PENGE CORP
Form 10QSB
November 17, 2006

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

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________________ TO __________________

PENGE CORP.

(Exact name of registrant as specified in its charter)

DELAWARE	000-52180	71-0895709
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

1501 NORTH FAIRGROUNDS
MIDLAND, TEXAS 79705

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (423) 683-8800

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

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Act):
YES [_] NO [X]

As of September 30, 2006 the issuer had 24,561,740 shares of common stock outstanding.

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

PENGE CORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

PENGE CORP. AND SUBSIDIARIES

CONTENTS

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2006	June 30, 2006
CURRENT ASSETS:		
Cash	$ 49,912	$ 111,915
Accounts receivable, net of $8,385 and $6,193 of allowance for doubtful accounts for September 30, 2006 and June 30, 2006, respectively	38,537	89,062
Inventories, net	2,712,192	2,442,469
Prepaid expenses	1,498	4,769
Total Current Assets	2,802,139	2,648,215
PROPERTY, PLANT AND EQUIPMENT, net	4,468,240	4,710,650
LAND HELD FOR SALE	1,636,675	1,636,675
OTHER ASSETS:		
Deferred loan costs	32,219	229
Goodwill	150,000	150,000
Definite-life intangible assets, net	11,468	13,490
Total Other Assets	193,687	163,719

	$ 9,100,741	$ 9,159,259

[Continued]

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES & SHAREHOLDERS' EQUITY

(CONTINUED)

	September 30, 2006	June 30, 2006
CURRENT LIABILITIES:		
Current portion of notes payable	1,168,041	940,272
Current portion of related party notes payable	455,000	266,863
Current portion of convertible notes payable	1,656,602	918,125
Current portion of related party convertible notes payable	250,000	150,000
Current Portion of Lease Liability	67,439	63,700
Accounts payable	1,231,783	1,320,214
Related party accounts payable	207,900	217,590
Current derivative liabilities	62,076	56,203
Other accrued liabilities	381,082	284,040
Total Current Liabilities	5,479,923	4,217,007
LONG-TERM DEBT:		
Notes payable, less current portion	1,562,580	1,500,154
Related party notes payable, less current portion	730,627	771,760
Convertible notes payable, less current portion	868,873	1,578,156
Related party convertible notes payable, less current portion	450,000	550,000
Long-term capital lease obligations, less current portion	239,077	255,597
Deferred income	20,786	23,310
Total Long-term Debt	3,871,943	4,678,977
	9,351,866	8,895,984
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $.001 par value, 50,000,000 shares authorized, 24,561,444 and 24,515,730 shares issued and outstanding, respectively	24,562	24,516
Additional paid-in capital	3,669,547	3,637,593
Accumulated (deficit)	(3,945,234)	(3,398,834)
Total Stockholders Equity	(251,125)	263,275
	$ 9,100,741	$ 9,159,259

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005
NET REVENUES:		
Sales, net	$ 301,776	$ 202,783
COST OF GOODS SOLD	233,627	183,021
GROSS PROFIT	68,149	19,762
OPERATING EXPENSES:		
Salaries, Wages and Related Expenses	236,112	162,802
Advertising	10,013	1,555
Other General and Administrative	123,585	85,091
Total Operating Expenses	369,710	249,448
LOSS FROM OPERATIONS	(301,561)	(229,686)
OTHER INCOME (EXPENSE):		
Interest income	56	140
Interest expense related party	(49,568)	(10,313)
Interest expense	(164,251)	(121,728)
Other income (expense)	(31,076)	(6,072)
Total Other (Expense)	(244,839)	(137,973)
LOSS BEFORE INCOME TAXES	(546,400)	(367,659)
CURRENT TAX EXPENSE	--	--
CURRENT TAX (BENEFIT)	--	--
NET LOSS	$(546,400)	$(367,659)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.02)	$ (0.02)

3

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(546,400)	$(367,659)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization of deferred loan costs	19,082	20,433
Change in allowance for bad debts	2,974	800
Depreciation and amortization	49,400	105,892
Contingent derivative liabilities	5,871	2
Changes in assets and liabilities:		
Accounts receivable	47,551	113,005
Inventories	(217,506)	(346,419)
Prepaid expenses	3,271	(14,592)
Refundable deposits	--	560
Accounts payable	(88,431)	(6,555)
Accrued liabilities	97,042	5,603
Customer deposits		
Net Cash Used by Operating Activities	(627,146)	(488,929)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment	--	(483,133)
Proceeds for property and equipment	140,293	--
Net Cash Used by Investing Activities	140,293	(483,133)

[Continued]

4

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	342,500	200,000
Payments on notes payable	(13,958)	(437)
Proceeds from related party notes payable	100,000	112,982
Payments on related party notes payable	(13,624)	(2,669)
Proceeds from convertible notes payable	--	290,000
Payments on convertible notes payable	(9,287)	--
Payments on capital lease obligations	(12,781)	--
Proceeds from stock subscription receivables	--	143,277
Proceeds from issuance of common stock	32,000	1,500
Net Cash Provided by Financing Activities	424,850	744,653
INCREASE IN CASH AND EQUIVALENTS	(62,003)	(277,409)
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	111,915	338,291
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	$ 49,912	$ 110,882

	=========	=========
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 185,474	$ 120,138
Income Taxes	$ --	$ --

[Continued]

PENGE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

For the three months ended September 30, 2006

During the three months, the Company paid $6,000 towards and a related party assumed $50,000 of a $56,000 notes payable.

For the three months ended September 30, 2005

During the year, a related party paid $72,169 from the sale of personal property against a note payable of the Company.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - Penge Corp., ("Parent") was organized under the laws of the State of Nevada and was reincorporated in Delaware by a Merger on May 17, 1987.

Penge Corp. ("Penge") was organized under the laws of the State of Nevada on August 6, 2002.

Major Trees, Inc. ("MT Subsidiary") was organized under the laws of the State of Arizona on December 29, 1993.

S&S Plant Farms, Inc. ("S&S Subsidiary") was organized under the laws of the State of Texas on February 23, 1995.

Texas Landscape Center, Inc. ("TLC Subsidiary") was organized under the laws of the State of Texas on September 1, 2005. The subsidiary was organized by the Parent and as such, became a wholly owned subsidiary of the Parent. The financial statements include operations of Texas Landscape Center, Inc from September 1, 2005 through September 30, 2006.

Parent, Penge, MT Subsidiary, S&S Subsidiary, and TLC Subsidiary ("the Company") grow landscaping and garden plants, flowers, shrubs, trees and other agricultural products for sale to retail nurseries, landscape professionals, and the general public in Southwestern United States. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

CONSOLIDATION -The financial statements presented reflect the accounts of Parent, Penge, MT Subsidiary, S&S Subsidiary, and TLC Subsidiary; all significant inter-company transactions have been eliminated in consolidation.

AGRICULTURAL PRODUCTION - The Company accounts for their agricultural activities in accordance with Statement of Position 85-3, "Accounting by Agricultural Producers and Agricultural Cooperatives". All direct and indirect costs of growing crops are either accumulated as inventory or expensed as cost of goods sold. Permanent land development costs are capitalized and not depreciated. Limited-life land development costs and the development costs to bring long-life and intermediate-life plants into production are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets.

CASH AND CASH EQUIVALENTS - The Company considers all highly-liquid debt investments purchased with an original maturity of three months or less to be cash equivalents. The Company had $0 and $0 in excess of federally insured limits at September 30, 2006 and September 30, 2005, respectively.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE - Accounts receivable consist of trade receivables arising in the normal course of business. At September 30, 2006 and June 30, 2006, the Company has an allowance for doubtful accounts of $8,385 and $6,193, respectively, which reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company estimates allowances for doubtful accounts based on the aged receivable balances and historical losses. The Company records interest income on delinquent accounts receivable only when payment is received. The Company first applies payments received on delinquent accounts receivable to eliminate the outstanding principal. The Company charges off uncollectible accounts receivable when management estimates no possibility of collecting the related receivable. The Company considers accounts receivable to be past due or delinquent based on contractual terms.

INVENTORIES - Finished goods inventory is stated at the lower of cost or market using the retail method as the Company has a large quantity of inventory items that have similar costs and markups; the Company does not have any individually significant items. Because the Company's inventory has these characteristics, it is not beneficial to track inventory costs to each individual unit of inventory. Under the retail method, the Company counts and extends their inventory at estimated sales prices, based upon historical sales, which it then multiplies by its cost ratio to determine inventory at cost. The Company's cost ratio is determined by adding the total cost of the beginning inventory and all direct and indirect costs of growing crops divided by the total estimated sales price of ending inventory, based on historical sales, plus sales revenues. Raw material inventory is stated at the lower of market or cost using the first-in first-out (FIFO) method.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost or carryover basis. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company periodically reviews their property and equipment for impairment.

LAND HELD FOR SALE - Land held for sale is recorded at the lower of cost or net realizable value.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS - The Company accounts for their intangible assets in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 establishes three classifications for intangible assets including definite-life intangible assets, indefinite-life intangible assets and goodwill and requires different accounting treatment and disclosures for each classification. In accordance with SFAS No. 142, the Company periodically reviews their intangible assets for impairment.

PRODUCT WARRANTY - The Company does not warranty their agricultural products against damage that may occur prior to delivery to the customer. The Company does warrant trees and shrubs sold through the one retail site. At September 30, 2006 and June 30, 2006, the Company has established a reserve for future warranty expense of $1,410 and $0, respectively.

REVENUE RECOGNITION - The Company's revenue comes primarily from the sale of agricultural products. The Company recognizes revenue from retail sales at the time of retail purchase. The Company recognizes revenue from landscaping and wholesale customers when rights and risk of ownership have passed to the customer, there is persuasive evidence of a sales arrangement, product has been shipped, (delivered to or picked up by the customer), the price and terms are finalized and collection of the resulting receivable is reasonably assured.

ADVERTISING COSTS - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to $10,013 and $1,555 for September 30, 2006 and September 30, 2005, respectively.

LEASE COMMITTMENTS - The Company accounts for lease commitments in accordance with SFAS 98, wherein the underlying assets are capitalized and the capital lease obligation recorded if the lease commitments meet the requirement for capitalization. All other lease obligations are accounted for as operating leases wherein payments are expensed as the obligation arises [See Note 11].

STOCK-BASED COMPENSATION - The Company has stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees [See Note 12]. Prior to July 1, 2005, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for awards made under the Company's stock-based compensation plans. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the periods presented in the accompanying financial statements, the Company has granted options under its 2002 Stock Incentive Plan. The Company has adopted the provisions of SFAS No. 123R using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123R. Under this transition method, compensation expense recognized during the year ended June 30, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of July 1, 2005, and (b) compensation expense for all share-based awards granted on or after July 1, 2005. Accordingly, no compensation cost has been recognized for grants of options to employees and directors in the accompanying statements of operations with an associated recognized tax benefit of $0 of which $0 was capitalized as an asset for the period ended September 2006 and 2005 respectively. In accordance with the modified-prospective transition method, the Company's financial statements for the prior year have not been restated to reflect, and do not include, the impact of SFAS 123R. Had compensation cost for the Company's stock option plans and agreements been determined based on the fair value at the grant date for awards in 2005 consistent with the provisions of SFAS No. 123R, the Company's net loss and basic net loss per common share would have been increased to the pro forma amounts indicated below:

	September 30, 2005

Net loss, as reported	$	(367,659)
Add: Stock-based employee compensation expense included in reported net loss		--
Deduct: Total stock-based employee compensation expense determined under fair value based method		--
Net loss		(367,659)
Loss per common share, as reported	$	(0.02)
Loss per common share, pro forma	$	(0.02)

INCOME TAXES - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" [SEE NOTE 13].

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOSS PER SHARE - The Company calculates loss per share in accordance with the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share." Basic loss per common share is based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share when presented are based on shares outstanding as computed under basic EPS and potentially dilutive common shares. Potential common shares included in the diluted earnings per share calculation include in-the-money stock options that have been granted but have not been exercised and convertible notes payable. [SEE NOTE 14]

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimated.

FAIR VALUE OF FINANCIAL INSTRUMENTS -The fair value of the Company's accounts receivable, accounts payable, accrued liabilities, and notes payable approximate their carrying values based on their effective interest rates compared to current market prices for similar assets and liabilities.

RECLASSIFICATION - The financial statements for the period ended prior to September 30, 2006 have been reclassified to conform to the headings and classifications used in the September 30, 2006 financial statements.

RECENTLY ENACTED ACCOUNTING STANDARDS - In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS 154"), "Accounting Changes and Error Corrections" which replaces APB Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements--An Amendment of APB Opinion No. 28". SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2006. The impact that the adoption of SFAS 154 will have on Penge Corp results of operations and financial position will depend on the nature of future accounting changes adopted by Penge Corp and the nature of transitional guidance provided in future accounting pronouncements.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has current liabilities in excess of current assets, incurred significant, recurring losses and has not generated positive cash flow from operating activities. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through additional sales of their common stock or through possible business combinations. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 3 INVENTORIES

Inventories consist of the following at:

	September 30, 2006	June 30, 2006
Raw Materials	$ 78,070	$ 97,904
Finished Goods	2,660,532	2,369,565
Allowance for obsolete / slow moving inventory	(25,000)	(25,000)
Warrant Reserve	(1,410)	--
	$ 2,712,192	$ 2,442,269

Most of the Company's inventories are collateral on various notes payable [See Notes 7, 8, 9 and 10].

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Property and equipment consist of the following at:

	Estimated Useful Lives of Assets (Years)	September 30, 2006	June 3 200
Office furniture and equipment	1 - 10	$ 80,886	$ 78
Retail furniture and equipment	1 - 10	620,645	613
Farm equipment	2 - 15	2,370,869	2,540
Buildings	20 - 30	1,397,138	1,394
Land	not applicable	592,753	592
Construction in Progress	not applicable	32,901	15
Total		5,095,192	5,235
Less accumulated depreciation		(626,952)	(524
Property, Plant and Equipment, net		$ 4,468,240	$ 4,710

Depreciation expense for the three months ended September 30, 2006 and 2005 was $23,076 and $3,805, respectively. All of the Company's property and equipment are collateral for certain notes payable [See Notes 7, 8, 9 and 10].

NOTE 5 LAND HELD FOR RESALE

FARM LAND - On December 21, 2005, the Company purchased a 119 acre parcel in Midland, Texas for $242,000. At September 30, 2006, the land is held as collateral on a note payable [See Note 9].

COMMERCIAL PROPERTY - In 2005, the Company also purchased 7 acres of commercial property in San Angelo, Texas for $1,394,675. At September 30, 2006, the land is held as collateral on a note payable [See Note 9].

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 GOODWILL / DEFINITE-LIFE INTANGIBLE ASSETS

The following is a summary of goodwill and definite-life intangible assets:

	September 30, 2006	June 30, 2006
GOODWILL		
Goodwill	$ 150,000	$ 150,000
DEFINITE-LIFE INTANGIBLES ASSETS		
5-year non-compete contract with note holder	28,907	28,907
5-year non-compete contract with shareholder	28,907	28,907
Less accumulated amortization	(46,346)	(44,324)
Net Definite-Life Intangible Assets	$ 11,468	$ 13,490

The Company estimates that its amortization expense will be approximately as follows for the twelve month periods ended:

September 30,	Amortization Expense
2007	11,468
Thereafter	--
	11,468

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 GOODWILL / DEFINITE-LIFE INTANGIBLE ASSETS (CONTINUED)

Definite Life Intangible Assets - The Company is amortizing their definite-life intangible assets on a straight-line basis over five years. Amortization expense of $2,022 and $2,022 was recorded for the three months ended September 30, 2006 and 2005, respectively, and has been included in general and administrative expense.

Goodwill - The Company recorded goodwill of $150,000 in connection with the acquisition of Profile Diagnostic Sciences, Inc. as the purchase price of $150,000 exceeds the $0 net book value of the assets acquired.

NOTE 7 CONVERTIBLE NOTES PAYABLE

The Company had the following convertible notes payable summarized in groups with similar attributes at:

	Sept. 30, 2006
12% Note payable, maturing in May to June 2007, convertible at	

$.65 per share for the first twelve months and $.75 per share for the second twelve months, secured by UCC-1 lien against inventory	270,000
12% Note Payable, maturing in February 2007, convertible at $.30 per share through February 2007, secured by UCC-1 lien against inventory	228,000
12% Note Payable, maturing in June to October 2007, convertible at $.65 per share for the first twelve months and $.75 per share for the second twelve months, secured by UCC-1 lien against inventory	750,000
12% Note payable, maturing in October 2007 to May 2008, convertible at $.95 per share for the first twelve months and $1.05 for the second twelve months, secured by UCC-1 lien against inventory	452,500

Continued

NOTE 7 CONVERTIBLE NOTES PAYABLE (CONTINUED)

15% Note Payable, maturing in 2007, convertible at $.30 per share (At the time of conversion, the creditor can require the Company to redeem any amount of the shares in the conversion at $.345 per share), secured by a lien using a Trust Deed and Trust Deed Note, against Major Trees, a lien using a Trust Deed and Trust Deed Note, against Major Trees, TX, and a term life insurance policy on two officers of the Company	408,605
12% Note payable, maturing in January 2008, convertible at $.95 per share for the first twelve months and $1.10 for the second twelve months, secured by A UCC-1 lien against inventory	200,000
12% Note payable, maturing in March 2008, convertible at $.95 per share for the first twelve months and $1.10 for the second twelve months, secured by 119.47 acres in Midland, TX	216,370
Total	2,525,475
Less Current Portion	(1,656,602)
	$ 868,873

The convertible notes payable mature as follows for the twelve-month periods ended:

September 30,	Principle Due

2007	$ 1,656,602
2008	868,873
2009	-
Thereafter	-
	$ 2,525,475

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 CONVERTIBLE NOTES PAYABLE (CONTINUED)

The discounts due to the beneficial conversion feature of the notes are being amortized over the term of the respective notes. For the three months ended September 30, 2006 and 2005, the Company amortized $0 and $900, respectively, the discounts on notes payable as interest expense.

At September 30, 2006, the Company had a total of $38,476 in loan fees and costs from establishing these convertible notes payable. These costs have been deferred and are being amortized over the term of the respective notes. For the three months ended September 30, 2006, the Company amortized $9,059 of the deferred loan costs as interest expense.

For the three months ended September 30, 2006 and 2005, interest expense on the convertible notes payable amounted to $78,843 and $50,096, respectively.

NOTE 8 RELATED PARTY CONVERTIBLE NOTES PAYABLE

The Company had the following related party convertible notes payable summarized in groups with similar attributes due to shareholders of the Company at:

	September 30, 2006
12% Notes payable, maturing in 2007, convertible at $.30 per share through February 2007, secured by UCC-1 lien against inventory	100,000
12% Notes payable, maturing in 2008, convertible at $.65 per share for the first twelve months and $.75 per share for the second twelve months, secured by UCC-1 lien against inventory	50,000
Unsecured 12% Note payable, quarterly interest payments beginning April 2006, maturing January 10, 2007	100,000
12% Notes payable, maturing in 2007, convertible at	

$.30 per share through February 2007, secured by inventory	100,000

Continued

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 RELATED PARTY CONVERTIBLE NOTES PAYABLE (CONTINUED)

12% Notes Payable, maturing in 2008, convertible at $.70 per share through January 31, 2008, secured by TLC's building and land in Midland, TX	450,000
Total	700,000
Less Current Portion	(250,000)
	$ 450,000

The related party convertible notes payable mature as follows for the twelve-month periods ended:

September 30,	Principle Due
2007	$ 250,000
2008	450,000
Thereafter	-
	$ 700,000

The discounts due to the beneficial conversion feature of the notes are being amortized over the term of the respective notes. For the three months ended September 30, 2006 and 2005, the Company amortized $938 and $1,808, respectively, of the discounts on notes payable as interest expense.

At September 30, 2006, the Company had a total of $0 in loan fees and costs from establishing these convertible notes payable. These costs have been deferred and are being amortized over the term of the respective notes. For the three months ended September 30, 2006 and 2005, the Company amortized $229 and $688, respectively, of the deferred loan costs as interest expense.

For the three months ended September 30, 2006 and 2005, interest expense on the related party convertible notes payable amounted to $13,854 and $7,561, respectively.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 NOTES PAYABLE

The Company had the following notes payable summarized in groups with similar attributes at:

	September 30, 2006
7% Notes payable, yearly payments of $50,000, mature in 2007, secured by Major Tree's outstanding shares of capital stock, financial books and records, equipment, and furniture	$ 77,150
Unsecured 6% Notes payable, maturing 2007	20,000
24% Notes payable, maturity extended to August 15, 2006, beginning balance of $200,000 secured by land. Security was released upon principle payment of $144,000 in June 2006	--
24% Notes payable, maturing December 15, 2006 secured by land.	200,000
14% Notes payable maturing in 2006, secured by MT Subsidiary's land in Cochise County, AZ	287,003
14% Notes payable, maturing in 2007, secured by the property of an officer in Clark County, Nevada. In September 2005 an officer of the Company paid $72,169 in behalf of the Company and the lien on the property was released by the holder of the note	105,147
12% Notes payable, balloon payment due upon maturity, matures in 2007, secured by inventory	85,577
6.75% Note payable, monthly payments of $3,355, matures in 2021, secured by TLC's building and land	371,647
7% Note payable, monthly payments of $1,370, mature in 2008, secured by S&S' land and office building	127,777

Continued

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 NOTES PAYABLE (CONTINUED)

24% Notes payable, maturing November 2006, unsecured.	150,000
24% Notes payable, maturing December 2006, unsecured.	60,000
24% Notes payable, maturing January 2007, unsecured.	80,000
Interest rate will be 6% note payable until July 1, 2006. Beginning July 1, 2006, interest will accrue at the rate per year that will be the lesser of .5% in excess of the Prime Interest Rate as published by the Wall Street Journal; or the maximum nonusurious rate of interest permitted by applicable law. Beginning January 2007, monthly payments necessary to amortize the balance over a period ending July 2015 will be required. The note matures on July 1, 2010 when the balance will be due. Note is secured by land in San Angelo, TX which is held for resale. Extension of interest only through January 2007.	1,166,319
Total	2,730,620
Less Current Portion	(1,168,040)
	$ 1,562,580

The notes payable mature as follows for the twelve-month periods ended:

September 30,	Principle Due
2007	$ 1,168,041
2008	98,236
2009	219,461
2010	106,611
2011	114,690
Thereafter	1,023,581
	$ 2,730,620

NOTE 9 NOTES PAYABLE (CONTINUED)

At September 30, 2006, the Company had a total of $11,653 in loan fees and costs from establishing these notes payable. These costs have been deferred and are being amortized over the term of the respective notes. For the three months ended September 30, 2006, the Company amortized $8,851 of the deferred loan costs as interest expense.

For the three months ended September 30, 2006 and 2005, interest expense on the notes payable amounted to $63,563 and $38,113, respectively.

NOTE 10 RELATED PARTY NOTES PAYABLE

The Company had the following related party notes payable summarized in groups with similar attributes due to shareholders of the Company at:

	September 30, 2006
7% Note payable, yearly payments of $75,000, maturing in 2009, secured by Major Tree's farmland, buildings, and equipment	$ 201,081
8% Note payable, monthly payments of $2,500, maturing in 2009, secured by land and inventory	269,152
7% Note payable, quarterly payments of $11,660 through March 2007, quarterly payments of $13,527 from March 2007 through March 2009, quarterly payments of $15,483 from March 2009 through March 2010, mature in 2010, secured by all of the issued and outstanding shares of S&S Plant Farm, Inc.'s capital stock	365,394
12% Note payable, quarterly interest payments beginning April 2006, maturing January 10, 2007, unsecured.	100,000
10% Note payable, maturing in 2007, secured by UCC-1 lien against inventory, net discount for options issued of $0 and $938	50,000
12% Notes payable, balloon payment due upon maturity, mature in 2007, secured by inventory	50,000

Continued

21

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 RELATED PARTY NOTES PAYABLE

24% Notes payable, balloon payments due upon maturity, mature in 2008, unsecured.	150,000

Total	1,185,627
Less Current Portion	(455,000)
	$ 730,627

At September 30, 2006, the Company had a total of $0 in loan fees and costs from establishing these notes payable. For the three months ended September 30, 2006 and 2005, the Company amortized $229 and $688, respectively, of the deferred loan costs as interest expense. For the three months ended September 30, 2006 and 2005, interest expense on the related party notes payable amounted to $24,955 and $20,081, respectively.

The notes payable mature as follows for the three-month periods ended:

September 30,	Principle Due
2007	$ 455,000
2008	118,918
2009	562,073
2010	49,636
2011	-
Thereafter	-
	$ 1,185,627

The discounts due to the options issued with the notes are being amortized over the term of the respective notes. For the three months ended September 30, 2006 and 2005, the Company amortized $229 and $688, respectively, of the discounts on notes payable as interest expense.

NOTE 11 CAPITAL LEASES OBLIGATION

The Company leases equipment under capital leases and that expire on October 2009 and July through November 2010. The gross amount of assets recorded under capital leases and the associated accumulated depreciation are included under property and equipment and are as follows:

	September 30, 2006
Farm equipment	$ 360,181
Total	360,181
Less accumulated depreciation	(67,723)

Net Leased Equipment	$ 292,458

The Company amortizes its lease obligations over the term of each lease. Amortization expense was $22,753 for the three months ended September 30, 2006.

NOTE 11 CAPITAL LEASES OBLIGATION (CONTINUED)

The future minimum lease payments are as follows for the twelve-month periods ended: Amortization

September 30,	Amount Due
2007	$ 102,316
2008	97,630
2009	97,630
2010	76,686
2011	6,256
Thereafter	-
Total minimum obligations	380,517
Executory costs and interest	(74,001)
PV of minimum obligations	306,516
Current portion	(67,439)
Long-term obligations	$ 239,077

NOTE 12 CAPITAL STOCK AND OPTIONS

PREFERRED STOCK - In October 2004, Parent amended its articles of incorporation to authorize 10,000,000 shares of preferred stock, $.001 par value, with such rights, preferences and designations and to be issued in such series as determined by the Board of Directors. At September 30, 2006 and June 30, 2006, no preferred shares were issued and outstanding.

COMMON STOCK - In September 2006, the Company issued 45,714 shares of their previously authorized but unissued common stock for cash of $32,000, or $.70 per share

In March and June 2006, the Company issued 59,286 shares of their previously authorized but unissued common stock for services and supplies valued at $41,500 or $.70 per share.

In April 2006, the Company issued 35,715 shares of their previously authorized but unissued common stock for cash of $25,000, or $.70 per share.

In March 2006, the Company issued 15,000 shares of their previously authorized but unissued common stock for services and supplies valued at $10,500 or $.70 per share.

In February and March 2006, the Company issued 142,860 shares of their previously authorized but unissued common stock for cash of $100,000, or $.70 per share.

In January 2006, the Company issued 50,000 shares of their previously authorized but unissued common stock for employee services rendered valued at $35,000 or $.70 per share.

In December 2005, the Company issued 666,667 shares of their previously authorized but unissued common stock for the conversion of $200,000 note payable, or $.30 per share.

In December 2005, the Company issued 308,921 shares of their previously authorized but unissued common stock for the conversion of $75,000 note payable and $2,230 interest, or $.25 per share. The Company recorded an additional $55,117 in interest for the adjusting the conversion price to $0.25 per share.

In December 2005, the Company issued 116,407 shares of their previously authorized but unissued common stock for the conversion of $25,000 note payable and $110 interest, or $.22 per share. The Company recorded an additional $45,632 in interest for the adjusting the conversion price to $0.22 per share.

Continued

NOTE 12 CAPITAL STOCK AND OPTIONS (CONTINUED)

In November 2005, the Company issued 35,714 shares of their previously authorized but unissued common stock for cash of $25,000, or $.70 per share

In August 2005, the Company issued 5,000 shares of their previously authorized but unissued common stock for the exercise of options at $.30 per share.

SUBSCRIPTION RECEIVABLE - During fiscal 2006, the Company received cash of $233,977 in payment of subscriptions receivable due from officers of the Company. Also during 2006, the Company received 408,296 common shares valued at $0.88 per share in payment of $359,300 in subscriptions receivable from officers of the Company. The 408,296 common shares were held in treasury until canceled during June 2006.

STOCK OPTION PLAN - In October 2002, the Company's Board of Directors approved and adopted the "2002 Stock Incentive Plan" ("the Plan") with a maximum of 8,000,000 shares of common stock reserved for issuance under the Plan. The Plan provides for both the direct award of shares and for the grant of options to purchase shares to employees, officers, directors, agents, consultants, advisors and independent contractors. Awards under the Plan will be granted as determined by the Board of

Directors and the Board of Directors shall determine which eligible persons are to receive Incentive Stock Options, Non-Statutory Stock Options or stock issuances. The Board of Directors also sets the number of shares, the exercise price and the exercise terms for grants. Options granted to non-exempt employees are required to have an exercise price of at least 85% of the fair market value of the common stock at the time of grant. Incentive Stock Options must be granted with an exercise price of at least 100% (110% for shareholders who own at

Continued

NOTE 12 CAPITAL STOCK AND OPTIONS (CONTINUED)

least 10% of the Company's outstanding stock) of the fair market value of the common stock at the time of grant. Incentive Stock Options are required to expire within 10 years. At September 30, 2006 and 2005, total awards available to be granted from the plan amounted to 3,150,000 and 3,150,000, respectively.

The fair value of each of the Company's stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock Option awards is expensed on a graded vesting straight-line basis over the vesting period of the options, which is generally immediate. Expected volatility is based on an average of historical volatility of the company's stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The expected term of awards granted is derived from historical experience under the Company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding. The fair value of each option granted is estimated on the date granted using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants during the three months ended September 30, 2005: expected dividend yields of zero, expected life of 5.6 years, expected volatility of 302.4%, and risk-free interest rates of 3.9%.

Continued

NOTE 12 CAPITAL STOCK AND OPTIONS (CONTINUED)

A summary of the status of options granted at September 30, 2006, and changes during the period then ended are as follows:

	For the Three Months Ended Ended September 30, 2006		
	Shares	Weighted Average Exercise Price	Weighted Av Remainin Contractual
Outstanding at beginning of period	845,000	$ 0.25	4.7 yea
Granted	-	-	
Exercised	-	-	
Forfeited		-	
Expired		-	
Outstanding at end of period	845,000	$ 0.25	4.7 yea
Vested and expected to vest in the future	845,000	$ 0.25	4.7 yea
Exercisable at end of period	845,000	$ 0.25	4.7 yea
Weighted average fair value of options granted	-	$ -	

The Company had no non vested options at the beginning of the period. At September 30, 2006 the Company had no non vested options resulting in no unrecognized compensation expense.

The total intrinsic value of options exercised during the three months ended September 30, 2006 and 2005 was $0 and $2,000 respectively. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at September 30, 2006 and 2005 (for outstanding options), less the applicable exercise price.

During the three months ended September 30, 2006 and 2005, the Company received cash of $0 and $1,500 and recorded a subscription receivable of $0 and $0 upon the exercise of awards. The Company realized no tax benefit due to the exercise of options as the Company had a loss for the period and historical net operating loss carry forwards.

Common shares issued upon exercise of options are issued from available authorized but unissued common shares. As of September 30, 2006, the Company has no plans to repurchase common shares issued upon exercise of options.

Continued

NOTE 12 CAPITAL STOCK AND OPTIONS (CONTINUED)

A summary of the status of stock options outstanding at September 30, 2006 is presented below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.10	200,000	6.3 years	$ 0.10	200,000	$ 0.10
0.30	645,000	4.4 years	0.30	645,000	0.30
$0.10-0.30	845,000	4.7 years	$ 0.25	845,000	$ 0.25

NOTE 13 INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", Which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards.

At September 30, 2006 and June 30, 2006, the total of all deferred tax assets is approximately $887,000 and $804,000 and the total of all deferred tax liabilities is $191,000 and $191,000. The amount of and ultimate realization of the benefits from the deferred tax assets is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of these uncertainties surrounding the realization of the NOL carryforwards, the Company has established a valuation allowance of approximately $695,000 and $613,000 at September 30, 2006 and June 30, 2006. The change in the valuation allowance for the three months ended September 30, 2006 was approximately $82,000.

At September 30, 2006 and June 30, 2006, the Company has available unused net operating loss carryforwards of approximately $5,200,000 and $4,650,000 respectively, which may be applied against future taxable income and which expire in various years through 2026. Also, the Company has unused capital loss carryovers at September 30, 2006 and June 30, 2006 of approximately $81,000 and $81,000, respectively, which expire in various years through 2009.

NOTE 14 LOSS PER SHARE

The following data shows the amounts used in computing loss per share:

	For the Three Months Ended September 30,	
	2006	2005
Loss from operations available to common shareholders (numerator)	$ (546,400)	$ (367,659)
Weighted average number of common shares outstanding used in loss per share for the period (denominator)	24,024,922	18,375,738

At September 30, 2006, the Company had outstanding options to purchase 845,000 shares and notes payable convertible into 4,703,767 shares which were not used in the computation of loss per share because their effect would be anti-dilutive. At September 30, 2005, the Company had outstanding options 850,000 shares and notes payable convertible into 5,188,623 shares which were not used in the computation of loss per share because their effect would be anti-dilutive

NOTE 15 RELATED PARTY TRANSACTIONS

RELATED PARTY ADVANCES - During the three months ended September 30, 2006 and 2005, officers/shareholders of the Company and their relatives have made advances to the Company and the Company has repaid the advances as funds have been available. During the three months ended September 30, 2006 officers/shareholders of the Company and their relatives made advances totaling $23,520 and the Company repaid advances totaling $0. Since the Company owed $184,380 from prior-year advances, the remaining balance owed to the officers/shareholders of the Company and their relatives at September 30, 2006 is $207,900.

During the year ended June 30, 2006, officers/shareholders of the Company and their relatives have made advances to the Company and the Company has repaid the advances as funds have been available. During the year ended June 30, 2006, officers/shareholders of the Company and their relatives made advances totaling $244,853 and the company repaid advances totaling $65,618. Since the Company

Continued

NOTE 15 RELATED PARTY TRANSACTIONS (CONTINUED)

owed $5,144 from prior-year advances, the remaining balance owed to the officers/shareholders of the Company and their relatives at June 30, 2006 is $184,380.

CONSULTING SERVICES - During the three months ended September 30, 2006 and 2005, respectively, the Company paid a relative of an officer/shareholder of the Company $0 and $0 for consulting services.

MANAGEMENT COMPENSATION - For the three months ended September 30, 2006 and 2005, respectively, the Company expensed $35,800 and $34,000 as salary to the Company's Chief Executive Officer. At September 30, 2006 and June 30, 2006, respectively, the Company owed $11,925 and $10,620 to the Chief Executive Officer for accrued salary.

For the three months ended September 30, 2006 and 2005, respectively, the Company expensed $35,800 and $34,000 as salary to the Company's Chief Financial Officer. At September 30, 2006 and June 30, 2006, respectively, the Company owed $11,925 and $15,930 to the Chief Financial Officer for accrued salary.

EMPLOYEES - For the three months ended September 30, 2006 and 2005, respectively, the Company expensed $18,000 and $14,800 as salary to an employee of the Company who is the spouse of an officer/shareholder of the Company. At September 30, 2006 and June 30, 2006, respectively, the Company owed $5,541 and $2,540 to this employee for accrued salary.

For the three months ended September 30, 2006 and 2005, the Company expensed $18,750 and $16,760 as salary to an employee of the Company who is a relative of an officer/shareholder. At September 30, 2006 and June 30, 2006, respectively, the Company owed $3,125 and $3,282 to this employee for accrued salary.

For the three months ended September 30, 2006 and 2005, the Company expensed $17,740 and $19,790 as salary to employees of the Company who are former owners of S&S Subsidiary and shareholders of the Company. At September 30, 2006 and June 30, 2006, the Company owed $5,541 and $4,100 to theses employees for accrued salary.

Continued

NOTE 16 CONCENTRATIONS

ACCOUNTS RECEIVABLE - At September 30, 2006, 33% of the Company's accounts receivable was owed by three customers. At June 30, 2006, 17% of the Company's accounts receivable was owed by three customers. The following table lists the percent of the receivables owed by those customers that accounted for 10% or more of the total accounts receivable at September 30, 2006 and June 30, 2006 respectively:

	September 30, 2006	June 30, 2006
Customer A	18%	14%
Customer B	14%	*

Customer C	*	17%
Customer D	*	10%

* Customer did not account for 10% or more of total accounts receivable

REVENUES - During the three months ended September 30, 2006 and 2005, respectively, the Company had a significant customer which accounted for 9% and 23% of the Company's total sales. The loss of this significant customer could adversely affect the Company's business and financial condition.

NOTE 17 COMMITMENTS AND CONTINGENCIES

DERIVATIVE LIABILITY FOR THE REDEMPTION OF COMMON STOCK - The Company has a convertible note payable which is convertible into common stock at $.30 per share. At the time of conversion, the creditor can require the Company to redeem any amount of the shares issued in the conversion at $.345 per share. At September 30, 2006, the Company owed $408,602 in principal and $5,239 in accrued interest on the note. If the note had been converted into stock on September 30, 2006, then the Company would have issued 1,379,469 shares of common stock which would have been redeemable at the creditor's option for $475,917. The Company has recorded a remaining contingent derivative liability of $62,076 associated with the option.

We have entered into employment agreements dated February 15, 2005 with each of Kirk Fischer, our CEO and Chairman, and KC Holmes, our President and a director, governing their employment with us. Under the agreements, which have a fixed term of five years, we are required to pay a base salary of $132,000 per year, subject to increase beginning on July 1, 2006 of an amount equal to the greater of 3% of the prior base salary or 1% of base salary for every 10% increase in revenues over the prior fiscal year. We agreed to pay each a one-time bonus of 500,000 shares of common stock in 2005 (for bonuses not paid in 2002, 2003 and 2004), a bonus of

NOTE 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)

$2,000 for each $100,000 in revenue growth Fiscal 2005 over Fiscal 2004, and for Fiscal 2006 through the fiscal year ended June 30, 2009, a bonus of $1,000 for each $.001 per share in earnings growth achieved over the prior year (provided that the measurement shall begin at zero if prior year earnings per share was negative). Each is also entitled to standard employee benefits and a $500 monthly car allowance. Upon termination by the Company of each of their employment with or without cause, the Company is required to continue to pay the employee's then-current base salary throughout the five-year term of the agreement, and all of the employee's stock options immediately and automatically vest in full.

We have entered into an employment agreement dated February 15, 2005 with James Fischer, our Vice President of Operations for Arizona Tree

Farm operations and a director, governing his employment with us. Under the agreement, which has a fixed term of five years, we are required to pay a base salary of $75,000, subject to a 5% increase per year. We agreed to pay each a one-time bonus of 50,000 shares of common stock in 2005 (for bonuses not paid in 2002, 2003 and 2004), a bonus of $7,200 for Fiscal 2005 and a bonus of 10% of base salary condition upon successful management of our Major Trees Tucson Farm. Mr. Fischer is entitled to standard employee benefits and a $500 a month car allowance. Upon termination by the Company of his employment with or without cause, the Company is required to continue to pay the employee's then-current base salary throughout the five-year term of the agreement, and all of the employee's stock options immediately and automatically vest in full.

We have entered into an employment agreement dated March 1, 2005 with Curtis Schmid, the President of our S&S Plant Farm pursuant to which we have agreed to pay him a base salary of $48,000 per year, pay bonuses at our discretion and provide standard benefits. The agreement has a fixed term of five years. Upon termination by the Company of his employment with or without cause, the Company is required to continue to pay the employee's then-current base salary throughout the five-year term of the agreement, and all of the employee's stock options immediately and automatically vest in full.

PENGE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 SUBSEQUENT EVENTS

COMMON STOCK ISSUANCE - In October 2006, the Company issued 8,572 shares of their previously authorized but unissued common stock for services of $4,714.60 or $0.55 per share.

NOTES PAYABLE - In October, the Company issued $80,000 in notes payable. The notes accrue interest at 24% per annum and are due in December 2006 and February 2007.

In October 2006, the Company signed $185,815 in notes payable. The note accrues interest at 9% per annum and is due September 2007.

In October 2006, the Company signed $11,011 in notes payable. The note accrues interest at 0% per annum and is due January 2007.

In October 2006, the Company signed $30,000 in notes payable. The note accrues interest at 24% per annum and is due December 2006.

In October 2006, the Company signed $50,000 in notes payable. The note accrues interest at 24% per annum and is due February 2007.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB (this "Report") contains various forward-looking statements. Such statements can be identified by the use of the forward-looking words "anticipate," "estimate," "project," "likely," "believe," "intend," "expect" or similar words. These statements discuss future expectations, contain projections regarding future developments, operations, or financial conditions, or state other forward-looking information. When considering such forward-looking statements, you should keep in mind the risk factors noted in "the subsection titled "Risk Factors" below and other cautionary statements throughout this Report and our other filings with the SEC. You should also keep in mind that all forward-looking statements are based on management's existing beliefs about present and future events outside of management's control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report or any other applicable filings materializes, or any other underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected, or intended.

OVERVIEW

Penge Corp is a Delaware corporation incorporated in 1987 with its principal offices at 1501 North Fairgrounds, Midland, Texas 79705. Our telephone number is (432) 683-8800. We are in the wholesale and retail nursery business. Our stock is traded on the OTC Pink Sheets under the symbol "PNGC."

Our operations are directly or indirectly run through a subsidiary, Penge Corp, a Nevada corporation ("Penge Nevada"), which was organized in 2002 to engage in the nursery business. On June 30, 2005, Penge Nevada merged with a subsidiary of Profile Diagnostic Sciences, Inc., a Delaware corporation with no current operations. Following the merger, the officers and directors of Penge Nevada became the officers and directors of Profile Diagnostic Sciences, Inc. and the business Penge Nevada and its affiliates became the business of Profile Diagnostic Sciences, Inc. Following the merger, we changed the name of Profile Diagnostic Sciences, Inc. to "Penge Corp" Unless otherwise specified, references to "Penge," "we," "us" or the "company" for periods prior to June 30, 2005 relate to Penge Nevada and its affiliates. For periods from and after June 30, 2005, those descriptions relate to Penge Corp (f/k/a Profile Diagnostic Sciences, Inc.) and its affiliates, including Penge Nevada.

Since commencing business in August 2002, we have acquired the land and certain other assets from three tree, shrub and plant farms, one of which is in Arizona and two of which are in Texas. As we have acquired the properties, we have taken steps to improve operations and to expand the number of trees, shrubs and plants growing on, and harvested from, each such property.

In October 2005, we purchased a vacant 13,000 square foot building on 3.8 acres in Midland, Texas for the site of our first retail nursery. We completed a $951,000 dollar conversion of the property including a complete remodel of the building and the addition of 32,000 square feet of greenhouse and 40,000 feet of tree display area. Retail operations at the site commenced on April 15, 2006, and in the first 10 weeks of operations we generated $617,000 in retail business. We also did over $400,000 in business with our existing Midland wholesale customers. Going forward both the wholesale and retail business will be done at the retail center.

In 2005, we also purchased 7 acres of commercial property in San Angelo, Texas that shares an intersection with Wal-Mart, Lowe's and Sam's Club. We purchased the ground for $4.50 per foot. One-acre lots across the street from Sam's Club have recently sold for $13.66 and $12.30 per square foot. We believe that our property is currently worth more than we paid for it. We plan to either sell or develop the property. We have not entered into any agreements with respect to the sale or development of this site.

Going forward, our focus will be to create and to expand a vertically integrated wholesale and retail nursery business. We expect that our tree, shrub and plant farms will be able to provide a substantial portion of the inventories for our recently opened and planned retail nurseries in the coming years. By owning the tree, shrub and plant farms that provide much of the inventory for the retail nurseries, we believe that we will be able to compete with, and even undercut, the "big box stores" that have become the dominant force in the retail nursery business. These big box stores have been driving many retail nurseries out of business by buying nursery materials in large quantities at big discounts from wholesale nursery growers in the United States. This allows them to sell at a discount using smaller margins and to undercut the small nurseries by 30% to 50%. We believe that our vertically integrated wholesale/retail nursery business model will allow us to compete with the big box stores on price, while providing better selection and service.

For our wholesale business, our goal is to expand the number of trees and shrubs planted on our farms in the next few years while holding down increases in our administrative and other general operating expenses. As we spread our production costs over a larger inventory, we also hope to experience a decline in our per-unit production and sales costs. We do not plan to expand our wholesale sales. Instead, we plan to provide most of what we grow to our retail centers.

GENERAL OUTLOOK

OUR INDUSTRY AND WHOLESALE/RETAIL BUSINESS MODEL

The retail nursery business has been under attack for many years from Home Depot, Lowe's and Wal-Mart. These big box stores buy nursery materials in large quantities at big discounts from wholesale nursery growers. This allows them to sell at a discount, using smaller margins, and to undercut the small nurseries by 30%-50%. Small nurseries generally cannot compete on price and so they try to compete by offering better service, better selection, and convenience. Although this approach has worked for some small nurseries, it has not worked for most of them, and a large number of small nurseries have gone out of business in the last 10 years primarily because they are unable to compete on price with the big box stores.

In the last 5 years, a new model has emerged in the nursery industry that we believe is able to compete effectively with the big box stores. This model requires a retail nursery to grow a substantial percentage its own plant material (trees, shrubs, and flowers) instead of buying them from a wholesale grower. It is capital intensive for a retail nursery to grow its own products and it takes from 3-5 years to get up to speed. But, once the model is in place, it can allow the retail nursery to offer products at prices that are lower than or equal to those of the big box stores, while continuing to offer a level of selection and service that the big box stores can not offer.

Over the last 4 years, we have purchased wholesale operations growing trees, shrubs, and flowers and plan to continue to open retail operations in addition to our Midland, Texas retail nursery. We believe that this new hybrid retail/wholesale nursery business model will enable us to increase sales and create and sustain a profitable operation. We also believe that the competition in Texas and surrounding areas has not switched over to the new model, which should give us at least a 3 - 5 year head start on rolling out the model in this region.

Our Wholesale Business

We currently own three wholesale nursery operations in Texas and Arizona. At the end of 2002, we purchased a 272-acre tree farm near Tucson, Arizona known as "Major Trees" and now referred to as our Major Trees Tucson Farm. In May of 2004, we acquired a 17-acre farming property and certain related assets near Houston Texas on which we have established a wholesale operation and which we refer to as our Major Trees Houston Farm. In 2005, we purchased the S&S Plant Farm in Midland, Texas which specializes in plants and flowers. This last farm is a 50-acre property with 8 acres under greenhouse and shade house, and a full complement of equipment and machinery for propagating trees, shrubs, plants and flowers from seeds and plugs.

We now have over 300,000 trees and shrubs planted on the three wholesale farms, and enough infrastructure and equipment to grow trees, shrubs, and flowers for multiple locations in west Texas.

Our wholesale operations are able to provide products to our retail nurseries, which we believe will allow us to offer competitive pricing, service and selection. Although we plan to divert our landscape trees, shrubs, plants and flowers to our retail stores as demand at such stores grows, we plan to continue our wholesale business for the foreseeable future. We currently grow a variety of landscape trees, shrubs, bedding plants and flowers on three farms in Texas and Arizona. Our major wholesale customers include retail nurseries, major retail outlets and landscape companies located in the southwest United States. We have experienced strong demand from retailers and landscape companies for our landscape products in the southwest United States over the last three years, even as our production capacity has continued to grow, and expect to be able to maintain relationships with a sufficient number of our customers in order to be able to sell inventory that is not shipped to our retail stores.

Our Retail Business

Our current retail operations consist of a 4-acre retail nursery in Midland, Texas and 7 acres of land for a second retail center in San Angelo, Texas.

In October 2005, we purchased a vacant 13,000 square foot building on 3.8 acres in Midland, Texas for the site of our first retail nursery. We completed a $951,000 dollar conversion of the property, including a complete remodel of the building and the addition of 32,000 square feet of greenhouse and 40,000 feet of tree display area. Retail operations at the site commenced on April 15, 2006, and in the first 10 weeks of operations we generated $617,000 in retail business. We also did over $400,000 in business with our existing Midland wholesale customers. Going forward both the wholesale and retail business will be done at the retail center.

In 2005, we also purchased 7 acres of commercial property in San Angelo, Texas that shares an intersection with Wal-Mart, Lowe's and Sam's Club. We purchased the ground for $4.50 per foot. One-acre lots across the street from Sam's Club have recently sold for $13.66 and $12.30 per square foot. We believe that our property is currently worth more than we paid for it. We plan to either sell or develop the property. We have not entered into any agreements with respect to the sale or development of this site.

As the availability of capital and other business factors permit, we plan to aggressively open retail centers and ramp up our wholesale operations in the coming years in Texas and surrounding areas. There are over 30 million people in this region, which we believe could allow us to build a large number of nurseries to compete in these markets.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL COMMITMENTS AND EXPENDITURES. The following table discloses aggregate information about our contractual obligations including long-term debt, operating and capital lease payments, office lease payments, contractual service agreements and the periods in which payments are due as of September 30, 2006.

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR (10/1/06 TO 9/30/07)	2-3 YEARS (10/1/07 TO 9/30/09)	4-5 YEARS (10/1/09 TO 9/30/11)	AFTER 5 YEAR (AFTER 10/1/1
Operating leases	--	--	--	--	
Capital leases	306,516	67,439	159,238	79,840	
Office lease	--	--	--	--	
Contractual service agreements	--	--	--	--	
Notes payable	7,141,718	3,529,642	2,317,558	270,937	1,023,5
Total contractual cash obligations	7,488,235	3,597,081	2,476,796	360,777	1,023,5

The following table summarizes the material terms of our convertible and non-convertible notes issued during the three months ended September 2006 (listed in order of ultimate maturity date); except as set forth in the notes to the table below, we are current with all required payments and in compliance with all material covenants with respect to such notes:

PRINCIPAL AMOUNT	BALANCE AS OF SEPTEMBER 30, 2006	ORIGINATION DATE	MATURITY DATE; REQUIRED PAYMENTS	INTEREST RATE	CONVERSION AND OTHER TERMS	SE
$30,000	$30,000	7/28/06	10/28/06; extended	24%	N/A	Un
$20,000	$20,000	8/4/06	11/4/06; extended	24%	N/A	Un

$50,000	$50,000	8/11/06	11/11/06; extended	24%	N/A	Un
$150,000	$150,000	7/12/06	11/12/06; extended	24%	N/A	Un
$60,000	$60,000	8/17/06	12/15/06	24%	N/A	Un
$80,000	$80,000	9/15/06	1/15/07	24%	N/A	Un

As of September 30, 2006, we had $49,912 in cash and cash equivalents. This represents a decrease of $62,003 compared to June 30, 2006. Cash used during the three months ended September 30, 2006 includes approximately $628,000 used in operations as well as $140,000 received from investing activities. Sources of cash during the quarter ended September 30, 2006 included a net amount of approximately $425,000 from financing activities. Of the approximately $425,0000 of net cash provided by financing activities, approximately $393,000 represents net cash received less payments made on non-convertible notes, and approximately $32,000 represents the proceeds from issuance of common stock less Offering costs. The difference between the approximately $425,000 of net cash Provided by financing activities and the cash itemized above represents new notes payable, advances from related parties, payments on related party advances and loan costs and payments on capital lease obligations.

Our material capital expenditures for the quarter ended September 30, 2006 included net direct cost additions of approximately $217,000 to plant tree, shrub, and flower inventory.

We anticipate making capital expenditures during the fiscal year ended June 30, 2007 ("Fiscal 2007"). Specifically, resources permitting, we plan to spend at least $1,500,000 to open a second retail nursery and to replace inventory sold during the fiscal year ended June 30, 2006 ("Fiscal 2006").

Liquidity. The following table reflects selected balance sheet data as of September 30, 2006:

	SEPTEMBER 30, 2006
BALANCE SHEET DATA:	
Cash and cash equivalents..........................	49,912
Working capital (deficit)..........................	(2,677,784)
Total assets.......................................	9,100,741
Retained deficit...................................	(3,945,234)
Stockholders' equity...............................	(251,125)

As of September 30, 2006, we had $49,912 in cash and cash equivalents, total current assets of $2,802,139 and current liabilities of 5,479,923, representing a current working capital deficit of ($2,677,784). Our current liabilities as of September 30, 2006 include a $1,906,602 balance on secured convertible notes due with one year, and a $1,623,041 principal balance on non-convertible notes payable due within one year.

With respect to the current portion of our notes payable, we believe that most of the holders of the convertible and non-convertible notes coming due in the next year will either convert such debt to equity or replace existing notes with notes with deferred payment dates. To the extent that does not occur, we believe that we can raise capital sufficient to repay the current portion of our long term debt through the issuance of additional notes and the sale of equity securities and warrants.

In addition, members of our management have informally agreed to provide up to $200,000 of short-term financing to us. Such financing bears interest at 12% per annum. Management may demand payment on 30 days written notice.

Other than the informal and nonbinding commitments from management, we do not have any specific commitments from third parties to provide financing needed to cover any capital shortfalls with respect to our operations, planned capital expenditures or near-term debt obligations. We caution that, particularly in light of the early stage of our business, such financing may not be available on favorable terms, or at all. We may be compelled to divert substantial portions of our existing cash and future cash flow to the repayment of debt, which would limit our ability to replace or expand inventory and acquire additional farms. This would have an adverse affect on revenues in the coming years. Certain amounts of such debt is secured by our real property, and holders of the unsecured debt have standard remedies available to creditors. If we were to default on such notes and the holders were to exercise their remedies, we would incur substantial legal expenses, penalties and related costs and could be forced to seek bankruptcy protection or to discontinue operations.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has current liabilities in excess of current assets, incurred significant, recurring losses and has not generated positive cash flow from operating activities. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through additional sales of their common stock or through possible business combinations. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements at September 30, 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management is basing this discussion and analysis of our financial condition and results of operations on our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our critical accounting policies and estimates, including those related to agricultural productions, inventories, property and equipment, acquisition costs and revenue recognition. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. These judgments and estimates affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Changes to these judgments and estimates could adversely affect our future results of operations and cash flows.

- Agricultural Production - We account for agricultural activities in accordance with Statement of Position 85-3, "Accounting by Agricultural Producers and Agricultural Cooperatives". All direct and indirect costs of growing crops are either accumulated as inventory or expensed as cost of goods sold. Permanent land development costs are capitalized and not depreciated. Limited-life land development costs and the development costs to bring long-life and intermediate-life plants into production are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets.

- Inventories - Growing crops inventory is stated at the lower of cost or market using the retail method as we have a large quantity of inventory items that have similar costs and markups; we do not have any individually significant items. Because our inventory has these characteristics, it is not beneficial to track inventory costs to each individual unit of inventory. Under the retail method, we count and extend our inventory at estimated sales prices, based upon historical sales, which we then multiply by our cost ratio to determine inventory at cost. Our cost ratio is determined by adding the total cost of the beginning inventory and all direct and indirect costs of growing crops divided by the total estimated sales price of ending inventory, based on historical sales, plus sales revenues. Raw material inventory is stated at the lower of market or cost using the first-in first-out (FIFO) method.

- Property and Equipment - Property and equipment are stated at cost or carryover basis. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we periodically review our property and equipment for impairment.

- Revenue Recognition - Our revenue comes primarily from the sale of agricultural products. We recognize revenue from retails sales at the time of retail purchase. We recognize revenue from landscaping and wholesale customers when rights and risk of ownership have passed to the customer, there is persuasive evidence of a sales arrangement, product has been shipped (delivered or picked up by the customer), the price and terms are finalized and collection of the resulting receivable is reasonably assured.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

The following table reflects selected operational results for the Three Months Ended September 30, 2006 compared to the Three Months Ended September 30, 2005:

	PERIODS ENDED SEPTEMBER 30	
	2006	2005
STATEMENT OF OPERATIONS DATA:		
REVENUE	$ 301,776	$ 202,783
COST OF GOODS SOLD	(233,627)	(183,021)
GROSS PROFIT	68,149	19,762
OPERATING EXPENSES	(369,710)	(249,448)
LOSS FROM OPERATIONS	(301,561)	(229,686)
INTEREST AND OTHER EXPENSE	(244,839)	(137,973)
NET LOSS	$(546,400)	$(367,659)
LOSS PER COMMON SHARE	(0.02)	(0.02)

Our results of operations for Fiscal 2006 included the operations of our Major Trees Houston Farm, Major Trees Tucson Farm, S&S Plant Farm and the Texas Landscape Center.

REVENUE AND COSTS OF GOOD SOLD. Our revenues are derived primarily from the sale of trees and other nursery products. Revenues increased from $202,783 for the three months ended September 2005 to $301,776 for the three months ended September 2006. Costs of Good Sold increased from $183,021 for the three months ended September 2005 to $233,627 for the three months ended September 2006. Our revenue increased due to three months worth of revenue from the addition of Texas Landscape Center. Cost of goods sold increased due to higher sales and the cost of goods sold as a percentage of sales decreased from 90.3% for the three months ended September 2005 to 77.4% for the three months ended September 2006 as a result of the higher margins associated with sales at Texas Landscape Center.

OPERATING EXPENSES. Operating expenses consist primarily of personnel expense associated with management, consulting fees, travel expenses, professional fees, general overhead and non-allocated depreciation. Operating expenses increased from $249,448 for the three months ended September 2005 to $369,710 for the three months ended September 2006. Operating expenses as a percentage of revenue for the three months ended September 2005 were not materially changed from the current three months ended September 2006. The increase in operating expense was due to increased wages and salaries, advertising, accounting/legal fees, and other general and administrative expenses associated with the addition of the Texas Landscape Center. We expect our operating expenses as a percentage of revenue to continue to decrease.

OTHER EXPENSE. Other expense consists of interest paid on outstanding notes payable, amortization of deferred loan costs, noncash notes payable costs, stock conversions and losses on the disposal of fixed assets. Other expense increased from $137,973 for the three months ended September 2005 to $244,839 for the three months ended September 2006. An increase in other expenses was attributed to the additional financing during the current quarter ended September 2006 over the prior quarter ended September 2005. The majority of the increase in other expenses was a result of an increase in interest expense due to an increase in indebtedness and interest on indebtedness, which primarily funded our first retail center, as well as the expansion of inventory and farm improvements. We expect our other expenses to increase as a percentage of revenue short-term and then to decrease as a percentage of revenue long-term as our short and long-term notes are paid off or are converted to stock.

NET LOSS. Our net loss increased from $367,659 for the three months ended September 2005 to $546,400 for the three months ended September 2006. The increase in net loss is due primarily to an increase in salaries and wages, interest expense and other general and administrative expenses. We expect our net loss to decrease substantially in the Fiscal 2007 as a result of higher sales, increased gross margins, and lower operating expenses as a percentage of sales.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We consider all forward-looking statements contained in this Quarterly Report to be covered by and to qualify for the safe harbor protection provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Stockholders and prospective stockholders should understand that several factors govern whether the results described by any such forward-looking statement will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected in this report.

The forward-looking statements contained in this report include plans and objectives of management for future operations, plans relating to the products and predictions regarding our economic performance. Assumptions applicable to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions, future business decisions, and the time and money required to successfully complete development projects, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of those assumptions could prove inaccurate. Therefore, we cannot assure that the results contemplated in any of the forward-looking statements contained herein will be realized. The impact of actual experience and business developments may cause us to alter our marketing, capital expenditure plans, or other budgets, which may in turn affect our results of operations. In light of the inherent uncertainties in forward-looking statements, the inclusion of any such statement does not guarantee that our objectives or plans will be achieved. Among other risk factors to consider are the factors identified in the subsection entitled "Factors That May Affect Future Results" below.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Our short and long-term success is subject to certain risks, many of which are substantial in nature. The following risk factors should be carefully considered, in addition to other risks identified in this report, when evaluating an investment in our common stock. Any one of these factors could cause actual results of operations to differ materially from projected results.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider the following discussion of risks in addition to the other information in this Report before purchasing any shares of our common stock. In addition to historical information, the information in this Report contains forward-looking statements about our future business and performance. Our actual operating results and financial performance may be very different from what we expect as of the date of this Report. The risks described in this Report represent the risks that management has identified and determined to be material to our company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also materially and adversely affect our business operations. Any of these risks could materially and adversely affect our business, results of operations and financial condition.

Risks Regarding Our Company and Our Business

OUR LIMITED OPERATING HISTORY AND EVOLVING BUSINESS PLAN MAKE IT DIFFICULT FOR YOU TO EVALUATE OUR PERFORMANCE AND FORECAST OUR FUTURE.

We were formed and began operations in 2002, have made several acquisitions of businesses and assets in the last 4 years and are in the process of expanding the focus of our business to include retail, as well as wholesale, nursery operations. We began operating tree, shrub and plant farms less than four years ago and are just entering into the retail nursery business. None of our key management personnel have any experience in the retail nursery business. Our limited operating history, recent acquisitions, and expanding business focus make it difficult for you to evaluate our ability to generate revenues, manage costs, create profits and generate cash from operations. Before investing in our common stock, you should consider the risks and difficulties we may encounter as a relatively new business, including risks related to our ability to implement our business plan;

- obtain capital necessary to continue operations and implement our business plan;
- anticipate and adapt to changes in the market;
- find, acquire and develop new wholesale and retail properties;
- administer and manage our operations; and
- successfully compete in the retail nursery industry.

If we fail to successfully manage these risks, our operations and financial condition will suffer, and we may fail.

WE HAVE INCURRED SUBSTANTIAL LOSSES SINCE OUR INCEPTION AND MAY CONTINUE TO INCUR LOSSES IN THE FUTURE.

We have experienced net losses in each twelve-month period since inception, with a retained deficit of approximately $3,945,234 as of September 30, 2006. As we continue to invest in the purchase of new properties or businesses, and to expand our wholesale and retail operations, it is unlikely we will become profitable in the near future. Even if we do become profitable, we may not be able to maintain profitability or to increase profitability in the future.

OUR ACCOUNTANTS HAVE INCLUDED AN EXPLANATORY PARAGRAPH IN OUR FINANCIAL STATEMENTS REGARDING OUR STATUS AS A "GOING CONCERN."

Our consolidated financial statements have been prepared on the assumption that our Company will continue as a going concern. Our independent registered public accounting firm has issued its report dated August 12, 2006 with respect to our financial statements for the fiscal year ended June 30, 2006 that includes an explanatory paragraph stating that recurring losses raise substantial doubt about our ability to continue as a going concern. Our product line is limited, and it has been necessary to rely upon financing from the issuance of promissory notes and the sale of our equity securities to sustain operations in the past. Additional financing will be required if we are to continue as a going concern.

IF WE CANNOT RAISE SUFFICIENT CAPITAL AT REASONABLE PRICES, WE MAY BE UNABLE TO MEET EXISTING OBLIGATIONS OR ADEQUATELY EXPLOIT EXISTING OR FUTURE OPPORTUNITIES.

As of September 30, 2006, we had $49,912 in cash and cash equivalents and a working capital account deficit of $2,677,784. We need to obtain significant additional working capital to implement our business plan of expanding our retail nursery operations and to be able to meet our financial obligations as they become due. We may not be able to raise the additional capital needed, or we may be forced to pay an extremely high price for capital. Factors affecting the availability and price of capital may include the following:

- the availability and cost of capital generally;
- our financial results;
- market interest, or lack of interest, in our industry and business plan;
- the success of our business;
- the amount of our capital needs; and
- the amount of debt, options, warrants and convertible securities we have outstanding.

If we cannot raise sufficient capital or are forced to pay a high price for capital, we may be unable to meet current or future obligations or adequately exploit exi