, THGLLP invoiced the Company $258,596. At February 28, 2006, and February 28, 2005, the Company owed THGLLP $35,595 and $28,341, respectively. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in MarNan, LLC (MarNan), a New Jersey limited liability company. MarNan owns 40 percent of the Company s Series A Preferred Stock.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company. Edward J. Doyle, a member of the Board of Directors of the Company from May 20, 2005, is a Managing Member of ZVLLC. For the year ended February 28, 2006, ZVLLC invoiced the Company for $19,078. For the year ended February 28, 2005, ZVLLC invoiced the Company for $28,485. For the period from April 25, 2003 (inception) to February 29, 2004, ZVLLC invoiced the Company $154,142. Effective May 20, 2005, the date of the Merger, ZVLLC ceased providing consulting services to the Company. No monies were due ZVLLC at February 28, 2006 and February 28, 2005.

Kenneth D. Taylor, a member of the Board of Directors of the Company from May 20, 2005, provided consulting services to the Company. For the year ended February 28, 2006, Mr. Taylor invoiced the Company $5,000. For the year ended February 28, 2005 and for prior periods, he did not invoice the Company. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. No monies were due Mr. Taylor at February 28, 2006.

The Hermes Group LLC (THGLLC), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For year ended February 28, 2006, THGLLC invoiced Lander, a wholly owned subsidiary of the Company, $429,313 for business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which is a 40% shareholder of the Series A Preferred Stock of the Company. As of February 28, 2006, there was a balance due to THGLLC of $6,900.

In addition, during the year ended February 28, 2006 the Company paid a fee of $1,000,000 (capitalized by the Company as part of purchase price of the Playtex asset acquisition - see Note 3) to THGLLC as compensation for advisory, diligence and other services rendered to the Company in connection with the Company s acquisition of certain brands and related assets from Playtex in November 2005.

Joseph A. Falsetti (who is a Director and the Chief Executive Officer of the Company) and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in Dana Holdings, LLC (Dana Holdings), a New Jersey limited liability company. Dana Holdings owns 40 percent of the Company s Series A Preferred Stock. During the year ended February 28, 2006 the Company paid guarantee fees of $400,000 each to Dana Holdings and MarNan in connection with the short-term Bridge Loan described in Note 3 to the 2006 consolidated financial statements. These guarantee fees were capitalized as deferred debt costs in connection with the Bridge Loan. Payment of such fees was approved by the unanimous vote of the Board of Directors.

The Company s management believes the charges for the related party services listed above are consistent with the amounts that would be paid to independent third parties.

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Notes to Consolidated/ Combined Financial Statements February 28, 2006

NOTE 14 SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED)

MERGER

The following discloses the unaudited results of operations (excluding discontinued operations) for the current fiscal year (and corresponding period in the preceding year) as though the Merger had been completed as of March 1, the beginning of the period. The combined results are for the years ended February 28, 2006 and February 28, 2005.

	Year ended February 28, 2006	Year ended February 28, 2005
Net sales	$79,602,256	$69,875,802
Net loss before amortization of intangibles	(29,539,275)	(5,188,762)
Amortization of intangible assets	(1,600,000)	(1,600,000)
Net loss	$(31,139,275)	$(6,788,762)
Loss per common share - basic and diluted	$(2.26)	$(0.49)
Weighted average shares	13,795,100	13,750,556

NOTE 15 QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the quarterly results for the years ended February 28, 2006 and 2005:

	Thirteen Weeks Ended			
	May 28 2005	August 27 2005 (1)	November 26 2005 (1)	February 28 2006 (2)
2006				
Net sales	$17,351,062	$16,840,788	$18,376,637	$26,993,732
Gross profit	1,051,537	1,240,769	1,628,017	1,383,386
Net loss	(2,128,490)	(2,505,137)	(515,445)	(25,063,344)
Loss per share:				
Basic and diluted - common	$(0.02)	$(0.18)	$(0.04)	$(1.81)
Basic and diluted - preferred	$(718.00)	$	$	$

	Thirteen Weeks Ended

	May 29 2004	August 28 2004	November 27 2004	February 28 2005
2005				
Net sales	$17,562,444	$16,448,871	$18,017,820	$17,831,667
Gross profit	2,606,535	1,675,777	1,897,426	1,311,467
Net loss	(322,642)	(929,529)	(586,404)	(2,150,187)
Loss per share:				
Basic and diluted - common	N/A	N/A	N/A	N/A
Basic and diluted - preferred	N/A	N/A	N/A	N/A

(1) The amounts reflected above for net loss in the thirteen weeks ended August 27, and November 26, 2005 have been increased from the amounts previously reported in the related 10-Q s by $320,127 ($0.02 loss per share) and $291,316 ($0.02 loss per share), respectively. These charges are as a result of an increase in the amount of purchase price allocated to amortizable intangible assets in the Merger (see Note 1) and a related increase in the amortization of such intangibles. The Company will file amended Form 10-Q s for these periods.

(2) Net loss for the thirteen weeks ended February 28, 2006 includes a $16.4 million goodwill impairment charge related to the Company s WAD operating division.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except for share and per share data)

	August 26, 2006	**February 28, 2006**
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$225	$1,876
Trade receivables, net of allowances of $734 at August 26, 2006 and $528 at February 28, 2006	12,255	6,471
Inventories	14,987	16,269
Miscellaneous receivables	44	1,693
Note receivable, current portion	97	95
Prepaid expenses and other	808	679
Total current assets	28,416	27,083
Property, plant and equipment, net	6,542	6,502
Goodwill	14,554	14,554
Intangibles, net	50,928	53,203
Notes receivable, less current portion	282	340
Other assets, net	7,819	1,264
Total assets	$108,541	$102,946
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$10,329	$9,024
Accrued expenses	3,457	2,852
Accrued interest	600	1,202
Current portion of long-term debt	9	32
Total current liabilities	14,395	13,110
Long-term debt, less current portion	83,591	80,000
Long-term pension obligation	1,017	967
Total liabilities	99,003	94,077
Stockholders equity:		
Convertible preferred stock, par value $.001 per share; Authorized 1,000,000 shares; issued and outstanding 2,347.7746 shares at August 26, 2006 and issued and outstanding 2,553.6746 shares at February 28, 2006		

Common stock, par value $.001 per share; Authorized 225,000,000 shares; issued and outstanding 13,913,056 shares at August 26, 2006 and issued and outstanding 13,882,056 shares at February 28, 2006	14	14
Additional paid in capital	42,721	37,907
Accumulated deficit	(32,453)	(28,378)
Accumulated comprehensive loss	(744)	(674)
Total stockholders equity	9,538	8,869
Total liabilities and stockholders equity	$108,541	$102,946

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(Amounts in thousands, except for share and per share data)

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 26, 2006	August 27, 2005	August 26, 2006	August 27, 2005
Net sales	$24,404	$16,841	$49,326	$34,192
Cost of sales	19,935	15,600	40,130	31,900
Gross Profit	4,469	1,241	9,196	2,292
Operating expenses:				
Selling and marketing	1,457	877	2,858	1,844
General and administrative	4,364	2,653	7,723	4,389
Total operating expenses	5,821	3,530	10,581	6,233
Loss from operations	(1,352)	(2,289)	(1,385)	(3,941)
Other income (loss):				
Interest expense, net	(3,118)	(369)	(5,603)	(765)
Loss on issuance of debt	(6,872)		(6,872)	
Amortization of finance fees and debt discount	(390)		(1,561)	
Gain on revaluation of compound derivative liability	11,202		11,202	
Other income (expense), net	(1)	153	144	72
Total other income (loss)	821	(216)	(2,690)	(693)
Loss before income taxes	(531)	(2,505)	(4,075)	(4,634)
Income taxes				
Net loss	$(531)	$(2,505)	$(4,075)	$(4,634)
Basic and diluted loss per common share	$(0.04)	$(0.18)	$(0.29)	$(0.20)
Basic and diluted loss per preferred share	$	$(718)	$	$(718)
Shares used in computing loss per share:				
Basic - common	13,913,056	13,768,930	13,910,252	13,734,420
Basic - preferred	2,347.8	2,553.7	2,347.8	2,553.7
Diluted - common	13,913,056	13,768,930	13,910,252	13,734,420
Diluted - preferred	2,347.8	2,553.7	2,347.8	2,553.7

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

For the twenty-six weeks ended August 26, 2006

(Amounts in thousands, except for share and per share data)

	Series A Preferred Stock Shares	Amount	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders Equity
Balance at February 28, 2006	2,553.7	$	13,882,056	$ 14	$ 37,907	$ (28,378)	$ (674)	$ 8,869
Net loss						(4,075)		(4,075)
Other comprehensive loss: Foreign currency translation							(70)	(70)
Comprehensive loss								(4,145)
Warrants issued - fair value					8,429			8,429
Exercise of warrants			31,000		31			31
Redemption of Series A Preferred shares	(205.9)				(3,646)			(3,646)
Balance at August 26, 2006 (unaudited)	2,347.8	$	13,913,056	$ 14	$ 42,721	$ (32,453)	$ (744)	$ 9,538

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands, except for share and per share data)

	For the twenty-six weeks ended	
	August 26, 2006	**August 27, 2005**
Cash flows from operating activities:		
Net loss	$ (4,075)	$ (4,634)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,758	911
Provision for accounts receivable	163	161
Amortization of deferred financing costs and debt discount	1,561	109
Loss on issuance of debt	6,872	
Gain on revaluation of compound derivative liability	(11,202)	
Non-cash interest	4,157	
Changes in operating assets and liabilities:		
Trade receivables	(5,947)	(331)
Inventories	1,282	1,341
Prepaid expenses and other	1,520	(642)
Other assets	(45)	(536)
Accounts payable	1,305	(14)
Accrued expenses	32	164
Long-term pension obligations	50	58
Net cash used in operating activities	(1,569)	(3,413)
Cash flows from investing activities		
Net increase in cash from reverse acquisition of Cenuco		6,235
Proceeds from note receivable	56	200
Acquisition costs	(741)	(343)
Purchase of property, plant and equipment	(543)	(255)
Disposal of fixed assets	20	
Net cash (used in) provided by investing activities	(1,208)	5,837
Cash flows from financing activities		
Net borrowings (repayments) of revolver	8,072	(1,607)
Net proceeds from issuance of convertible notes	2,747	

Financing costs	(5,993)	(95)
Repayments of long-term debt	(15)	(339)
Repayments of capital lease		(33)
Redemption of preferred stock	(3,646)	
Proceeds from exercise of warrants	31	76
Net cash provided by (used in) financing activities	1,196	(1,998)
Effect of exchange rates on cash	(70)	(27)
Net (decrease) increase in cash and cash equivalents	(1,651)	399
Cash and cash equivalents at the beginning of period	1,876	32
Cash and cash equivalents at the end of period	$ 225	$ 431
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,054	$ 445
Non-cash fees and expenses related to issuance of convertible notes	4,195	
Warrants in connection with issuance of convertible notes	8,249	
Reverse merger, excluding cash acquired (see Note 1):		
Fair value of tangible assets acquired	$	$ 1,200
Goodwill and identifiable intangible assets acquired		38,975
Liabilities assumed		(474)
Net assets acquired	$	$ 39,701

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

NOTE 1 DESCRIPTON OF BUSINESS AND REORGANIZATION

Introduction

Ascendia Brands, Inc. (Ascendia , or the Company , the Registrant , we or us) manufactures and markets a portfol nationally and internationally known branded products in the health and beauty care categories (The Health and Beauty Care division (HBC)). The brand portfolio includes *Baby Magic*®, *Binaca*®, *MBubble*®, *Lander*®, *Lander essentials* , *Ogilvie*®, *Tek*®, *Dorothy Gray*® and *Tussy*®, competing in the Bath Products, Baby Toiletries, Deodorant/Antiperspirant, Home Permanent Treatment, Mouthwash, Portable Breath Sprays and Drops, Manual Toothbrush, and Skin Care segments within the personal care products category. Ascendia sells its brands through a variety of channels, concentrating primarily on the mass me rchandiser, drug, grocery and dollar store outlets. The Company also develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform (The Wireless Application Division (WAD)).

Corporate Structure

On May 9, 2006 the Company (previously known as Cenuco, Inc.) changed its name to Ascendia Brands, Inc. The chart below depicts the current structure of Ascendia and its direct and indirect, wholly-owned subsidiaries, and the discussion that follows summarizes the functions and role of each company in this group.

Ascendia Brands, Inc. (Ascendia , the Company, the Registrant, we or us). The Company is a holding company, organized under Delaware law, with its executive offices in Hamilton, New Jersey. It owns directly the stock of Hermes Acquisition Company I LLC and Cenuco, Inc.

Hermes Acquisition Company I LLC (HACI). Hermes is a Delaware limited liability company that acts as the holding company for the Company s health and beauty care division.

Ascendia Brands Co., Inc. (Ascendia Brands). Ascendia Brands is a New Jersey corporation with its executive offices in Hamilton, New Jersey. As of May 1, 2006, Ascendia Brands assumed the manufacturing and distribution operations formerly conducted through Lander Co., Inc. (*see, infra*). As the successor to Lander Co., Inc., Ascendia Brands manufactures and sells branded health and beauty care products in the value and premium value categories, through mass market retailers (such as Wal-Mart and K-Mart), dollar stores, supermarkets and pharmacies. Ascendia s brands include *Baby Magic*, *Binaca*, *Mr. Bubble*, *Lander*, *Lander essentials*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray* and *Tussy*. Ascendia Brands operates a manufacturing plant in Binghamton, New York, which is leased from a related party, Ascendia Real Estate LLC.

Lander Co., Inc. (Lander). Lander is a Delaware corporation with its executive offices in Wilmington, Delaware. During the period ended February 28, 2006, Lander was the principal operating company in Ascendia s health and beauty care division. Following the transition of manufacturing and distribution activities to Ascendia Brands, Lander acts as an intellectual property holding company for trademarks and other intellectual property associated with the *Lander* brands.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

Lander Co. Canada Ltd (Lander Canada). Lander Canada, a Canadian limited company, is the Canadian manufacturing and distribution arm of Ascendia s health and beauty care division. Lander Canada operates a manufacturing facility in Toronto, Ontario, which it leases from a third party.

Ascendia Real Estate LLC (f/k/a Hermes Real Estate I LLC) (*Ascendia Real Estate*). Ascendia Real Estate, a New York limited liability company, is a real estate holding company. Its sole asset is the Binghamton plant, which it leases to Ascendia Brands.

Lander Intangibles Corporation (Lander Intangibles). Lander Intangibles is a Delaware corporation with its executive offices in Wilmington, Delaware. Lander Intangibles is an intellectual property holding company that was formed to acquire and hold certain of the intellectual property that the Company purchased from Playtex Products Inc. and its affiliates (Playtex) on November 16, 2005.

Cenuco, Inc. (Cenuco Wireless). Cenuco Wireless is a Florida corporation with executive offices in Boca Raton. Cenuco Wireless develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform.

THE MERGER

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., a public company, (ICU) merged (the Merger) with HACI.

The Merger was completed through the issuance of 2,553.7 shares of Cenuco, Inc. s Series A Junior Participating Preferred Stock (representing 65 percent of the aggregate outstanding voting power of Cenuco capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander, Ascendia Real Estate, and Lander Canada, became wholly owned subsidiaries of Cenuco.

For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco, Inc. by HACI for a purchase price equivalent to the total market value of Cenuco, Inc. s stock outstanding prior to the Merger, plus the fair value of the options that automatically vested on the date of the Merger (approximately $45.7 million in the aggregate). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of the Company, Inc. prior to the date of the Merger reflect the financial position and results of operations of HACI and Ascendia Real Estate, with the results of operations of Cenuco, Inc. being included commencing on May 20, 2005. Effective with the completion of the Merger, Cenuco, Inc. changed its fiscal year end to be the last day of February, consistent with HACI s prior fiscal year.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company determined the fair value of the assets acquired and liabilities assumed in the reverse acquisition of Cenuco, to be as follows:

	(Amounts in thousands)

Cash and cash equivalents	$ 6,003
Other current assets	497
Total current assets	6,500
Property, plant, and equipment	111
Goodwill	30,975
Intangibles - acquired core software technology	8,000
Other Assets	592
Total assets acquired	46,178
Total liabilities assumed	(474)
Estimated fair value of net assets acquired	$ 45,704

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

Following the Merger, the Company s principal business activity has been the manufacture and distribution of health, beauty and oral-care products, as described above. In addition, through its Cenuco Wireless subsidiary, the Company is engaged in a wireless application technology business (the WAD division), primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. All goodwill associated with the Cenuco acquisition was allocated to the WAD division. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of this goodwill for impairment. This led to a Goodwill impairment of $16.4 million being recorded.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying financial statements of Ascendia as of and for the thirteen weeks ended August 26, 2006 and August 27, 2005 have been prepared in accordance with generally accepted accounting principles. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

A summary of the Ascendia s significant accounting policies follows:

Basis of Consolidation: As of August 26, 2006 and February 28, 2006 and for the thirteen and twenty-six weeks ended August 26, 2006 and for the period from May 20, 2005 to August 27, 2005, the statements are prepared on a consolidated basis. For the period from March 1, 2005 to May 19, 2005 the statements are prepared on a combined basis. The accompanying consolidated financial statements include the accounts of Ascendia Brands, Inc. and subsidiaries. All intercompany accounts have been eliminated in consolidation.

Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Accounts Receivable: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

Inventories: Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company s health, beauty and oral care products, as well as, finished goods that consist of the Company s product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

Note Receivable: On September 30, 2004, Cenuco Wireless sold substantially all of its assets of the then existing education subsidiary for a net price of $0.8 million. At closing Cenuco Wireless received $0.3 million in cash and a note receivable for $0.5 million. At August 26, 2006 and February 28, 2006 the note receivable had a balance of approximately $0.4 million and $0.4 million, respectively.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the

Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

Impairment of Long-Lived Assets: Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less cost to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, the Company estimates the assets future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

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Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries

Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

Goodwill and Indefinite Lived Intangibles

As a result of the Merger on May 20, 2005 (see Note 1), the Company recorded goodwill of $31.0 million. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in $16.9 million being allocated to intangible assets (brand names and product formulas), initially estimated to have indefinite lives. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires goodwill and other intangibles that have indefinite lives to not be amortized but to be reviewed at least annually for impairment or more frequently if impairment indicators arise. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment. This led to a goodwill impairment charge of $16.4 million being recorded at that time.

Amortizable Intangible Assets

SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment. As a result of the merger on May 20, 2005, and as revised in the quarter ended February 28, 2006, the Company recorded intangible assets of $8.0 million, related to acquired core software technology, with an estimated useful life of five years. Amortization expense for the acquired software technology was $0.4 million and $0.8 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense for the acquired software technology was $0.4 million and $0.4 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the assets acquired, in proportion to their respective estimated fair values, which resulted in $30.4 million being allocated to customer relationships. Management has adopted the straight-line method of amortizing these assets over their estimated useful lives of 10 years. Amortization expense for the customer relationships was $0.7 million and $1.5 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. There was no amortization expense for the customer relationships for the thirteen and twenty-six weeks ended August 27, 2005.

Goodwill and Other Intangible Assets

No changes occurred in the carrying amount of goodwill for the thirteen or twenty-six weeks ended August 26, 2006.

Balances of acquired intangible assets, excluding goodwill are as follows:

	($Millions)			
	Purchased Technology	**Formulae And Tradenames**	**Customer Relationships**	**Total**
Intangible assets as of August 26, 2006:	$8.0	$ 16.9	$ 30.4	$55.3

Accumulated amortization	(2.0)		(2.4)	(4.4)
Carrying value	$6.0	$ 16.9	$ 28.0	$50.9
Weighted average original life (in years)	5	indefinite	10	

Amortization expense for the thirteen and twenty-six weeks ended August 26, 2006 is $1.1 million and $2.3 million respectively.

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Estimated aggregate amortization expense based on the current carrying value of intangible assets for the next five years is as follows:

Fiscal Year	(000 s) Amount
2007	$ 4,639
2008	4,652
2009	4,639
2010	4,639
2011	3,390

Other Assets, Net: Other assets, net of approximately $7.7 million, consist primarily of deferred financing costs related to the Long-Term Convertible Note Financing and the CIT revolving line of credit (see Note 6). The deferred financing costs are being amortized using the effective interest method over the term of the respective financing arrangements. Amortization expense related to deferred financing costs was $0.2 million and $1.4 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense related to deferred financing costs was $0.1 million and $0.1 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

Fair Value of Financial Instruments: The carrying amounts reported in the accompanying balance sheets for accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these accounts. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer s financial condition, credit history, and current economic conditions. The carrying amounts for warrant derivative liability and for conversion option liability are based on estimated fair value at each reporting date.

Accounting for Derivative Instruments: We have issued and have outstanding convertible debt and warrants related to the convertible debt with embedded derivative features which we have analyzed in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in A Company s Own Stock, to determine if these instruments have embedded derivatives that must be bifurcated. Under EITF No. 00-19, the estimated value of such embedded derivatives is recorded as a liability utilizing an appropriate valuation model (with an offsetting debt discount that is amortized over the term of the convertible notes). Such liability is marked-to-market and adjusted to fair value at each reporting date with the change in fair value being recorded to other income (expense) in the period of the change. The warrants are not required to be accounted for as a liability. They are accounted for under EITF 98-5 as further described in Note 6.

Revenue Recognition: For the Health & Beauty Care division, revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Wireless Application Development (WAD) division recognizes revenue as services are performed on a pro-rata basis over the contract term or when products are delivered. WAD periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

Cooperative Advertising: Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Task Force 01-09, Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor s Products in the period in which the related sales are recognized. Cooperative advertising expenses were approximately $1.2 million and $1.7 million, respectively for thirteen and twenty-six weeks ended August 26, 2006. Cooperative advertising expenses were approximately $0.1 million and $0.1 million, respectively for thirteen and twenty-six weeks ended August 27, 2005.

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Foreign Currency Translation: In accordance with SFAS No. 52, *Foreign Currency Translation*, the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated into U.S. dollars at the fiscal period-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are reflected as a separate component of stockholders equity until there is a sale or liquidation of the underlying foreign investment.

Foreign currency gains and losses resulting from transactions are included in the consolidated statements of operations.

Estimates: The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, income taxes and contingencies. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Concentration of Credit Risk: Ascendia provides credit to its customers in the normal course of business and does not require collateral. To reduce credit risk, Ascendia performs ongoing credit evaluations of its customers.

Five trade customers comprised 51 percent and 50 percent, respectively of Ascendia s net sales, (with one customer comprising approximately 38 percent and 37 percent, respectively) for the thirteen and twenty-six weeks ended August 26, 2006. At August 26, 2006 the same five trade customers represented 54 percent of receivables, with one customer comprising 43 percent. This top customer represents a significant concentration. Accordingly, if this customer was not able to pay the amount owed to us and/or stopped purchasing from us, the impact would have a material adverse effect on our liquidity, financial position, and results of operations.

Five trade customers comprised 51 percent and 48 percent, respectively of Ascendia s net sales, (with one customer comprising approximately 33 percent and 32 percent respectively) for the thirteen and twenty-six weeks ended August 27, 2005. At August 27, 2005 the same five trade customers represented 55 percent of receivables, with one customer comprising 42 percent.

Income Taxes: Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 rates is recognized in income in the period that includes the enactment date. In accessing the Company s ability to realize deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A full valuation allowance at August 26, 2006 and February 28, 2006 has been recorded by management due to the uncertainty that future income will be generated and the related deferred tax assets realized.

Earnings per share: Emerging Issues Task Force (EITF) 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* (EITF 03-6) provides guidance in determining when the two-class method, as defined in SFAS128, *Earnings per Share*, must be utilized in calculating earnings per share by a Company that has issued securities other than common stock that contractually entitles the holder to participate in dividends and earnings of the Company when, and if, the Company declares dividends on its common stock. Under the two-class method earnings are allocated to common stock and participating securities to the extent that each security may share in such earnings and as if such earnings for the period had been distributed. Under the two-class method losses are allocated to participating securities to the extent that such security is obligated to fund the losses of the issuing entity or the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. In accordance with EITF 03-6, basic earnings per share for the Company s common stock and Series A Junior Participating Preferred Stock (Series A Preferred) would be calculated by dividing net income allocated to common stock and Series A Preferred by the weighted average number of shares of common stock and Series A Preferred outstanding, respectively. Diluted earnings per share for the Company s common stock would be calculated similarly, except that the calculation includes the effect, if dilutive, of the assumed exercise of stock options issuable under the Company s stock-based employee compensation plan, the assumption of the conversion of the Company s Series A Preferred stock to common stock, if dilutive and the assumption of the conversion of the Convertible Notes, if dilutive. Basic and diluted loss per share for the Company s common stock is calculated by dividing the net loss for the period during which such shares were outstanding by the weighted average number of shares outstanding. No losses are allocated to the Series A Preferred for the period during which the Company s common stock is outstanding since the holders of the Series A Preferred are not obligated to share in the Company s losses as described above.

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RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An interpretation of FASB Statement No. 109 (FIN 48) , which clarifies the accounting for uncertainty in tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

As of March 1, 2006, the Company adopted the Statement of Financial Accounting Standards (SFAS No. 123 (R), Share Based Payment . Prior to the adoption of SFAS No. 123 (R), the Company recognized and measured the share-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. The adoption of SFAS No. 123 (R) did not have a material impact on the results of operations for the thirteen or twenty-six week periods ended August 26, 2006. See Note 9, Stock Options and Warrants , for more information regarding the Company s adoption of SFAS No. 123 (R).

NOTE 3 PLAYTEX ASSET ACQUISITON AND RELATED BRIDGE LOAN

On November 16, 2005, Lander and Lander Intangibles acquired certain brands and brand-related assets from Playtex. The acquired brands included *Baby Magic*®, *Binaca*®, *Mr. Bubble*®*, Ogilvie*®, *Tek*®, *Dorothy Gray*®, and *Tussy*®. At the closing, Lander and Lander Intangibles paid a total cash purchase price of $59.1 million, including $2.1 million of costs related to acquisition. The $57.0 million purchase price paid to Playtex was subject to certain post closing adjustments dependent upon the amount of product inventory delivered to Lander at the closing. In December 2005, this adjustment was determined to result in a purchase price reduction of approximately $1.3 million (bringing the total to $57.8 million, including acquisition costs). In accordance with SFAS 142, the Company allocated the total purchase price to the assets acquired based on relative fair value. The allocation is as follows:

	($000 s)
Inventory	$9,600
Property, Plant and Equipment	900
Brand Names and Product Formulae	16,924
Customer Relationships	30,394
Total Purchase Price	$57,818

In order to finance the acquisition of the brands from Playtex ($57.8 million), fund financing fees ($2.8 million), repay certain existing indebtedness of the Company and its subsidiaries including the Seller Note and the Financing Arrangement referred to below under Long-Term Debt (approximately $13.8 million in total) and provide working capital for the operations of Lander (approximately $5.6 million), on November 15, 2005, Cenuco, Lander, HACI and Lander Intangibles (collectively, the Borrowers), entered into an $80.0 million Bridge Loan Term Agreement (the Bridge Loan) with Prencen, LLC (Prencen) and Highgate House Funds Ltd. (Highgate), as lenders, and Prencen, as

agent for the lenders.

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For the first 90 days following closing, the Bridge Loan bore interest at an annual rate of 5.5 percent above the three-month LIBOR (set 2 days in advance on November 14, 2005 at 4.34 percent). The interest rate margin over LIBOR increased by 5 percent per annum at the end of that 90-day period to 10.5 percent. Also at the end of the 90-day period the three-month LIBOR was reset on February 12, 2006 for the next 90 days (February 15, 2006 to May 15, 2006). The reset three-month LIBOR rate of 4.74 percent plus the increased interest rate margin of 10.5 percent generated an interest rate on the Bridge Loan of 15.24 percent for the period February 15, 2006 to May 15, 2006. Upon the occurrence and during the continuance of an event of default, the annual rate of interest will increase by 5.5 percent over the rate of interest otherwise in effect. Interest accrues monthly, in arrears.

The Bridge Loan was originally due and payable on May 15, 2006. The Bridge Loan term was extended to coincide with the August 2, 2006 closing of the Second and Restated Securities Purchase Agreement described in Note 6, with principal and accrued interest paid at closing. The Bridge Loan principal was repaid on August 2, 2006 with the long-term financing described in Note 6.

NOTE 4 INVENTORIES

Inventory consists of the following:

	($000 s)	
	AUGUST 26, 2006	FEBRUARY 28, 2006
Raw materials	$4,871	$ 3,708
Finished goods	10,116	12,561
	$14,987	$ 16,269

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

($000 s)	
AUGUST 26, 2006	FEBRUARY 28, 2006

Land	$660	$ 660
Computer equipment and software	958	1,093
Furniture and fixtures	250	253
Building	2,645	2,645
Machinery and equipment	4,220	3,953
Dies and molds	76	87
Leasehold improvements	142	138
Construction in progress	681	280
	9,632	9,109
Less accumulated depreciation and amortization	(3,090)	(2,607)
Total	$6,542	$ 6,502

Depreciation and amortization expense related to property, plant and equipment was $0.2 million and $0.4 million, respectively for the thirteen and twenty-six weeks ended August 26, 2006. Depreciation and amortization expense related to property, plant and equipment was $0.4 million and $0.6 million, respectively for the thirteen and twenty-six weeks ended August 27, 2005.

As of August 26, 2006 and February 28, 2006, machinery and equipment includes assets under capital leases totaling $153.6 thousand. Accumulated amortization on the capital leases was $47.3 thousand and $39.7 thousand as of August 26, 2006 and February 28, 2006, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense for the thirteen and twenty-six weeks ended August 26, 2006 and August 27, 2005.

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NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	($000 s)	
	AUGUST 26, 2006	**FEBRUARY 28, 2006**
Bridge loan	$	$ 80,000
Convertible secured notes (including accretion)	91,099	
Debt discount	(90,809)	
Compound derivative liability	75,221	
Revolving line of credit	8,080	
Capital leases	9	32
	83,600	80,032
Less current portion	9	32
Total	$83,591	$ 80,000

Prior Financing Arrangements

On October 1, 2005, Ascendia (the parent of HACI following the merger (see Note 1), entered into a commitment with Prencen and Highgate (both of which are also lenders under the Bridge Loan noted above and further described in Note 3) for the provision of long-term debt and equity financing (the Debt/Equity Financing) to repay the $80.0 million Bridge Loan. The terms of this commitment were amended on November 15, 2005, concurrently with the closing of the Bridge Loan. Prior to its maturity, the parties agreed to an extension of the Bridge Loan pending the completion of discussions on further modifications to the Debt/Equity Financing. The parties also agreed to defer the payment of certain interest under the Bridge Loan pending its maturity.

Convertible Secured Notes

On June 30, 2006, Ascendia (i) agreed with Prencen and Highgate to amend the Debt/Equity Financing commitment and (ii) in connection with such amendment, entered into a Second and Restated Securities Purchase Agreement (the Securities Purchase Agreement) with Prencen and Prencen Lending, LLC (Prencen Lending), which closed on August 2, 2006, as described below, the obligations to Highgate having been acquired by Prencen Lending. Under the Securities Purchase Agreement, the Company sold Prencen Lending convertible secured notes (the Notes) in the principal amount of $91.0 million (and Series A and B Warrants described below) in exchange for the settlement of

obligations under the Bridge Loan ($80.0 million) and $11.0 million in funding which was used to pay (a) accrued interest on the Bridge Loan ($4.1 million), (b) cash fees associated with the refinancing to an affiliate of Prencen Lending ($3.7 million) and (c) third party cash fees associated with the refinancing ($0.5 million), producing net cash proceeds to the Company of approximately $2.7 million. In addition, Ascendia paid related fees and expenses of approximately $5.6 million to Stanford Group Company (Stanford) and issued to Stanford warrants for the purchase of 137,615 shares of its common stock at an exercise price of $3.76 per share, and 552,632 warrants for the purchase of its common stock at an exercise price of $4.37 per share (collectively the Stanford warrants). The estimated fair value of the Stanford warrants ($0.7 million) has been recorded as an increase to additional paid-in capital and deferred financing costs.

The Notes have a term of 10 years (subject to the put and call rights described below) and bear interest at the rate of 9.0 % per annum. During the first six months of the term, Ascendia has the option to defer payment of interest. As a result, the Company elected to defer $0.6 million of interest as of August 26, 2006 on the Notes. In the event of Ascendia making an acquisition in the consumer products area that shall in form and substance be satisfactory to a majority of the holders of the Notes (an Approved Acquisition), it may elect to defer and add to principal on the Notes interest payments otherwise due over the balance of the term of the Notes. Upon the consummation of such an Approved Acquisition, Ascendia also has the right to redeem up to $40.0 million of the balance outstanding under the Notes at a premium of 15%. In addition, at any time after the fifth anniversary of the issuance of the Notes (August 2, 2011), Ascendia has the right to redeem, or any holder may require the Company to redeem, all or any portion of the balance outstanding under the Notes at a premium of 5% (the 5 Year Put Option).

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In connection with the amendment and restatement of the Debt/Equity Financing agreements and the sale of the Notes, Ascendia also issued certain warrants (the Series A Warrants) entitling the lender to purchase 3,053,358 shares of its common stock at an exercise price of $2.10. In addition, Ascendia committed to the issuance of certain warrants (the Series B Warrants) entitling the lender to purchase shares of its common stock under terms that are contingent upon the balance outstanding on the Notes at the earlier to occur of an Approved Acquisition or October 31, 2006. If the balance outstanding under the Notes on such date is greater or less than $61.0 million, Ascendia is required to issue to Prencen up to 3,000,000 Series B Warrants, at exercise prices ranging from $1.15 to $1.95. In the event the balance outstanding under the Notes is $61.0 million, no Series B Warrants are required to be issued.

Any portion of the balance due under the Notes is convertible at any time, at the option of the holders(s), into the common stock of Ascendia at a price of $1.75 per share (subject to certain ant-dilution adjustments for the subsequent issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect), provided that the holders may not convert any amounts due under the Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively own more than 9.99% of the aggregate number of shares of common stock of Ascendia outstanding following such conversion (the Conversion Option). The Notes describe various events of default which include, but are not limited to (a) the failure to make effective by January 30, 2007, and keep effective thereafter a registration statement to register the shares underlying the conversion of the Notes and the exercise of the Series A and B Warrants and other shares (the Registration Statement), (b) the suspension in trading of the Company s stock for a defined period, (c) the failure to timely issue shares in response to a conversion notice received from a Note holder, and (d) the failure to have available conversion of the Notes. In the event of a default, the holders of the Notes may require the Company to redeem the Notes at the greater of a 25% premium, or the value of the shares underlying the conversion of such Notes at the time of the event of default (determined by reference to a definition of a maximum share price). In the event of a Change in Control of the Company (as defined), the holders of the Notes will have the right (the Change in Control Put), for a period of 20 days subsequent to the receipt of notice of the Change in Control, to require the Company to redeem the Notes at the greater of a 20% premium, or the value of the shares underlying the conversion of such Notes at the time of the change in control (determined by reference to a definition of a maximum share price). The above described Conversion Option and specifically noted events of default (the Default Derivatives), along with the Change in Control Put (collectively the Compound Derivative) have been bifurcated as derivatives required to be accounted for separately under FASB Statement No. 133 *Accounting for Derivative Financial Instruments and Hedging Activities* and EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock* , and are considered in the determination of the estimated fair market value of the Compound Derivative liability noted below.

In the event the Registration Statement is not timely filed (by October 2, 2006, later extended to October 10, 2006 and subsequently extended to November 10, 2006), or make effective or maintained effective (as described above) the holders of the Notes are also entitled to a cash penalty in the amount of 2% of the face amount of the Notes for each 30-day period until such time as the default has been cured, subject to a maximum of 10%. In addition, in the event that the Company fails to timely issue shares in response to a conversion notice received from a Note holder or an exercise notice received from the holder of a Series A or B Warrant, the holders of such Notes or warrants will be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery is not provided.

The Notes rank as senior secured debt of Ascendia, provided however that the Notes are subordinated to the new revolving credit facility of up to $13.0 million secured by inventory and accounts receivable (described below). The Notes are also subordinated to indebtedness incurred in connection with an Approved Acquisition, in an amount up to $250.0 million.

Accounting for Issuance of Convertible Secured Notes

Consideration received from the issuance of the Notes ($87.3 million net of a $ 3.7 million origination fee paid to Prentice Capital Management, LP, an affiliate of Prencen Lending, was allocated to the Series A and B Warrants and the Notes based on the relative fair value of each. The resulting $7.7 million value attributed to the Series A and B Warrants has been reflected as a credit to paid-in capital with an offsetting debt issuance discount recorded on the Notes. The resulting allocation to the Notes ($79.6 million) was then further offset, as an additional debt issuance discount, by the estimated fair value of the liability for the Compound Derivative discussed above (amounting to $86.4 million as of August 2, 2006). The $6.8 million excess of the estimated fair value of the liability of $86.4 million over the allocation to the discount on the Notes of $79.6 million was recorded a s a loss on the issuance of the Notes. The debt issuance discount (totaling $91.0 million) and the cash and other deferred finance costs associated with the issuance of the Notes (totaling $6.2 million), are being amortized to interest expense under the interest method over the 5-year period to the date that the 5 Year Put Option becomes exercisable (August 2, 2011). The 5% premium associated with the 5 Year Put Option ($4.6 million) is being accreted over the same 5-year period, also under the interest method, as an increase to interest expense and recorded value of the Notes. Such amortization and accretion amounted to $0.3 million in the current period. Given the significant initial issuance discount recorded on the Notes this treatment will result in substantially lower amortization and accretion being charged to interest expense in the earlier of the 5 years than the latter.

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The liability recorded for the Compound Derivative will be adjusted to fair market value at each future reporting date with the difference in the fair value of such liability between such reporting dates being recorded as an increase or decrease in interest and other expense for that period. The value of the Compound Derivative liability was adjusted to $75.2 million as of August 26, 2006, resulting in a decrease to interest and other expense for the period between August 2 and August 26, 2006 of $11.2 million.

Revolver

On August 3, 2006, the Company closed on a revolving line of credit with a major financial institution for a $13.0 million three year facility. This facility was used to fund approximately $5.6 million of the above noted cash costs associated with the Long-Term Financing and approximately $0.1 million in expenses associated with this facility. In addition, another $0.9 million was drawn from the facility, which along with the $2.7 million in net proceeds from the issuance of the Notes was used to redeem certain shares of the Company s Series A Preferred Stock from MarNan LLC and Dana Holdings LLC (see Note 12). The remainder of availability under the facility is to be used in the future for working capital and general corporate purposes. The facility is secured with the Company s United States accounts receivable and inventory

The Revolver contains the following key provisions:

Line of credit A revolving line of credit providing for revolving advances up to the lesser of (a) $13.0 million or (b) the sum of (herein the Borrowing Base): (i) eighty-five percent of eligible domestic (US) accounts receivable, subject to dilution of 5%, plus (ii) eighty-five percent (85%) of the net orderly liquidation value as a percentage of cost of eligible US finished goods and raw materials inventory. The total inventory sublimit will not exceed $8.0 million. The Agreement requires excess availability of $2.0 million at closing and a permanent availability block against the Borrowing Base of $0.75 million.

Interest rate Interest will be computed and payable monthly on all outstanding revolving loans at a rate equivalent to the Chase Bank Rate per annum or, at the Company s option, Libor plus two and one quarter percent (2¼%).

Fees A loan facility fee of $100,000 earned at closing and payable: $25,000 upon signing of commitment letter, $25,000 payable at closing and $50,000 payable six (6) months from closing. A collateral management fee of $30,000 per year, earned at closing and on each Anniversary Date, payable monthly.

Termination fee A termination fee is charged of 1% of total facility if terminated prior to first Anniversary Date, three quarters percent (¾%) if terminated prior to second Anniversary Date, and one half percent (½%) if terminated anytime thereafter prior to an Anniversary Date.

NOTE 7 INCOME TAXES

In each period presented the effective income tax rate differs from the statutory rate of 34% primarily due to the inability to recognize tax benefits on current losses.

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NOTE 8 COMMITMENTS AND CONTINGENCIES

The Company has various noncancelable operating leases for manufacturing and office facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments for each period are as follows:

	($000 s)	
	CAPITAL LEASES	**OPERATING LEASES**
2007	$9	$ 726
2008		1,310
2009		1,122
2010		1,117
2011		896
2012		106
Total minimum lease payments	$9	$ 5,277
Less amounts representing interest		
Present value of future minimum lease payments	$9	

Also the Company had purchase obligations of $3.3 million as of August 26, 2006.

Cenuco, Inc. (Cenuco Wireless), the Company s wireless applications development subsidiary, is the defendant in a patent infringement case commenced on February 1, 2005 in Federal District Court for the Southern District of New York (*Joao v. Cenuco, Inc.*, 05 Civ. 1037 (CM) (MDF)). The plaintiff, Raymond Anthony Joao, asserts in his complaint that Cenuco Wireless is infringing certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130, which cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has timely answered the complaint denying infringement, and intends to defend this case vigorously on the merits. Management believes that the patents relied on by Joao are invalid and that the chances of Joao prevailing are remote. Nonetheless, there can be no assurance as to the outcome of the case, and a judicial determination that Cenuco Wireless is infringing Joao s patents, while unlikely, could have a material adverse effect on the ability of Cenuco Wireless to market and sell its current product line. Similarly, there is

no assurance that Cenuco Wireless would be able to develop, at a reasonable cost, within a reasonable length of time or at all, a workaround to eliminate any patent infringement found to exist.

On September 16, 2006, Lander Co., Inc. (Lander) received correspondence from counsel to TMV Corporation (TMV), styled as a Demand for Arbitration , asserting claims in an aggregate amount in excess of $26 million against Lander and Lander Co. Canada Limited (Lander Canada). TMV, the parent corporation of USA Labs, Inc. (USA Labs), asserts in its claim that Lander and Lander Canada breached a marketing agreement with U.S.A. Labs (to which TMV was a party for consent purposes only) by failing to account for in excess of $1 million or more owed under that agreement; TMV further asserts that alleged breaches by Lander and Lander Canada of the marketing agreement were responsible for the bankruptcy of USA Labs, and TMV seeks indemnification from Lander and Lander Canada for the loss of its investment in USA Labs, alleged to be $25 million. Management believes that the claims asserted by TMV lack merit, and that TMV lacks standing to bring actions arising out of the marketing agreement. Furthermore, although styled as a Demand for Arbitration , management believes that the correspondence from TMV s counsel does not constitute a valid demand for arbitration because TMV failed to serve or notify the American Arbitration Association, whose Commercial Arbitration Rules expressly govern the resolution of disputes arising under the marketing agreement. Should a demand for arbitration be properly served, management will contest the claims vigorously and believes that the chances of TMV prevailing are remote.

We are also involved, from time to time, in routine legal proceedings and claims incidental to our business. Should it appear probable in management s judgment that we will incur monetary damages or costs in relation to any such proceedings or claims, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges recorded against earnings. We believe that the resolution of such claims, taking into account reserves and insurance, will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations.

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NOTE 9 STOCK OPTIONS AND WARRANTS

SFAS No. 123 (R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period.

The Company adopted SFAS No. 123 (R) using the modified prospective transition method, which requires application of the accounting standard as of March 1, 2006 and for all periods thereafter. All previously granted options have either expired or become fully vested prior to February 28, 2006 and no new options have been granted since then. Accordingly, there was no non-cash compensation recorded under SFAS No. 123 (R) in the thirteen week period ended May 27, 2006 and no unrecorded fair value based compensation with respect to options as of that date. In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS No. 123 (R).

Prior to the adoption of SFAS No. 123(R), we accounted for share-based payment awards using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no share-based compensation expense had been recognized in our consolidated statements of operations for periods prior to March 1, 2006 because the exercise price of our stock options granted equaled the fair market value of the underlying stock at the date of grant. In our pro forma disclosures required under SFAS No. 123 for the periods prior to March 1, 2006, the Company estimated forfeitures and in subsequent periods the Company will adjust forfeitures for actual amounts.

For purposes of determining the estimated fair value of share-based payment awards issued in the form of stock options, under SFAS No. 123(R) the Company utilizes the Black-Scholes option-pricing model (Black-Scholes Model). The Black-Scholes Model requires the input of certain assumptions that involve judgment. Because stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing models may not provide a reliable single measure of the fair value of the Company s stock options. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value under the Black-Scholes Model. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and thereby materially impact our fair value determination.

The following information applies to options outstanding at August 26, 2006:

	Options Outstanding and Exercisable	
Range of Prices	**Weighted - Average Remaining Contractual Life (Years)**	**Shares**

$0.42	6.01	73,332
$0.55	0.33	40,000
$1.15	7.28	218,335
$1.55	6.37	35,001
$2.00	4.51	130,000
$3.71	7.91	40,000
$4.00	7.93	20,000
		556,668

At August 26, 2006, the aggregate intrinsic value of options outstanding and exercisable was $0.6 million. The weighted average remaining contractual term of options outstanding and exercisable at August 26, 2006 was 5.98 years. The aggregate intrinsic value represents the total pre-tax value, based on the Company s closing stock price as of August 26, 2006, which would have been received by the option holders had they exercised their in-the-money options as of that date. During the thirteen and twenty-six weeks ended August 26 2006, no outstanding options were exercised.

From the date of the Merger to August 26, 2006, 162,500 warrants have been exercised at an exercise price of $1 per share.

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Notes to Consolidated Financial Statements August 26, 2006 (Unaudited)

The following information applies to all warrants outstanding at August 26, 2006:

	Warrants Outstanding and Exercisable	
Range of Prices	**Weighted - Average Remaining Contractual Life (Years)**	**Shares**
$1.00	2.30	119,000
$2.10	4.94	3,053,358
$3.76	4.94	137,615
$4.00	2.83	105,784
$4.37	4.94	552,632
$4.50	2.74	1,387,760
$5.00 to $6.50	2.76	350,000
$6.00	3.73	500,000
		6,206,149

In addition, as further described in Note 6, 3 million warrants are committed to be issued depending upon the balance outstanding on the Convertible Secured Notes as of October 31, 2006.

NOTE 10 CAPITAL STRUCTURE AND NET INCOME (LOSS) PER COMMON SHARE

Capital Structure:

At August 26, 2006, the outstanding share capital of the Company is comprised of: (i) 13,913,056 shares of common stock (Common Stock), and (ii) 2,347.8 shares of Series A Junior Participating Preferred Stock (the Series A Preferred Stock).

The Series A Preferred Stock was issued in connection with the completion of the Merger as described in Note 1 to the consolidated financial statements. The holders of the Series A Preferred Stock are entitled to receive when, as and if declared by the Board of Directors, quarterly cumulative dividends commencing on March 31, 2006 in an amount per share equal to $0.001. No dividends have been declared as of August 26, 2006. In addition to the dividends payable to the holders of Series A Preferred Stock, the Company shall declare a dividend or distribution on the Series A Preferred Stock equal to any amount declared on the Common Stock. Holders of the Series A Preferred Stock (using the number of common shares into which each share of Series A Preferred Stock is convertible) and the holders of Common Stock vote together as one class on all matters submitted to a vote of stockholders of the Company, provided however that the holders of the Series A Preferred Stock are not entitled to any voting rights on any matter relating to the Merger. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A

Preferred Stock are entitled to liquidation preferences over all other classes of capital stock. The holders of Series A Preferred Stock shall receive an amount equal to $1,000 per share of the Series A Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions prior to any distribution to the holders of any other class of capital stock. If the assets available for distribution are sufficient to permit a full payment of the above amounts then, after such amounts have been fully distributed, holders of the Series A Preferred Stock shall share equally with holder of the Common Stock on a per share basis (using the number of common shares into which each share of Series A Preferred Stock is convertible). Each share of Series A Preferred Stock carries the voting rights on a basis such that the rights of the Series A Preferred Stock as a whole correspond to 65 percent of the aggregate rights of the Series A Preferred Stock and Common Stock outstanding as of the completion of the Merger. Upon the approval of the holders of the Common Stock and an increase in the Company s authorized share capital, each share of Series A Preferred Stock will automatically convert into shares of Common Stock on such a basis that, following conversion, the holders of the Series A Preferred Stock will hold the same proportional rights to general distributions and voting rights that they held immediately prior to such conversion. The Series A Preferred Stock is not redeemable.

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Net loss per share:

The following table shows how the net loss was allocated using the two-class method (see Note 2):

	(Amounts in $000 s, except for share and per share data)			
	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 26, 2006	August 27, 2005	August 26, 2006	August 27, 2005
Allocation of net loss				
Basic and Diluted:				
- Common Stock	(531)	(2,505)	(4,075)	(2,800)
- Series A Preferred				(1,834)
Net income (loss)	(531)	(2,505)	(4,075)	(4,634)

The following table illustrates the weighted average number of shares of Common Stock and Series A Preferred Stock outstanding during the period utilized in the calculation of loss per share.The diluted share base excludes incremental shares of 28,267,219 and 28,308,673 for the thirteen and twenty-six weeks ended August 26, 2006, respectively. These shares were excluded due to their anti-dilutive effect:

Weighted average number of Common Stock - basic and diluted	13,913,056	13,768,930	13,910,252	13,734,420
Weighted average number of Series A Preferred shares - basic and diluted	2,347.8	2,554	2,347.8	2,554
Basic and diluted net loss per common share	$(0.04)	$(0.18)	$(0.29)	$(0.20)
Basic and diluted net loss per share - Series A Preferred	$	$(718)	$	$(718)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

The results related to the Playtex asset acquisition are reported in HBC Division.

(Amounts in thousands, except for shares and per share amounts)

THIRTEEN WEEKS ENDED AUGUST 26, 2006

DIVISION	HBC	WAD	TOTAL
Net Sales	$24,377	$27	$24,404
Loss from operations	(1,043)	(309)	(1,352)
Net loss	$(232)	$(299)	$(531)
Total Assets	$87,305	$21,236	$108,541

GEOGRAPHIC	NET SALES	LONG-LIVED ASSETS
Thirteen weeks ended August 26, 2006:		
United States	$18,248	$ 71,410
Canada	3,640	614
Other foreign countries	2,516	
Total	$24,404	$ 72,024

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THIRTEEN WEEKS ENDED AUGUST 27, 2005

DIVISION	HBC	WAD	TOTAL
Net Sales	$16,827	$14	$16,841
Loss from operations	(1,471)	(818)	(2,289)
Net loss	$(1,710)	$(795)	$(2,505)
Total Assets	$25,314	$45,273	$70,587

GEOGRAPHIC	NET SALES	LONG-LIVED ASSETS
Thirteen weeks ended August 27, 2005:		
United States	$10,751	$ 43,749
Canada	4,049	588
Other foreign countries	2,041	
Total	$16,841	$ 44,337

TWENTY-SIX WEEKS ENDED AUGUST 26, 2006

(Amounts in thousands, except for shares and per share amounts)

DIVISION	HBC	WAD	TOTAL
Net Sales	$49,224	$102	$49,326
Loss from operations	124	(1,509)	(1,385)
Net income (loss)	$(2,577)	$(1,498)	$(4,075)

GEOGRAPHIC	NET SALES
Twenty-six weeks ended August 26, 2006:	
United States	$37,157
Canada	6,967
Other foreign countries	5,202
Total	$49,326

TWENTY-SIX WEEKS ENDED AUGUST 27, 2005

DIVISION	HBC	WAD	TOTAL
Net Sales	$34,175	$17	$34,192
Loss from operations	(3,059)	(882)	(3,941)
Net loss	$(3,776)	$(858)	$(4,634)

GEOGRAPHIC	NET SALES
Twenty-six weeks ended August 27, 2005:	
United States	$22,260
Canada	7,779
Other foreign countries	4,153
Total	$34,192

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NOTE 12 TRANSACTIONS WITH RELATED PARTIES

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services and (until June 2005) leased office facilities to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of approximately $21.3 thousand and $51.1 thousand respectively, for professional fees, facility usage and reimbursable expenses for the thirteen and twenty-six weeks ended August 26, 2006 and $125.8 thousand and $258.8 thousand respectively, for the thirteen and twenty-six weeks ended August 27, 2005. At August 26, 2006, and February 28, 2006, the Company owed THGLLP $6.9 thousand and $35.6 thousand, respectively for such amounts. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in MarNan, LLC (MarNan), a New Jersey limited liability company. MarNan owns approximately 39 percent of the Company s Series A Preferred Stock.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company. Edward J. Doyle, a member of the Board of Directors of the Company from May 20, 2005, is a Managing Member of ZVLLC. For the thirteen and twenty-six weeks ended August 26, 2006, ZVLLC did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005, ZVLLC invoiced the Company for $19.1 thousand. Effective May 20, 2005, the date of the Merger, ZVLLC ceased providing consulting services to the Company. No monies were due ZVLLC at August 26, 2006 and February 28, 2006.

Kenneth D. Taylor, a member of the Board of Directors of the Company since May 20, 2005, provided consulting services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006, Mr. Taylor did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005 he invoiced the Company for $5.0 thousand. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. No monies were due Mr. Taylor at August 26, 2006 and February 28, 2006.

The Hermes Group LLC (THGLLC), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 and August 27, 2005, THGLLC invoiced the Company and its subsidiaries for $120.0 thousand, $233.5 thousand, $118.7 thousand and $118.7 thousand, respectively, as compensation for the provision of business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to THGLLC of $40.0 thousand and $6.9 thousand, respectively.

M2 Advisory Group LLC (M2AG), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 M2AG invoiced the Company and its subsidiaries for $15.1 thousand and $20.8 thousand, respectively, as compensation for the provision of business advisory services. For the thirteen and twenty-six weeks ended August 27, 2005, M2AG did not provide any services. Mark I. Massad is a member of M2AG and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to M2AG of $7.5 thousand and $0.0 thousand, respectively.

Joseph A. Falsetti (who is a Director and the Chief Executive Officer of the Company) and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in Dana Holdings, LLC (Dana Holdings), a New Jersey limited liability company. Dana Holdings owns 39 percent of the Company s Series A

Preferred Stock.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Cenuco, Inc.

We have audited the accompanying consolidated balance sheet of Cenuco, Inc. and Subsidiaries (the Company) as of June 30, 2004 and the related consolidated statement of operations, stockholders equity and cash flows for the year ended June 30, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of June 30, 2003 were audited by other auditors whose report dated August 27, 2003 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cenuco, Inc. and Subsidiaries at June 30, 2004, and the consolidated results of their operations and their consolidated cash flows for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ SALBERG & COMPANY, P.A.

Boca Raton, Florida
September 15, 2004

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REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

Board of Directors

Cenuco, Inc.

(formerly Virtual Academics.com, Inc.)

We have audited the accompanying consolidated statement of operations, stockholders equity and cash flows of Cenuco, Inc. and Subsidiaries (the Company) for the year ended June 30, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and consolidated cash flows of Cenuco, Inc. and Subsidiaries for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Miami, Florida
August 27, 2003

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CENUCO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

June 30, 2004

ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$306,318
Short-term Investments	5,389,998
Tuition Receivable current (Net of Allowance for Doubtful Accounts of $101,989)	825,183
Accounts Receivable (Net of Allowance for Doubtful Accounts of $2,400)	26,936
Inventories	18,282
Other Current Assets	72,316
Total Current Assets	6,639,033
PROPERTY AND EQUIPMENT:	
Computer Equipment and Software	220,138
Furniture, Fixtures and Office Equipment	50,699
Leasehold Improvements	3,051
Total Property and Equipment	273,888
Less: Accumulated Depreciation	(145,836)
Total Property and Equipment, Net	128,052
OTHER ASSETS:	
Tuition Receivable - non-current (Net of Allowance for Doubtful Accounts of $302,760)	360,892
Deferred Recruiting Fees	50,912
Security Deposits	8,642
Total Other Assets	420,446
Total Assets	$7,187,531
LIABILITIES AND STOCKHOLDERS EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	$131,617
Unearned Revenues	859,581
Accrued Recruiting Fees	4,398
Other Accrued Expenses	126,759
Total Current Liabilities	1,122,355

NON-CURRENT LIABILITIES:	
Unearned Revenues, Net of Current Portion	1,450,968
Accrued Recruiting Fees, Net of Current Portion	3,376
Total Non-Current Liabilities	1,454,344
Total Liabilities	2,576,699
COMMITMENTS AND CONTINGENCIES (See Note C)	
STOCKHOLDERS EQUITY:	
Preferred Stock ($.001 Par Value; 1,000,000 Shares Authorized) No Shares Issued and Outstanding)	
Common Stock ($.001 Par Value; 25,000,000 Shares Authorized; 12,137,271 Shares Issued and Outstanding)	12,137
Common Stock Issuable (13,036 shares)	13
Additional Paid-in Capital	10,247,263
Accumulated Deficit	(5,233,400)
Deferred Consulting	(415,181)
Total Stockholders Equity	4,610,832
Total Liabilities and Stockholders Equity	$7,187,531

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended June 30,	
	2004	**2003**
NET REVENUES:		
Tuition and Tuition-related	$1,337,648	$1,181,718
Wireless Products and Services	176,701	395,761
NET REVENUES	1,514,349	1,577,479
COSTS AND EXPENSES:		
Cost of Equipment Sales - Wireless Products and Services	27,019	157,656
Instructional and Educational Support	114,551	99,956
Research and Development	30,163	64,742
Bad Debt Expense	162,956	177,357
Selling and Promotion	329,333	353,403
Impairment Loss	884,028	
General and Administrative	3,610,179	1,879,312
Total Operating Expenses	5,158,229	2,732,426
LOSS FROM OPERATIONS	(3,643,880)	(1,154,947)
OTHER INCOME:		
Interest Income	21,956	18,921
LOSS BEFORE INCOME TAXES	(3,621,924)	(1,136,026)
INCOME TAX EXPENSE:		
Deferred Income Tax		(153,156)
Total Income Tax Expense		(153,156)
NET LOSS	$(3,621,924)	$(1,289,182)
BASIC AND DILUTED:		
Net Loss Per Common Share - Basic and Diluted	$(0.36)	$(0.15)
Weighted Common Shares Outstanding - Basic and Diluted	10,047,698	8,767,481

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Years Ended June 30, 2004 and 2003

	Common Stock $.001 Par		Common Stock Issuable		Additional Paid-in Capital	Accumulated Deficit	Deferred Compensation	Total Stockholders Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2002	8,701,467	$ 8,701		$	$ 1,383,264	$ (322,294)	$	$ 1,069,671
Net Loss						(1,289,182)		(1,289,182)
Common Stock Issued for Services	279,594	280			236,563			236,843
Common stock options granted					52,000		(26,000)	26,000
Balance at June 30, 2003	8,981,061	8,981			1,671,827	(1,611,476)	(26,000)	43,332
Net Loss						(3,621,924)		(3,621,924)
Common Stock Issued for Services	1,266,464	1,266	3,036	3	1,687,230		(532,500)	1,155,999
Common stock Issued for Intangible Asset	200,000	200			949,800			950,000
Exercise of Stock Options and Warrants	76,666	77	10,000	10	69,213			69,300
Common stock options and warrants granted					381,762		(297,862)	83,900
Common Stock Issued for Debt.	13,080	13			8,987			9,000
Sale of common stock and warrants,	1,600,000	1,600			5,478,444			5,480,044

net of offering costs								
Amortization of deferred compensation							441,181	441,181
Balance at June 30, 2004	12,137,271	$ 12,137	13,036	$ 13	$ 10,247,263	$ (5,233,400)	$ (415,181)	$ 4,610,832

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIAIRES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2004	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(3,621,924)	$(1,289,182)
Adjustments to Reconcile Net Loss to Net Cash Flows Used in Operating Activities:		
Depreciation	113,162	38,027
Stock-Based Compensation	1,681,080	262,843
Deferred Income Taxes		153,156
Provision for Doubtful Accounts	(55,844)	14,993
Impairment Loss	884,028	
(Increase) Decrease in:		
Tuition Receivable	50,648	477,946
Accounts Receivable	(1,047)	124
Inventories	14,532	74,479
Deferred Recruiting Fees	26,505	49,123
Other Current Assets	(44,194)	10,432
Other Assets:		
Tuition Receivable - Non-current	225,065	448,248
Deferred Recruiting Fees - Non-current	4,556	(21,056)
Increase (Decrease) in:		
Accounts Payable	109,855	(9,968)
Unearned Revenues	(124,815)	(1,483,812)
Accrued Recruiting Fees	(16,146)	(74,948)
Other Accrued Expenses	45,064	19,402
Other Liabilities:		
Unearned Revenues - Non-current	(77,534)	869,608
Accrued Recruiting Fees - Non-current	(12,808)	1,037
Net Cash Flows Used in Operating Activities	(799,817)	(459,548)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in Short-term Investment	(4,688,384)	(701,614)
Acquisition of Property and Equipment	(49,913)	(73,601)
Net Cash Flows Used in Investing Activities	(4,738,297)	(775,215)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options and Warrants	69,300	
Net Proceeds from Sale of Common Stock	5,480,044	

Net Cash Flows Provided by Financing Activities	5,549,344	
Net Increase (Decrease) in Cash and Cash Equivalents	11,230	(1,234,763)
Cash and Cash Equivalents - Beginning of Year	295,088	1,529,851
Cash and Cash Equivalents - End of Year	$306,318	$295,088
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$	$
Income Taxes	$	$
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for Debt (See Note D)	$9,000	$
Common stock issued for Intangible Asset (See Note D)	$950,000	$

See accompanying notes to consolidated financial statements

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE A - ORGANIZATION

Currently, Cenuco, Inc., (a Delaware corporation) and Subsidiaries (the Company) is engaged in two different business segments:

Cenuco, Inc., a Florida corporation (Cenuco) and wholly-owned subsidiary of Cenuco, Inc. (a Delaware corporation), has pioneered the ability to transmit live streaming video onto cellular phones, cellular capable Personal Digital Assistants, 802.x devices, and remote computers. The patent pending core technology has been productized as a security remote video monitoring family of products for the retail/consumer, small to medium size enterprise, as well as for large enterprise, government, and homeland security market sectors. Cenuco s cellular remote video monitoring products are approved for sale to all Federal and military agencies, including the Department of Homeland Security. Cenuco was issued a five-year General Services Administration Contract number, GS-04F-0025N, in July 2003. Cenuco also develops wireless solutions and web services for the academic, real estate, and other markets. By offering remote monitoring services and technologies as a product and for licensing, Cenuco is positioned to grow within the application space worldwide.

Additionally, the Company, through its wholly-owned subsidiary, Barrington University, Inc. (Barrington), is engaged in the online distance learning industry with a focus on the international, mid-career adult and corporate training markets since 1993 through various predecessor entities. The Company offers programs in a variety of concentrations to students in over 90 countries worldwide. The Alabama Department of Education licenses the School. There are also arrangements with several international universities that confer dual degrees and certificates based on the School s approval of the curriculum.

The Company s administrative and sales office is located in Boca Raton, Florida and Mobile, Alabama.

The Company has exhibited negative trends in its net results of operations and cash flows since fiscal year 2002. These factors may suggest certain risks and uncertainties surrounding the Company s current operations and ability to continue as a going concern. However, such risks and uncertainties are mitigated due to such positive aspects of the Company s financial position at June 30, 2004 including cash and liquid investment balances of $5,696,316 and a positive working capital position of $5,536,025.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

Management Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reported period. Significant estimates in 2004 include the provision for doubtful accounts, unearned revenue, prepaid and accrued recruiting fees, valuation of stock-based compensation, and the valuation of the software intangible asset. Actual results could differ from those estimates.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less and money market accounts to be cash equivalents.

Short Term Investment

Short-term investment includes a certificate of deposit (CD) with a maturity of greater than three months. At June 30, 2004, the Company owns a CD with a balance of $5,389,998. The CD bears interest at 1.69% and matures on February 24, 2005.

Tuition Receivable

The Company, in the ordinary course of business finances the tuition, without interest, over a period of up to twenty-four months. Because a significant part of the tuition is deferred, the Company does not impute interest with respect to receivables that mature in more than one year. Tuition receivables are stated at the amount of unpaid principal, reduced by an allowance for receivable loan losses. A large portion of accounts receivable represents receivables for coursework students have not yet initiated and are offset by a related deferred revenue liability. Provisions for estimated losses on student receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of tuition receivables based upon historical trends, economic conditions and other information.

Accounts receivable

Accounts receivable are reported at net realizable value. The Company has established an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible.

Deferred Recruiting Fees

Students learn about the School via the Internet or are recruited through a worldwide network of recruiters. Recruiters are paid recruiting fees upon receipt of tuition payment by the student. Recruiting fees are accrued as a liability relating to the tuition due the Company, and deferred as an asset relating to the portion of revenue that has been deferred (unearned). The Company amortizes deferred recruiting fees using the same method as the Company recognizes the related tuition revenue and is based on the number of courses actually completed in each student s course of study.

Inventories

Inventories, consisting of security cameras and equipment, are stated at the lower of cost or market utilizing the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets, which are from five to seven years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense was $47,190 and $38,027 for the years ended June 30, 2004 and 2003, respectively.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Intangibles and other Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. Goodwill represents the excess of the cost of the Company s acquired subsidiaries or assets over the fair value of their net assets at the date of acquisition. Under Statement of Financial Accounting Standards (SFAS) No. 142, goodwill is no longer subject to amortization over its estimated useful life; rather, goodwill is subject to at least an annual assessment for impairment applying a fair-value based test. In June 2004, based on an impairment test, the Company decided to write-off a software intangible asset balance of $884,028 relating to the acquisition of assets under a purchase agreement, in April 2004, in the Company s wireless solutions segment. The decision to recognize an impairment loss was made in light of the Company s subsidiary inability to generate a profit after the acquisition, mounting intercompany balances, the length of time estimated for us to recover the initial investment, and the uncertainty of market conditions and business performance.

Fair Value of Financial Instruments

The carrying values of short term investments, short-term tuition and accounts receivables, and accounts payable approximate fair value due to the short term maturities of these instruments.

Stock-based Compensation

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS 148, Accounting for Stock-Based Compensation -Transition and Disclosure , which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

The exercise prices of all options granted by the Company equal the market price at the dates of grant. No compensation expense has been recognized. Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, Accounting for Stock Based Compensation , the Company s net loss and loss per share would have been changed to the pro forma amounts indicated below for the years ended June 30, 2004 and 2003:

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	Year ended June 30,	
	2004	**2003**
Net loss as reported	$(3,621,924)	$(1,289,182)
Add: total stock-based employee compensation expense determined under fair value based method, net of related tax effect	(154,832)	(99,320)
Pro forma net loss	$(3,776,756)	$(1,388,502)
Basic loss per share:		
As reported	$(.36)	$(.15)
Pro forma	$(.38)	$(.16)

The above pro forma disclosures may not be representative of the effects on reported net earnings for future years as options vest over several years and the Company may continue to grant options to employees.

Stock-based Compensation (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants:

	2004	**2003**
Dividend yield	0%	0%
Expected volatility range	74% to 81%	71% to 81%
Risk-free interest rate	4.50%	4.50%
Expected holding periods	5-10 years	5 years

Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission s Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues

streams of the Company:

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Company recognizes revenue as services are performed on a pro-rata basis over the contract term or products are delivered. The Company has executed a distribution agreement whereby the distributor may purchase wireless product on consignment. Any sales made to the distributor under this agreement will be recorded as a deferred revenue liability until such time as the distributor has sold the product at which time the Company will recognize the related revenues.

The Company recognizes tuition and registration revenues from its online distance learning segment based on the number of courses actually completed in each student s course of study. For example, if a student completes three out of his nine required courses, the Company will recognize 33% of the tuition regardless of the amount of time that the student has taken to fulfill these requirements.

Refunds are based on the date that the student cancels and the policy is as follows: If the student withdraws within 5 calendar days after midnight of the day the student signs the Enrollment Agreement (Full Refund Period) the student will receive a full refund with no further obligation. If the student cancels after the Full Refund Period but before the school receives the first completed lesson, the student will be charged a registration fee of $150 and the student will receive a full refund less the registration fee charge.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - Continued

If the student cancels after the school receives the first completed lesson, the student s tuition obligation will be their registration fee plus a portion of the remaining tuition as defined below.

Percentage of Course Completed	Amount of Tuition Obligated
10% of less	10% of tuition
Between 11% - 25%	25% of tuition
Between 26% - 50%	50% of tuition
Over 50%	Obligated for full tuition.

When a student withdraws, the Company writes off the remaining tuition receivable balance against the remaining unearned revenue balance and records any credit difference to revenues as surrendered tuition deposits less an estimated refundable tuition liability and any debit difference to bad debt expense.

Change in Accounting Principle

For the fiscal year ended June 30, 2004, the Company changed its policy for accounting for withdrawn students in its online distance learning segment. This change is treated as a change in accounting principle. For those students with net receivable balances upon withdrawal, the net debit balance will be charged to bad debt expense rather than to revenues. Management believes this method is preferable as it better reflects the entity s bad debt on withdrawn students. The pro forma net effect on the comparable 2003 consolidated financial statements would be a reclassification of $226,166 from revenues to bad debt expense. There is no net effect in any year presented in the accompanying consolidated financial statements on the Company s net results of operations, net loss per share, financial position or cash flows.

Income Taxes

Income taxes are accounted for under the asset and liability method of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under SFAS 109 deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates 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 expected to be realized.

Advertising

Advertising is expensed as incurred. Advertising expenses for the years ended June 30, 2004 and 2003 totaled $110,367 and $103,698, respectively.

Research and Development

Expenditures for software research and development are expensed as incurred. Such costs are required to be expensed until the point that technological feasibility of the software is established. Technological feasibility is determined after a working model has been completed. The Company s software research and development costs primarily relate to software development during the period prior to technological feasibility and are expensed as incurred. During fiscal 2004 and 2003, no software development costs were capitalized.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Earnings (Loss) Per Common Share

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the year. The computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be antidilutive. The reconciliation between the computations is as follows:

	Net Loss	Basic Shares	Basic EPS
2004	$(3,621,924)	10,047,698	$(.36)
2003	$(1,289,182)	8,767,481	$(.15)

Not included in basic shares are stock options of 1,361,000 and 926,000 because they are anti-dilutive in 2004 and 2003, respectively.

Recent Accounting Pronouncements

The Financial Accounting Standards Board has recently issued several new accounting pronouncements:

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the first interim period beginning after June 15, 2003, with certain exceptions. We adopted SFAS No. 150 in the first quarter of Fiscal 2004. The adoption of SFAS No. 150 did not have a significant impact on our consolidated financial position or results of operations.

Reclassifications

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 consolidated financial statement presentation. These reclassifications had no impact on previously reported net results of operations or stockholders equity (deficit).

NOTE C - COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company entered into an employment agreement with its executive officer for a 24-month period ending January 1, 2003, subject to automatic renewals of 12-month terms unless terminated by the Company or the employee with 30-days prior written notice. In addition to an annual salary of up to $250,000 for the President and Chief Executive Officer the agreements entitle the officers to receive options to purchase 100,000 shares of common stock of the Company each year of employment at fair market value. These options were issued under the Company s stock option plan (see Note D). These options vest 1/3 per year, beginning one year from the date of grant. The agreement also provide for the receipt of an annual bonus at the discretion of the Board of Directors. During fiscal 2004 and 2003, the Company s President received a discretionary bonus of each year of 100,000 shares of common stock, respectively. (See Note D).

Litigation

From time to time, the Company faces litigation in the ordinary course of business. Currently the Company is not involved with any litigation which will have a material adverse effect on its financial condition.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE C - COMMITMENTS AND CONTINGENCIES - Continued

Leases

The Company leases its Florida and Alabama offices under leases that expire through July 2005. The office lease agreements have certain escalation clauses and renewal options. Future minimum rental payments required under this operating lease is as follows:

Year Ended June 30, 2005	$90,501
Year Ended June 30, 2006	$7,016

Rent expense for the twelve-month periods ended June 30, 2004 and 2003 was $88,004 and $89,288, respectively.

NOTE D - STOCKHOLDERS EQUITY

Stock Options

On February 1, 2000, the Company adopted a stock option plan (the 2000 Performance Equity Plan). A majority of the shareholders of the Company approved the Plan. The plan provides options exercisable for a maximum of 3,000,000 shares of common stock to be granted. Both incentive and nonqualified stock options may be granted under the Plan.

The exercise price of options granted pursuant to this plan is determined by a committee but may not be less than 100% of the fair market value on the day of grant. For holders of 10% or more of the combined voting power of all classes of the Company s stock, options may not be granted at less than 110% of the fair value of the common stock at the date of grant and the option may not exceed 5 years. There were 26,666 and no options exercised during the fiscal years 2004 and 2003, respectively. There were 43,334 and 275,000 options forfeited during fiscal years 2004 and 2003, respectively. The exercise prices of all options granted by the Company equal the market price at the dates of grant. No compensation expense has been recognized.

A summary of the status of the Company s outstanding stock options as of June 30, 2004 and 2003 and changes during the year ending on that date is as follows:

	Shares	Weighted Average Exercise Price

Outstanding at June 30, 2002	891,000	$1.23
Granted	310,000	0.57
Exercised		
Forfeited	(275,000)	(2.30)
Outstanding at June 30, 2003	926,000	$0.70
Granted	505,000	1.50
Exercised	(36,666)	(0.53)
Forfeited	(33,334)	(2.19)
Outstanding at June 30, 2004	1,361,000	$0.96
Options exercisable at end of year	702,667	$0.89

	2004	2003
Weighted-average fair value of options granted during the year	$1.50	$0.57

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE D - STOCKHOLDERS EQUITY - Continued

Stock Options - continued

The following information applies to options outstanding at June 30, 2004:

2004		**Options Outstanding**		**Options Exercisable**	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
$2.50 to $2.65	55,000	5.66	$2.50	55,000	2.50
$2.00	210,000	7.88	$2.00	105,000	2.00
$1.15 to $1.55	345,000	8.98	$1.21	18,333	1.44
$0.35 to $0.55	751,000	6.75	$0.45	524,334	0.47

The exercise price of all options granted by the Company equals the market price at the date of grant. Accordingly, no compensation expense has been recognized on options granted to employees and directors.

On August 29, 2002, the Company granted options to purchase 240,000 shares of common stock to certain employees of the Company of which 20,000 were cancelled during fiscal 2003. The options are exercisable at $.42 per share, which was the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized.

On August 29, 2002, the Company granted options to purchase 20,000 shares of

common stock to non-employee directors. The options expire on August 29, 2012 and are exercisable at $.42 per share, which was the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized.

On January 7, 2003, the Company granted options to purchase 10,000 shares of common stock to an employee of the Company. The options are exercisable at $1.55 per share, which was the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized.

On January 7, 2003, the Company granted options to purchase 40,000 shares of common stock to consultants for serviced rendered and to be rendered through December 2003. The options expire on January 7, 2013 and are exercisable at $1.55 per share, which was the fair market value of the common stock at the grant date. These options

were valued using the Black-Scholes pricing method at a fair value of $1.30 per option. Accordingly, the Company recorded consulting expense of $26,000 and deferred compensation of $26,000 that was amortized over the service period.

On August 14, 2003, the Company granted options to purchase 50,000 shares of common stock to an employee of the Company. The options are exercisable at $1.15 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on August 14, 2013 or earlier due to employment termination.

On January 7, 2004, the Company granted options to purchase 240,000 shares of common stock to employees and to non-employee directors of the Company. The options are exercisable at $1.15 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on January 7, 2014 or earlier due to employment termination.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE D - STOCKHOLDERS EQUITY - Continued

Stock Options - continued

On January 7, 2004, the Company granted options to purchase 5,000 shares of common stock to a consultant for services rendered. The options are exercisable at $1.15 per share. The fair value of this warrant grant was estimated at $0.97 per option on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 81 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 10 years. In connection with these option, the Company recorded compensation expense of $4,850 for the year ended June 30, 2004. The options expire on January 7, 2014.

On January 16, 2004, the Company granted options to purchase 135,000 shares of common stock to employees and to non-employee directors of the Company. The options are exercisable at $2.00 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on January 16, 2016 or earlier due to employment termination.

On January 16, 2004, the Company granted options to purchase 75,000 shares of common stock to three consultants for serviced rendered. The options expire on January 16, 2009 and are exercisable at $2.00 per share, which exceeded the fair market value of the common stock at the grant date. These options were valued using the Black-Scholes pricing method at a fair value of $1.054 per option. Accordingly, the Company recorded consulting expense of $79,050 related to these options.

Common stock warrants

On December 10, 2003, the Company entered into a thirteen month agreement with two consultants beginning on December 18, 2003. The consultants received an aggregate of 850,000 warrants to purchase shares of the Company s common stock at an exercise price of $1.00 per share. The fair value of this warrant grant was estimated at $0.35 per warrant on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 64 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 5.00 years. In connection with these warrants, the Company recorded compensation expense of $148,931 for the year ended June 30, 2004 and deferred compensation of $148,931, which will be amortized over the service period. The warrants expire on December 18, 2008.

In December 10, 2003, in connection with a private placement, the Company granted 100,000 warrants to purchase 100,000 shares of common stock at $1.00 per share. The warrants expire on April 26, 2009.

In March and April 2004, in connection with a private placement, the Company granted 1,500,000 warrants to purchase 1,500,000 shares of common stock at $4.50 per share. The warrants expire on April 26, 2009.

In May 2004, in connection with a private placement, the Company granted 300,000 warrants to purchase 300,000 shares of common stock at $5.00 per share and 50,000 warrants to purchase 50,000 shares of common stock at $6.50

per share. The warrants expire on June 24, 2009.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE D - STOCKHOLDERS EQUITY - Continued

Common stock warrants - continued

A summary of the status of the Company s outstanding stock warrants granted for services as of June 30, 2004 and changes during the year is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2003		$
Granted	850,000	1.00
Exercised	(50,000)	(1.00)
Forfeited		
Outstanding at June 30, 2004	800,000	$ 1.00
Warrants exercisable at end of year	2,750,000	$ 3.40
Weighted-average fair value of warrants granted during the year	**2004**	
	$0.35	

The following information applies to all warrants outstanding at June 30, 2004:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Exercise Average Price**	**Shares**	**Weighted Average Exercise Price**
$1.00	900,000	4.45	$1.00	55,000	2.50
$4.50	1,500,000	4.88	$4.50	1,500,000	4.50
$5.00 to $6.50	350,000	4.99	$5.21	350,000	5.21

Common Stock

On December 3, 2002, the Company issued 13,290 shares of common stock to consultants for services rendered. Such shares were valued at their market value on the date of issuance at $1.39 per share. Accordingly, the Company recorded consulting expense of $18,474 related to the consulting services.

On April 11, 2003, the Company issued an aggregate of 200,000 shares of common stock to its President and to its Chairman of the Board as a discretionary bonus. Such shares were valued at their market value on the date of issuance at $.82 per share. Accordingly, the Company recorded non-cash compensation of $164,000 related to this bonus.

On April 11, 2003, the Company issued 66,304 shares of common stock to directors, and consultants for services rendered. Such shares were valued at their market value on the date of issuance at $.82 per share. Accordingly, the Company recorded non-cash compensation of $24,600 and consulting expense of $29,769 related to the services performed.

On September 18, 2003, the Company issued 15,000 shares of common stock to independent directors for services rendered. Such shares were valued at their market value on the date of issuance at $1.02 per share and recorded consulting expense of $15,300 related to the consulting services.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE D - STOCKHOLDERS EQUITY - Continued

On September 18, 2003, the Company issued 13,080 shares of common stock for accounts payable amounting to $9,000. Such shares were valued at their market value at the beginning of the quarter of the services performed. There was no gain or loss based on the $.69 per share fair value of the common stock.

On December 10, 2003, the Board of Directors approved an increase in the authorized common shares to 25,000,000.

On December 10, 2003, the Company issued 260,000 shares of common stock to officers of the Company and to independent directors for services rendered. Such shares were valued at their market value on the date of issuance at $.71 per share. The Company recorded compensation of $184,600 related to these services.

On December 10, 2003, in connection with consulting agreements, the Company issued 777,464 restricted shares of common stock for services rendered and to be rendered in the future. The Company valued these shares at their market value on the date of issuance of $.71 per share. In connection with these shares, through June 30, 2004, the Company recorded compensation expense of $285,749 and deferred compensation of $266,250, which will be amortized over the remaining service period.

On December 31, 2003, in connection with a private placement, the Company sold one unit for $100,000 comprised of 100,000 shares of common stock and warrants entitling the holder to purchase up to 100,000 shares of the Company s common stock, at an exercise price of $1.00. The warrants expire on December 31, 2008.

On March 2, 2004, in connection with a new employee, the Company is to issue 17,000 shares of common stock. The Company valued these shares at their market value on the date of issuance of $5.00 per share and recorded compensation expense of $85,000.

During the year ended June 30, 2004, the Company granted 3,036 shares of common stock for services rendered. The Company valued these shares at their market value on the first date at the beginning of the service period at $1.10 to $4.50 per share and recorded professional fees of $4,500. As of June 30, 2004, these shares had not been issued and are included in common stock issuable on the consolidated balance sheet.

During the year ended June 30, 2004, the Company issued 76,666, and has issuable at June 30, 2004, 10,000 shares of common stock upon the exercise of an option for proceeds of $69,300.

In March 2004, the Company consummated a capital raise through a private placement offered to accredited investors. The Company offered, through a placement agent, investment units each consisting of 5,000 shares of its common stock offered at $4.00 per share with a callable warrant to purchase 5,000 shares of its common stock at $4.50 per share. The private placement was originally to be for a maximum amount of $5,000,000, but was subsequently increased to a maximum of $6,000,000. In connection with this private placement, the Company sold 300 units under the private placement aggregating 1,500,000 shares of common stock and 1,500,000 warrants for net proceeds of $5,380,044.

On April 15, 2004, the Company entered an Asset Purchase Agreement with a third party and acquired certain intellectual property for 200,000 shares of common stock. The Company valued these shares at the market value on the date of the agreement of $4.75 per share and recorded an intangible asset of $950,000. Subsequent to the acquisition of the intellectual property, management determined that the asset was fully impaired. See Note B.

On May 13, 2004, the Company issued 197,000 shares of common stock to officers of the Company, independent directors, and to consultants for services rendered. Such shares were valued at their market value on the date of issuance at $4.30 per share. The Company recorded compensation expense of $847,100 related to these services.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE E - INCOME TAXES

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Temporary differences, which give rise to a net deferred tax asset is as follows:

	2004	2003
Deferred tax benefits - current Allowance for doubtful accounts	$154,717	$175,940
Deferred tax benefits - noncurrent Net operating loss carryforward	755,891	361,000
Total deferred tax assets	910,608	536,940
Less: Valuation allowance	(910,608)	(536,940)
	$	$

As of June 30, 2002, the Company did not record a valuation allowance on the deferred tax assets because the Company s ability to realize these benefits was more likely than not . The deferred tax asset was reported in the accompanying balance sheet at June 30, 2002. As a result of continuing losses in the wireless segment, the net deferred taxes was fully offset by a valuation allowance at June 30, 2003 since the Company cannot currently conclude that it is more likely than not that the benefits will be realized. The net operating loss carryforward for income tax purposes of approximately $1,990,000 at June 30, 2004, expires in 2024. Internal Revenue Code Section 382 places a limitation on the amount of taxable income that can be offset by carryforwards after a change in control (generally greater than a 50% change in ownership).

The table below summarizes the differences between the Company s effective tax rate and the statutory federal rate as follows for fiscal 2004 and 2003:

	2004	2003
Computed expected tax expense (benefit)	(34.0 %)	(34.0 %)
State income taxes.	(4.0 %)	(4.0 %)
Other permanent differences	0.0 %	8.0 %
Change in valuation allowance	38.0 %	43.5 %
Effective tax rate	0.00 %	13.5 %

The valuation allowance at June 30, 2004 was $910,608. The increase during fiscal 2004 was $373,668.

NOTE F - RELATED PARTY TRANSACTIONS

The Company s former Chairman of the Board and Secretary, is the majority shareholder of a consulting company that renders Internet consulting services to the Company. During the years ended June 30, 2004 and 2003, fees paid to the consulting company amounted to approximately $67,000 and $73,000, respectively, and are included as part of administrative expenses.

NOTE G - CONCENTRATION OF CREDIT RISK

The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. At June 30, 2004, the Company had $5,289,998 in a United States bank CD and $204,217 in United States bank deposits, which exceed federally insured limits. The Company has not experienced any losses in such accounts through June 30, 2004.

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Cenuco, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE H - SUBSEQUENT EVENTS

In July 2004, the Company issued 10,000 shares of common stock previously issuable.

In August 2004, the Company issued 100,000 shares of common stock upon the exercise of 100,000 warrants for proceeds of $100,000.

In July 2004, the Company granted options to purchase 40,000 shares of common stock to certain employees of the Company. The options are exercisable at $3.70 per share, which was the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized.

NOTE I - SEGMENT INFORMATION

In fiscal 2004 and 2003, the Company operates in two reportable business segments - (1) the development and sales of wireless solutions and web services and (2) the online distance learning industry. The wireless sector and company focus includes the development of business-to- business and business-to-consumer wireless applications, and state of the art web technology and design services. The online distant learning segment provides internet education to student internationally. The Company s reportable segments are strategic business units that offer different products, which compliment each other. They are managed separately based on the fundamental differences in their operations. Information with respect to these reportable business segments for the year ended June 30, 2004 and 2003 is as follows:

	For the Year Ended June 30,	
	2004	**2003**
Net Sales:		
Online distance learning	$1,337,648	$1,181,718
Wireless solutions	176,701	395,761
Total net sales	1,514,349	1,577,479
Costs and Operating Expenses:		
Online distance learning	2,440,347	1,148,746
Wireless solutions	2,604,720	1,545,653
Total Costs and Operating Expenses:	5,045,067	2,694,399
Depreciation:		

Online distance learning	27,878	30,163
Wireless solutions	19,312	7,864
Total Depreciation	47,190	38,027
Amortization:		
Online distance learning		
Wireless solutions	65,972	
Total Amortization	65,972	
Interest Income:		
Online distance learning	108	9,632
Wireless solutions	21,848	9,289
Total Interest Income	21,956	18,921
Net Loss:		
Online distance learning	(1,130,469)	(140,715)
Wireless solutions	(2,491,455)	(1,148,467)
Total Net Loss:	$(3,621,924)	$(1,289,182)
Total Assets:		
Online distance learning	$1,286,822	$1,675,150
Wireless solutions	5,900,709	1,030,265
	$7,187,531	$2,705,415

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CENUCO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

March 31, 2005

(Unaudited)

ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$54,409
Short-term Investments	6,088,290
Note Receivable, Current Portion	119,800
Accounts Receivable (Net of Allowance for Doubtful Accounts of $39,873)	109,081
Inventories	12,847
Other Current Assets	216,569
Total Current Assets	6,600,996
PROPERTY AND EQUIPMENT:	
Computer Equipment and Software	234,580
Furniture, Fixtures and Office Equipment	50,632
Leasehold Improvements	3,051
Total Property and Equipment	288,263
Less: Accumulated Depreciation	(175,011)
Total Property and Equipment, Net	113,252
OTHER ASSETS:	
Note Receivable, less current portion	580,200
Security Deposits	7,732
Total Other Assets	587,932
Total Assets	$7,302,180
LIABILITIES AND STOCKHOLDERS EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	$122,389
Other Accrued Expenses	182,086
Total Current Liabilities	304,475
LONG-TERM LIABILITIES:	
Deferred Gain from Sale of Business	200,000

Total Liabilities	504,475
COMMITMENTS AND CONTINGENCIES (See Note 5)	
STOCKHOLDERS EQUITY:	
Preferred Stock ($.001 Par Value; 1,000,000 Shares Authorized) No Shares Issued and Outstanding)	
Common Stock ($001 Par Value; 25,000,000 Shares Authorized; 13,652,056 Shares Issued and Outstanding)	13,653
Common Stock Issuable (261 shares)	
Additional Paid-in Capital	12,266,841
Accumulated Deficit	(5,482,789)
Total Stockholders Equity	6,797,705
Total Liabilities and Stockholders Equity	$7,302,180

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2005	**2004**	**2005**	**2004**
NET REVENUES	$153,889	$48,666	$397,720	$138,383
COST OF SALES	70,901	3,269	286,887	17,642
GROSS PROFIT	82,988	45,397	110,833	120,741
COSTS AND EXPENSES:				
Research and Development	59,589	4,808	98,452	25,379
Bad Debt Expense	27,330		47,673	
Selling and Promotion	62,408	46,361	204,183	103,118
General and Administrative	538,152	694,642	2,007,295	1,573,932
Total Operating Expenses	687,479	745,811	2,357,603	1,702,429
LOSS FROM OPERATIONS	(604,491)	(700,414)	(2,246,770)	(1,581,688)
OTHER INCOME:				
Settlement Income	20,351		20,351	
Interest Income	23,093	565	71,326	9,410
Total Other Income	43,444	565	91,677	9,410
LOSS BEFORE DISCONTINUED OPERATIONS	(561,047)	(699,849)	(2,155,093)	(1,572,278)
DISCONTINUED OPERATIONS:				
Gain from Sale of Discontinued Operations, net of income taxes			1,814,648	
Income (Loss) from Discontinued Operations	(16,072)	174,428	91,056	404,407
Total Income (Loss) from Discontinued Operations	(16,072)	174,428	1,905,704	404,407
NET LOSS	$(577,119)	$(525,421)	$(249,389)	$(1,167,871)
INCOME (LOSS) PER COMMON SHARE-BASIC AND DILUTED				
Loss from continuing operations	$(0.04)	$(0.07)	$(0.17)	$(0.16)
Income from discontinued operations	(0.00)	0.02	0.15	0.04

Net loss per common share	$(0.04)	$(0.05)	$(0.02)	$(0.12)
Weighted Common Shares Outstanding - Basic and Diluted	13,191,891	10,197,290	12,647,905	9,466,185

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIAIRES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from Continuing Operations	$(2,155,093)	$(1,572,278)
Adjustments to Reconcile Net Loss from Continuing Operations to Net Cash Used in Operating Activities:		
Depreciation	29,175	35,169
Stock-Based Compensation	545,821	640,858
Provision for Doubtful Accounts	47,673	
Settlement Income	(20,351)	
(Increase) Decrease in:		
Accounts Receivable	(129,818)	4,798
Inventories	5,435	16,910
Other Current Assets	(144,253)	23,008
Security Deposits	910	
Increase (Decrease) in:		
Accounts Payable	11,123	20,875
Other Accrued Expenses	55,327	(27,848)
Deferred Revenue	(3,667)	7,617
Net Cash Flows Used in Continuing Operating Activities	(1,757,718)	(850,891)
Income from Discontinued Operations	1,905,704	404,407
Adjustments to Reconcile Income from Discontinued Operations to Net Cash Used in Discontinued Operating Activities:		
Gain from Sale of Discontinued Operation	(1,814,648)	
Net Decrease in Net Liabilities of Discontinued Operations	236,979	103,169
Net Cash Provided by Discontinued Operating Activities	328,035	507,576
Net Cash Flows Used in Operating Activities	(1,429,683)	(343,315)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in Short-term Investment	(698,292)	(2,576,546)
Acquisition of Property and Equipment	(14,375)	(34,882)

Net Cash Flows Used in Investing Activities	(712,667)	(2,611,428)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Sale of Common Stock		2,778,439
Proceeds from Exercise of Stock Options and Warrants	1,890,441	2,800
Net Cash Flows Provided by Financing Activities	1,890,441	2,781,239
Net Decrease in Cash and Cash Equivalents	(251,909)	(173,504)
Cash and Cash Equivalents - Beginning of Year	306,318	295,088
Cash and Cash Equivalents - End of Period	$54,409	$121,584
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$	$
Income Taxes	$	$
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for debt	$	$9,000
Common stock issued for future services	$	$830,362

See accompanying notes to consolidated financial statements

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Currently, Cenuco, Inc., (a Delaware corporation) and Subsidiaries (the Company) primary focus is on wireless application development. Through its subsidiary, the Company is engaged in a wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. This is also known as remote video monitoring via cellular device. In this wireless segment, the Company provides cellular carriers, Internet Service Providers, resellers, and distributors a host of wireless video streaming products which can generate an increase in subscriber adoption of wireless data services, as well as broadband Internet services.

On September 30, 2004, the Company sold substantially all of the assets and business of its education subsidiary (See Note 3).

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying consolidated financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments and adjustments for the asset sale) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter company accounts and transactions have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2004 and notes thereto contained in the Company s report on Form 10-KSB as filed with the SEC. The results of operations for the nine months ended March 31, 2005 are not necessarily indicative of the results for the full fiscal year ending June 30, 2005.

Reclassifications

Certain reclassifications have been made to the prior period s consolidated statements of operations to conform to the current period s presentation.

Concentrations of Credit Risk

The Company maintains its cash balances at quality financial institutions which, at times, exceed federally insured limits. These balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At March 31, 2005, the Company had $5,913,291 in United States bank deposits, which exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash on deposit.

Inventories

Inventories, consisting of security cameras and equipment, are stated at the lower of cost or market utilizing the first-in, first-out method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission s Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Company recognizes revenue as services are performed on a pro-rata basis over the contract term or when products are delivered. The Company periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

Revenues are earned from licensing arrangements pursuant to the terms of those agreements.

Stock Options

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS 148, Accounting for Stock-Based Compensation -Transition and Disclosure , which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

The exercise prices of all options granted by the Company equal the market price at the dates of grant. No compensation expense has been recognized. Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, Accounting for Stock Based Compensation , the Company s net loss and loss per share would have been changed to the pro forma amounts indicated below for the nine months ended March 31, 2005 and 2004:

	For the Nine Months Ended March 31,	
	2005	**2004**
Net loss as reported	$ (249,389)	$ (1,167,871)
Less: total stock-based employee compensation expense determined under fair value based method, net of related tax effect	(134,052)	(46,791)
Pro forma net loss	$ (383,441)	$ (1,214,662)
Basic and diluted loss per share:		
As reported	$ (.02)	$ (.12)
Pro forma	$ (.03)	$ (.13)

The above pro forma disclosures may not be representative of the effects on reported net earnings for future years as options vest over several years and the Company may continue to grant options to employees.

Earnings (Loss) Per Common Share

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the period. For the three and nine months ended March 31, 2005 and 2004, the computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be antidilutive. Not included in basic shares are 2,935,712 stock options and warrants because they are anti-dilutive in 2005 and 2004, respectively.

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

Intangibles and other Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. Goodwill represents the excess of the cost of the Company s acquired subsidiaries or assets over the fair value of their net assets at the date of acquisition. Under Statement of Financial Accounting Standards (SFAS) No. 142, goodwill is subject to at least an annual assessment for impairment applying a fair-value based test. There were no impairment losses during the three and nine months ended March 31, 2005.

Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. The EITF reached a consensus about the criteria that should be used to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss and how that criteria should be applied to investments accounted for under SFAS No. 115, Accounting in Certain Investments in Debt and Equity Securities. EITF 03-01 also included accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Additionally, EITF 03-01 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the Financial Accounting Standards Board (FASB) delayed the accounting provisions of EITF 03-01; however the disclosure requirements remain effective for annual reports ending after June 15, 2004. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151 Inventory Costs . This Statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement will be effective for the Company beginning with its fiscal year ending 2006. The Company is currently evaluating the impact this new Standard will have on its operations, but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 153 Exchanges of Non monetary Assets - an amendment of APB Opinion No. 29 . This Statement amended APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of this Standard is not expected to have any material impact on the Company s financial position, results of operations or cash flows.

In December 2004, the FASB issued FASB Statement No. 123R, Share-Based Payment, an Amendment of FASB Statement No. 123 (FAS No. 123R). This FAS No. 123R requires companies to recognize in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees. The Statement also establishes fair value as the measurement objective for transactions in which an entity acquires goods or services from non-employees in share-based payment transactions. The Statement replaces SFAS 123 Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees . The provisions of this Statement will be effective for the Company beginning with its fiscal year ending 2005. The Company is currently evaluating the impact this new Standard will have on its financial position, results of operations or cash flows.

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE 3 - SALE OF SUBSIDIARY

Effective September 30, 2004, the Company entered into a Purchase and Sale Agreement (the Sale Agreement) and sold substantially all of the assets of its education subsidiary for $1,000,000, subject to a reduction of $200,000 if the buyer does not collect 95% of the receivables on the books as of September 30, 2004 prior to September 30, 2005. In connection with the Sale Agreement, the Company received $300,000 in cash. As of March 31, 2005, the Company reflected a receivable from the sale of business on the accompanying balance sheet. Additionally, the buyer executed a promissory note in favor of the Company in the amount of $700,000 payable as follows:

(a) Twenty (20) equal and consecutive quarterly payments of $29,122.87 each (amortized on the basis of $500,000), with payments beginning on March 1, 2005. Interest accrues at a rate of 6% per annum. During the first 6 months, interest will accrue but not be paid. The $15,000 of interest accrued is payable in 5 equal monthly installments beginning December 1, 2004. According to the Purchase and Sale Agreement, any existing trade payables can be deducted against quarterly payments owed to the Company. As of March 31, 2005, the Company had not received any payments.

(b) A final balloon payment of $200,000 due on January 1, 2010. If the purchase price is reduced due to buyer not collecting 95% of the receivables on the books as of September 30, 2004 prior to September 30, 2005, the final balloon payment will be eliminated.

As a result of the sale of the Company s subsidiary, for the nine months ended March 31, 2005, the Company recorded a gain of $1,814,648 and a deferred gain on the sale of $200,000 (representing the contingent balloon payment due). The results of operations of the Company s education subsidiary is reported separately as a discontinued operation, and prior periods have been restated in the Company s financial statements, related footnotes and the management s discussion and analysis to conform to this presentation.

The Company s income (loss) from discontinued operations for the nine months ended March 31, 2005 and 2004 are summarized as follows:

	For the Nine Months Ended, March 31,	
	2005	**2004**
Sales	$ 261,288	$ 779,072
Operating Expenses	170,232	374,665
Net income from discontinued operations before gain on sale	91,056	404,407
Gain on sale of assets of subsidiary	1,814,648	
Income from discontinued operations	$ 1,905,704	$ 404,407

The gain on sale from the sale of substantially all of the assets of the Company s education subsidiary is calculated as follows:

Sale price for subsidiary s assets	$1,000,000
Less: direct transaction expenses:	
Investment banking fee	(80,000)
Add: net deficit of subsidiary at date of sale	1,094,648
Less: deferred gain on sale of subsidiary	(200,000)
Gain on disposal of subsidiary, net of taxes	$1,814,648

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CENUCO, INC. AND SUBSIDIARIES

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MARCH 31, 2005

NOTE 4 - STOCKHOLDERS EQUITY

Common stock

In July 2004, the Company issued 10,000 common shares previously issuable. In October 2004, the Company issued 3,036 common shares previously issuable.

On July 23, 2004, the Company issued an aggregate of 34,000 shares of common stock (17,000 common shares each) to two employees of the Company for services rendered. Such shares were valued at their market value on the date of issuance at $3.71 per share. The Company recorded compensation of $126,140 related to these services.

During the quarter ended September 30, 2004, the Company issued 265 shares of common stock for accounting services rendered. The Company valued these shares at their market value on the first date at the beginning of the service period at $5.65 per share and recorded professional fees of $1,500.

During the quarter ended September 30, 2004, the Company issued 100,000 shares of common stock upon the exercise of 100,000 warrants for proceeds of $100,000 or $1.00 per share.

During the quarter ended September 30, 2004, the Company issued 10,000 shares of common stock upon the exercise of 10,000 options for proceeds of $5,500 or $.55 per share.

During the quarter ended December 31, 2004, the Company issued 300,000 shares of common stock upon the exercise of 300,000 warrants for proceeds of $300,000 or $1.00 per share.

During the quarter ended December 31, 2004, the Company issued 280,776 shares of common stock upon the exercise of 236,560 and 44,216 warrants at $4.50 and $4.00 per share, respectively, for proceeds of $1,241,384.

During the quarter ended December 31, 2004, the Company issued 368 shares of common stock for accounting services rendered. The Company valued these shares at their market value on the first date at the beginning of the service period at $4.08 per share and recorded professional fees of $1,500.

During the quarter ended March 31, 2005, the Company issued 261 shares of common stock for accounting services rendered. The Company valued these shares at their market value on the first date at the beginning of the service period at $5.75 per share and recorded professional fees of $1,500. At March 31, 2005, these shares had not been issued and are included in common stock issuable on the accompanying balance sheet.

On February 25, 2005, the Company issued 624,661 shares of common stock in a cashless exercise of 691,666 options that were previously granted to certain officers and directors of the Company.

During the quarter ended March 31, 2005, the Company issued 151,679 shares of common stock upon the exercise of 151,679 warrants and options for proceeds of $243,557.

Common stock options

On July 23, 2004, the Company granted options to purchase 60,000 shares of common stock to employees of the Company. The options are exercisable at $3.71 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on July 23, 2014 or earlier due to employment termination.

On July 28, 2004, the Company granted options to purchase 40,000 shares of common stock to employees of the Company. The options are exercisable at $4.00 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on July 28, 2014 or earlier due to employment termination.

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

A summary of the status of the Company s outstanding stock options as of March 31, 2005 and changes during the nine months ended March 31, 2005 is as follows:

NOTE 4 - STOCKHOLDERS EQUITY (Continued)

Common stock options (Continued)

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2004	1,361,000	$0.96
Granted	100,000	3.83
Exercised	(727,665)	(0.62)
Forfeited	(176,667)	(1.81)
Outstanding at March 31, 2005	556,668	$1.52
Options exercisable at end of period	201,666	$1.55
Weighted-average fair value of options granted during the period		$3.83

The following information applies to options outstanding at March 31, 2005:

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Shares	Weighted - Average Remaining Contractual Life(Years)	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
$0.42	73,332	7.25	$ 0.42		$ 0.42
$0.55	40,000	5.75	$ 0.55	40,000	$ 0.55
$1.15	218,335	8.85	$ 1.15	25,000	$ 1.15
$1.55	35,001	7.85	$ 1.55	23,333	$ 1.55
$2.00	130,000	8.85	$ 2.00	113,333	$ 2.00
$3.71	40,000	9.00	$ 3.71		$

$4.00	20,000	9.25	$ 4.00		$
	556,668			201,666	

Common stock warrants

A summary of the status of the Company s outstanding stock warrants granted for services as of March 31, 2005 and changes during the nine months ended March 31, 2005 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2004	3,050,000	$3.50
Granted		
Exercised	(721,456)	(2.53)
Forfeited		
Outstanding at March 31, 2005	2,328,544	$3.83
Warrants exercisable at end of year	2,328,544	$3.83

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CENUCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE 4 - STOCKHOLDERS EQUITY (Continued)

Common stock warrants (Continued)

The following information applies to all warrants outstanding at March 31, 2005:

		Warrants Outstanding		Warrants Exercisable	
Range of Exercise Prices	**Shares**	**Weighted - Average Remaining Contractual Life (Years)**	**Weighted - Average Exercise Price**	**Shares**	**Weighted - Average Exercise Price**
$1.00	500,000	3.65	$1.00	500,000	1.00
$4.00	105,784	4.25	$4.00	105,784	4.00
$4.50	1,372,760	4.13	$4.50	1,372,760	4.50
$5.00 to $6.50	350,000	4.25	$5.21	350,000	5.21
	2,328,544				

NOTE 5 - MERGER AGREEMENT

On March 17, 2005, the Company announced that it has entered into a Merger Agreement, dated as of March 16, 2005 (the Merger Agreement), with Hermes Holding Company, Inc., a Delaware corporation and wholly owned subsidiary of the Company (the Merger Sub), and Hermes Acquisition Company I LLC, a Delaware limited liability company (Seller). Pursuant to the Merger Agreement, Merger Sub will be merged with and into Seller (the Merger), as a result of which the separate existence of Merger Sub shall cease and Seller shall continue as the surviving company and a wholly-owned subsidiary of the Company.

Seller, through its subsidiaries, Lander Co., Inc. and Lander Co. Canada Limited (collectively, Lander), manufactures, markets and distributes value brand (LANDER) health and beauty care products. Lander also produces private label health and beauty care products for certain major retailers. Lander owns and operates a manufacturing and distribution facility in Binghamton, New York, and operates a manufacturing facility in Toronto, Canada. In addition, Lander utilizes distribution facilities in Charlotte, North Carolina and Buena Park, California.

Pursuant to the Merger Agreement, the Company will issue shares (the Merger Shares), representing 65% of the shares of the Company s common stock, $.001 par value per share, to be outstanding after the Merger, to the owners of Seller in exchange for their equity interests in Seller. The Merger Shares were offered to the owners of Seller pursuant

to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations there under. The transaction is intended to qualify as a tax-free reorganization for both companies and their respective stockholders and members.

The closing is conditioned on, among other things, (1) the Company stockholders approving the Merger Agreement and the issuance of the Merger Shares, (2) the Company stockholders approving an amendment to the Company s certificate of incorporation to change the name of the Company to Lander Co., Inc. or another name selected and to increase the Company s authorized common stock to 100 million shares, (3) the Company obtaining a fairness opinion that the Merger is fair to the Company s stockholders from a financial point of view and (4) the Company having cash and cash equivalents on hand at closing of approximately $6 million, subject to no liens. Because the number of Merger Shares will exceed 20% of the Company s current outstanding shares, the Company is required to seek stockholder approval of the issuance of such shares, in accordance with Section 712 of the Listing Standards, Policies and Requirements of the American Stock Exchange.

NOTE 6 - SUBSEQUENT EVENTS

During April 2005, the Company issued 98,500 shares of common stock upon the exercise of 98,500 warrants at $1.00 per share for proceeds of $98,500.

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CENUCO, INC. AND SUBSIDIARIES

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In May 2005, the Company signed a settlement agreement with Omnipoint, based on the breach of an Asset Purchase Agreement, dated on October 21, 2004. Omnipoint agreed to pay the Company $250,000 in 25 monthly payments. In connection with the settlement agreement, the Company received $10,000 in April 2005.

NOTE 7 - LEGAL MATTERS

In February 2005, the Company was made a party to a patent infringement suit by Raymond Anthony Joao, an individual who has reportedly developed a monitoring apparatus and method, a control, monitoring and / or security apparatus and method and a control apparatus and method for vehicles and / or for premises. He believes that we use a type of monitoring apparatus and / or method for which he has been granted a patent in the United States. The United States District Court Southern District of New York (USDC SD NY 05 Civ. 1037 (CM) (MDF)) is hearing allegations of infringement brought by Joao.

The Company filed an answer to Joao s complaint denying infringement and asserting certain other defenses. In April 2005, we filed a counter-claim in this litigation alleging that prior to February 2005 all involved parties in this lawsuit executed an agreement which specifically prohibits this suit. An executed copy of this agreement, signed by Joao and Cenuco, was submitted for the court s review as part of our counter-claim. Among other things, the outcome will likely depend not only upon the enforcement of the aforementioned agreement but may also be upon whether the aforementioned patents are determined to be valid and infringed. Management believes that we are not infringing, and that this lawsuit has no basis. However, we are presently unable to predict either the effect or degree of effect this litigation will have on our business and financial condition. There is no other pending material litigation to which we are a party or to which any of our property is subject.

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ANNEX A

March 9, 2005

PRIVATE & CONFIDENTIAL

The Board of Directors

Cenuco, Inc.

6421 Congress Avenue, Suite 201

Boca Raton, FL 33487

Gentlemen:

We understand that Cenuco, Inc. (the Company or ICU) intends to enter into a Merger Agreement, on or about March 10, 2005 (the Merger Agreement), with Hermes Holding Company, Inc., a Delaware corporation and wholly owned subsidiary of the Company (the Merger Sub), and Hermes Acquisition Company I LLC, a Delaware limited liability company (the Seller), the parent company of Lander Co., Inc. and Lander Co. Canada, LTD., a leading manufacturer and distributor of health and beauty care products (collectively Lander Corporation). Pursuant to the Merger Agreement, Merger Sub will be merged with and into the Seller (the Merger), as a result of which the separate existence of Merger Sub shall cease and the Seller shall continue as the surviving company and a wholly-owned subsidiary of the Company.

Pursuant to the Merger Agreement, the Company will issue 25,324,104 of the Company s common stock, par value $.001 per share (the Merger Shares) to the owners of Seller in exchange for their equity interests in Seller, subject to adjustment in the event additional shares of Company common stock are issued due to the exercise of outstanding options, warrants or other rights to purchase Company common stock or in the event the Company is deemed to have issued shares of Company common stock without consideration or for a consideration per share less than a specified price. The Merger Shares are to be offered to the owners of Seller pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations thereunder. Immediately following the Merger, the owners of Seller would own 65% of the outstanding shares of common stock of the Company and existing stockholders of the Company would own 35% of the outstanding shares. The transaction is structured as a tax-free reorganization for both companies and their respective stockholders and members.

The closing is conditioned on, among other things, the Company s stockholders approval of the Merger Agreement and of the issuance of the Merger Shares. Because the number of Merger Shares will exceed 20% of the Company s current outstanding shares, the Company is required to seek stockholder approval of the issuance of such shares, in accordance with Section 712 of the Listing Standards, Policies and Requirements of the American Stock Exchange.

You have requested our opinion as investment bankers as to the fairness, from a financial point of view, of the Merger consideration to be offered to the Sellers. We have not been requested to opine to, and our opinion does not in any manner address, the underlying business decision of the Company to proceed with or effect the Merger. In addition, we have not been requested to explore any alternatives to the Merger. Further, our opinion does not address the relative merits of the Merger as compared to any alternative business strategy that might exist for the Company.

vFinance Investments, Inc. (vFinance), as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, going private transactions,

negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for corporate and other purposes. We do not perform tax, accounting, legal services, or appraisal services, nor render such advice.

vFinance has been retained by the Company to render this opinion in connection with the Merger and will receive a fee and reimbursement of its expenses for such services. No portion of our fee is contingent upon consummation of the Merger nor is it contingent upon any recommendation of the Board of Directors. In addition, the Company has agreed to indemnify vFinance for certain liabilities arising out of its engagement, including the rendering of this opinion.

vFinance has not participated in, or provided advice with respect to, the pricing determination, structuring or negotiation of the Merger.

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In the ordinary course of business, vFinance may trade in the Company common stock for its own account and for the accounts of customers, and, accordingly, may at any time hold a long or short position in such securities.

In conducting our analyses and arriving at the opinion expressed herein, we took into account our assessment of general economic, market and financial conditions as well as our experience in connection with similar transactions and securities valuations generally, and, among other things: (i) reviewed documents related to the Merger, including a draft of the Merger Agreement, Plan of Merger, and the Form 8-K discussing it; (ii) reviewed publicly available financial information and other data with respect to ICU, including its Quarterly Report filed on Form 10-QSB for the quarter ended December 31, 2004, Annual Reports on Form 10-KSB for the fiscal year ended June 30, 2004, Proxy Statement Form DEFR14A filed on December 27, 2004, and certain other relevant financial and operating data made available to vFinance; (iii) reviewed Hermes corporate documents, audited financial statements for the year ended February 29, 2004 and Fiscal Year 2005 10 month interim statements; (iv) reviewed Hermes capitalization table; (v) reviewed Lander Corporation s financial & creditor agreements; (vi) reviewed Lander Corporation s employee lists and organizational charts; (vii) reviewed Lander Corporation s employee benefit, pension & profit sharing plans; (viii) reviewed Lander Corporation s corporate records; (ix) reviewed Lander Corporation Fiscal year end 2005 projections; (x) reviewed Lander Corporation s Summary 10 year projections; (xi) reviewed and analyzed Lander Corporation s projected unlevered free cash flows and prepared discounted cash flows; (xii) reviewed and analyzed certain financial characteristics of companies that were deemed to be comparable to Lander Corporation; (xiii) reviewed and analyzed certain financial characteristics of comparable transactions that involved the acquisition of companies that were deemed to have characteristics comparable to those of Lander Corporation; (vii) compared the financial terms of the transaction with the financial terms of certain other transactions we deemed to be relevant and comparable; (xiv) reviewed and discussed with representatives of the management of Lander Corporation certain financial and operating information furnished by them, including financial analyses and related assumptions with respect to the business, operations and prospects of the Company**;** (xv) considered the historical financial results and present financial condition of ICU; (xvi) reviewed certain publicly available information concerning the trading of, and the trading market for, the Common Stock of ICU; (xvii) inquired about and discussed the transaction and other matters related thereto with the Company s management, the Board of Directors of the Company, and the Company s legal counsel; (xviii) discussed with members of senior management of both the Company and Lander Corporation the strategic and financial benefits of the transaction; and (xix) performed such other analyses and examinations as were deemed appropriate.

In forming our opinion, we have had full access to and full cooperation from the Company s management to ask questions and receive answers. Our opinion is solely and necessarily based on economic, financial and market conditions as they exist and can be evaluated as of the date hereof.

In connection with our review and analyses and in arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the financial and other information provided to us or which is publicly available, and have not attempted to verify independently any such information.

We have relied solely on the information and estimates provided to us by both ICU s and Lander Corporation s management and have neither made nor obtained any independent appraisals of any properties, other assets or facilities of either ICU or Lander Corporation. With respect to certain financial information, including financial analyses and projections, relating to the business and prospects of Lander Corporation provided to us by its management, we have assumed that the financial information has been reasonably prepared on a basis reflecting best currently available estimates and good faith judgments of the management of Lander as to its future financial performance.

This opinion is for the use of the Board of Directors of ICU and is not to be publicly disclosed, used, excerpted, reproduced or disseminated, quoted or referred to at any time, in any manner or for any purpose, without the prior

written consent of vFinance, except that this opinion may be reproduced in full in, and references to this opinion and to vFinance and its relationship with the Company may be included in, filings made by the Company with the SEC and in any proxy statement or similar disclosure document delivered to stockholders of ICU. This opinion addresses only the fairness, from a financial point of view of the Merger consideration whereby the Company will issue 25,324,104 of the Company s common stock, par value $.001 per share (the Merger Shares) to the owners of Seller in exchange for their equity interests in Seller, subject to adjustment in the event additional shares of Company common stock are issued due to the exercise of outstanding options, warrants or other rights to purchase Company common stock or in the event the Company is deemed to have issued shares of Company common stock without consideration or for a consideration per share less than a specified price, and does not address any other aspect of the Merger. This opinion does not constitute a recommendation to any stockholder of ICU, nor does this opinion address the relative merits of the Merger or any other transactions or business strategies the Board of Directors of ICU has considered or may be considering, nor does it address the decision of the Board of Directors of ICU to recommend or proceed with the Merger.

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We express no opinion as to the prices at which shares of Company common stock will trade at any time following the announcement or consummation of the Merger. This opinion should not be viewed as providing any assurance that the market value of the shares of Company common stock to be held by the stockholders of the Company after the consummation of the Merger will be in excess of the market value of the shares of Company common stock owned by such stockholders at any time prior to the announcement or the consummation of the Merger.

We do not express any opinion as to the future performance of the Company or the price at which the Company common stock would trade at any time in the future.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, that the consideration to be paid in the Merger for Hermes Acquisition Company I LLC, a Delaware limited liability company (the Seller), the parent company of Lander Co., Inc. and Lander Co. Canada, LTD. a leading manufacturer and distributor of health and beauty care products is fair, from a financial point of view, to those holders of shares of ICU.

Very truly yours,

vFINANCE INVESTMENTS, INC.

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ANNEX B

Audit Committee Charter

This Charter governs the operations of the Audit Committee (the Committee) of Cenuco, Inc. (the Company). The Committee shall have the authority, responsibilities and specific powers described below.

Purposes

The Committee s purposes shall be to oversee the accounting and financial reporting processes of the Company, to oversee the audits of the Company s financial statements and to provide assistance to the Board of Directors in fulfilling its oversight responsibility to the stockholders, potential stockholders, the investment community and others relating to:

- the integrity of the Company s financial statements;
- the Company s systems of internal accounting and financial controls;
- the performance of the Company s internal audit function and the independent auditor;
- the independent auditor s qualifications and independence; and
- the Company s compliance with ethics policies and legal and regulatory requirements.

In so doing, it is the responsibility of the Committee to maintain free and open communication among the Committee, the independent auditor, the internal auditor and the management of the Company.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and with the authority to engage and determine funding for independent counsel and other advisors as it determines necessary to carry out its duties.

Committee Membership

The members of the Committee shall be members of, and appointed by, the Board of Directors of the Company and shall comprise at least three directors, each of whom satisfies the independence requirements of the American Stock Exchange (AMEX) or any stock exchange where the Company s securities are listed from time to time, applicable laws and the rules and regulations of the Securities and Exchange Commission (the SEC). All Committee members shall meet all financial knowledge and experience qualifications required under rules promulgated by AMEX and the SEC, and at least one member shall possess the requisite financial sophistication and expertise required to satisfy applicable SEC and AMEX regulations.

The Board of Directors shall select a Chairperson, who shall implement and execute the actions of the Committee, call the meetings of the Committee and otherwise perform the functions designated in this Charter to be performed by the Chairperson.

Meetings

The Committee shall meet at least quarterly, or more frequently, in open or executive sessions, as determined by the Chairperson. At its discretion, the Committee may ask management, representatives of internal audit, independent counsel, independent auditors and/or others to attend all or part of its meetings. The Committee shall report through its Chairperson to the Board of Directors following meetings of the Committee.

The Committee shall be governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, quorum and voting

requirements as are applicable to the Board of Directors.

Duties and Responsibilities

While the Committee has the specific responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation and integrity of the Company s financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditor is responsible for auditing the Company s financial statements and for reviewing the Company s unaudited interim financial statements.

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The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

7. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of, and shall determine funding for, any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Committee shall be responsible for the resolution of disagreements between management and the independent auditor regarding financial reporting, and the independent auditor shall report directly to the Committee.
8. The Committee shall have the authority to engage and determine funding for outside legal, accounting or other advisors to advise the Committee and shall, as appropriate, obtain advice and assistance from such advisors.
9. The Company shall provide for appropriate funding, as determined by the Committee, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services, (ii) compensation to any outside legal, accounting or other advisors employed by the Committee, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
10. The Committee shall pre-approve all audit and non-audit services provided by the independent auditor to the Company and shall not engage the independent auditor to perform the specific non-audit services proscribed by law or regulation. The Committee may establish pre-approval policies and procedures that permit the Company to engage the independent auditor for services after the Committee s initial engagement and approval, but only if the policies and procedures are detailed as to the particular services, the Committee is informed of each service, and such policies and procedures do not include delegation of the Committee s responsibilities to management. The Committee may delegate its pre-approval authority to a member of the Committee, and the decisions of such member shall be presented to the full Committee at its next scheduled meeting.
11. The Committee shall obtain and review a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Company, consistent with the Independence Standards Board Standard 1. The Committee shall actively discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor.
12. The Committee shall take, or recommend that the Board take, appropriate actions to oversee the independence of the independent auditor.
13. The Committee shall obtain from and review reports by the independent auditor describing (i) the independent auditor s internal quality control procedures, and (ii) any material issues raised by the most recent internal quality control review, or peer review, or by any governmental or professional inquiry or investigation within the preceding five years regarding any audit performed by the independent auditor and any steps taken to deal with such issues.
14. In advance of the commencement of the engagement of the independent auditor for the current year, the Committee shall review the proposed scope of the audit, the proposed staffing of the audit (including required rotation of personnel) and the fees proposed to be charged for such audit. Also, the Committee shall discuss with management, the internal auditor and the independent auditor the adequacy and effectiveness of the accounting and financial controls, including the Company s policies and procedures to assess, monitor and manage business risk, and legal and ethical compliance programs (including, for example, the Company s Code of Ethics).
15. The Committee shall meet with management, the internal auditor and the independent auditor to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditor and the independent auditor to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management s responses.

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16. The Committee shall receive regular reports from the independent auditor with respect to:
    - the critical accounting policies and practices of the Company;
    - alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
    - other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
17. The Committee shall review management s assessment of the effectiveness of the Company s internal controls as of the end of the most recent fiscal year and the independent auditor s report on management s assessment.
18. The Committee shall review reports from management on material weaknesses or deficiencies in the design or operation of internal controls and on any fraud that involves personnel having a significant role in the Company s internal controls.
19. The Committee shall review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts, rating agencies or the public.
20. The Committee shall review the interim financial statements and disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations with management and the independent auditor prior to the filing of the Company s Quarterly Report on Form 10-Q. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards.
21. The Committee shall review with management and the independent auditor the financial statements and disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations to be included in the Company s Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards.
22. The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
23. The Committee shall prepare its report to be included in the Company s annual proxy statement, as required by SEC regulations.
24. The Committee shall periodically evaluate the performance of the Committee, and, no less than annually, review and reassess this Charter and recommend changes to the Board as appropriate.
25. The Committee shall review and oversee all proposed transactions between the Company and related parties.
26. The Committee may, from time to time, establish Company hiring policies for employees or former employees of the independent auditor that meet applicable SEC regulations and AMEX listing standards.
27. When appropriate, the Committee may form and delegate authority to one or more subcommittees. Each such subcommittee shall consist of one or more members of the Committee.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate tone for quality financial reporting, sound business risk practices and ethical behavior.

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Public Availability of Charter

This Charter shall be posted on the Company s website and shall otherwise be made publicly available in accordance with applicable requirements.

Adopted by the Board of Directors on July 18, 2005.

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2006 STOCK INCENTIVE PLAN

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ASCENDIA BRANDS 2006 STOCK INCENTIVE PLAN

ARTICLE I

GENERAL

1.1 PURPOSE

The ASCENDIA BRANDS 2006 STOCK INCENTIVE Plan (the Plan) is designed to provide persons on whose initiative and efforts the successful conduct of the business of Ascendia Brands, Inc., its subsidiaries and joint ventures (collectively the Company) depends, and who are responsible for the management, growth and protection of the business of the Company, with incentives to: (a) enter into and remain in the service of the Company; (b) acquire a proprietary interest in the success of the Company; (c) maximize their individual performance; and (d) directly or indirectly enhance the long-term performance of the Company.

1.2 ADMINISTRATION

(a) Administration by Committee; Constitution of Committee. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the Board) or such other committee or subcommittee as the Board may designate or as shall be formed by the abstention or recusal of a non-Qualified Member (as defined below) of such committee (the Committee). The members of the Committee shall be appointed by, and serve at the pleasure of, the Board. While it is intended that at all times that the Committee acts in connection with the Plan, the Committee shall consist solely of Qualified Members, the number of whom shall not be less than two, the fact that the Committee is not so comprised will not invalidate any grant hereunder that otherwise satisfies the terms of the Plan. A Qualified Member is both a non-employee director within the meaning of Rule 16b-3 (Rule 16b-3) promulgated under the Securities Exchange Act of 1934 (the 1934 Act) and an outside director within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). If the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

(b) Committee s Authority. The Committee shall have the authority to (i) exercise all of the powers granted to it under the Plan, (ii) construe, interpret and implement the Plan and any award certificates issued under the Plan, (iii) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (iv) make all determinations necessary or advisable in administering the Plan, (v) correct any defect, supply any omission and reconcile any inconsistency in the Plan, and (vi) amend the Plan to reflect changes in applicable law.

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(c) Committee Action; Delegation. Except as otherwise required by applicable law, actions of the Committee shall be taken by the vote of a majority of its members. Any action may be taken by a written instrument signed by a majority of the Committee members, and action so taken shall be fully as effective as if it had been taken by a vote at a meeting. Notwithstanding the foregoing or any other provision of the Plan, the Committee (or the Board acting instead of the Committee), may delegate to one or more officers of the Company the authority to designate the individuals (other than such officer(s)), among those eligible to receive awards pursuant to the terms of the Plan, who will receive rights or options under the Plan and the size of each such grant, to the fullest extent permitted by Section 157 of the Delaware General Corporation Law (or any successor provision thereto), provided that the Committee shall itself grant awards to those individuals who could reasonably be considered to be subject to the insider trading provisions of section 16 of the 1934 Act or whose awards could reasonably be expected to be subject to the deduction limitations of section 162(m) of the Code.

(d) Determinations Final. The determination of the Committee on all matters relating to the Plan or any award under the Plan shall be final, binding and conclusive.

(e) Limit on Committee Members Liability. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any award thereunder.

1.3 PERSONS ELIGIBLE FOR AWARDS

The persons eligible to receive awards under the Plan are those officers, directors (whether or not they are employed by the Company), and executive, managerial, professional or administrative employees of, and consultants to, the Company (collectively, Key Persons) as the Committee in its sole discretion shall select.

1.4 TYPES OF AWARDS UNDER PLAN

Awards may be made under the Plan in the form of (a) incentive stock options, (b) non-qualified stock options, (c) stock appreciation rights, and (d) restricted stock, all as more fully set forth in Article II. The term award means any of the foregoing. No incentive stock option may be granted to a person who is not an employee of the Company on the date of grant. Any person receiving an award under the Plan is hereinafter referred to as a Grantee .

1.5 SHARES AVAILABLE FOR AWARDS; ADJUSTMENTS TO AWARDS

(a) Aggregate Number Available; Certificate Legends. Subject to adjustment as provided under subparagraph (d)(1) below, the total number of shares of common stock of the Company (Common Stock) with respect to which awards may be granted pursuant to the Plan shall not exceed ten million (10,000,000) in the aggregate. Shares issued pursuant to the Plan may be authorized but unissued Common Stock, authorized and issued Common Stock held in the Company s treasury or Common Stock acquired by the Company for the purposes of the Plan. The Committee may direct that any stock certificate evidencing shares issued pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as may apply to such shares.

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(b) Individual Limits. Except as provided in this paragraph (b), no provision of this Plan shall be deemed to limit the number or value of shares otherwise available for awards under the Plan with respect to which the Committee may make awards to any one eligible person. Subject to adjustment as provided in subparagraph (d)(i) below, the total number of shares of Common Stock which may be subject to one or more options or stock appreciation rights granted to any one employee of the Company or a subsidiary during any one calendar year shall not exceed one million (1,000,000) shares. Stock options and stock appreciation rights granted and subsequently canceled or deemed to be canceled in a calendar year shall count against this limit even after their cancellation.

(c) Certain Shares to Become Available Again. The following shares of Common Stock shall again become available for awards under the Plan: (i) any shares that are subject to an award under the Plan and that remain unissued upon the cancellation or termination of such award for any reason whatsoever, and (ii) any shares of restricted stock forfeited pursuant to the terms of the Plan or the award, provided that any dividends paid on such shares are also forfeited.

(d) Adjustments to Available Shares and Existing Awards Upon Changes in Common Stock or Certain Other Events. Upon certain changes in Common Stock or other corporate events, the number of shares of Common Stock available for issuance with respect to awards that may be granted under the Plan, and that are the subject of existing awards, shall be adjusted or shall be adjustable, as follows:

(i) Shares Available for Grants. In the event of any change in the number of shares of Common Stock outstanding by reason of any stock dividend or split, reverse stock split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum number of shares of Common Stock with respect to which the Committee may grant awards under paragraph (a) above, and the individual annual limit described in paragraph (b) above, shall be appropriately adjusted by the Committee. In the event of any change in the number of shares of Common Stock outstanding by reason of any other event or transaction, the Committee may, but need not, make such adjustments in the number and class of shares of Common Stock with respect to which awards: (A) may be granted under Article II hereof and (B) granted to any one employee of the Company or a subsidiary during any one calendar year, in each case as the Committee may deem appropriate.

(ii) Outstanding Restricted Stock. Unless the Committee in its absolute discretion otherwise determines, any securities or other property (including dividends paid in cash) received by any Grantee with respect to a share of restricted stock which has not yet vested, as a result of any dividend, stock split, reverse stock split, recapitalization, merger, consolidation, combination, exchange of shares or otherwise, will not vest until such share of restricted stock vests, and shall be promptly deposited with the Company or other custodian designated by the Committee.

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(iii) Outstanding Options and Stock Appreciation Rights   Increase or Decrease in Issued Shares Without Consideration. Subject to any required action by the stockholders of the Company, in the event of any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend (but only on the shares of Common Stock), or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company, the Committee shall proportionally adjust the number of shares of Common Stock subject to each outstanding option and stock appreciation right and the exercise price-per-share of Common Stock of each such option and stock appreciation right.

(iv) Outstanding Options and Stock Appreciation Rights   Certain Mergers. Subject to any required action by the stockholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Common Stock receive securities of another corporation), each option and stock appreciation right outstanding on the date of such merger or consolidation shall pertain to and apply to the securities which a holder of the number of shares of Common Stock subject to such option or stock appreciation right would have received in such merger or consolidation.

(v) Outstanding Options and Stock Appreciation Rights   Certain Other Transactions. In the event of (1) a dissolution or liquidation of the Company, (2) a sale of all or substantially all of the Company s assets, (3) a merger or consolidation involving the Company in which the Company is not the surviving corporation or (4) a merger or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Common Stock receive securities of another corporation and/or other property, including cash, the Committee shall, in its absolute discretion, have the power to:

(A) cancel, effective immediately prior to the occurrence of such event, each option and stock appreciation right outstanding immediately prior to such event (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Grantee to whom such option or stock appreciation right was granted an amount in cash, for each share of Common Stock subject to such option or stock appreciation right, respectively, equal to the excess of (x) the value, as determined by the Committee in its absolute discretion, of the property (including cash) received by the holder of a share of Common Stock as a result of such event over (y) the exercise price of such option or stock appreciation right; or

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(B) provide for the exchange of each option and stock appreciation right outstanding immediately prior to such event (whether or not then exercisable) for an option on or stock appreciation right with respect to, as appropriate, some or all of the property which a holder of the number of shares of Common Stock subject to such option or stock appreciation right would have received and, incident thereto, make an equitable adjustment as determined by the Committee in its absolute discretion in the exercise price of the option or stock appreciation right, or the number of shares or amount of property subject to the option or stock appreciation right or, if appropriate, provide for a cash payment to the Grantee to whom such option or stock appreciation right was granted in partial consideration for the exchange of the option or stock appreciation right.

(vi) Outstanding Options and Stock Appreciation Rights   Other Changes. In the event of any change in the capitalization of the Company or a corporate change other than those specifically referred to in subparagraphs (iii), (iv) or (v) above, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to options and stock appreciation rights outstanding on the date on which such change occurs and in the per-share exercise price of each such option and stock appreciation right as the Committee may consider appropriate to prevent dilution or enlargement of rights. In addition, if and to the extent the Committee determines it is appropriate, the Committee may elect to cancel each option and stock appreciation right outstanding immediately prior to such event (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Grantee to whom such option or stock appreciation right was granted an amount in cash, for each share of Common Stock subject to such option or stock appreciation right, respectively, equal to the excess of (x) the Fair Market Value of Common Stock on the date of such cancellation over (y) the exercise price of such option or stock appreciation right.

(vii) No Other Rights. Except as expressly provided in the Plan, no Grantee shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to an award or the exercise price of any option or stock appreciation right.

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1.6 DEFINITIONS OF CERTAIN TERMS

(a) The Fair Market Value of a share of Common Stock on any day shall be the closing price on the New York Stock Exchange, American Stock Exchange or NASDAQ (whichever is applicable) as reported for such day in The Wall Street Journal or, if no such price is reported for such day, the average of the high bid and low asked price of Common Stock as reported for such day. If no quotation is made for the applicable day, the Fair Market Value of a share of Common Stock on such day shall be determined in the manner set forth in the preceding sentence using quotations for the next preceding day for which there were quotations, provided that such quotations shall have been made within the ten (10) business days preceding the applicable day. Notwithstanding the foregoing, if deemed necessary or appropriate by the Committee, the Fair Market Value of a share of Common Stock on any day shall be determined by the Committee. In no event shall the Fair Market Value of any share of Common Stock be less than its par value.

(b) The term incentive stock option means an option that is intended to qualify for special federal income tax treatment pursuant to sections 421 and 422 of the Code as now constituted or subsequently amended, or pursuant to a successor provision of the Code, and which is so designated in the applicable award certificate. Any option that is not specifically designated as an incentive stock option shall under no circumstances be considered an incentive stock option. Any option that is not an incentive stock option is referred to herein as a non-qualified stock option.

(c) A Grantee shall be deemed to have a termination of employment upon (i) the date the Grantee ceases to be employed by, or to provide consulting services for, the Company or any corporation (or any of its subsidiaries) which assumes the Grantee s award in a transaction to which section 424(a) of the Code applies; or (ii) the date the Grantee ceases to be a Board member, provided, however, that in the case of a Grantee (x) who is, at the time of reference, both an employee or consultant and a Board member, or (y) who ceases to be engaged as an employee, consultant or Board member and immediately is engaged in another of such relationships with the Company, the Grantee shall be deemed to have a termination of employment upon the later of the dates determined pursuant to clauses (i) and (ii) above. For purposes of clause (i) above, a Grantee who continues his or her employment or consulting relationship with: (A) a Company subsidiary subsequent to its sale by the Company, or (B) a Company joint venture subsequent to the Company s sale of its interests in such joint venture, shall have a termination of employment upon the date of such sale. The Committee may in its discretion determine whether any leave of absence constitutes a termination of employment for purposes of the Plan and the impact, if any, of any such leave of absence on awards theretofore made under the Plan.

(d) In relation to the Company, the terms parent corporation and subsidiary corporation shall be defined in accordance with sections 424(e) and (f) of the Code, respectively.

(e) The term employment shall be deemed to mean an employee s employment with, or a consultant s provision of services to, the Company and each Board member s service as a Board member.

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(f) The term cause in connection with a termination of employment by reason of a dismissal for cause shall mean:

(i) to the extent that there is an employment, severance or other agreement governing the relationship between the Grantee and the Company, which agreement contains a definition of cause, cause shall consist of those acts or omissions that would constitute cause under such agreement; and otherwise,

(ii) the Grantee s termination of employment by the Company on account of any one or more of the following:

(A) the Grantee s willful and intentional repeated failure or refusal, continuing after notice that specifically identifies the breach(es) complained of, to perform substantially his or her material duties, responsibilities and obligations (other than a failure resulting from Grantee s incapacity due to physical or mental illness or other reasons beyond the control of Grantee), and which failure or refusal results in demonstrable direct and material injury to the Company;

(B) any willful and intentional act or failure to act involving fraud, misrepresentation, theft, embezzlement, dishonesty or moral turpitude (collectively, Fraud), that results in demonstrable direct and material injury to the Company; and

(C) conviction of (or a plea of *nolo contendere* to) an offense that is a felony in the jurisdiction involved or which is a misdemeanor in the jurisdiction involved but which involves Fraud.

For purposes of determining whether cause exists, no act, or failure to act, on a Grantee s part shall be deemed willful or intentional unless done, or omitted to be done, by such Grantee in bad faith, and without reasonable belief that his or her action or omission was in the best interests of the Company.

Any rights the Company may have hereunder in respect of the events giving rise to cause shall be in addition to the rights the Company may have under any other agreement with a Grantee or at law or in equity. Any determination of whether a Grantee s employment is (or is deemed to have been) terminated for cause for purposes of the Plan or any award hereunder shall be made by the Committee in its discretion. If, subsequent to a Grantee s voluntary termination of employment or involuntary termination of employment without cause, it is discovered that the Grantee s employment could have been terminated for cause, the Committee may deem such Grantee s employment to have been terminated for cause. A Grantee s termination of employment for cause shall be effective as of the date of the occurrence of the event giving rise to cause, regardless of when the determination of cause is made.

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ARTICLE II

AWARDS UNDER THE PLAN

2.1 CERTIFICATES EVIDENCING AWARDS

Each award granted under the Plan shall be evidenced by a written certificate (an award certificate), which shall contain such provisions as the Committee may in its sole discretion deem necessary or desirable. By accepting an award pursuant to the Plan, a Grantee thereby agrees that the award shall be subject to all of the terms and provisions of the Plan and the applicable award certificate.

2.2 TERMS OF STOCK OPTIONS AND STOCK APPRECIATION RIGHT AWARDS

(a) Stock Option Grants. The Committee may grant incentive stock options and non-qualified stock options (collectively, options) to purchase shares of Common Stock from the Company, to such Key Persons, and in such amounts and subject to such vesting and forfeiture provisions and other terms and conditions, as the Committee shall determine in its sole discretion, subject to the provisions of the Plan.

(b) Stock Appreciation Right Grants; Types of Stock Appreciation Rights. The Committee may grant stock appreciation rights to such Key Persons, and in such amounts and subject to such vesting and forfeiture provisions and other terms and conditions, as the Committee shall determine in its sole discretion, subject to the provisions of the Plan. The terms of a stock appreciation right may provide that it shall be automatically exercised for a cash payment upon the happening of a specified event that is outside the control of the Grantee and that it shall not be otherwise exercisable. Stock appreciation rights may be granted in connection with all or any part of, or independently of, any option granted under the Plan. A stock appreciation right granted in connection with a non-qualified stock option may be granted at or after the time of grant of such option. A stock appreciation right granted in connection with an incentive stock option may be granted only at the time of grant of such option.

(c) Nature of Stock Appreciation Rights. The Grantee of a stock appreciation right shall have the right, subject to the terms of the Plan and the applicable award certificate, to receive from the Company an amount equal to (i) the excess of the Fair Market Value of a share of Common Stock on the date of exercise of the stock appreciation right over the Fair Market Value of a share of Common Stock on the date of grant (or over the option exercise price if the stock appreciation right is granted in connection with an option), multiplied by (ii) the number of shares with respect to which the stock appreciation right is exercised. Payment upon exercise of a stock appreciation right shall be in cash or in shares of Common Stock (valued at their Fair Market Value on the date of exercise of the stock appreciation right) or both, all as the Committee shall determine in its sole discretion. Upon the exercise of a stock appreciation right granted in connection with an option, the number of shares subject to the option shall be reduced by the number of shares with respect to which the stock appreciation right is exercised. Upon the exercise of an option in connection with which a stock appreciation right has been granted, the number of shares subject to the stock appreciation right shall be reduced by the number of shares with respect to which the option is exercised.

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(d) Option Exercise Price. Each award certificate with respect to an option shall set forth the amount (the option exercise price) payable by the Grantee to the Company upon exercise of the option evidenced thereby. The option exercise price per share shall be determined by the Committee in its sole discretion; provided, however, that the option exercise price shall be at least one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date the option is granted, and provided further that in no event shall the option exercise price be less than the par value of a share of Common Stock. Under no circumstances shall stock options be back-dated.

(e) Exercise Period. Each award certificate with respect to an option or stock appreciation right shall set forth the periods during which the award evidenced thereby shall be exercisable, whether in whole or in part. Such periods shall be determined by the Committee in its sole discretion, subject to the following:

(i) Ten-Year Limit. No stock option (or a stock appreciation right granted in connection with an incentive stock option) shall be exercisable more than ten (10) years after the date of grant.

(ii) Beginning of Exercise Period. Unless the applicable award certificate otherwise provides, an option or stock appreciation right shall become exercisable with respect to a number of whole shares as close as possible to twenty five percent (25%) of the shares subject to such option or stock appreciation right on each of the first four anniversaries of the date of grant.

(iii) End of Exercise Period. Unless the applicable award certificate otherwise provides, once an installment becomes exercisable, it shall remain exercisable until the earlier of (A) the tenth anniversary of the date of grant of the award or (B) the expiration, cancellation or termination of the award.

(iv) Timing and Extent of Exercise. Unless the applicable award certificate otherwise provides, (A) an option or stock appreciation right may be exercised from time to time as to all or part of the shares as to which such award is then exercisable and (B) a stock appreciation right granted in connection with an option may be exercised at any time when, and to the same extent that, the related option may be exercised.

(v) Termination of Employment -- Generally. Except as otherwise provided below, a Grantee who incurs a termination of employment may exercise any outstanding option or stock appreciation right on the following terms and conditions: (A) exercise may be made only to the extent that the Grantee was entitled to exercise the award on the termination of employment date; and (B) exercise must occur within three months after termination of employment but in no event after the original expiration date of the award.

(vi) Dismissal for Cause. If a Grantee incurs a termination of employment as the result of a dismissal for cause, all options and stock appreciation rights not theretofore exercised shall terminate upon the commencement of business on the date of the Grantee s termination of employment.

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(vii) Disability. If a Grantee incurs a termination of employment by reason of a disability (as defined below), then any outstanding option or stock appreciation right shall be exercisable on the following terms and conditions: (A) exercise may be made only to the extent that the Grantee was entitled to exercise the award on the termination of employment date; and (B) exercise must occur by the earlier of (I) the first anniversary of the Grantee s termination of employment, or (II) the original expiration date of the award. For this purpose disability shall mean: (x) except in connection with an incentive stock option, any physical or mental condition that would qualify a Grantee for a disability benefit under the long-term disability plan maintained by the Company or, if there is no such plan, a physical or mental condition that prevents the Grantee from performing the essential functions of the Grantee s position (with or without reasonable accommodation) for a period of six consecutive months and (y) in connection with an incentive stock option, a disability described in section 422(c)(6) of the Code. The existence of a disability shall be determined by the Committee in its absolute discretion.

(viii) Death.

(A) Termination of Employment as a Result of Grantee s Death. If a Grantee incurs a termination of employment as the result of death, then any outstanding option or stock appreciation right shall be exercisable on the following terms and conditions: (I) exercise may be made only to the extent that the Grantee was entitled to exercise the award on the date of death; and (II) exercise must occur by the earlier of (1) the first anniversary of the Grantee s termination of employment, or (2) the original expiration date of the award.

(B) Death Subsequent to a Termination of Employment. If a Grantee dies subsequent to incurring a termination of employment but prior to the expiration of the exercise period with respect to a stock option or a stock appreciation right, then the award shall remain exercisable until the earlier to occur of (I) the first anniversary of the Grantee s date of death or (II) the original expiration date of the award.

(C) Restrictions on Exercise Following Death. Any such exercise of an award following a Grantee s death shall be made only by the Grantee s executor or administrator or other duly appointed representative reasonably acceptable to the Committee, unless the Grantee s will specifically disposes of such award, in which case such exercise shall be made only by the recipient of such specific disposition. If a Grantee s personal representative or the recipient of a specific disposition under the Grantee s will shall be entitled to exercise any award pursuant to the preceding sentence, such representative or recipient shall be bound by all the terms and conditions of the Plan and the applicable award certificate which would have applied to the Grantee.

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(ix) Special Rules for Incentive Stock Options. No option that remains exercisable for more than three months following a Grantee s termination of employment for any reason other than death (including death within three months after the termination of employment or within one year after a termination due to disability) or disability, or for more than one year following a Grantee s termination of employment as the result of disability, may be treated as an incentive stock option.

(x) Committee Discretion. The Committee, in the applicable award certificate, may waive or modify the application of one or more of the provisions of subparagraphs (v) through (viii) of this paragraph 2.2(e).

(f) Incentive Stock Options: $100,000 Limitation. To the extent that the aggregate Fair Market Value (determined as of the time the option is granted) of the stock with respect to which incentive stock options are first exercisable by any employee during any calendar year shall exceed one hundred thousand Dollars ($100,000), or such higher amount as may be permitted from time to time under section 422 of the Code, such options shall be treated as non-qualified stock options.

(g) Incentive Stock Options: 10% Owners. Notwithstanding the foregoing provisions of this Section 2.2, an incentive stock option may not be granted under the Plan to an individual who, at the time the option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of his or her employer or of its parent or subsidiary (as such ownership may be determined for purposes of section 422(b)(6) of the Code), unless: (i) at the time such incentive stock option is granted the option exercise price is at least one hundred ten percent (110%) of the Fair Market Value of the shares subject thereto and (ii) the incentive stock option by its terms is not exercisable after the expiration of five (5) years from the date it is granted.

2.3 EXERCISE OF OPTIONS AND STOCK APPRECIATION RIGHTS

Subject to the other provisions of this Article II, each option or stock appreciation right granted under the Plan shall be exercisable as follows:

(a) Notice of Exercise. An option or stock appreciation right shall be exercised by the filing of a written notice with the Company or the Company s designated transfer agent (the Transfer Agent), in such form and in such manner as the Committee shall in its sole discretion prescribe.

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(b) Payment of Exercise Price. Any written notice of exercise of an option shall be accompanied by payment for the shares being purchased. Such payment shall be made: (i) by certified or official bank check (or the equivalent thereof acceptable to the Company or its Transfer Agent) for the full option exercise price; or (ii) with the consent of the Committee, by delivery of shares of Common Stock owned by the Grantee (whether acquired by option exercise or otherwise, provided that if such shares were acquired pursuant to the exercise of a stock option, they were acquired at least six months prior to the option exercise date or such other period as the Committee may from time to time determine) having a Fair Market Value (determined as of the exercise date) equal to all or part of the option exercise price and a certified or official bank check (or the equivalent thereof acceptable to the Company or its Transfer Agent) for any remaining portion of the full option exercise price; or (iii) at the discretion of the Committee and to the extent permitted by law, by such other provision, consistent with the terms of the Plan, as the Committee may from time to time prescribe.

(c) Delivery of Certificates Upon Exercise. Promptly after receiving payment of the full option exercise price, or after receiving notice of the exercise of a stock appreciation right, the Company or its Transfer Agent shall deliver to the Grantee or to such other person as may then have the right to exercise the award, certificate or certificates for the shares of Common Stock for which the award has been exercised. If the method of payment employed upon option exercise so requires, and if applicable law permits, a Grantee may direct the Company, or its Transfer Agent, as the case may be, to deliver the stock certificate(s) to the Grantee s stockbroker.

(d) No Stockholder Rights. No Grantee of an option or stock appreciation right (or other person having the right to exercise such award) shall have any of the rights of a stockholder of the Company with respect to shares subject to such award until the issuance of a stock certificate to such person for such shares. Except as otherwise provided in Section 1.5(b), no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities or other property) for which the record date is prior to the date such stock certificate is issued.

2.4 COMPENSATION IN LIEU OF EXERCISE OF AN OPTION

Upon written application of the Grantee of an option, the Committee may in its sole discretion determine to substitute, for the exercise of such option, compensation to the Grantee not in excess of the difference between the option exercise price and the Fair Market Value of the shares covered by such written application on the date of such application. Such compensation shall be in shares of Common Stock, and the payment thereof may be subject to conditions, all as the Committee shall determine in its sole discretion. In the event compensation is substituted pursuant to this Section 2.4 for the exercise, in whole or in part, of an option, the number of shares subject to the option shall be reduced by the number of shares for which such compensation is substituted.

2.5 TRANSFERABILITY OF OPTIONS AND STOCK APPRECIATION RIGHTS

Except as otherwise provided in an applicable award certificate evidencing an option or stock appreciation right, during the lifetime of a Grantee, each option or stock appreciation right granted to a Grantee shall be exercisable only by the Grantee and no option or stock appreciation right shall be assignable or transferable otherwise than by will or by the laws of descent and distribution. The Committee may, in any applicable award certificate evidencing an option (other than an incentive stock option to the extent inconsistent with the requirements of section 422 of the Code applicable to incentive stock options), permit a Grantee to transfer all or some of the options to (A) the Grantee s spouse, children or grandchildren (immediate family members), (B) a trust or trusts for the exclusive benefit of such immediate family members, or (C) other parties approved by the Committee in its absolute discretion. Following any such transfer, any transferred options shall continue to be subject to the same terms and conditions as were applicable

immediately prior to the transfer. Notwithstanding the foregoing, a non-qualified stock option shall be transferable pursuant to a domestic relations order as defined in the Code or Title I of the Employment Retirement Income Security Act of 19974, as amended, or related applicable regualations.

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2.6 GRANT OF RESTRICTED STOCK

(a) Restricted Stock Grants. The Committee may grant restricted shares of Common Stock to such Key Persons, in such amounts, and subject to such vesting and forfeiture provisions and other terms and conditions as the Committee shall determine in its sole discretion, subject to the provisions of the Plan. Restricted stock awards may be made independently of or in connection with any other award under the Plan. A Grantee of a restricted stock award shall have no rights with respect to such award unless such Grantee accepts the award within such period as the Committee shall specify by accepting delivery of a award certificate in such form as the Committee shall determine and, in the event the restricted shares are newly issued by the Company, makes payment to the Company or its Transfer Agent by certified or official bank check (or the equivalent thereof acceptable to the Company) in an amount at least equal to the par value of the shares covered by the award.

(b) Issuance of Stock Certificate(s). Promptly after a Grantee accepts a restricted stock award, the Company or its Transfer Agent shall issue to the Grantee a stock certificate or stock certificates for the shares of Common Stock covered by the award or shall, at the Company s option, establish an account evidencing ownership of the stock in uncertificated form. Upon the issuance of such stock certificate(s), or establishment of such account, the Grantee shall have the rights of a stockholder with respect to the restricted stock, subject to: (i) the non-transferability restrictions and forfeiture provision described in paragraphs (d) and (e) of this Section 2.6; (ii) in the Committee s discretion, a requirement that any dividends paid on such shares shall be held in escrow until all restrictions on such shares have lapsed; and (iii) any other restrictions and conditions contained in the applicable award certificate.

(c) Custody of Stock Certificate(s). Unless the Committee shall otherwise determine, any stock certificates issued evidencing shares of restricted stock shall remain in the possession of the Company until such shares are free of any restrictions specified in the applicable award certificate. The Committee may direct that such stock certificate(s) bear a legend setting forth the applicable restrictions on transferability.

(d) Non-transferability. Shares of restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as otherwise specifically provided in this Plan or the applicable award certificate. The Committee at the time of grant shall specify the date or dates (which may depend upon or be related to a period of continued employment with the Company, the attainment of performance goals or other conditions or a combination of such conditions) on which the non-transferability of the restricted stock shall lapse.

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(e) Termination of Employment. Except as may otherwise be provided by the Committee at any time prior to a Grantee s termination of employment, all shares of restricted stock that have not then vested shall be immediately forfeited upon (i) a Grantee s retirement or voluntary termination of employment, or (ii) a Grantee s dismissal for cause (as defined in Section 1.6(f)). Upon such forfeiture, all dividends paid on such shares, to the extent such dividends have been set aside in an escrow account, also shall be forfeited. Except as may otherwise be provided by the Committee at any time prior to a Grantee s termination of employment, in the event a Grantee s employment is terminated (i) by the Company, other than for cause, (ii) by reason of disability, or (iii) by death, all shares of restricted stock that have not vested shall immediately vest as of the termination date.

2.7 RIGHT OF RECAPTURE

If at any time after the date on which a Grantee has been granted or become vested in an award pursuant to the achievement of performance goals, the Committee determines that the earlier determination as to the achievement of the performance goals was based on incorrect data and that in fact the performance goals had not been achieved or had been achieved to a lesser extent than originally determined, then (i) any award or portion of an award granted based on such incorrect determination shall be forfeited, (ii) any award or portion of an award that became vested based on such incorrect determination shall be deemed to be not vested, and (iii) any amounts paid to the Grantee based on such incorrect determination shall be paid by the Grantee to the Company upon notice from the Company.

ARTICLE III

MISCELLANEOUS

3.1 AMENDMENT OF THE PLAN; MODIFICATION OF AWARDS

(a) Amendment of the Plan. The Board may from time to time suspend, discontinue, revise or amend the Plan in any respect whatsoever, except that no such amendment shall materially impair any rights or materially increase any obligations under any award theretofore made under the Plan without the consent of the Grantee (or, upon the Grantee s death, the person having the right to exercise the award). For purposes of this Section 3.1, any action of the Board or the Committee that in any way alters or affects the tax treatment of any award or that in the sole discretion of the Board is necessary to prevent an award from being subject to tax under Section 409A of the Code shall not be considered to materially impair any rights of any Grantee. The Board shall determine, in its sole discretion, whether to submit any amendment of the Plan to shareholders for approval; in making such determination it is expected that the Board will take into account the requirements of any exchange on which the Common Stock of the Company is listed, the prerequisites for favorable tax treatment to the Company and Grantees of awards made under the Plan, and such other considerations as the Board deems relevant.

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(b) Modification of Awards. The Committee may cancel any award under the Plan. The Committee also may amend any outstanding award certificate, including, without limitation, by amendment which would: (i) accelerate the time or times at which the award becomes unrestricted or vested or may be exercised; (ii) waive or amend any goals, restrictions or conditions set forth in the award certificate; or (iii) waive or amend any applicable provision of the Plan or award certificate with respect to the termination of the award upon termination of employment, provided however, that no such amendment may lower the exercise price of an outstanding option or stock appreciation right. However, any such cancellation or amendment (other than an amendment pursuant to paragraph 1.5(d)) that materially impairs the rights or materially increases the obligations of a Grantee under an outstanding award shall be made only with the consent of the Grantee (or, upon the Grantee s death, the person having the right to exercise the award). Any modification of an award in a manner that would cause the award to be subject to tax under Section 409A of the Code shall be deemed null and void.

3.2 CONSENT REQUIREMENT

(a) No Plan Action without Required Consent. If the Committee shall at any time determine that any Consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the granting of any award under the Plan, the issuance or purchase of shares or exercise of other rights thereunder, or the taking of any other action thereunder (each such action being hereinafter referred to as a Plan Action), then such Plan Action shall not be taken or permitted, in whole or in part, unless and until such consent shall have been effected or obtained to the full satisfaction of the Committee.

(b) Consent Defined. The term consent as used herein with respect to any Plan action means (i) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, rule or regulation, (ii) any and all written agreements and representations by the Grantee with respect to the disposition of shares, or with respect to any other matter, which the Committee shall deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made and (iii) any and all consents, clearances and approvals in respect of a Plan Action by any governmental or other regulatory bodies.

3.3 NON-ASSIGNABILITY

Except as expressly provided herein or by the terms of an award certificate: (a) no award or right granted to any person under the Plan or under any award certificate shall be assignable or transferable other than by will or by the laws of descent and distribution; and (b) all rights granted under the Plan or any award certificate shall be exercisable during the life of the Grantee only by the Grantee or the Grantee s legal representative.

3.4 REQUIREMENT OF NOTIFICATION OF ELECTION UNDER SECTION 83(B) OF THE CODE

If any Grantee shall, in connection with the acquisition of shares of Common Stock under the Plan, make the election permitted under section 83(b) of the Code (*i.e.*, an election to include in gross income in the year of transfer the amounts specified in section 83(b) of the Code), such Grantee shall notify the Company of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Code section 83(b).

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3.5 REQUIREMENT OF NOTIFICATION UPON DISQUALIFYING DISPOSITION UNDER SECTION 421(B) OF THE CODE

Each Grantee of an incentive stock option shall notify the Company of any disposition of shares of Common Stock issued pursuant to the exercise of such option under the circumstances described in section 421(b) of the Code (relating to certain disqualifying dispositions), within 10 days of such disposition.

3.6 WITHHOLDING TAXES

(a) With Respect to Cash Payments. Whenever cash is to be paid pursuant to an award under the Plan, the Company shall be entitled to deduct therefrom an amount sufficient in its opinion to satisfy all federal, state and other governmental tax withholding requirements related to such payment.

(b) With Respect to Delivery of Common Stock. Whenever shares of Common Stock are to be delivered pursuant to an award under the Plan, the Company shall be entitled to require as a condition of delivery that the Grantee remit to the Company an amount sufficient in the opinion of the Company to satisfy all federal, state and other governmental tax withholding requirements related thereto. With the approval of the Committee, which approval shall be at the Committee s sole discretion, the Grantee may satisfy the foregoing condition by electing to have the Company withhold from delivery shares having a value equal to the amount of tax to be withheld. Such shares shall be valued at their Fair Market Value as of the date on which the amount of tax to be withheld is determined. Fractional share amounts shall be settled in cash. Such a withholding election may be made with respect to all or any portion of the shares to be delivered pursuant to an award.

3.7 LIMITATIONS IMPOSED BY SECTION 162(M)

Notwithstanding any other provision hereunder, if and to the extent that the Committee determines the Company s federal tax deduction in respect of an award may be limited as a result of section 162(m) of the Code, the Committee may take the following actions:

(i) With respect to options or stock appreciation rights, the Committee may delay the exercise or payment, as the case may be, in respect of such options or stock appreciation rights until 30 days following the earlier to occur of (A) the Grantee s termination of employment and (B) the Company s reasonable determination that the Company s federal tax deduction in respect of the award will not be limited by reason of section 162(m). In the event that a Grantee exercises an option or stock appreciation right at a time when the Grantee is a 162(m) covered employee, and the Committee determines to delay the exercise or payment, as the case may be, in respect of any such award, the Committee shall credit cash or, in the case of an amount payable in Common Stock, the Fair Market Value of the Common Stock, payable to the Grantee to a book account. The Grantee shall have no rights in respect of such book account and the amount credited thereto shall not be transferable by the Grantee other than by will or laws of descent and distribution. The Committee may credit additional amounts to such book account as it may determine in its sole discretion. Any book account created hereunder shall represent only an unfunded, unsecured promise by the Company to pay the amount credited thereto to the Grantee in the future.

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(ii) With respect to restricted stock, the Committee may require the Grantee to surrender to the Committee any award certificates with respect to such awards, in order to cancel the awards of such restricted stock. In exchange for such cancellation, the Committee shall credit to a book account a cash amount equal to the Fair Market Value of the shares of Common Stock subject to such awards. The amount credited to the book account shall be paid to the Grantee 30 days after the earlier to occur of (A) the Grantee s termination of employment and (B) the Company s reasonable determination that the Company s federal tax deduction in respect of the award will not be limited by reason of section 162(m). The Grantee shall have no rights in respect of such book account and the amount credited thereto shall not be transferable by the Grantee other than by will or laws of descent and distribution. The Committee may credit additional amounts to such book account as it may determine in its sole discretion. Any book account created hereunder shall represent only an unfunded, unsecured promise by the Company to pay the amount credited thereto to the Grantee in the future.

3.8 RIGHT OF DISCHARGE RESERVED

Nothing in the Plan or in any award certificate shall confer upon any Grantee the right to continue employment with the Company or affect any right that the Company may have to terminate such employment.

3.9 NATURE OF PAYMENTS

(a) Consideration for Services Performed. Any and all grants of awards and issuances of shares of Common Stock under the Plan shall be in consideration of services performed for the Company by the Grantee.

(b) Not Taken into Account for Benefits. All such grants and issuances shall constitute a special incentive payment to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for the purpose of determining any benefits under any pension, retirement, profit-sharing, bonus, life insurance or other benefit plan of the Company or under any agreement between the Company and the Grantee, unless such plan or agreement specifically otherwise provides.

3.10 NON-UNIFORM DETERMINATIONS

The Committee s determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or who are eligible to receive, awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, and to enter into non-uniform and selective award certificates, as to (a) the persons to receive awards under the Plan, (b) the terms and provisions of awards under the Plan, and (c) the treatment of leaves of absence pursuant to Section 1.6(c).

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3.11 OTHER PAYMENTS OR AWARDS

Nothing contained in the Plan shall be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

3.12 HEADINGS

Any section, subsection, paragraph or other subdivision headings contained herein are for the purpose of convenience only and are not intended to expand, limit or otherwise define the contents of such subdivisions.

3.13 EFFECTIVE DATE AND TERM OF PLAN

(a) Adoption; Stockholder Approval. The Plan was adopted by the Board on _______, 2006, subject to approval by the Company s stockholders. All awards under the Plan prior to such stockholder approval are subject in their entirety to such approval. If such approval is not obtained prior to the first anniversary of the date of adoption of the Plan, the Plan and all awards thereunder shall terminate on that date.

(b) Termination of Plan. Unless sooner terminated by the Board or pursuant to paragraph (a) above, the provisions of the Plan respecting the grant of any award pursuant to which shares of Common Stock will be granted shall terminate on the tenth anniversary of the adoption of the Plan by the Board, and no such awards shall thereafter be made under the Plan. All awards made under the Plan prior to the its termination of shall remain in effect until such awards have been satisfied or terminated in accordance with the terms and provisions of the Plan and the applicable award certificates.

3.14 RESTRICTION ON ISSUANCE OF STOCK PURSUANT TO AWARDS

The Company shall not permit any shares of Common Stock to be issued pursuant to awards granted under the Plan unless such shares of Common Stock are fully paid and non-assessable, within the meaning of Section 152 of the Delaware General Corporation Law, except as otherwise permitted by Section 153(c) of the Delaware General Corporation Law.

3.15 GOVERNING LAW

Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Delaware, without giving effect to principles of conflict of laws.

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PROXY

This proxy is solicited on behalf of the Board of Directors of

CENUCO, INC.

The undersigned, a stockholder Cenuco, Inc. (the Company), hereby appoints Joseph A. Falsetti and John D. Willie, and each of them individually, as the true and lawful attorneys, agents and proxies of the undersigned, with full power of substitution, to represent and to vote all shares of stock held of record by the undersigned at the Annual Meeting of Stockholders (the Annual Meeting), to be held at **the Company s headquarters, 100 American Metro Boulevard, Suite 108, Hamilton, New Jersey**, on XXXXXXX **X**, 200x at 10:00 a.m. (EST), and at any adjournment(s) or postponement(s) thereof. Any and all proxies heretofore given are hereby revoked.

When properly executed, this proxy will be voted as designated by the undersigned. **If no choice is specified, the proxy will be voted FOR Proposals One through Six.**

1. THE PROPOSAL TO ELECT THE FOLLOWING FIVE DIRECTORS TO THE BOARD OF DIRECTORS OF THE COMPANY. (Instruction: to withhold authority to vote for any individual nominee, strike a line through, or otherwise strike, that nominee s name listed below.)

FOR ALL NOMINEES LISTED BELOW EXCEPT AS MARKED TO THE CONTRARY	WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW

Joseph A. Falsetti	Robert Picow
Edward J. Doyle	Francis Ziegler
Kenneth D. Taylor	

2. THE PROPOSAL TO RATIFY THE SELECTION OF BDO SEIDMAN, LLP AS THE COMPANY S INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM

FOR AGAINST ABSTAIN

3. THE PROPOSAL TO APPROVE THE ISSUANCE OF UP TO 28,056,510 SHARES OF THE COMPANY S COMMON STOCK ISSUABLE UPON CONVERSION OF THE COMPANY S SERIES A JUNIOR PARTICIPATING PREFERRED STOCK OR OTHERWISE IN CONNECTION WITH THE MERGER WITH HERMES ACQUISITION COMPANY I LLC

FOR AGAINST ABSTAIN

4. THE PROPOSAL TO APPROVE OF THE ISSUANCE OF AN AGGREGATE OF 34,000 SHARES OF OUR COMMON STOCK TO ROBERT PICOW AND DOUG MCMILLEN

FOR AGAINST ABSTAIN

5. THE PROPOSAL TO ADOPT THE COMPANY S 2006 STOCK INCENTIVE PLAN

FOR AGAINST ABSTAIN

6. APPROVAL TO ACT ON OTHER MATTERS AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING AND ANY ADJOURNMENT(S) OR POSTPONEMENT(S) OF THE ANNUAL MEETING

FOR AGAINST ABSTAIN

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Please sign exactly as your name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, as executor, administrator, trustee or guardian, please give the full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

		DATED: ____________
______________________	______________________	
NUMBER OF SHARES OWNED	SIGNATURE	
	______________________	
	(TYPED OR PRINTED NAME)	
______________________	______________________	
CLASS OF SHARES	SIGNATURE IF HELD JOINTLY	
	______________________	
	(TYPED OR PRINTED NAME)	

This proxy may be revoked at any time before it is voted at the Annual Meeting. Please mark, sign, date and return this proxy promptly.