

Cobalis Corp  
Form 10QSB  
December 20, 2007

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

**FORM 10-QSB**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended September 30, 2007**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**000-49620**

(Commission file number)

**COBALIS CORP.**

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

**Nevada**

\_\_\_\_\_  
(State or other jurisdiction  
of incorporation or organization)

**91-1868007**

\_\_\_\_\_  
(IRS Employer  
Identification No.)

**2445 McCabe Way, Suite 150, Irvine, California 92614**

(Address of principal executive offices)

**(949) 757-0001**

(Issuer's telephone number)

**N/A**

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of December 19, 2007 - 46,027,014 shares of common stock.

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years. Check whether the

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registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ X] No [ ]

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

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

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**Cobalis Corp. and Subsidiary**  
**(A Development Stage Company)**  
**Consolidated Balance Sheet**

		<b>September 30,</b>
		<b>2007</b>
		(unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$	124
Prepaid expenses and other current assets		12,546
<b>TOTAL CURRENT ASSETS</b>		<b>12,670</b>
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$113,392		1,931
WEBSITE DEVELOPMENT COSTS, net of accumulated amortization of \$34,075		532
PATENTS, net of accumulated amortization of \$360,876		592,563
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>607,696</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$	424,084
Accrued expenses		830,293
Accrued clinical trial costs		591,229
Accrued legal settlements		1,710,057
Accrued salaries		489,412
Warrant liability		670,398
Accrued derivative liability		3,999,798
Promissory notes		46,813
Notes payable		150,000
Senior Debenture, net of discount of \$4,979		245,021
Convertible debenture, net of discount of \$40,298		2,882,702
<b>TOTAL CURRENT LIABILITIES</b>		<b>12,039,807</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		<b>-</b>
<b>STOCKHOLDERS' DEFICIT</b>		

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Common stock; \$0.001 par value; 100,000,000 shares authorized; 45,927,014 shares issued and outstanding	45,927
Additional paid-in capital	29,810,710
Prepaid expenses	(2,582)
Deficit accumulated during the development stage	(41,286,166)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(11,432,111)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 607,696</b>

**The accompanying notes are an integral part of these unaudited consolidated financial statements.**

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**Cobalis Corp. and Subsidiary**  
**(A Development Stage Company)**  
**Consolidated Statements of Operations**

	Three Months Ended		Six Months Ended		Cumulative from November 21, 2000 (inception) to September 30, 2007 (unaudited)
	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)	September 30, 2007 (unaudited)
NET SALES	\$ -	\$ -	\$ -	\$ -	5,589
COST OF SALES	-	-	-	-	31,342
GROSS LOSS	-	-	-	-	(25,753)
<b>OPERATING EXPENSES:</b>					
Professional fees	25,272	650,769	1,174,979	1,567,674	13,135,838
Salary and wages	274,646	918,330	485,107	1,103,632	5,459,205
Rent expense	42,738	37,203	80,378	100,279	822,622
Marketing and research	-	1,273,555	-	1,299,364	5,553,516
Depreciation and amortization	13,784	14,515	27,567	31,277	616,972
Impairment expense	-	-	-	-	2,331,522
Stock option expense	478,925	461,684	957,790	590,592	2,525,369
Other operating expenses	70,578	290,106	264,041	423,901	2,582,227
Legal settlements	-	-	-	-	919,718
<b>TOTAL OPERATING EXPENSES</b>	<b>905,943</b>	<b>3,646,162</b>	<b>2,989,862</b>	<b>5,116,719</b>	<b>33,946,989</b>
<b>LOSS FROM OPERATIONS</b>	<b>(905,943)</b>	<b>(3,646,162)</b>	<b>(2,989,862)</b>	<b>(5,116,719)</b>	<b>(33,972,742)</b>
<b>OTHER EXPENSE</b>					
Interest expense and financing costs	(127,156)	(100,340)	(4,034,110)	(232,135)	(9,303,038)
Convertible debenture financing cost	-	-	-	-	(3,136,214)
Loss on conversion of debt	-	-	-	-	(88,839)
Change in fair value of warrant and accrued derivative liabilities	829,697	-	6,257,188	-	6,099,667
<b>TOTAL OTHER EXPENSE</b>	<b>702,541</b>	<b>(100,340)</b>	<b>2,223,078</b>	<b>(232,135)</b>	<b>(6,428,424)</b>
<b>NET LOSS</b>	<b>(203,402)</b>	<b>(3,746,502)</b>	<b>(766,784)</b>	<b>(5,348,854)</b>	<b>(40,401,166)</b>
PREFERRED STOCK DIVIDENDS	-	9,375	-	28,125	1,110,000

NET LOSS ATTRIBUTED TO COMMON STOCKHOLDERS	\$ (203,402)	\$ (3,755,877)	\$ (766,784)	\$ (5,376,979)	(41,511,166)
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NET LOSS PER SHARE: BASIC AND DILUTED	\$ (0.00)	\$ (0.12)	\$ (0.02)	\$ (0.18)	(1.75)
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WEIGHTED AVERAGE SHARES OUTSTANDING: BASIC AND DILUTED	43,232,722	31,551,496	41,105,601	29,663,903	23,674,421
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**The accompanying notes are an integral part of these unaudited consolidated financial statements.**

**Cobalis Corp. and Subsidiary**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Period From November 21, 2000 (inception) to September 30, 2007**

	Common stock Shares	Common stock Amount	Additional paid-in capital	Prepaid Expenses	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
Balance at inception (November 21, 2000)	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of founder's shares in exchange for property and equipment	16,300,000	16,300	-	-	-	16,300
Issuance of common stock for cash - November 2000 @ \$1.00	30,000	30	29,970	-	-	30,000
Issuance of common stock for cash - December 2000 @ \$1.00	15,000	15	14,985	-	-	15,000
Issuance of common stock for cash - February 2001 @ \$1.00	12,000	12	11,988	-	-	12,000
Issuance of common stock for cash - March 2001 @ \$1.00	125,000	125	124,875	-	-	125,000
Issuance of common stock for services - March 2001 @ \$1.00	10,000	10	9,990	-	-	10,000
Contributed capital	-	-	62,681	-	-	62,681
Net loss for the period from inception (November 21, 2000) to March 31, 2001	-	-	-	-	(223,416)	(223,416)
Balance at March 31, 2001, as restated	16,492,000	16,492	254,489	-	(223,416)	47,565
Issuance of common stock for cash - April 2001 @ \$1.00	10,000	10	9,990	-	-	10,000
Issuance of common stock for telephone equipment - April 2001 @ \$1.00	6,750	7	6,743	-	-	6,750



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Issuance of common stock for cash - May 2001 @ \$1.00	11,000	11	10,989	-	-	11,000
Issuance of common stock for website development - May 2001 @ \$1.00	17,000	17	16,983	-	-	17,000
Issuance of common stock for legal services - May 2001 @ \$1.00	1,000	1	999	-	-	1,000
Issuance of common stock for cash - June 2001 @ \$1.00	23,500	24	23,476	-	-	23,500
Issuance of common stock for cash - July 2001 @ \$1.00	20,000	20	19,980	-	-	20,000
Issuance of common stock for cash - August 2001 @ \$1.00	25,000	25	24,975	-	-	25,000
Issuance of common stock for services, related party - September 2001 @ \$1.00	65,858	66	65,792	-	-	65,858
Issuance of common stock for cash - September 2001 @ \$1.00	15,000	15	14,985	-	-	15,000
Issuance of common stock for services - September 2001 @ \$1.00	11,000	11	10,989	-	-	11,000
Issuance of stock options for services - September 2001	-	-	32,000	-	-	32,000
Issuance of common stock for cash - October 2001 @ \$1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - December 2001 @ \$1.00	30,000	30	29,970	-	-	30,000
Issuance of common stock for services - December 31, 2001 @ \$1.00	33,000	33	32,967	-	-	33,000
Issuance of common stock for services, related party - December 2001 @ \$1.00	117,500	118	117,382	-	-	117,500

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Issuance of common stock for prepaid advertising - December 2001 @ \$1.00	15,600	15	15,585	-	-	15,600
Issuance of common stock for property and equipment - January 2002 @ \$3.00	1,000	1	2,999	-	-	3,000
Issuance of common stock for services, related party - January 2002 @ \$1.00	33,000	33	32,967	-	-	33,000
Issuance of common stock for cash - February 2002 @ \$2.00	20,000	20	39,980	-	-	40,000
Issuance of common stock for cash - March 2002 @ \$2.00	12,500	12	24,988	-	-	25,000
Contributed capital	-	-	211,269	-	-	211,269
Deferred compensation	-	-	-	(60,108)	-	(60,108)
Net loss	-	-	-	-	(1,144,249)	(1,144,249)
Balance at March 31, 2002, as restated	16,965,708	16,966	1,005,492	(60,108)	(1,367,665)	(405,315)
Issuance of common stock for services - April 2002 @ \$2.00	3,000	3	5,997	-	-	6,000

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Issuance of common stock for cash - April 2002 @ \$1.00	10,000	10	9,990	-	-	10,000
Issuance of common stock for cash - April 2002 @ \$2.00	17,500	17	34,983	-	-	35,000
Issuance of common stock for cash - May 2002 @ \$1.00	10,000	10	9,990	-	-	10,000
Issuance of common stock for cash - May 2002 @ \$2.00	16,000	16	31,984	-	-	32,000
Issuance of stock options for services - May 2002	-	-	350,000	-	-	350,000
Contributed capital - bonus expense	-	-	50,000	-	-	50,000
Issuance of common stock for cash - June 2002 @ \$1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - June 2002 @ \$2.00	5,000	5	9,995	-	-	10,000
Issuance of common stock for cash - July 2002 @ \$1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - August 2002 @ \$2.00	10,000	10	19,990	-	-	20,000
Issuance of common stock for cash - September 2002 @ \$2.00	10,000	10	19,990	-	-	20,000
Issuance of stock options below fair market value - November 2002	-	-	250,000	(250,000)	-	-
Issuance of common stock for conversion of note - December 2002 @ 2.00	50,000	50	99,950	-	-	100,000
Issuance of common stock for cash - December 2002 @ \$2.00	20,000	20	39,980	-	-	40,000
Issuance of common stock for services - December 2002 @ \$2.00	15,000	15	29,985	-	-	30,000
Issuance of common stock for patents - December 2002 @ \$2.00	2,000,000	2,000	1,285,917	-	-	1,287,917
Contributed capital			292,718	-	-	292,718
Issuance of common stock for exercise of options - December 2002	574,000	574	574,028	-	-	574,602
Deferred compensation				60,108	-	60,108
Contributed capital			5,000	-	-	5,000
Issuance of common stock for services - January 2003			25,000	-	-	25,000
Issuance of common stock for cash February 2003 @ \$2.00	11,500	12	22,988	-	-	23,000
Issuance of common stock for cash March 2003 @ \$2.00	5,000	5	9,995	-	-	10,000
Deferred compensation				54,000	-	54,000
Net loss				-	(2,148,008)	(2,148,008)
Balance at March 31, 2003, as restated	19,732,708	19,733	4,193,962	(196,000)	(3,515,673)	502,022

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Issuance of common stock for cash April 2003 @ \$2.00	70,000	70	139,930	-	-	140,000
Issuance of common stock for cash May 2003 @ \$2.00	30,000	30	59,970	-	-	60,000
Acquisition by Biogenetech Corp of ("Togs for Tykes")	1,032,000	1,032	(101,032)	-	-	(100,000)
Issuance of common stock for penalties January 2004 @ \$2.80	135,000	135	377,865	-	-	378,000
Issuance of common stock for services February 2004 @ \$2.20	100,000	100	219,900	-	-	220,000
Issuance of common stock for services February 2004 @ \$1.85	20,000	20	36,980	-	-	37,000
Value of beneficial conversion feature of convertible debenture issued in September 2003			346,870	-	-	346,870
Fair value allocated to warrant liability for detachable warrants issued with preferred stock			(181,849)	-	-	(181,849)
Dividend on preferred stock			885,000	-	(885,000)	-
Deferred compensation				196,000	-	196,000
Net loss				-	(5,703,639)	(5,703,639)

Balance at March 31, 2004	21,119,708	21,120	5,977,596	-	(10,104,312)	(4,105,596)
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Issuance of common stock for penalties May 2004 @ \$1.85	170,000	170	314,330	-	-	314,500
Issuance of common stock for services June 2004 @ \$1.75	10,000	10	17,490	-	-	17,500
Issuance of common stock for conversion of debt June 2004 @ \$1.60	371,317	371	593,736	-	-	594,107
Issuance of common stock for services July 2004 @ \$1.35	7,489	8	10,101			10,109
Issuance of common stock for services July 2004 @ \$1.10	75,000	75	82,425			82,500
Issuance of common stock for services August 2004 @ \$0.75	100,000	100	74,900			75,000
Conversion of debt to common stock September 2004 @ 2.22	857,143	857	1,902,000			1,902,857
Issuance of common stock for services October 2004 @ \$2.20	4,758	5	10,463			10,468
Issuance of common stock for services October 2004 @ \$2.55	375,000	375	955,875			956,250
Issuance of common stock for services December 2004 @ \$1.45	5,000	5	7,245			7,250
Issuance of common stock for services December 2004 @ \$1.30	63,676	63	82,715			82,778
Issuance of common stock for services January 2005 @ \$1.05	1,250	1	1,312			1,313



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Issuance of common stock for services January 2005 @ \$1.18	75,000	75	88,425		88,500
Issuance of common stock for services February 2005 @ \$1.10	155,000	155	170,345		170,500
Issuance of common stock for services February 2005 @ \$1.06	100,000	100	105,900		106,000
Issuance of common stock for services February 2005 @ \$0.95	30,000	30	28,470		28,500
Issuance of common stock for services February 2005 @ \$1.05	80,628	81	84,578		84,659
Issuance of common stock for services February 2005 @ \$1.00	467,159	467	466,692		467,159
Issuance of common stock for services February 2005 @ \$0.96	350,000	350	335,650		336,000
Issuance of common stock for financing costs March 2005 @ \$0.81	50,000	50	40,450		40,500
Issuance of common stock for services March 2005 @ \$0.80	5,000	5	3,995		4,000
Issuance of common stock for services March 2005 @ \$0.75	120,000	120	89,880		90,000
Issuance of common stock for services March 2005 @ \$0.68	37,500	38	25,462		25,500
Fair value of warrants issued to consultants			553,715		553,715
Net loss				(8,101,014)	(8,101,014)
Balance at March 31, 2005	24,630,628	24,631	12,023,750	-	(18,205,326) (6,156,945)
Cancellation of common stock previously issued	(105,000)	(105)	(113,895)		(114,000)
Issuance of common stock for services April 2005 @ \$0.59	100,000	100	58,900		59,000
Issuance of common stock for services April 2005 @	162,500	162	100,587		100,749

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\$0.62					
Issuance of common stock for services May 2005 @ \$0.60	39,836	40	23,862		23,902
Issuance of common stock for services June 2005 @ \$0.65	110,000	110	71,390		71,500
Issuance of common stock for services June 2005 @ \$0.45	200,000	200	89,800		90,000
Issuance of common stock for services July 2005 @ \$0.60	10,000	10	5,990		6,000
Issuance of common stock for services July 2005 @ \$0.61	125,000	125	76,125		76,250
Issuance of common stock for interest July 2005 @ \$0.61	50,000	50	30,450		30,500
Cancellation of common stock previously issued	(150,000)	(150)	(143,850)		(144,000)
Issuance of common stock for services August 2005 @ \$0.48	100,000	100	47,900		48,000
Issuance of common stock for services September 2005 @ \$0.50	30,000	30	14,970		15,000
Issuance of common stock for services September 2005 @ \$0.42	50,000	50	20,950		21,000
Issuance of common stock for services September 2005 @ \$0.50	75,000	75	37,425		37,500
Issuance of common stock for services October 2005 @ \$0.53	220,000	220	115,280	(58,750)	56,750
Issuance of common stock for prepaid interest October 2005 @ \$0.58	125,000	125	72,375	(72,500)	-
Issuance of common stock for conversion of debt October 2005 @ \$1.75	150,000	150	262,350		262,500
Issuance of common stock for services November 2005 @ \$0.78	822,706	823	644,847	(26,700)	618,970
Issuance of common stock for services January 2006 @ \$1.54	335,000	335	515,165	(119,500)	396,000
Issuance of common stock for services February 2006 @ \$1.42	62,000	62	87,738		87,800

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Issuance of common stock for services March 2006 @ \$1.58	121,467	121	192,237			192,358
Issuance of common stock for conversion of notes payable and accrued interest March 2006	105,250	105	173,557			173,662
Cancellation of common stock previously issued	(3,000)	(3)	(4,797)			(4,800)
Amortization of prepaid expenses				112,025		112,025
Value of warrants issued with debt			131,365			131,365
Repricing of warrants			301,155			301,155
Amortization of fair value of warrants issued to consultants			1,541,628			1,541,628
						-
Net loss					(6,603,454)	(6,603,454)
Balance at March 31, 2006	27,366,387	27,366	16,377,254	(165,425)	(24,808,780)	(8,569,585)
Issuance of common stock for conversion of note payable and accrued interest April 2006	27,200	27	51,109			51,136
Issuance of common stock for services April 2006 @ \$1.46	115,000	115	167,835			167,950

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Issuance of common stock for cashless exercise of warrants	192,997	193	(193)	-
Issuance of common stock for services May 2006 @ \$1.37	150,000	150	204,450	(165,600) 39,000
Issuance of common stock for conversion of accounts payable May 2006 @ \$1.28	111,416	112	142,501	142,613
Issuance of common stock for conversion of preferred stock July 2006 @ \$2.12	208,333	208	442,292	442,500
Issuance of common stock for conversion of related party debt July 2006 @ \$1.30	3,995,806	3,996	5,190,558	5,194,554
Issuance of common stock for services July 2006 @ \$0.99	30,000	30	29,820	(14,850) 15,000
Issuance of common stock for conversion of convertible note debt July 2006 @ \$1.01	200,000	200	201,800	202,000
Issuance of common stock for services August 2006 @ \$0.97	20,000	20	19,380	19,400
Issuance of common stock for services September 2006 @ \$0.92	156,000	156	143,684	(94,000) 49,840
Issuance of common stock for cash September 2006 @ \$0.50	400,000	400	199,600	200,000
Issuance of common stock for services October 2006 @ \$0.99	360,000	360	356,440	356,800
Issuance of common stock for cash October 2006 @ \$0.50	1,150,000	1,150	573,850	575,000
Issuance of common stock for services November 2006 @ \$0.93	1,163,695	1,164	1,081,846	1,083,010
Issuance of common stock for cash December 2006 @ \$0.50	50,000	50	24,950	25,000

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Issuance of common stock for conversion of note payable and accrued interest						
February 2007 @ \$0.85	127,838	128	108,534			108,662
Issuance of common stock for conversion of preferred stock						
March 2007 @ \$2.12	208,334	208	442,292			442,500
Issuance of common stock for conversion of convertible debenture						
March 2007 @ \$0.76	33,025	33	24,967			25,000
Issuance of common stock for services						
March 2007 @ \$0.80	225,000	225	179,775			180,000
Payment of equity offering costs				(57,500)		(57,500)
Amortization of prepaid expenses				419,118		419,118
Value of warrants issued with debt				112,533		112,533
Fair value of vested stock options issued to employees				1,567,579		1,567,579
Fair value of warrants issued for extension of debt				15,307		15,307
Amortization of fair value of warrants issued to consultants				961,818		961,818
Value of re-priced warrants				1,599		1,599
Value of warrants transferred to liability				(3,545,880)		(3,545,880)
						-
Net loss				(15,710,602)		(15,710,602)
<b>Balance at March 31, 2007</b>	<b>36,291,031</b>	<b>\$ 36,291</b>	<b>\$ 25,018,200</b>	<b>\$ (20,757)</b>	<b>\$ (40,519,382)</b>	<b>\$ (15,485,648)</b>
Issuance of common stock for conversion of convertible debenture,						
April 2007 @ \$0.68	767,319	768	524,232			525,000
Issuance of common stock for conversion of accounts payable,						
April 2007 @ \$0.98	343,184	343	334,077			334,420

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Issuance of common stock for conversion of note payable of \$600,000, April 2007 @ \$2.00	300,000	300	599,700.00			600,000
Issuance of common stock for exercise of warrants, April 2007, \$0.75	1,333,333	1,333	998,667.00			1,000,000
Issuance of common stock for services, April 2007 @ \$1.18	450,000	450	530,050			530,500
Issuance of common stock for services, May 2007 @ \$1.10	67,896	67	74,618			74,685
Issuance of common stock for services, June 2007 @ \$0.36	737,500	738	267,013			267,751
Issuance of common stock for conversion of convertible debenture, July 2007 @ \$0.11	1,524,664	1,525	168,475			170,000
Issuance of common stock for conversion of convertible debenture, July 2007 @ \$0.11	1,748,879	1,749	193,251			195,000
Issuance of common stock for services July 2007 @ \$0.14	250,000	250	34,750			35,000
Issuance of common stock for conversion of convertible debenture, September 2007 @ \$0.05	2,113,208	2,113	109,887			112,000
Fair value of vested stock options issued to employees			957,790			957,790
Amortization of prepaid expenses				18,175		18,175
Net loss					\$ (766,784)	(766,784)
<b>Balance at September 30,2007 - unaudited</b>	<b>45,927,014</b>	<b>45,927</b>	<b>29,810,710</b>	<b>(2,582)</b>	<b>(41,286,166)</b>	<b>(11,432,111)</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Cobalis Corp. and Subsidiary**  
**(A Development Stage Company)**  
**Consolidated Statements of Cash Flows**

	Six Months ended		Cumulative from November 21, 2000 (inception) to September 30, 2007
	September 30, 2007	September 30, 2006	
	(unaudited)	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (766,784)	\$ (5,348,854)	\$ (40,401,166)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	27,567	31,277	616,972
Common stock issued for services	795,936	291,190	7,553,259
Common stock issued for penalty	112,000	-	804,500
Common stock issued for financing costs	-	-	115,743
Change in value of warrant and accrued derivative liabilities	(6,257,188)	-	(6,099,667)
Amortization of debt issue costs	368,878	51,101	526,572
Exercise of stock options for services	-	-	26,960
Amortization of discounts on notes	3,364,770	-	4,633,918
Issuance of stock options/warrants for services/debt extension	-	719,467	3,639,296
Capital contribution - bonus (related party)	-	-	50,000
Amortization of prepaid expenses	18,175	213,340	564,918
Amortization of deferred compensation	-	-	250,000
Discount on common stock issued for settlement of debt	-	-	50,000
Impairment expense	-	-	2,331,522
Re-pricing of warrants	-	-	302,754
Value of vested stock options issued to employees	957,790	590,592	2,525,369
Non-cash financing costs	-	-	3,136,214
Changes in assets and liabilities:			-
Prepaid expenses and other assets	12,039	(28,311)	-
Inventory	-	-	6,250
Deposits	-	-	27,454
Accounts payable	146,138	139,969	1,309,507
Accrued expenses	51,365	137,580	1,811,401
Accrued clinical trial costs	(653,502)	1,004,032	591,229
Accrued legal settlement	110,057	-	1,710,057
Accrued salaries	223,620	830,596	223,297
Amounts due to related parties	-	215,574	2,043,481
Net cash used in operating activities	(1,489,139)	(1,152,447)	(11,650,160)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			

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Purchase of property and equipment	-	-	(89,272)
Increase in patent costs	-	(48,124)	(72,835)
Increase in acquisition deposits	-	-	(2,220,000)
Increase in other deposits	-	-	(40,000)
Increase in capitalized website	-	-	(18,097)
Net cash used in investing activities	-	(48,124)	(2,440,204)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Change in cash overdraft	-	-	-
Payment on contract	-	-	(161,000)
Proceeds from advances - related party	-	-	4,581,449
Proceeds from advances from stockholders	-	-	310,000
Proceeds from issuance of notes payable	-	550,000	2,015,000
Proceeds from sale of common stock	-	200,000	1,606,500
Payment of equity offering costs	-	-	(57,500)
Proceeds from sale of preferred stock	-	-	885,000
Proceeds from convertible debenture	100,000	-	4,650,000
Proceeds from exercise of warrants	1,000,000	-	1,000,000
Capital contribution	-	-	571,668
Payment of debt issue costs	-	-	(498,500)
Payments on advances from stockholders	-	(10,000)	(60,000)
Payments on notes payable	-	-	(350,000)
Payments on advances - related party	-	-	(402,129)
Net cash provided by (used in) financing activities	1,100,000	740,000	14,090,488

**NET INCREASE (DECREASE) IN CASH AND**

<b>CASH EQUIVALENTS</b>	(389,139)	(460,571)	124
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<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	389,263	526,691	-
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<b>CASH AND CASH EQUIVALENTS, End of period</b>	\$ 124	\$ 66,120	\$ 124
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Interest paid	\$ -	\$ -	\$ 71,617
Income taxes paid	\$ -	\$ -	\$ -

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Common shares issued for conversion of debt	\$ 1,602,000	\$ 5,396,554	\$ 7,183,352
Common shares issued for settlement of debt	\$ 324,420	\$ -	\$ 5,905,772

**The accompanying notes are an integral part of these unaudited consolidated financial statements.**

**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2007**  
**(UNAUDITED)**

**NOTE 1 - BASIS OF PRESENTATION**

The unaudited consolidated financial statements have been prepared by Cobalis Corp. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended March 31, 2007 included in the Company's Annual Report on Form 10-KSB. The results of the six months ended September, 30, 2007 are not necessarily indicative of the results to be expected for the full year ending March 31, 2008.

Going Concern and Bankruptcy

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of \$766,784 for the six months ended September, 30, 2007, and as of September, 30, 2007, the Company had a working capital deficit of \$12,027,137 and a stockholder deficit of \$11,432,111. In addition, as of September, 30, 2007, the Company has not developed a substantial source of revenue.

On March 31, 2006, the Company reached a settlement with Gryphon Master Lund LP ("Gryphon") related to two investments in the Company by Gryphon in September 2003 totaling \$1,600,000. Full repayment is due under the settlement agreement on or before April 1, 2007. The Company did not make the payment by April 1, 2007; therefore, the stipulated judgment into which the Company entered with Gryphon provides that Gryphon has the right to enter a judgment of \$1.6 million against the Company with the court upon the Company's default.

On April 2, 2007, the Company filed a motion to vacate an agreed judgment based on several grounds including that allegation that Gryphon breached the "no shorting" provision contained in the settlement agreement. The Company believes, and so allege in the Motion to Vacate, that despite Gryphon's agreement, Gryphon engaged in shorting of the Company's stock.

On April 23, 2007, Gryphon sued the Company for breach of contract. This new lawsuit alleges that the Company breached a settlement agreement with Gryphon. Gryphon is also seeking a declaratory judgment that it did not breach the same settlement agreement. Gryphon's alleged breach of the settlement agreement is the subject of the Company's Motion to Vacate. In addition to the declaratory relief, Gryphon's complaint seeks unspecified damages and attorneys' fees. On April 23, 2007, Gryphon also filed an opposition to the Company's Motion to Vacate repeating the same allegations.

Since June 2007, Gryphon has aggressively been moving forward with judgment collection activities, including, but not limited to, conducting a debtor's exam, levying the Company's bank accounts and attaching the Company's assets to the extent such assets are not already encumbered.



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There is no guarantee that the Company will be successful in vacating the judgment or in defending the new lawsuit. If the Company is unsuccessful in vacating the judgment or in defending the subsequent lawsuit, and, if the Company is unable to subsequently timely resolve the Gryphon matter or raise capital to satisfy the judgment, the Company's ability to move its business forward could be adversely affected.

On July 23, 2007, the Company received a notice of default from Cornell Capital Partners, LP ("Cornell Capital") with regard to the convertible debentures entered into between the Company and Cornell Capital on December 20, 2006 and February 20, 2007. Cornell Capital is taking the position that the recent collection efforts against the Company by Gryphon with regard to the litigation described above constitute a default under the relevant Cornell Capital funding documents. In the first notice of default, Cornell Capital, in referencing the contractual 15 day cure period, gave the Company until August 7, 2007 to cure the perceived default (i.e., resolve the dispute with Gryphon). If not cured, Cornell Capital has indicated that it will exercise all of its contractual rights, including, but not limited to, accelerated full repayment of the convertible debentures between the parties and exercising its rights under the pledge and escrow agreement and security agreement entered into between the parties.

On July 25, 2007, the Company received a second notice of default from Cornell Capital which also asserted that the Company was in default of certain provisions of the security agreement between the Company and Cornell Capital, entered into on December 20, 2006. Per the terms of that security agreement, Cornell Capital could demand payment in full for all amounts due under the debenture agreements between the parties. It is also possible that Cornell Capital may enforce the terms of the security agreement and the pledge and escrow agreement.

On August 1, 2007, the Company received an informal notice from YA Global Investments, L.P., formerly known as Cornell Capital that Cornell Capital had filed a petition for involuntary bankruptcy proceedings pursuant to Chapter 7 on that same date with the U.S. Bankruptcy Court for the Central District of California, which seeks liquidation of the Company's assets. Also on August 1, 2007, the Company received a copy of a file-stamped Chapter 7 petition confirming the notice provided by Cornell Capital. The petition alleges past due debts not less than \$3,000,000 plus other amounts with regard to the convertible debentures entered into between the Company and Cornell Capital on December 20, 2006 and February 20, 2007.

On October 12, 2007, the Company filed its petition with the Bankruptcy Court for the matter to proceed as a Chapter 11 proceeding, which means that instead of liquidation the Company would be seeking approval from the Bankruptcy Court to effectuate a reorganization of the Company. If accepted, this would allow the Company to continue operating under supervision of the Bankruptcy Court. There is no guarantee that the Bankruptcy Court will allow the Company to proceed under Chapter 11 and not order liquidation. Moreover, since the right to proceed under Chapter 11 is subject to many contingencies and required approvals, there is no guarantee that even if the Bankruptcy Court allows the Company to proceed under Chapter 11 that the Company's plan of reorganization will be approved. In the event the Company's plan of reorganization is not approved, the Company may still face liquidation and dissolution.

The Company's Board of Directors approved the Chapter 11 request as it hopes that proceeding under Chapter 11 will allow the Company to attempt to raise operating capital through either equity or debt financing. Such financing will be crucial in allowing the Company to reorganize its affairs. There is no guarantee that the Company will be permitted to proceed under Chapter 11 and, further, there is no guarantee that the Company will be successful in raising equity and/or debt financing sufficient to reorganize its affairs. If the Company is not able to successfully contest the petition or successfully file and finance a Chapter 11, the Company will likely be forced to liquidate and cease operations.





**COBALIS CORP. AND SUBSIDIARY**  
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The Bankruptcy Court has jurisdiction over the Company's business and affairs as a result of this Chapter 11 election. On November 19, 2007, the Court ordered the conversion from a Chapter 7 case to a Chapter 11 case..

These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Debt Issuance Costs

The Company had capitalized fees and expenses associated with the issuance of its convertible debentures as debt issuance costs, which were being amortized over the term of the convertible debentures. Cornell Capital Partners declared an event of default regarding the convertible debentures; therefore, the Company accelerated the amortization of the debt issuance costs, and recorded an expense of \$368,878 for the six months ended September, 30, 2007.

Patent Costs

Patent costs are carried at cost less accumulated amortization, which is calculated on a straight-line basis, over the estimated economic life of the patent. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company evaluates intangible assets and other long-lived assets (including patent costs) for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets and other long-lived assets is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. During the year ended March 31, 2004, the Company recognized an impairment expense of \$111,522 related to one of its patents as it determined that this patent had no future value based on its assessment of expected future cash flows to be generated by this patent and the results of an independent appraisal done in April 2004. Amortization expense related to these patents for the six months ended September, 30, 2007 and 2006 was \$26,466 and \$31,277, respectively. Projected amortization expense approximates \$53,000, \$53,000, \$53,000, \$53,000 and \$53,000, respectively, for each of the five years ended March 31, 2012. The weighted-average life of the remaining patents is approximately 11.5 years.

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Stock Based Compensation

The Company adopted SFAS No. 123 (Revised 2004), *Share Based Payment* ("SFAS No. 123R"), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

As a result of adopting SFAS No. 123R, the Company recognized \$957,790 and \$590,592 in share-based compensation expense for the six months ended September, 30, 2007 and 2006. The impact of this share-based compensation expense on the Company's basic and diluted earnings per share was \$0.02 and \$0.02 per share for the six months ended September, 30, 2007 and 2006, respectively.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2006: risk-free interest rate of 4.5%; dividend yields of 0%; volatility factors of the expected market price of the Company's common shares of 188%; and a weighted average expected life of the option of 5 years.

Loss Per Share

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share. "Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share has not been presented since the effect of the assumed conversion of options and warrants to purchase common shares would have an anti-dilutive effect. The Company has excluded all outstanding options, warrants, and convertible note payable and preferred stock from the calculation of diluted net loss per share because these securities are anti-dilutive. As of September, 30, 2007 and 2006, the Company has approximately 16,263,780 and 11,192,600 common stock equivalents, respectively. In addition, as of September, 30, 2007, 40,763,889 shares of common stock are issuable upon the conversion of the convertible note payable and convertible debentures.

Recently Issued Accounting Pronouncements

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management has not determined the effect, if any, the adoption of this statement will have on the financial statements.

**COBALIS CORP. AND SUBSIDIARY**  
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In February of 2007 the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The company is analyzing the potential accounting treatment.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company's fiscal year beginning October 1, 2009. Management is currently evaluating the effect of this pronouncement on financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

FASB Staff Position on FAS No. 115-1 and FAS No. 124-1 ("the FSP"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," was issued in November 2005 and addresses the determination of when an investment is considered impaired, whether the impairment on an investment is other-than-temporary and how to measure an impairment loss. The FSP also addresses accounting considerations subsequent to the recognition of other-than-temporary impairments on a debt security, and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP replaces the impairment guidance on Emerging Issues Task Force (EITF) Issue No. 03-1 with references to existing authoritative literature concerning other-than-temporary determinations. Under the FSP, losses arising from impairment deemed to be other-than-temporary, must be recognized in earnings at an amount equal to the entire difference between the securities cost and its fair value at the financial statement date, without considering partial recoveries subsequent to that date. The FSP also required that an investor recognize other-than-temporary impairment losses when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. The FSP is effective for reporting periods beginning after December 15, 2005. The adoption of this statement will not have a material impact on our consolidated financial statements.



**COBALIS CORP. AND SUBSIDIARY**  
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FASB Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. The amount of tax benefits to be recognized for a tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax benefits relating to tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met or certain other events have occurred. Previously recognized tax benefits relating to tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of tax reserves for unrecognized tax benefits, interest and penalties and accounting in interim periods. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The change in net assets as a result of applying this pronouncement will be a change in accounting principle with the cumulative effect of the change required to be treated as an adjustment to the opening balance of retained earnings on January 1, 2007, except in certain cases involving uncertainties relating to income taxes in purchase business combinations. In such instances, the impact of the adoption of Interpretation 48 will result in an adjustment to goodwill. The adoption of this standard had no material impact on the Company's consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company adopted SAB 108 in the fourth quarter of 2006 with no impact on its consolidated financial statements.

**NOTE 2 - PROPERTY AND EQUIPMENT**

The cost of property and equipment at September, 30, 2007 consisted of the following:

Furniture and fixtures	\$ 73,203
Office equipment	42,120
	115,323
Less accumulated depreciation and amortization	(113,392)
	\$ 1,931

Depreciation expense for the six months ended September, 30, 2007 and 2006 was \$748 and \$3,992, respectively.

**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - ACCRUED LEGAL SETTLEMENTS**

Gryphon Master Fund LP

On March 31, 2006, the Company reached a settlement with Gryphon Master Lund LP related to two investments in the Company by Gryphon in September 2003 totaling \$1,600,000. The settlement agreement requires the Company to pay a maximum of \$1,600,000 which will be reduced to \$1,400,000 if the Company is able to pay the judgment on or before October 1, 2006. Full repayment is due under the settlement agreement on or before April 1, 2007. The settlement agreement also provides for Gryphon to convert its two investments (convertible debenture and convertible preferred stock) in the Company totaling \$1,600,000 into 716,667 shares of the Company common stock as per the terms of the original investment agreements. In addition the settlement agreement provides for a reduction of the exercise price to \$0.01 for the 194,167 warrants currently held by Gryphon. During the year ended March 31, 2007, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of the Company's common stock and converted a total of \$885,000 worth of preferred stock into 416,667 shares of the Company's common stock. During the six months ended September, 30, 2007 the Company issued 300,000 shares of its common stock for the conversion of this \$600,000 convertible note payable.

As of September, 30, 2007, the full \$1,600,000 was still due under the settlement agreement. (Refer to Note 1). Also as a result of non-payment on this settlement amount, the Company has accrued interest of \$110,057 on the unpaid balance per the terms of the settlement agreement.

**NOTE 4 - PROMISSORY NOTES**

In June 2005, the Company converted a total of \$205,174 of amounts due for clinical trials into nine promissory notes that accrued interest at a rate of 10% per annum and were due on December 27, 2005. During the three months ended March 31, 2006 and June 30, 2006, respectively, the Company converted \$131,042 and \$27,319 of these promissory notes plus accrued interest into 105,250 and 27,200 shares of the Company's common stock. At September, 30, 2007, \$46,813 of these notes was still outstanding.

**NOTE 5 - NOTES PAYABLE**

In August 2006, the Company issued a note payable to MDC Enterprises Ltd. in the amount of \$250,000 that accrues interest at 40% per annum and is due on December 29, 2006. In addition, the Company also issued to MDC Enterprises Ltd. a warrant to purchase 150,000 shares of the Company's common stock for \$0.75 per shares. In January 2007, the Company repaid \$150,000 of this note leaving a balance due at September, 30, 2007 of \$100,000.

In September 2006, the Company issued a note payable in the amount of \$50,000 to an investor. The note bears interest at 10% per annum and is payable upon demand. This note is outstanding at September, 30, 2007.



**COBALIS CORP. AND SUBSIDIARY**  
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**NOTE 6 - CONVERTIBLE NOTE PAYABLE**

Gryphon Master Fund, LP (See Note 3)

In September 2003, the Company sold a \$600,000, six-year, 8% convertible note payable to Gryphon Master Fund, LP, which is convertible into shares of the Company's common stock at the initial conversion price of \$2.00 per share. During the six months ended September, 30, 2007 the Company issued 300,000 shares of its common stock for the conversion of this \$600,000 convertible note payable.

Cornell Capital Partners, L.P.

On December 20, 2006, the Company entered into a Securities Purchase Agreement with Cornell Capital Partners, L.P. ("Cornell Capital") pursuant to which the Company agreed to issue up to an aggregate principal amount of \$3,850,000 of convertible debentures. Of that amount, \$2,500,000 was funded on December 20, 2006. Two additional closings of \$675,000 each are scheduled to occur as follows: the first upon the Company's filing of a registration statement with the Securities and Exchange Commission ("SEC"), and the second upon that registration statement being declared effective by the SEC. The two additional closing took place on February 22, 2007 and March 16, 2007.

The convertible debenture is convertible into shares of the Company common stock determined by dividing the dollar amount being converted by the lower of the fixed conversion price of \$0.99 or the market conversion price, defined as 90% of the average of the lowest three daily volume weighted average trading prices per share of the Company's common stock for the fifteen trading days immediately preceding the conversion date. The convertible debenture is secured by the assets of the Company and shares of common stock pledged by certain founding shareholders of the Company. The Company, at its option, may redeem the convertible debenture beginning four months after the registration statement has been declared effective by the SEC.

As part of the funding commitment, the Company issued four classes of warrants exercisable on a cash basis that enable Cornell Capital to purchase up to 6,640,602 shares of common stock for an additional \$5,500,000: an A Warrant to purchase 1,333,333 shares at \$0.75 per share; B Warrant to purchase 1,205,400 shares at \$0.8296 per share; C Warrant to purchase 2,343,959 shares at \$0.7466 per share; and D Warrant to purchase 1,757,910 shares at \$0.9955 per share. The A and B Warrants expire six months following the effective date of the registration and carry forced exercise provisions. The C & D Warrants are non-callable and have a five-year term. The warrants and convertible debenture are subject to certain anti-dilution rights. On April 24, 2007, Cornell Capital exercised Class A Warrants for 1,333,333 shares at an exercise price of \$0.75 per share.

Per EITF 00-19, paragraph 4, these convertible debentures do not meet the definition of a "conventional convertible debt instrument" since the debt is not convertible into a fixed number of shares. The debt can be converted into common stock at a conversions price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. Therefore, the convertible debenture is considered "non-conventional," which means that the conversion feature must be bifurcated from the debt and shown as a separate derivative liability. This derivative liability conversion liability is as follows:



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<b>Funding Date</b>	<b>Amount</b>
December 20, 2006	\$ 1,897,735
February 22, 2007	745,921
March 16, 2007	561,774
	\$ 3,205,430

In addition, since the convertible debenture is convertible into an indeterminate number of shares of common stock, it is assumed that the Company could never have enough authorized and unissued shares to settle the conversion of the warrants into common stock. Therefore, the warrants issued in connection with this transaction have a fair value of \$3,667,558 at December 20, 2006 are shown as a liability. The value of the warrant was calculated using the Black-Scholes model using the following assumptions: Discount rate of 4.5%, volatility of 137% and expected term of 1 to 5 years. The fair value of the derivative liability and the warrant liability will be adjusted to fair value each balance sheet date with the change being shown as a component of net loss.

The fair value of the derivative liability and the warrants at the inception of these convertible debentures were shown as a debt discount with any discount greater than the face amount of the debt being as financing costs in the accompanying statement of operations as follows.

<b>Funding Date</b>	<b>Amount of Debt</b>	<b>Fair Value of Warrants</b>	<b>Fair Value of Derivative Liability</b>	<b>Amount Applied to Debt Discount</b>	<b>Recorded as Financing Cost</b>
December 20, 2006	\$ 2,500,000	\$ 3,667,558	\$ 1,897,735	\$ 2,500,000	\$ 3,065,293
February 22, 2007	675,000	-	745,921	675,000	70,921
March 16, 2007	675,000	-	561,774	561,774	-
	\$ 3,850,000	\$ 3,667,558	\$ 6,872,988	\$ 3,736,774	\$ 3,136,214

At September, 30, 2007, the fair value of the warrant and derivative liabilities were \$670,398 and \$3,999,798, respectively. During the six months ended September, 30, 2007, the Company recorded income of \$6,257,188 as a result of adjusting the warrant and derivative liabilities to fair value.

In April, 2007, Cornell Capital converted \$525,000 into 767,319 shares at an exercise price of \$0.68. On July 23, 2007, the Company received a notice of default from Cornell Capital with regard to the convertible debentures. Therefore, the Company has accelerated the amortized the remaining debt issuance costs and debt discount during the six months ended September, 30, 2007 which resulted in a charge to earnings of \$3,692,316.

On July 12, 2007, the Company issued 1,524,664 shares to Cornell pursuant to the conversion of convertible debentures in the amount of \$170,000. On July 19, 2007, the Company issued 1,748,879 shares to Cornell Capital pursuant to the conversion of convertible debentures in the amount of \$195,000. On September 27, 2007, the Company issued 2,113,208 shares to Cornell Capital pursuant to the conversion of convertible debentures in the amount of \$112,000.



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Mark Gostine

On July 27, 2007, the Company issued a convertible debenture to Mark Gostine in the amount of \$100,000 that accrues interest at 12% per annum and is due on July 27, 2008. In addition, the Company will issue to Mark Gostine 350,000 shares of the Company's common stock as interest and fees.

The fair value of these shares is \$49,000 and has been recorded as a discount on the convertible debenture and is being amortized over the term of the debenture. During the six month ended September, 30, 2007, the Company amortized \$8,072 of the discount to interest expense. At September, 30, 2007, the balance of the debenture is shown as \$59,702, net of unamortized discount of \$40,298 in the consolidated balance sheet.

**NOTE 7 - SENIOR DEBENTURE**

On October 26, 2005, the Company issued a senior debenture to the Brad Chisick Trust in the amount of \$250,000 that accrues interest at 10% per annum and is due on October 26, 2007. This senior debenture has currently not been repaid. In addition, the Company also issued to the Brad Chisick Trust a warrant to purchase 500,000 shares of the Company's common stock for \$1.75 per shares.

The fair value of these warrants totaling \$276,827 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 5 years; (2) volatility of 194%, (3) risk free interest of 4.50% and (4) dividend rate of 0%. The face amount of the senior debenture of \$250,000 was proportionately allocated to the senior debenture and the warrants in the amount of \$118,635 and \$131,365, respectively. The amount allocated to the warrants of \$131,365 was recorded as a discount on the senior debenture and is being amortized over the term of the debenture. During the six month ended September, 30, 2007, the Company amortized \$32,631 of the discount to interest expense. At September, 30, 2007, the balance of the debenture is shown as \$245,021, net of unamortized discount of \$4,979 in the consolidated balance sheet. In addition, on October 26, 2005, the Company issued to the Brad Chisick Trust 125,000 shares of its common stock valued at \$72,500 as pre-payment of the accrued interest on this senior debenture. The prepaid interest will be amortized to interest expense over the two year term of the senior debenture.

During the year ended March 31, 2007, the Company issued an additional 20,000 warrants to the Brad Chisick Trust as additional consideration for this senior convertible debentures. The fair value of these warrants totaling \$17,840 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 5 years; (2) volatility of 139%, (3) risk free interest of 4.50% and (4) dividend rate of 0%.

**NOTE 8 - STOCKHOLDERS' DEFICIT**

Preferred Stock

The Company has authorized 5,000,000 shares of \$0.001 par value preferred stock of which 1,000 have been designated as Convertible Preferred Stock .

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Common Stock

The Company has authorized 100,000,000 shares of \$0.001 par value common stock.

On July 12, 2007, the Company issued 1,524,664 shares to Cornell Capital pursuant to the conversion of convertible debentures in the amount of \$170,000. On July 19, 2007 the Company issued 1,748,879 shares to Cornell Capital pursuant to the conversion of convertible debentures in the amount of \$195,000. The Company issued 250,000 shares to investor relations on July 27, 2007. On September 27, 2007, the Company issued 2,113,208 shares to Cornell Capital pursuant to the conversion of convertible debentures in the amount of \$112,000.

Stock Options

In 2002, the Company adopted a Stock Option Plan (the "Plan") initially reserving an aggregate of 1,250,000 shares of the Company's common stock (the "Available Shares") for issuance pursuant to the exercise of stock options, which may be granted to employees and consultants to the Company. The Plan options were subsequently increased to 2,000,000 shares.

The Plan provides for the granting at the discretion of the Board of Directors of both qualified incentive stock options and non-qualified stock options. Consultants may receive only non-qualified stock options. The maximum term of the stock options are three to five years and generally vest proportionately throughout the term of the option.

Transactions under the Plans during the period ended September, 30, 2007 are summarized as follows:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, March 31, 2007	6,141,667	\$ 1.58	\$ -
Granted			
Forfeited/Canceled / Expired	(1,500,000)	\$ 1.80	
Outstanding, September, 30, 2007	4,641,667	\$ 1.51	\$ -

The weighted average remaining contractual life of options outstanding is 8.52 years at September, 30, 2007. The number of vested options at September, 30, 2007 is 3,453,922. The exercise prices for the options outstanding at September, 30, 2007 are as follows:

<b>Number of Options</b>	<b>Exercise Price</b>
175,000	\$1.00
2,800,000	\$1.40
1,666,667	\$1.75
4,641,667	

The total expense for the options vested during the six months ended September 30, 2007 was \$957,790. The value of the unvested options was \$2,019,004 as of September 30, 2007.

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Warrants

As a result of the issuance of the convertible debenture to Cornell Capital (See Note 7) the fair value of all warrant issued to non-employees have been removed from stockholders' equity and shown as a liability. On December 20, 2006, the fair value of such warrants was \$3,545,880. The fair value of these warrants and those issued to Cornell Capital will be adjusted to fair value at each balance sheet date.

The following table summarizes the warrants outstanding:

	<b>Warrants Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, March 31, 2007	12,955,446	\$ 1.67	\$ 1,435,630
Granted	-	-	-
Forfeited/Canceled	-	-	-
Exercised	(1,333,333)	\$ 0.75	
Outstanding, September, 30, 2007	11,622,113	\$ 1.17	\$ 10,500

The weighted average remaining contractual life of warrants outstanding is 3.19 years at September, 30, 2007. The number of vested warrants at September, 30, 2007 is 11,622,113. The exercise prices for the warrants outstanding at September, 30, 2007 are as follows:

<b>Number of Warrants</b>	<b>Exercise Price</b>
150,000	\$0.01
4,597,292	\$0.75
1,205,400	\$0.83
2,860,154	\$1.00
3,942,600	\$1.75
200,000	\$2.00
11,622,113	

**NOTE 9 – LITIGATION**

*InnoFood/Modofood:* On July 28, 2003, the Company entered into a Stock Exchange Agreement ("InnoFood Agreement") with InnoFood Inc. ("InnoFood") wherein the Company agreed, among other things, to provide InnoFood with funding totaling \$5,000,000 in exchange for, among other things, 100% interest in InnoFood. The completed purchase of InnoFood was not to occur until the \$5,000,000 funding was delivered. Under the InnoFood Agreement, the Company was obligated to provide InnoFood with the funding on or before December 31, 2003. The



Company did provide InnoFood with \$2,220,000. The Company has confirmation that \$1,850,000 of the funds provided to InnoFood was sent to Modofood S.P.A., an Italian company ("Modofood"). InnoFood originally entered into a licensing agreement with Modofood to market and distribute Modofood's food processing technology. On October 17, 2003, the Company entered into a Letter of Understanding ("LOU") with InnoFood to restructure the relationship between ourselves and InnoFood. The Company believes that InnoFood and certain related individuals may have intentionally misled our management regarding certain material matters.

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On January 8, 2004, InnoFood sent us a letter attempting to terminate the original InnoFood Agreement and the October 17, 2003 LOU. InnoFood claimed that the Company breached both the InnoFood Agreement and the LOU by failing to provide the funding called for under those agreements. With the letter of termination, InnoFood delivered a signed promissory note agreeing to pay back \$2,160,000 (net of \$60,000 interest InnoFood charged to the Company for non-payments). The promissory note accrues interest at 10% and is due and payable on or before January 15, 2009. Though the Company did not accept that note, the Company believes that this promissory note represents an acknowledgment of InnoFood's debt to the Company.

In September 2006, the Company filed a complaint entitled Cobalis Corp. v. InnoFood, Reynato Giordano, James Luce, Robert Dietrich, Randal Lanham, in Orange County Superior Court, California, Case No. 06CC10355, to attempt to recapture the funds transferred to InnoFood and acquire any intellectual property related to the food preservation process at issue. Cobalis has entered defaults against Innofood, Renato Giordano and Robert Dietrich. The only remaining defendants are James Luce and Randall Lanham.

In February 2007, James Luce filed a Cross-Complaint against Cobalis and Chaslov Radovich, who filed an Answer to the Cross-Complaint. On March 3, 2007 Randal Lanham filed a cross complaint against Cobalis and Chaslov Radovich which was amended on May 28, 2007. Cobalis filed a Demurrer to the Lanham First Amended Cross Complaint for which a hearing date was set for August 17, 2007. Prior to the August 17 hearing on Cobalis' demurrer, the Innofood case has been stayed with respect to the cross-complaints filed by Randall Lanham and James Luce. Accordingly, the hearing on Cobalis' demurrer was taken off calendar, subject to the stay.

Subject to the stay, the Company intends to vigorously prosecute this matter and to defend the Lanham and Luce Cross-Complaints, although, as with any litigation, there is no guarantee of a favorable outcome. The Case Management Conference on August 20, 2007 was continued to October 22, 2007.

*Gryphon Master Fund, LP.* On November 8, 2004, Gryphon Master Fund, LP, ("Gryphon") filed a lawsuit against the Company in United States District Court, Northern District of Texas, Dallas Division, Case No. 3:04-CV-2405-L. The lawsuit sought repayment of a \$600,000 convertible note payable, accrued interest on the convertible note payable within the prescribed period, penalties for failing to register shares underlying the conversion of the convertible note payable, attorneys fees and court costs. In March 2006, the Company entered into settlement agreement with Gryphon where both parties agreed to dismiss any and all current and future claims, legal proceedings and litigation upon full satisfaction of the settlement agreement.

The settlement, which relates to two investments in the Company totaling \$1.6 million made by Gryphon in September 2003, includes an agreed judgment totaling \$1.6 million. Of the remaining unconverted instruments, Gryphon is also eligible to convert its convertible note and convertible preferred stock it holds to 508,334 shares of the Company's common stock. Under the settlement agreement, full repayment of the \$1.6 million was due on or before April 1, 2007. The Company did not make the payment by April 1, 2007; therefore, the stipulated judgment into which the Company entered with Gryphon provides that Gryphon has the right to enter a judgment of \$1.6 million against the Company with the court upon the Company's default.

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On April 2, 2007, the Company filed a motion to vacate an agreed judgment (the "Motion to Vacate") in the U.S. District Court for the Northern District of Texas, Dallas Division with regard to case #3:04-CV- 2405 between Gryphon Master Fund, L.P. ("Gryphon") and the Company. The Company based the Motion to Vacate on several grounds including that allegation that Gryphon breached the "no shorting" provision contained in the settlement agreement. The Company believes, and so allege in the Motion to Vacate, that despite Gryphon's agreement, Gryphon engaged in shorting of the Company's stock. Since June 2007, Gryphon has aggressively been moving forward with judgment collection activities, including, but not limited to, conducting a debtor's exam, levying the Company's bank accounts and attaching the Company's assets to the extent such assets are not already encumbered.

On April 23, 2007, Gryphon sued the Company for breach of contract in the same U.S. District Court as above, Case #3:07-cv-00701B. This new lawsuit alleges that the Company breached a settlement agreement with Gryphon. Gryphon is also seeking a declaratory judgment that it did not breach the same settlement agreement. Gryphon's alleged breach of the settlement agreement is the subject of the Company's Motion to Vacate. In addition to the declaratory relief, Gryphon's complaint seeks unspecified damages and attorneys' fees. On April 23, 2007, Gryphon also filed an opposition to the Company's Motion to Vacate repeating the same allegations. A trial date is scheduled for the September 2007 docket.

There is no guarantee that the Company will be successful in vacating the judgment or in defending the new lawsuit. If the Company is unsuccessful in vacating the judgment or in defending the subsequent lawsuit, and, if the Company is unable to subsequently timely resolve the Gryphon matter or raise capital to satisfy the judgment, the Company's ability to move its business forward could be adversely affected. On August 6, 2007, the Company filed the Suggestion of Bankruptcy requesting for an automatic stay in the proceedings.

*Marinko Vekovic:* On March 9, 2006, Marinko Vekovic, a former consultant, filed a complaint against the Company alleging a breach of a written consulting agreement, specific performance of common stock warrants and the "reasonable value of work and labor performed," seeking damages in excess of \$700,000, and specific performance of an alleged obligation to issue 600,000 free trading warrants at a \$1.75 share price. The lawsuit, entitled Vekovic vs. Cobalis, is pending in Orange County Superior Court, Central Justice Center, Case No. 06CC03923.

On April 18, 2006, the Company filed an answer to the complaint, denying the allegations by Mr. Vekovic. On the same date, the Company also filed a cross-complaint for rescission of the consulting agreement, on grounds that Mr. Vekovic made numerous material misrepresentations intended to fraudulently induce the Company to enter the consulting agreement and to issue to Vekovic 112,500 shares of its S-8 common stock. Through the Company's cross-complaint, it sought to rescind the consulting agreement and seek restitution from Mr. Vekovic in an amount no less than the price for which Mr. Vekovic sold the 112,500 shares of its S-8 common stock, plus all or some portion of the compensation paid to Mr. Vekovic, given that the Company believes Mr. Vekovic substantially failed to perform the consulting services which were the subject of the consulting agreement. The Company also sought to recover attorneys' fees incurred in the defense of the complaint and the prosecution of its cross-complaint, pursuant to the attorneys' fee provision in the consulting agreement. On March 5, 2007, the Company entered into a settlement agreement with Mr. Vekovic with regard to this case, whereby the Company agreed to register on a future Form S-8 and issue 50,000 shares to Mr. Vekovic in addition to a grant of 25,000 warrants to purchase shares of our common stock at \$1.75 per share, expiring December 31, 2009. The settlement agreements were issued on March 12, 2007 and the shares were registered on April 11, 2007 and issued subsequently.



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*Cappello Capital Corp.* In March 2005, the Company entered into an agreement with Cappello Capital Corp. (“Cappello”) for investment banking and related financial services. Pursuant to a financing agreement, the Company issued 100,000 shares as an initial retainer. The Company believes that Cappello did not perform per the agreement, but no settlement can be guaranteed.

Noel Marshall. On March 1, 2007, the Company became aware for the first time of the complaint for damages, Case # 07CC03208 filed in Superior Court Orange County California, entitled Noel Marshall v. Cobalis Corp. Chas Radovich, Radul Radovich, Drsgica Radovich, R.R. Holdings, Biogentec, Silver Mountain Productions and St. Petka Trust, alleging breach of contract, fraud, constructive trust, money had and received, and account stated (the "Marshall Action"). In the Marshall Action, plaintiff is alleging, among other things, that certain misrepresentations were made with the intent of inducing plaintiff to purchase shares of the Company's common stock. The Company believes this lawsuit is frivolous and without merit. The Company intends to vigorously defend this matter. As with any litigation, there is no guarantee of a favorable outcome. In August, 2007 a notice of stay was filed, and subsequently the court notified all parties that the action was stayed as to Cobalis only.

As of the date of this filing, all pending cases are now stayed because of Cornell Capital's involuntary bankruptcy petition against the Company.

In the ordinary course of business, the Company is generally subject to claims, complaints, and legal actions. At March 31, 2007, management believes that the Company is not a party to any action which would have a material impact on its financial condition, operations, or cash flows.

**NOTE 10 – SUBSEQUENT EVENTS**

On October 12, 2007, the Company filed its petition with the Bankruptcy Court for the matter to proceed as a Chapter 11 proceeding, which means that instead of liquidation the Company would be seeking approval from the Bankruptcy Court to effectuate a reorganization of the Company. If accepted, this would allow the Company to continue operating under supervision of the Bankruptcy Court.

The Company’s Board of Directors approved the Chapter 11 request as it hopes that proceeding under Chapter 11 will allow the Company to attempt to raise operating capital through either equity or debt financing. Such financing will be crucial in allowing the Company to reorganize its affairs. There is no guarantee that the Company will be permitted to proceed under Chapter 11 and, further, there is no guarantee that the Company will be successful in raising equity and/or debt financing sufficient to reorganize its affairs. If the Company is not able to successfully contest the petition or successfully file and finance a Chapter 11, the Company will likely be forced to liquidate and cease operations.

The Bankruptcy Court has jurisdiction over the Company’s business and affairs as a result of this Chapter 11 election. On November 19, 2007, the Court ordered the conversion from a Chapter 7 case to a Chapter 11 case.

## Item 2. Management's Discussion and Analysis or Plan of Operations

**This following information specifies certain forward-looking statements of management of the company. Forward-looking statements are statements that estimate the happening of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as “may”, “shall”, “could”, “expect”, “estimate”, “anticipate”, “predict”, “probable”, “possible”, “should”, “continue”, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.**

**The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

## OVERVIEW

As discussed above, we were incorporated in 1997 and on July 6, 2004 changed our name to Cobalis Corp., having previously used the BioGentech Corp. In 2003, we acquired our operational subsidiary, BioGentech Incorporated, (BioGentec). To distinguish between parent and subsidiary, a slight spelling difference was utilized. BioGentec, a private Nevada corporation, was incorporated on November 21, 2000 according to the laws of Nevada, under the name St Petka, Inc. On May 4, 2001, St. Petka, Inc. changed its name to BioGentec Incorporated. On July 2, 2003, BioGentec was merged into Togs for Tykes Acquisition Corp., a wholly owned subsidiary formed for the purpose of acquiring BioGentec. As allowed under SFAS 141, "Business Combinations" ("SFAS 141"), we designated a date of convenience of the closing for accounting purposes as June 30, 2003. Under the terms of the merger agreement, all of BioGentec's outstanding common stock (19,732,705 shares of \$0.001 par value stock) was exchanged for 19,732,705 shares newly issued shares of \$0.001 par value stock of Cobalis Corp. common stock. This transaction was consummated with the filing of the Articles of Merger with the State of Nevada on July 2, 2003. BioGentec shareholders then effectively controlled approximately 95% of the issued and outstanding common stock of Cobalis. Since the shareholders of BioGentec obtained control of Cobalis, according to SFAS 141, this acquisition was treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting.

## GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation as a going concern. We incurred a net loss of \$766,784 for the six months ended September, 30, 2007 and as of September, 30, 2007; we had a working capital deficit of \$12,027,137 and a stockholder deficit of \$11,432,111. In addition, as of September, 30, 2007, we have not developed a substantial source of revenue. These conditions raise substantial doubt as to our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

On March 31, 2006, we reached a settlement with Gryphon Master Lund LP (Gryphon) related to two investments in the company by Gryphon in September 2003 totaling \$1,600,000. Full repayment is due under the settlement agreement on or before April 1, 2007. We did not make the payment by April 1, 2007; therefore, the stipulated judgment into which we entered with Gryphon provides that Gryphon has the right to enter a judgment of \$1.6 million against us with the court upon our default.

On April 2, 2007, we filed a motion to vacate an agreed judgment based on several grounds including that allegation that Gryphon breached the "no shorting" provision contained in the settlement agreement. We believe, and so allege in the Motion to Vacate, that despite Gryphon's agreement, Gryphon engaged in shorting of our stock.

On April 23, 2007, Gryphon sued us for breach of contract. This new lawsuit alleges that we breached a settlement agreement with Gryphon. Gryphon is also seeking a declaratory judgment that it did not breach the same settlement agreement. Gryphon's alleged breach of the settlement agreement is the subject of our Motion to Vacate. In addition to the declaratory relief, Gryphon's complaint seeks unspecified damages and attorneys' fees. On April 23, 2007, Gryphon also filed an opposition to our Motion to Vacate repeating the same allegations.

Since June 2007, Gryphon has aggressively been moving forward with judgment collection activities, including, but not limited to, conducting a debtor's exam, levying our bank accounts and attaching our assets to the extent such assets are not already encumbered.





There is no guarantee that we will be successful in vacating the judgment or in defending the new lawsuit. If we are unsuccessful in vacating the judgment or in defending the subsequent lawsuit, and, if we are unable to subsequently timely resolve the Gryphon matter or raise capital to satisfy the judgment, our ability to move its business forward could be adversely affected.

On July 23, 2007, we received a notice of default from Cornell Capital Partners, LP (Cornell Capital) with regard to the convertible debentures entered into between the company and Cornell Capital on December 20, 2006 and February 20, 2007. Cornell Capital is taking the position that the recent collection efforts against us by Gryphon with regard to the litigation described above constitute a default under the relevant Cornell Capital funding documents. In the first notice of default, Cornell Capital, in referencing the contractual 15 day cure period, gave us until August 7, 2007 to cure the perceived default (i.e., resolve the dispute with Gryphon). If not cured, Cornell Capital has indicated that it will exercise all of its contractual rights, including, but not limited to, accelerated full repayment of the convertible debentures between the parties and exercising its rights under the pledge and escrow agreement and security agreement entered into between the parties.

On July 25, 2007, we received a second notice of default from Cornell Capital which also asserted that we were in default of certain provisions of the security agreement between the company and Cornell Capital, entered into on December 20, 2006. Per the terms of that security agreement, Cornell Capital could demand payment in full for all amounts due under the debenture agreements between the parties. It is also possible that Cornell Capital may enforce the terms of the security agreement and the pledge and escrow agreement.

On August 1, 2007, we received an informal notice from YA Global Investments, L.P., formerly known as Cornell Capital that Cornell Capital had filed a petition for involuntary bankruptcy proceedings pursuant to Chapter 7 on that same date with the U.S. Bankruptcy Court for the Central District of California, which seeks liquidation of our assets. Also on August 1, 2007, we received a copy of a file-stamped Chapter 7 petition confirming the notice provided by Cornell Capital. The petition alleges past due debts not less than \$3,000,000 plus other amounts with regard to the convertible debentures entered into between the company and Cornell Capital on December 20, 2006 and February 20, 2007.

On October 12, 2007, we filed our petition with the Bankruptcy Court for the matter to proceed as a Chapter 11 proceeding, which means that instead of our liquidation would be seeking approval from the Bankruptcy Court to effectuate our reorganization. If accepted, this would allow us to continue operating under supervision of the Bankruptcy Court. There is no guarantee that the Bankruptcy Court will allow us to proceed under Chapter 11 and not order liquidation. Moreover, since the right to proceed under Chapter 11 is subject to many contingencies and required approvals, there is no guarantee that even if the Bankruptcy Court allows us to proceed under Chapter 11 that our plan of reorganization will be approved. In the event our plan of reorganization is not approved, we may still face liquidation and dissolution.

Our Board of Directors approved the Chapter 11 request as we hope that proceeding under Chapter 11 will allow us to attempt to raise operating capital through either equity or debt financing. Such financing will be crucial in allowing us to reorganize our affairs. There is no guarantee that we will be permitted to proceed under Chapter 11 and, further, there is no guarantee that we will be successful in raising equity and/or debt financing sufficient to reorganize its affairs. If we are not able to successfully contest the petition or successfully file and finance a Chapter 11, we will likely be forced to liquidate and cease operations.

The Bankruptcy Court has jurisdiction over our business and affairs as a result of this Chapter 11 election. On November 19, 2007, the Court ordered the conversion from a Chapter 7 case to a Chapter 11 case..

## CRITICAL ACCOUNTING POLICY AND ESTIMATES

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

**Patent Cost Valuation.** The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the weighted-average probability method outlined in SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

**Stock-based Compensation.** We adopted SFAS No. 123 (Revised 2004), *Share Based Payment* ("SFAS No. 123R"), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, we accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

**Estimate of Litigation-based Liability.** We are a defendant in certain claims and litigation in the ordinary course of business. We accrue liabilities relating to these lawsuits on a case-by-case basis. We generally accrue attorney fees and interest in addition to the liability being sought. Liabilities are adjusted on a regular basis as new information becomes available. We consult with our attorneys to determine the viability of an expected outcome. The actual amount paid to settle a case could differ materially from the amount accrued.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash and cash equivalents of \$124 and prepaid expenses and other current assets of \$12,546 at September, 30, 2007. Our total current assets at September, 30, 2007 were \$12,670. We also had the following long term assets: \$1,931 in property and equipment, net; \$532 in net website development costs; net, and \$592,563 in patents; net. Our total assets as of September, 30, 2007 were \$607,696.

Our total liabilities were \$12,039,807 at September, 30, 2007, which was represented by accounts payable of \$424,084; accrued expenses of \$830,293; accrued clinical trials costs of \$591,229; accrued legal settlements of \$1,710,057; accrued salaries of \$489,412; warrant liability of \$670,398; accrued derivative liability of \$3,999,798; promissory notes of \$46,813; notes payable of \$150,000, senior debenture of \$245,021 and convertible debentures of \$2,882,702. Our liabilities exceeded our assets by \$11,432,111.

In June 2005, we converted a total of \$205,174 of amounts due for clinical trials into nine promissory notes that accrued interest at a rate of 10% per annum and were due on December 27, 2005. During the three months ended March 31, 2006 and June 30, 2006, respectively, we converted \$131,042 and \$27,319 of these promissory notes plus accrued interest into 105,250 and 27,200 shares of our common stock. At September, 30, 2007, \$46,813 of these notes was still outstanding.

On July 18, 2006, we entered into an Accord and Satisfaction Agreement (“Agreement”) with several related party creditors, arranging to settle debt of \$5,194,553 including interest accrued through June 30, 2006, in exchange for the issuance of 3,995,809 shares of our \$.001 par value common stock. This debt was incurred in the form of related party advances and services rendered to the company over recent months. The conversion rate was \$1.30 per share, representing a premium on the market price of our closing share price on Monday, July 17, 2006 of \$1.00 per share.

The related parties that were owed funds include Radul Radovich, our Chairman of the Board of Directors, and several entities owned and controlled by Mr. Radovich. The amounts owed were as follows: Mr. Radovich was owed \$952,611 principal along with interest of \$127,509, for a total of \$1,084,120, which was converted to 833,938 restricted shares of our common stock; St. Petka Trust, a majority shareholder of the company, and of which Mr. Radovich is the beneficiary and trustor, was owed \$1,585,500 principal, along with interest of \$211,335, for a total of \$1,796,835, which was converted to 1,382,180 restricted shares of our common stock; R and R Holdings, Inc. a Nevada corporation owned by Mr. Radovich, was owed \$471,507 principal, along with interest of \$62,848, for a total of \$534,355, which was converted to 411,042 restricted shares of our common stock; Silver Mountain Promotions, Inc., a Nevada corporation, owned by Mr. Radovich, was owed \$922,103 principal, along with interest of \$122,909, for a total of \$1,045,012, which was converted to 803,855 restricted shares of our common stock; R R Development, Inc., a California corporation, owned by Mr. Radovich, was owed \$170,000 principal, along with interest of \$51,838, for a total of \$221,838, which was converted to restricted 170,644 shares of our common stock. In addition, Mr. Radovich was owed \$512,392 for consulting fees, pursuant to a consulting contract with the company. This amount was converted to 394,147 restricted shares of our common stock.

We have financed our operations primarily through cash generated from related party debt financing as well as issuing a convertible debenture.

Our net cash used by investing activities was \$0 and \$48,12 for the six months ended September, 30, 2007 and 2006, respectively.

Our net cash provided by financing activities was \$1,100,000 for the six months ended September, 30, 2007 compared to net cash used by financing activities of \$10,000 for the six months ended September 30, 2006. The increase is primarily due to the exercise of warrants and the issuance of a convertible debenture.

In June 2005, we entered into a loan agreement with Tejada and Tejada, Inc. in the amount of \$100,000. The loan is due in one year. The note is personally guaranteed by Mr. Radul Radovich, the chairman of our board of directors, and Mr. Chas Radovich, our President, Secretary and one of our directors. When the loan is due, the holder of the note has the option to convert the loan into shares of our common stock at \$0.50 per share or at a price equal to a 25% discount to the closing bid price on the day of conversion at maturity. In July 2006, the holder of the note elected to convert the note to 200,000 shares of our common stock. We recognized an additional expense of \$91,583 related to the conversion of this note and accrued interest into shares of common stock.

In October 2005, we issued a senior debenture to the Brad Chisick Trust for \$250,000 that accrues interest at 10% per annum, and is due in two years. We also issued the holder of this debenture a warrant to purchase 500,000 shares of our common stock at \$1.75 per share.

During the three months ended June 30, 2006, we issued 111,416 shares of our common stock that were registered on or about May 11, 2006 on Form S-8 as payment for certain accounts payable, past due salaries to certain related parties and amounts due to consultants.

In July 2006, we issued notes payable in the aggregate amount of \$250,000 to three investors. The notes bear interest at 5% per month and were due on September 14, 2006. We exercised our option to extend the due date to October 14, 2006 and issued to the investors a total of 25,000 warrants. These notes were repaid subsequent to the quarter ended December 31, 2006.

In August 2006, we issued a note payable to MDC Enterprises Ltd. in the amount of \$250,000 that accrues interest at 40% per annum and is due on December 29, 2006. In addition, we also issued to MDC Enterprises Ltd. a warrant to purchase 150,000 shares of our common stock for \$0.75 per shares.



In September 2006, we issued a note payable in the amount of \$50,000 to an investor. The note bears interest at 10% per annum and is payable upon demand.

On December 20, 2006, we entered into a Securities Purchase Agreement with Cornell Capital Partners, L.P. ("Cornell Capital") pursuant to which we agreed to issue up to an aggregate principal amount of \$3,850,000 of convertible debentures. Of that amount, \$2,500,000 was funded on December 20, 2006. Two additional closings of \$675,000 each are scheduled to occur as follows: the first upon the Company's filing of a registration statement with the Securities and Exchange Commission ("SEC"), and the second upon that registration statement being declared effective by the SEC and Shareholder approval of additional authorized shares. There is no guarantee that we will complete and file a registration statement, or that if filed, there is no guarantee that the SEC will declare the registration statement effective. Further, there is no guarantee that Shareholders will approve the increase in authorized shares.

The convertible debenture is convertible into shares of our common stock determined by dividing the dollar amount being converted by the lower of the fixed conversion price of \$0.99 or the market conversion price, defined as 90% of the average of the lowest three daily volume weighted average trading prices per share of our common stock for the fifteen trading days immediately preceding the conversion date. The convertible debenture is secured by our assets and shares of common stock pledged by certain founding shareholders. At our option, we may redeem the convertible debenture beginning four months after the registration statement has been declared effective by the SEC.

As part of the funding commitment, we issued four classes of warrants exercisable on a cash basis that enable Cornell Capital to purchase up to 6,640,602 shares of common stock for an additional \$5,500,000: an A Warrant to purchase 1,333,333 shares at \$0.75 per share; B Warrant to purchase 1,205,400 shares at \$0.8296 per share; C Warrant to purchase 2,343,959 shares at \$0.7466 per share; and D Warrant to purchase 1,757,910 shares at \$0.9955 per share. The A and B Warrants expire six months following the effective date of the registration and carry forced exercise provisions. The C and D Warrants are non-callable and have a five-year term. The warrants and convertible debenture are subject to certain anti-dilution rights.

Per EITF 00-19, paragraph 4, these convertible debentures do not meet the definition of a "conventional convertible debt instrument" since the debt is not convertible into a fixed number of shares. The debt can be converted into common stock at a conversions price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. Therefore, the convertible debenture is considered "non-conventional," which means that the conversion feature must be bifurcated from the debt and shown as a separate derivative liability. This beneficial conversion liability has been calculated to be \$1,897,735 on December 20, 2006. In addition, since the convertible debenture is convertible into an indeterminate number of shares of common stock, it is assumed that the Company could never have enough authorized and unissued shares to settle the conversion of the warrants into common stock. Therefore, the warrants issued in connection with this transaction have a fair value of \$3,667,558 at December 20, 2006. The value of the warrant was calculated using the Black-Scholes model using the following assumptions: Discount rate of 4.5%, volatility of 137% and expected term of 1 to 5 years. The fair value of the beneficial conversion feature and the warrant liability will be adjusted to fair value each balance sheet date with the change being shown as a component of net loss.

The fair value of the beneficial conversion feature and the warrants at the inception of these convertible debentures were \$1,897,735 and \$3,667,558, respectively. The first \$2,500,000 of these discounts has been shown as a discount to the convertible debentures which will be amortized over the term of the convertible debenture and the excess of \$3,065,293 has been shown as financing costs in the accompanying statement of operations.

As a result of the issuance of the convertible debenture to Cornell Capital the fair value of all warrant issued to non-employees have been removed from stockholders' equity and shown as a liability. On December 20, 2006, the fair value of such warrants was \$3,545,880. The fair value of these warrants and those issued to Cornell Capital will be adjusted to fair value at each balance sheet date.

During the six months ended September, 30, 2007, Cornell Capital converted \$890,000 of their convertible debt into 4,040,862 shares. In addition Cornell Capital exercised 1,333,333 Class A Warrants at a stock price of \$0.75 for gross proceeds of \$1,000,000.

On July 27, 2007, the we issued a convertible debenture to Mark Gostine in the amount of \$100,000 that accrues interest at 0% per annum and is due on July 27, 2008. In addition, the Company will issue to Mark Gostine 350,000 shares of the Company's common stock. The fair value of these shares is \$49,000 and has been recorded as a discount on the convertible debenture and is being amortized over the term of the debenture.

#### **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER, 30, 2007 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

**Revenues and Cost of Sales.** We had no significant revenues for the three months ended September, 30, 2007 and September 30, 2006 as we are undertaking twin Phase III clinical trials in order to obtain FDA approval of PreHistin™ as an over the counter drug. Our net sales were \$0, as were our cost of sales and gross loss for the three months ended September, 30, 2007, as compared net sales of \$0 as were our cost of sales and gross loss for the three months ended September 30, 2006.

**Operating Expenses.** Our operating expenses for the three months ended September, 30, 2007 were \$905,943 compared to \$3,646,162 for the three months ended September 30, 2006. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin™ product and related product management and ii) general management and fund raising efforts. For the three months ended September, 30, 2007, this amount was represented by \$13,784 in depreciation and amortization; \$25,272 in professional fees; \$274,646 in salary and wages; \$42,738 in rent expense; \$0 in marketing and research, \$478,925 in stock option expense; and \$70,578 in other operating expenses. This is compared to the three months ended September 30, 2006, where we had \$14,515 in depreciation and amortization; \$650,769 in professional fees; \$918,330 in salary and wages; \$37,203 in rent expense; \$1,273,555 in marketing and research; \$461,684, in stock option expense, and \$290,106 in other operating expenses. Our operating expenses decreased during the three months ended September, 30, 2007 as compared to the three months ended September 30, 2006 principally as a result of an decrease in marketing and research expenses.

Interest expense and financing costs for the three months ended September, 30, 2007 were \$127,156 compared to \$100,340 for the three months ended September 30, 2006. The increase is because Cornell Capital called their convertible debenture which resulted in accelerating the amortization of the outstanding debt issuance costs and debt discounts during the period ended September, 30, 2007.

The Company recorded other income of \$829,697 and \$0 related to the change in fair value of the warrant and derivative liabilities for the three months ended September, 30, 2007 and 2006, respectively. The change in the fair value in the warrant and accrued derivative liabilities relates to the change in the value of the detachable warrants and beneficial conversion feature issued in connection with the convertible debentures and convertible preferred stock.

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER, 30, 2007 AS COMPARED TO THE SIX MONTHS ENDED SEPTEMBER, 2006**

**Revenues and Cost of Sales.** We had no significant revenues for the six months ended September, 30, 2007 and September 30, 2006 as we are undertaking twin Phase III clinical trials in order to obtain FDA approval of PreHistin™ as an over the counter drug. Our net sales were \$0, as were our cost of sales and gross loss for the six months ended September, 30, 2007, as compared net sales of \$0 as were our cost of sales and gross loss for the six months ended September 30, 2006.

**Operating Expenses.** Our operating expenses for the six months ended September, 30, 2007 were \$2,989,862 compared to \$5,116,719 for the six months ended September 30, 2006. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin™ product and related product management and ii) general management and fund raising efforts. For the six months ended September, 30, 2007, this amount was represented by \$27,567 in depreciation and amortization; \$1,174,979 in professional fees; \$485,107 in salary and wages; \$80,378, in rent expense; \$0 in marketing and research, \$957,790 in stock option expense; and \$264,041 in other operating expenses. This is compared to the six months ended September 30, 2006, where we had \$31,277 in depreciation and amortization; \$1,567,674 in professional fees; \$1,103,632 in salary and wages; \$100,279 in rent expense; \$1,299,364 in marketing and research; \$590,592 in stock option expense, and \$423,901 in other operating expenses. Our operating expenses decreased during the six months ended September, 30, 2007 as compared to the six months ended September 30, 2006 principally as a result of an decrease due to marketing and research expenses,

Interest expense and financing costs for the six months ended September, 30, 2007 were \$4,034,110 compared to \$232,135 for the six months ended September, 30, 2006. The increase is because Cornell Capital called their convertible debenture which resulted in accelerating the amortization of the outstanding debt issuance costs and debt discounts during the period ended September, 30, 2007.

The Company recorded other income of \$6,257,188, and \$0 related to the change in fair value of the warrant and derivative liabilities for the six months ended September, 30, 2007 and 2006, respectively. The change in the fair value in the warrant and accrued derivative liabilities relates to the change in the value of the detachable warrants and beneficial conversion feature issued in connection with the convertible debentures and convertible preferred stock.



## **OUR PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS.**

In a content of our reorganization strategy we will be evaluating our business strategy for the next twelve months which could include moving forward with the completion of Phase III clinical trials of our planned allergy prevention product, PreHistin TM; or pursuing development of PreHistin TM for other atopic and allergic conditions; or pursuing a national and global marketing and licensing strategy for PreHistin TM. We anticipate generating revenues from product sales in the next twelve months. We estimate the cost to complete the Phase III clinical trials and the submission of an NDA to the FDA for marketing approval will be significant. We are determining the costs for alternative strategies as of the date of this filing. However, we will need to raise funds to execute studies for the further development of our proposed PreHistin™ product line, to complete the development of additional products, or to pursue alternative strategies. We are in the process of raising additional funds to execute further studies. We could be able to raise through the exercise of Cornell Capital's warrants, entering into a partnership agreement or private or other equity offerings, or we may attempt to secure loans from lending institutions or other sources. There is no guarantee we will be able to raise additional funds through offerings or other sources. If we are unable to raise funds, our ability to continue with product development will be hindered.

**Off-balance sheet arrangements.** There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### **Item 3. Controls and Procedures**

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

*InnoFood/Modofood:* On July 28, 2003, the Company entered into a Stock Exchange Agreement ("InnoFood Agreement") with InnoFood Inc. ("InnoFood") wherein the Company agreed, among other things, to provide InnoFood with funding totaling \$5,000,000 in exchange for, among other things, 100% interest in InnoFood. The completed purchase of InnoFood was not to occur until the \$5,000,000 funding was delivered. Under the InnoFood Agreement, the Company was obligated to provide InnoFood with the funding on or before December 31, 2003. The Company did provide InnoFood with \$2,220,000. The Company has confirmation that \$1,850,000 of the funds provided to InnoFood was sent to Modofood S.P.A., an Italian company ("Modofood"). InnoFood originally entered into a licensing agreement with Modofood to market and distribute Modofood's food processing technology. On October 17, 2003, the Company entered into a Letter of Understanding ("LOU") with InnoFood to restructure the

relationship between ourselves and InnoFood. The Company believes that InnoFood and certain related individuals may have intentionally misled our management regarding certain material matters.

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On January 8, 2004, InnoFood sent us a letter attempting to terminate the original InnoFood Agreement and the October 17, 2003 LOU. InnoFood claimed that the Company breached both the InnoFood Agreement and the LOU by failing to provide the funding called for under those agreements. With the letter of termination, InnoFood delivered a signed promissory note agreeing to pay back \$2,160,000 (net of \$60,000 interest InnoFood charged to the Company for non-payments). The promissory note accrues interest at 10% and is due and payable on or before January 15, 2009. Though the Company did not accept that note, the Company believes that this promissory note represents an acknowledgment of InnoFood's debt to the Company.

In September 2006, the Company filed a complaint entitled Cobalis Corp. v. InnoFood, Reynato Giordano, James Luce, Robert Dietrich, Randal Lanham, in Orange County Superior Court, California, Case No. 06CC10355, to attempt to recapture the funds transferred to InnoFood and acquire any intellectual property related to the food preservation process at issue. Cobalis has entered defaults against Innofood, Renato Giordano and Robert Dietrich. The only remaining defendants are James Luce and Randall Lanham.

In February 2007, James Luce filed a Cross-Complaint against Cobalis and Chaslov Radovich, who filed an Answer to the Cross-Complaint. On March 3, 2007 Randal Lanham filed a cross complaint against Cobalis and Chaslov Radovich which was amended on May 28, 2007. Cobalis filed a Demurrer to the Lanham First Amended Cross Complaint for which a hearing date was set for August 17, 2007. Prior to the August 17 hearing on Cobalis' demurrer, the Innofood case has been stayed with respect to the cross-complaints filed by Randall Lanham and James Luce. Accordingly, the hearing on Cobalis' demurrer was taken off calendar, subject to the stay.

Subject to the stay, the Company intends to vigorously prosecute this matter and to defend the Lanham and Luce Cross-Complaints, although, as with any litigation, there is no guarantee of a favorable outcome. The Case Management Conference on August 20, 2007 was continued to October 22, 2007.

*Gryphon Master Fund, LP.* On November 8, 2004, Gryphon Master Fund, LP, ("Gryphon") filed a lawsuit against the Company in United States District Court, Northern District of Texas, Dallas Division, Case No. 3:04-CV-2405-L. The lawsuit sought repayment of a \$600,000 convertible note payable, accrued interest on the convertible note payable within the prescribed period, penalties for failing to register shares underlying the conversion of the convertible note payable, attorneys fees and court costs. In March 2006, the Company entered into settlement agreement with Gryphon where both parties agreed to dismiss any and all current and future claims, legal proceedings and litigation upon full satisfaction of the settlement agreement.

The settlement, which relates to two investments in the Company totaling \$1.6 million made by Gryphon in September 2003, includes an agreed judgment totaling \$1.6 million. Of the remaining unconverted instruments, Gryphon is also eligible to convert its convertible note and convertible preferred stock it holds to 508,334 shares of the Company's common stock. Under the settlement agreement, full repayment of the \$1.6 million was due on or before April 1, 2007. The Company did not make the payment by April 1, 2007; therefore, the stipulated judgment into which the Company entered with Gryphon provides that Gryphon has the right to enter a judgment of \$1.6 million against the Company with the court upon the Company's default.

On April 2, 2007, the Company filed a motion to vacate an agreed judgment (the "Motion to Vacate") in the U.S. District Court for the Northern District of Texas, Dallas Division with regard to case #3:04-CV- 2405 between Gryphon Master Fund, L.P. ("Gryphon") and the Company. The Company based the Motion to Vacate on several grounds including that allegation that Gryphon breached the "no shorting" provision contained in the settlement agreement. The Company believes, and so allege in the Motion to Vacate, that despite Gryphon's agreement, Gryphon engaged in shorting of the Company's stock. Since June 2007, Gryphon has aggressively been moving forward with judgment collection activities, including, but not limited to, conducting a debtor's exam, levying the Company's bank accounts and attaching the Company's assets to the extent such assets are not already encumbered.

On April 23, 2007, Gryphon sued the Company for breach of contract in the same U.S. District Court as above, Case #3:07-cv-00701B. This new lawsuit alleges that the Company breached a settlement agreement with Gryphon. Gryphon is also seeking a declaratory judgment that it did not breach the same settlement agreement. Gryphon's alleged breach of the settlement agreement is the subject of the Company's Motion to Vacate. In addition to the declaratory relief, Gryphon's complaint seeks unspecified damages and attorneys' fees. On April 23, 2007, Gryphon also filed an opposition to the Company's Motion to Vacate repeating the same allegations. A trial date is scheduled for the September 2007 docket.

There is no guarantee that the Company will be successful in vacating the judgment or in defending the new lawsuit. If the Company is unsuccessful in vacating the judgment or in defending the subsequent lawsuit, and, if the Company is unable to subsequently timely resolve the Gryphon matter or raise capital to satisfy the judgment, the Company's ability to move its business forward could be adversely affected. On August 6, 2007, the Company filed the Suggestion of Bankruptcy requesting for an automatic stay in the proceedings.

*Marinko Vekovic:* On March 9, 2006, Marinko Vekovic, a former consultant, filed a complaint against the Company alleging a breach of a written consulting agreement, specific performance of common stock warrants and the "reasonable value of work and labor performed," seeking damages in excess of \$700,000, and specific performance of an alleged obligation to issue 600,000 free trading warrants at a \$1.75 share price. The lawsuit, entitled Vekovic vs. Cobalis, is pending in Orange County Superior Court, Central Justice Center, Case No. 06CC03923.

On April 18, 2006, the Company filed an answer to the complaint, denying the allegations by Mr. Vekovic. On the same date, the Company also filed a cross-complaint for rescission of the consulting agreement, on grounds that Mr. Vekovic made numerous material misrepresentations intended to fraudulently induce the Company to enter the consulting agreement and to issue to Vekovic 112,500 shares of its S-8 common stock. Through the Company's cross-complaint, it sought to rescind the consulting agreement and seek restitution from Mr. Vekovic in an amount no less than the price for which Mr. Vekovic sold the 112,500 shares of its S-8 common stock, plus all or some portion of the compensation paid to Mr. Vekovic, given that the Company believes Mr. Vekovic substantially failed to perform the consulting services which were the subject of the consulting agreement. The Company also sought to recover attorneys' fees incurred in the defense of the complaint and the prosecution of its cross-complaint, pursuant to the attorneys' fee provision in the consulting agreement. On March 5, 2007, the Company entered into a settlement agreement with Mr. Vekovic with regard to this case, whereby the Company agreed to register on a future Form S-8 and issue 50,000 shares to Mr. Vekovic in addition to a grant of 25,000 warrants to purchase shares of our common stock at \$1.75 per share, expiring December 31, 2009. The settlement agreements were issued on March 12, 2007 and

the shares were registered on April 11, 2007 and issued subsequently.

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*Cappello Capital Corp.* In March 2005, the Company entered into an agreement with Cappello Capital Corp. ("Cappello") for investment banking and related financial services. Pursuant to a financing agreement, the Company issued 100,000 shares as an initial retainer. The Company believes that Cappello did not perform per the agreement, but no settlement can be guaranteed.

*Noel Marshall.* On March 1, 2007, the Company became aware for the first time of the complaint for damages, Case # 07CC03208 filed in Superior Court Orange County California, entitled Noel Marshall v. Cobalis Corp. Chas Radovich, Radul Radovich, Drsgica Radovich, R.R. Holdings, Biogentec, Silver Mountain Productions and St. Petka Trust, alleging breach of contract, fraud, constructive trust, money had and received, and account stated (the "Marshall Action"). In the Marshall Action, plaintiff is alleging, among other things, that certain misrepresentations were made with the intent of inducing plaintiff to purchase shares of the Company's common stock. The Company believes this lawsuit is frivolous and without merit. The Company intends to vigorously defend this matter. As with any litigation, there is no guarantee of a favorable outcome. In August, 2007 a notice of stay was filed, and subsequently the court notified all parties that the action was stayed as to Cobalis only.

As of the date of this filing, all pending cases are now stayed because of Cornell Capital's involuntary bankruptcy petition against the Company.

In the ordinary course of business, the Company is generally subject to claims, complaints, and legal actions. At September 30, 2007, management believes that the Company is not a party to any action which would have a material impact on its financial condition, operations, or cash flows except for the Gryphon litigation and bankruptcy proceedings.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended September, 30, 2007, we issued 250,000 shares of our unregistered common stock for services rendered. These transactions were not registered under the Act in reliance on the exemption from registration in Section 4(2) of the Act, as transactions not involving any public offering. The securities were issued to our employees, officers, directors, creditors, consultants, advisors, and existing shareholders, who by virtue of those relationships, we believe were familiar with our business, and were able to assess the risks and merits of the investment.

## **Item 3. Defaults Upon Senior Securities**

Not applicable

## **Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable

## **Item 5. ther Information**

On November 20, 2007, Thomas Stanovich and Gerald Yakatan resigned as a members of the board of directors and Kevin Pickard resigned as Interim Chief Financial Officer

**Item 6. Exhibits**

**Regulation**

**S-B**

<b>Number</b>	<b>Exhibit</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company
32.1	Section 906 Certification by Chief Executive Officer
32.2	Section 906 Certification by Chief Financial Officer

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COBALIS CORP.**

Date: December 20, 2007

By: /s/ Chaslav Radovich  
Chaslav Radovich  
Principal Executive Officer, Director

Date: December 20, 2007

By: /s/ Chaslav Radovich  
Chaslav Radovich  
President, Secretary

Date: December 20, 2007

By: /s/ Chaslav Radovich  
Chaslav Radovich  
Acting Chief Financial Officer,  
Treasurer