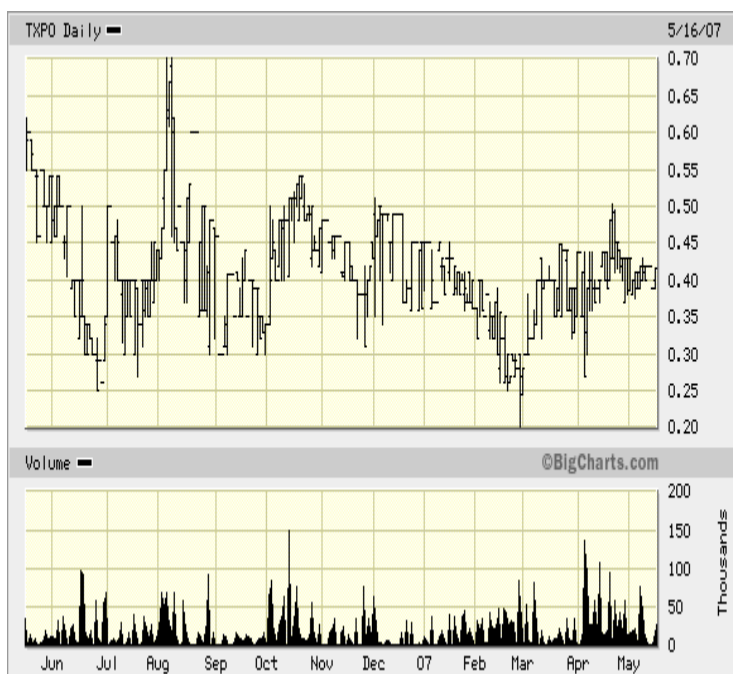




## TXP Corporation

**Technology**  
Updating Coverage  
May 16, 2007



<b>Stock Data:</b>			
Ticker:	TXPO.OB	Beta:	3.26
Price (5/16/07):	\$0.42	Avg. Vol. (3 month):	30,480 Shares
Mkt Cap:	\$51.1MM	Outstanding:	121.7MM
52-Week High (8/8/06)	\$0.70	52-Week Low (2/28/07):	\$0.28
MM = million			

## Investment Highlights:

- Entered into an agreement to supply its Optical Network Terminal (ONT) equipment to a major provider of communications technology and infrastructure equipment
- The core prototyping and retrofit businesses continue to generate very strong top-line growth, as evidenced by a 249% increase in company-wide revenue over the fourth quarter last year
- Announced shipments of first Broadband Passive Optical Network (BPON) ONT units to a major Original Equipment Manufacturer (OEM) and a Tier I carrier
- Launched a new 7200G family of mini-size, Power over Ethernet based GPON ONTs to telecom service providers worldwide
- Strengthened balance sheet with recent \$5MM raise
- Masoud Vaziri, Ph.D., MBA, has been appointed Vice President of Photonics
- Eric Prince joined the company as Director of Materials

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**Business Description:** TXP Corporation is an original design manufacturer (ODM) for the telecommunications industry. Based in Richardson, Texas, TXP has three primary business units: TXP-Texas Prototypes, TXP-Retrofit Solutions, and TXP-ONT Solutions. TXP-Texas Prototypes provides pre-manufacturing services for the electronics industry that help original equipment manufacturers (OEMs) bring products to market both faster and more cost effectively. The company excels in both global design and supply chain solution services for new product development, which include: prototyping and quick-turn electronic assembly; new product introduction; pilot production; material supply chain development; as well as the transfer of products into production. TXP-Retrofit Solutions provides custom engineered kits to enable ILECs (Incumbent Local Exchange Carriers) to upgrade their local access service delivery infrastructure at minimum cost and time. TXP's retrofit kits enable a wide range of next-generation telecom platforms to easily fit into the variety of remote cabinets that have been broadly deployed by ILECs over the last 30 years. TXP-ONT Solutions comprises the former Siemens' Optical Network Terminal (ONT) development team hired in late 2006. TXP-ONT Solutions develops and markets via an (ODM) Original Design Manufacturing model a family of ONT products to both OEMs and ILECs to be private-label branded. The ONT technology terminates the passive optical network at the home or business location, and enables integrated voice, video and high-speed Internet access.

**History:** TXP's team has been together since 1997 when they began working as the prototyping arm of a tier one EMS provider (Flextronics) where they specialized in PCBA, Optoelectronics and other complex packages. In 2002 they spun out from Flextronics and formed a separate commercial entity, Texas Prototypes, Inc. From the team's inception they worked with both OEMs and CMs to evolve the process of how the electronics industry approaches prototyping, new product development, new product introduction and product transfer into volume production. TXP introduced the "Global Product Launch Model" in 2004 to support the entire process from PCB layout, thru transfer of product, into volume manufacturing.

**Locations/Employees:** TXP's principal business office is located in the heart of the "Telecom Corridor" in Richardson, Texas (Dallas Metroplex). Today, TXP has approximately 80 employees. TXP is an engineering driven company with approximately 40% dedicated to TXP's new TXP-ONT Solutions business unit. None of TXP's employees are covered by collective bargaining agreements.

**Operating Divisions:** TXP has three business units today that leverage TXP's Design for Manufacturability expertise: TXP-Texas Prototypes, TXP-Retrofit Solutions, and TXP-ONT Solutions.

**Markets/Customers:**

The table below shows our estimates of the market size/growth for each business unit:

	2007 Estd Annual Addrssd Mkt (\$M)	Estd Mkt CAGR 2007-2009	TXP Market Focus
TXP-Texas Prototypes	\$1,500	5%	U.S.-located OEM's only
TXP-Retrofit Solutions	\$1,000	50%	Principally NA ILEC retrofits
TXP-TXP-ONT Solution	\$1,022	53%	Global OEM's & ILEC's

TX-Proto major customers are U.S.-based OEMs, or U.S. - located engineering teams of International OEM's. Typically, these OEMs are electronic systems companies in the telecom, IT, or military and consumer electronics business. TX-Proto works closely with hardware engineering teams of these OEM's, often from the very start of the design of a new electronics module or system all the way to the finished product.

TX-Proto works in a service industry where quality, timely delivery, and performance under pressure is often more important than price. Often times, especially with new customers, TX-Proto is called into pressure-packed "fire drill" situations in which they are called in to hopefully "save the day" for an engineering team that has slipped on a development schedule. TX-Proto's performance in such situations very often leads to repeat business.

Although TX-Proto can provide several discrete services in the overall process of getting a new electronics product built and ready for volume manufacturing, it prefers to have control of the process beginning with PCB (Printed Circuit Board) layout, then involving DFM (Design for Manufacturability), supply chain establishment, and low quantity prototype and pre-production builds.

At the end of 2006 TX-Proto unit had served over 90 customers, and we expect TX-Proto will grow its business by capturing more of the prototypes being generated each year by its current customers. Below is a list of some TX-Proto customers:



TXP-Retrofit Solutions (TXP-Retro) is both an engineering services business and a products business. Typically, its customers are telecom OEM's whose

platforms are often deployed within an ILEC's Local Access network and housed in new or old Remote Cabinets. A population of some 400,000 such cabinets have been deployed over the last 30 years in ILEC networks, and roughly 20,000 new cabinets are deployed each year. Unfortunately, for both the ILEC and the OEM, there is a fairly wide variety of cabinets deployed, both by make but also by size and capability including accommodated power utilization, environmental breadth, etc. Hence, deploying a new platform into these cabinets, often to replace an older-generation-platform can involve some tricky shoehorning. This complexity is often the stimulus to spend a lot more money to buy a new cabinet rather than try to utilize an in-place cabinet. OEM's can be advantaged in making a sale if they can also present the ILEC with a simple, inexpensive kit and set of step by step procedures to upgrade rather than replace an entire cabinet.

TXP-Retro's telecom OEM customers contract with TXP-Retro to design kits for most Remote Cabinets. TXP-Retros' team has had experience with roughly 90% of the cabinet types deployed (or roughly 20 different cabinet types), and it is therefore skilled in designing (and then providing as a product) the "kit," and the step by step procedures, to replace one (or more) platforms with a new platform.

TXP Retro's market is not especially large and it is a fragmented and fairly invisible "ancillary type product" market. It has the "service industry" attributes of TX-Proto because a new OEM platform and/or a new cabinet often require custom engineering. This also results in proprietary products for TXP which are sold as that OEM succeeds in selling its platform(s) to the ILECs. Although these kits can and are sometimes sold directly to the ILEC, they are most often delivered to the ILEC by the OEM along with its platform.

Below is a list of some of TXP-Retros' customers:

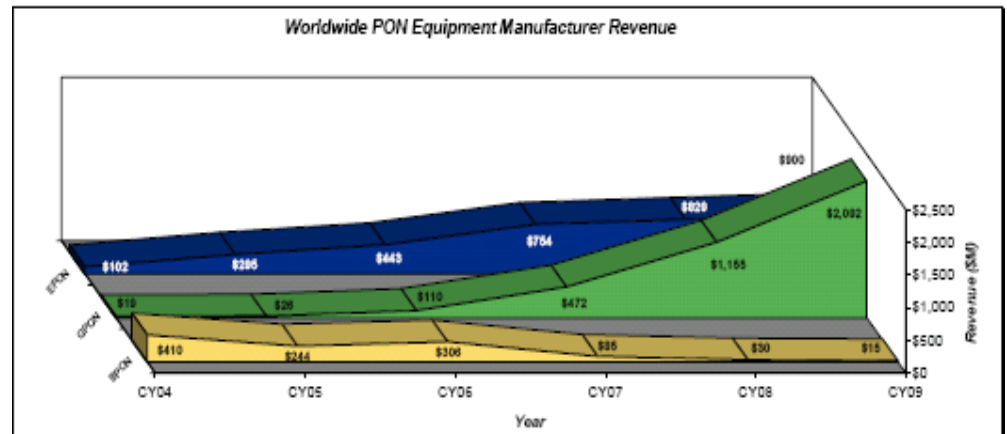


The ONT Solutions market is part of the overall PON equipment market, and this market is large, global, and growing rapidly because it is tied so closely to the business viability of ILECs particularly where competition is present as in the U.S. Even in markets where this competition is not so fierce, government fiat has been at work to put in place a "broadband infrastructure" because of the overall positive economic impact it is viewed to create, e.g. Japan, Korea, etc.

TXP-ONT Solutions customers will include OLT makers who will resell TXP ONT's under their label but also ILECs who purchase OLTs and prefer to buy their ONTs direct from the manufacturer. Since ONTs are deployed at the customer premise they may also be sold under the label of the ILEC. This epitomizes the ODM model which requires strength in engineering and manufacturing but a far more focused and thinner marketing and sales effort.

Whether its ONTs are sold to OEMs or ILECs, an important part of TXP-ONT Solutions job is to be sure it's ONTs are interoperable with the variety of OLTs that ILECs will choose to deploy in their network. The industry provides numerous guiding standards to all manufacturers which are generally rigorously adhered to by all, yet there are always some features/capabilities that have no standards and may be developed in a proprietary manner.

It is important to mention the evolution of PON (and therefore ONT) technology. PON technology has been evolving for roughly 15 years. A[ATM]PON was lightly deployed in the mid/late 1990's. B[Broadband]PON began deployment in the early 2000's. And the latest consensus standard in the U.S. and Europe is G[Gigabit]PON. Another standard, E[Ethernet]PON, is being broadly deployed in several Asian countries. One can presume a continued evolution to relevant standards, and one can also predict that once a new standard takes hold, deployment of the "old" technology will briskly fall off as it did with dial up. TXP-ONT Solutions today has a family of BPON and GPON ONTs. Below is a chart predicting the crossover of technologies in coming years (green = GPON, blue = EPON, tan = BPON).



Source: Infonetics

**Recent Announcements:**

May 10<sup>th</sup>

Eric Prince joined the company as its Director of Materials. Mr. Prince brings over 25 years of Materials, Supply Chain and Procurement Management experience. His expertise has come by holding Commodity, Materials and Purchasing Management positions with two of the world's largest contract manufacturers, Flextronics International and Sanmina-SCI Corporation along with a telecom OEM, Intecom/Wang Laboratories. Before joining TXP, Mr. Prince was Materials Manager for a start-up OEM, D4D Technologies, LLP.

### May 1<sup>st</sup>

Launched a new 7200G family of mini-size, Power over Ethernet based GPON ONTs to telecom service providers worldwide. The mini size and ease of installation of these new ONTs makes them well-suited for operators deploying FTTP in multi dwelling and single living units that are limited in space. The new models can be mounted indoors and require no tools to install. Their mini size makes them less intrusive since they are only one quarter the size of current generation GPON ONTs. This compact packaging, coupled with the benefits of remote powering with Power over Ethernet, translates into lower cost and ease of installation for service providers. The 7200G ONTs provide operators an extremely cost effective solution to deliver up to 1000Mb/s of bandwidth to end users in a compact and simple to install package. The new line of ONTs initially provide a single Gigabit Ethernet port that supports Triple-Play IP-based services, including high-speed Internet, Internet Protocol TV (IPTV) and Voice Over Internet Protocol (VoIP). Multiple-port ONT models will be brought to the market over the next few months. The new mini-size ONTs add to the company's growing family of ONT products for single family homes, multi-family dwellings, and businesses, for both indoor and outdoor installations. The addition of the 7200G line of ONTs strengthens the full range of capabilities that TXP offers and is perfectly timed with the accelerating worldwide roll-out of new 'fiber-to-home' infrastructures needed to deliver 'triple-play' services."

### April 12<sup>th</sup>

Masoud Vaziri, Ph.D., MBA, has been appointed Vice President of Photonics. At TXP Dr. Vaziri will oversee the Photonics laboratory and support the ONT team with interoperability activities and new product development. Dr. Vaziri brings over 10 years of senior industry experience with a focus on optical system design and optical networking. These systems control, manipulate, transfer and store information using photons, the fundamental particles of light. Before joining TXP, Dr. Vaziri served as vice president of photonics systems at Menara Networks working on high performance subsystems for next generation optical networks.

### April 5<sup>th</sup>

TXP reported a 249% increase in revenue for the fourth quarter over the fourth quarter last year. The company also announced that it completed a private placement for gross proceeds of \$5.0 million to accelerate its ONT strategy. TXP's core prototyping and retrofit businesses continue to generate very strong top-line growth. The ONT business contains mostly fixed costs with a highly leverageable infrastructure and sufficient capacity to support company needs for the foreseeable future. As the ONT business continues to grow and begins to cover the additional fixed costs, the company expects expect the division will become a major contributor to overall profitability. In addition to the ONT business, the company expects 2007 will represent their best year ever for both the prototyping and retrofit divisions

On March 30, 2007, TXP completed a private placement for gross proceeds of approximately \$5.0 million. The company issued a convertible note, which bears a 6% coupon and is convertible into approximately 12.2 million shares of TXP common stock at a fixed rate of \$0.41 per common share. The private placement included five-year warrants to purchase approximately 3.85 million shares of common stock, consisting of: Series A warrants to purchase 1.5 million shares at \$0.60 per share; Series B warrants to purchase 1.0 million shares at \$0.75 per share; Series C warrants to purchase 750,000 shares at \$0.85 per share; and Series D warrants to purchase 600,000 shares at \$1.00 per share. The proceeds

of the private placement will be used to accelerate the company's ONT business strategy.

Total revenue for the fourth quarter of 2006 was \$3.1 million, compared with \$897,000 for the same period in 2005. Operating loss for the fourth quarter was \$232,000, compared to operating loss of \$502,000 for the same period last year. Net loss for the fourth quarter of 2006 was \$1.8 million, or \$0.02 per share, compared to net loss of \$573,000 or \$0.01 per share, for the same period in 2005. Net loss for the fourth quarter of 2006 included non-cash charges of \$1.0 million related to a change in the fair value of derivative financial instruments, and a loss of \$304,000 related to the early extinguishment of debt.

Total revenue for the year ended December 31, 2006 was \$8.2 million, compared with \$9.4 million for 2005. Revenue for 2005 included \$5.2 million related to a one-time project with a single customer. Operating loss for 2006 was \$1.3 million, compared to an operating loss of \$170,000 for 2005. Net loss for 2006 was \$4.6 million, or \$0.05 per share, compared to net loss of \$595,000 or \$0.00 per share, for 2005. Net loss for 2006 included net non-cash charges of \$2.7 million related to a change in the fair value of derivative financial instruments, and a net gain of \$161,000 related to the early extinguishment of debt.

#### March 8<sup>th</sup>

TXP shipped its first Broadband Passive Optical Network (BPON) Optical Network Terminal (ONT) units to a major Original Equipment Manufacturer (OEM) and a Tier I Carrier. The shipments included both single family unit (SFU) and multiple-dwelling unit (MDU4) models. These first shipments are a major milestone for the company, as the company begins commercialization of the ONT product line acquired from Siemens. These orders also validate TXP's two-pronged strategy of pursuing both carriers and OEMs.

#### March 1<sup>st</sup>

TXP entered into an agreement to supply its Optical Network Terminal (ONT) equipment to a major provider of communications technology and infrastructure equipment. The company believes this agreement will be the first of many ODM (Original Design Manufacturer) relationships with PON equipment manufacturers who will use TXP's ONTs to provide PON-based service delivery solutions to carriers worldwide. TXP's family of BPON and GPON ONTs are perfectly timed with the accelerating roll-out of new 'fiber-to-home' infrastructures needed to deliver 'triple-play' services. It should be noted that this agreement comes just 2 months after TXP officially acquired the ONT business unit of Siemens.

#### **Competition:**

TX-Proto competes in the time-critical segment of the EMS industry against both small and large EMS companies as well as against the internal capacity sometimes found, but less frequently, within OEMs. TXP-Proto believes competition in its market segment is much less driven by price than the volume production sector is. TXP-ONT Solutions customers are willing to pay a premium for a responsive, broad-reaching capability to produce customized complex products in a very short time, hence TX-Proto competes primarily on the basis of quick turnaround, product quality and customer service. The barriers to entry in TX-Proto's niche are considerable since a competitor must have a large customer base, considerable engineering resources, and proper tooling and equipment to permit fast turnaround of small lots on a daily basis.

ILECs have been adding new telecom platforms to existing Remote Cabinets for many years. Yet the complexity of next-generation platforms has increased unabated making it more and more difficult for ILECs to properly engineer and perform retrofitting with the decreasing internal resources they have. Therefore, they only pursue a retrofit/augment option when the OEM can assure them of minimal risk. Yet this now becomes a difficult topic for OEMs to master internally because of the plethora of Remote Cabinet types deployed. TXP-Retros' body of knowledge and working experience with the wide variety of Remote Cabinets will almost always be greater than an OEM's, especially a relative young OEM. Hence, TXP-Retro can more assuredly develop an appropriate kit much faster than most OEMs, and many OEMs are very willing to outsource this relatively low tech "nuisance." Hence, most of TXP-Retros' serious competitors are actually the OEMs themselves.

TXP-ONT Solutions faces a harsher competitive climate largely because of the size and growth of its opportunity yet also because of the way new technology comes into an ILEC's network. Because of this TXP-ONT Solutions today competes against both OLT OEMs and against other similarly intentioned ONT ODMs (Original Design Manufacturers).

When any new service delivery technology is introduced ILECs will tend to purchase it on an end-to-end basis because they want the OEM to take full (end-to-end) responsibility for its working satisfactorily. At present, BPON and GPON technology is being purchased in this manner by ILEC's. Yet when technology and its acceptance and usage matures, and particularly when key standards are agreed, there is a high likelihood the ILEC will take a "divide and conquer" procurement strategy for the CO-based platform (in this case the OLT) and the customer premise-based device (in this case the ONT). We believe this will begin in 2008, and by mid/late 2009 virtually all GPON ONT's will be purchased on a "standalone" basis from companies like TXP-ONT Solutions. The same phenomenon occurred when ADSL systems were first deployed. OEM's will lose interest in the ONT market at different times and more importantly will not have the capacity to stay abreast of competitors in the highly competitive and even commodity-like market. OEM's will look for a low cost partner like TXP-ONT Solutions when they begin losing platform wins because their non-competitive ONT keeps them from bidding a winning solution.

**TXP-ONT Solutions ODM competitors include:**

**Amedia Networks (ticker: AANI)**

Amedia Networks, Inc., a development stage company, engages in the design, development, and marketing of technology-based broadband access solutions for voice, video, and data services. It provides ethernet-based solutions that are deployed with optical fibers or copper wires to offer voice, video, and data broadband services.

**Cambridge Industries Group (private)**

Cambridge Industries Group, Ltd. (CIG) provides business development, customer support and engineering services to help vendors implement broadband access services in the Greater China area. Cambridge leverages China's telecommunication equipment R&D and manufactures resources and provides services to OEM/ODM partners. CIG's R&D, Marketing, and

Manufacturing operations are based in Beijing and Shanghai, China; while its headquarters functions are based in Hong Kong.

#### **lambda Networks (private)**

lambda Networks, founded in 2000, is a privately held company, developing components and system solutions for the FTTP (Fiber-to-the-Premise) market. The company has been active in the PON (Passive Optical Networks) market since its inception and since late 2004 has focused on GPON (Gigabit-PON), planning to deliver a complete GPON end-to-end solution in early in 2006.

#### **XAVI Technologies Corporation (private)**

The Company manufactures customer premises equipment for ADSL, G.SHDSL, and VDSL; integrated access devices (IADs) for ADSL and G.SHDSL; and MTU/MDU equipment supporting ADSL, G.SHDSL and VDSL.

#### **Alpha Networks (private)**

Alpha Networks is a global leader in the networking ODM/OEM industry. Alpha is an outsourcing partner of brand name networking companies, integrators, telecommunications firms and service providers around the world.

**Patents:** As part of its Siemens acquisition TXP was granted access to 18 patents surrounding Siemens Optical Network Terminal (ONT) technology, supporting both Broadband Passive Optical Network (BPON) and Gigabit Passive Optical Network (GPON) standards.

**Conclusion:** During the quarter TXP announced shipments of their first Broadband Passive Optical Network (BPON) ONT units to a major Original Equipment Manufacturer (OEM) and a Tier I carrier, both of which represent major milestones for the company. ONTs are the customer premise located devices used by a carrier to serve residential and business customers over a PON-based (Passive Optical Networking) system. PON is a point-to-multipoint technology which has been adopted by telephone companies globally because of its cost effectiveness in extending fiber-based service delivery all the way to the customer premise (Fiber-to-the-Home [FTTH] or Fiber-to-the-Premise [FTTP]). TXP's ONTs sit at each customer premise and are connected over fiber to an Optical Line Terminal (OLT) generally located in the carrier's central office. A single OLT can deliver services to hundreds of ONTs.

TXP also entered into a reseller agreement with a major communications technology and infrastructure provider that has begun distributing TXP's BPON ONT units to its customers. The major systems vendors and carriers are beginning to explore OEM sourcing for more cost-effective, time-sensitive ONT solutions that are interoperable across a wide range of networks. TXP has demonstrated interoperability with three leading Optical Line Terminal (OLT) OEMs and is moving to demonstrate interoperability across all major platforms. TXP's pre-manufacturing services model and quick-turn capabilities enable them to bring products to market faster and more cost effectively than traditional providers. These combined capabilities position TXP to become a leading provider of ONTs to support the accelerated roll-out of 'fiber-to-home' services nationwide.

Similar to the model followed in the maturing DSL market just a few years ago, the major systems vendors and carriers are beginning to explore OEM sourcing for more cost-effective, time-sensitive ONT solutions that are interoperable across a wide range of networks. TXP's pre-manufacturing services model and quick-turn capabilities enable the company to bring products to market both faster and more cost-effectively than traditional providers. This allows TXP to provide customized BPON and GPON ONTs to industry partners with a much faster turnaround time and at very attractive price points.

**Risks:** There are certain risks and uncertainties that could affect operating results and the market price of TXP's common shares. There can be no assurance that TXP will be successful in addressing such risks and uncertainties. Such risks and uncertainties include but are not necessarily limited to the following:

- TXP's limited operating history
- TXP's history of incurring net losses
- The need for TXP to keep up with changes in technology
- TXP's reliance on third parties for raw materials
- TXP's limited marketplace
- Raw material inventory risk
- Competition
- TXP's ability to attract and retain qualified personnel
- TXP's dependence on its key personnel
- Possible changes in regulatory framework related to TXP's products
- TXP's failure to effectively manage their growth
- TXP's reliance on intellectual property rights
- Potential issuance and exercise of warrants and options
- Resale of restricted securities
- TXP's ability to retain and attract market makers
- TXP's ability to meet the continued listing requirements of the Over the Counter Securities Market

For a more detailed description of TXP's risk factors, investors are strongly encouraged to review the section entitled "Risk Factors" in TXP's annual report on Form 10KSB for the period ended December 31, 2006 on file with the Securities and Exchange Commission.

## Financials:

### TXP CORPORATION CONSOLIDATED BALANCE SHEETS

	2006	2005
<b>ASSETS</b>		
Current assets:		
Cash	\$228,000	\$342,000
Accounts receivable, net of allowance	\$976,000	\$695,000
Inventory	\$673,000	\$118,000
Other assets	\$346,000	\$79,000
Total current assets	\$2,223,000	\$1,234,000
Property and equipment, net	\$2,667,000	\$914,000
Deferred offering costs	\$0	\$688,000
Other assets	\$13,000	\$25,000
<b>TOTAL ASSETS</b>	<b>\$4,903,000</b>	<b>\$2,861,000</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current maturities of notes payable	\$272,000	\$143,000
Current capital lease obligation	\$46,000	\$19,000
Line of credit	\$400,000	\$250,000
Current derivative financial instruments	\$1,288,000	\$0
Current convertible debentures, net of unamortized discount	\$467,000	\$0
Accounts payable	\$913,000	\$477,000
Deferred revenue	\$332,000	\$0
Accrued expenses	\$412,000	\$174,000
Total current liabilities	\$4,130,000	\$1,063,000
Notes payable, net of current maturities	\$144,000	\$15,000
Capital lease obligation, net of current obligation	\$32,000	\$33,000
Line of credit	\$1,000,000	\$0
Convertible debentures, net of unamortized discount	\$0	\$2,187,000
Derivative financial instruments, net of current obligation	\$2,507,000	\$0
Deferred tax liability	\$48,000	\$48,000
<b>TOTAL LIABILITIES</b>	<b>\$7,861,000</b>	<b>\$3,346,000</b>
<b>STOCKHOLDERS' DEFICIT:</b>		
Common stock, \$.001 par value, 300,000,000 shares authorized, 104,080,623 and 89,298,042 shares issued and outstanding as of December 31, 2006 and December 31, 2005, respectively.	\$104,000	\$8,900
Additional paid in capital	\$2,121,000	\$17,000
Accumulated deficit		
Retained earnings	(\$5,190,000)	(\$598,000)
Accumulated other comprehensive income	\$7,000	\$7,000
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(\$2,958,000)</b>	<b>(\$485,000)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$4,903,000</b>	<b>\$2,861,000</b>

**TXP CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	2006	2005
<b>Revenues</b>		
Prototyping and assembly	\$4,871,000	\$7,486,000
Material management services	\$2,360,000	\$1,914,000
Design and development services	\$997,000	\$0
Total Revenues	\$8,228,000	\$9,400,000
Cost of sales	\$5,523,000	\$6,916,000
Gross profit	\$2,705,000	\$2,484,000
<b>Costs and expenses</b>		
Selling, general & administrative	\$3,834,000	\$2,600,000
Research and development	\$52,000	\$0
Depreciation	\$94,000	\$54,000
Total costs and expenses	\$3,980,000	\$2,654,000
Operating loss	(\$1,275,000)	(\$170,000)
Interest expense, net	(\$943,000)	(\$411,000)
Change in fair value of derivative financial instruments	(\$2,703,000)	\$0
Gain on early extinguishment of debt	\$161,000	\$0
Other Income	\$150,000	\$0
Gain (loss) on sale of fixed assets	\$18,000	\$0
Loss before income taxes	(\$4,592,000)	(\$595,000)
Income tax expense	—	—
Net loss	(\$4,592,000)	(\$595,000)
Foreign currency translation adjustment	\$0	\$2,000
Comprehensive loss	(\$4,592,000)	(\$593,000)
Basic earnings per share	(\$0.05)	(\$0.01)
Diluted earnings per share	(\$0.05)	(\$0.01)
Basic weighted average shares outstanding:	95,024,296	72,967,468
Diluted weighted average shares outstanding:	95,024,296	72,967,468

**TXP COPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2006	2005
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Net loss	(\$4,592,000)	(\$595,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	\$264,000	\$218,000
Gain (loss) on sale of fixed assets	(\$18,000)	\$14,000
Deferred revenue	(\$997,000)	\$0
Amortization of discount on convertible notes	\$716,000	\$80,000
Gain on extinguishment of debt	(\$161,000)	\$0
Stock compensation	\$355,000	\$45,000
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(\$281,000)	(\$194,000)
Deferred offering costs	\$697,000	\$0
Inventory	(\$555,000)	(\$33,000)
Other current assets	(\$167,000)	(\$16,000)
Other assets	\$13,000	\$61,000
Accounts payable	\$436,000	\$245,000
Accrued expenses	\$105,000	\$68,000
Change in fair value of derivative financial instruments	\$2,703,000	\$0
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(\$1,482,000)</b>	<b>(\$107,000)</b>
<b>CASH FLOWS USED INVESTING ACTIVITIES</b>		
Capital expenditures	(\$368,000)	(\$492,000)
Proceeds from sale of fixed assets	\$60,000	\$48,000
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(\$308,000)</b>	<b>(\$440,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deferred offering costs	(\$9,000)	(\$213,000)
Proceeds from convertible debenture	\$480,000	\$485,000
Line of credit, net	\$1,150,000	\$80,000
Redemption of convertible debenture	(\$1,127,000)	\$0
Payment of redemption premium on convertible debenture	(\$225,000)	\$0
Proceeds from notes payable	\$150,000	\$346,000
Proceeds from issuance of stock	\$1,485,000	\$0
Repayment of notes payable and capital lease obligation	(\$228,000)	(\$456,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$1,676,000</b>	<b>\$242,000</b>
Effect of currency translation on cash balances	\$0	\$2,000
<b>NET DECREASE IN CASH</b>	<b>(\$114,000)</b>	<b>(\$307,000)</b>
Cash, beginning of period	\$342,000	\$649,000
Cash, end of period	\$228,000	\$342,000

**Legal Notes and Disclosures:**

This report has been prepared by Vista Partners LLC ("Vista") based upon information available in TXP Corporation's ("The Company") public filings on record with the Securities and Exchange Commission ("SEC"), information available on the company's website, the Power point presentation and web cast from the 2007 Needham Growth Conference, a due diligence tour of the company's facility and an interview with the company's management. Vista has been compensated by the Company in cash of thirty five hundred dollars a month for a one year period for its services in creating this report, for updates, as well as for printing costs. Statements in this report that are not historical facts are "forward-looking statements" that involve risks and uncertainties. Forward-looking statements can be identified by the use of words such as "opportunities," "trends," "potential," "estimates," "may," "will," "could," "should," "anticipates," "expects" or comparable terminology or by discussions of strategy. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements. Additional risks, uncertainties and other factors are identified under the captions "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in the Company's reports filed from time to time with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as amended. Vista and the Company disclaim any intention or obligation to update publicly or revise any forward-looking statements, whether as a result of new or additional information, future events or otherwise. The Company is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by the Company or Vista. For more complete information about TXP Corporation the reader is directed to the Company's website; [www.txpcorporation.com](http://www.txpcorporation.com)

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