

EXHIBIT E
FINANCIAL STATEMENTS

ABRAKADOODLE, INC.

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

DECEMBER 31, 2004 AND 2003

**BELL & FRECH, LLC
Certified Public Accountants
Brookeville, Maryland**

Report of Independent Certified Public Accountants

Board of Directors
Abrakadoodle, Inc.

We have audited the accompanying balance sheet of Abrakadoodle, Inc. as of December 31, 2004 and 2003 and the related statements of operations, stockholders' equity and cash flows for the periods then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Abrakadoodle, Inc. as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the periods then ended, in conformity with generally accepted accounting principles.

February 10, 2005

ABRAKADOODLE, INC.

ABRAKADOODLE, INC.

BALANCE SHEET

DECEMBER 31, 2004 AND 2003

	2004	2003
<u>ASSETS</u>		
Current Assets		
Cash and money market accounts	\$ 306,806	\$ 95,122
Accounts receivable	13,557	-
Prepaid expenses	15,333	-
Total Current Assets	335,696	95,122
Property		
Equipment and vehicles	22,577	-
Less accumulated depreciation	(2,448)	-
Total Property	20,129	-
 TOTAL ASSETS	 \$ 355,825	 \$ 95,122

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 8,828	\$ -
Accrued expenses	15,769	2,610
Deferred income	122,409	-
Current portion of long-term debt	2,759	-
Deferred income tax	4,734	-
Total Current Liabilities	154,499	2,610
 Long-term Debt, Net of Current Portion	 9,868	 -
Total Liabilities	164,367	2,610
 Stockholder's Equity		
Capital stock, no par value, 50,000 shares authorized; 33,000 issued and outstanding at December 31, 2004 and 27,500 shares as of December 31, 2003	33,000	27,500
Additional Paid in Capital	105,764	79,328
Retained earnings (accumulated deficit)	52,694	(14,316)
Total Stockholders' Equity	191,458	92,512
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 355,825	 \$ 95,122

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

ABRAKADOODLE, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

DECEMBER 31, 2004 AND 2003

	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)
Balance, October 17, 2003	\$ -	\$ -	\$ -
Common stock issued December 15, 2003:			
For cash, 25,500 shares	25,500	74,600	-
As compensation at fair market value, 2,000 shares	2,000	4,728	-
Net income (loss) for the year			<u>(14,316)</u>
Balance, December 31, 2003	\$ 27,500	\$ 79,328	\$ (14,316)
Common stock issued during 2004:			
As compensation at fair market value, 5,500 shares	5,500	26,436	-
Net income (loss) for the year			<u>67,010</u>
Balance, December 31, 2004	<u>\$ 33,000</u>	<u>\$ 105,764</u>	<u>\$ 52,694</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

ABRAKADOODLE, INC.

STATEMENT OF OPERATIONS

OCTOBER 17, 2003 (DATE OF INCEPTION) TO DECEMBER 31, 2003
AND FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
Income		
Franchise sales	\$ 616,445	\$ -
Royalties	39,555	-
Product sales	17,347	-
Other operating income	4,019	-
Total Income	<u>677,366</u>	<u>-</u>
Operating Expenses	<u>572,564</u>	<u>14,362</u>
Net Operating Income (Loss)	104,802	(14,362)
Other Income (Expenses)		
Interest income	<u>627</u>	<u>46</u>
Net Income before Income Tax	<u>105,429</u>	<u>(14,316)</u>
Income Tax		
Federal	30,089	-
State	8,330	-
Total Income Tax	<u>38,419</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 67,010</u>	<u>\$ (14,316)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

ABRAKADOODLE, INC.

STATEMENT OF CASH FLOWS

OCTOBER 17, 2003 (DATE OF INCEPTION) TO DECEMBER 31, 2003
AND FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
<u>Increase (Decrease) in Cash</u>		
Cash Flows from Operating Activities		
Net income (loss)	\$ 67,010	\$ (14,316)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Non-cash compensation expense	31,936	6,728
Depreciation and amortization	2,448	-
Changes in assets and liabilities:		
Accounts receivable	(13,557)	-
Prepaid expenses	(15,333)	-
Accounts payable	8,828	-
Accrued expenses	13,159	2,610
Deferred income	122,409	-
Deferred income tax	4,734	-
Net Cash Provided by (Used in) Operating Activities	<u>221,634</u>	<u>(4,978)</u>
Cash Flows from Investing Activities		
Cash used to purchase equipment and vehicles	<u>(22,577)</u>	-
Net Cash Provided by (Used in) Investing Activities	<u>(22,577)</u>	-
Cash Flows from Financing Activities		
Proceeds from long term-debt	13,717	-
Payment on long-term debt	(1,090)	-
Proceeds from issuance of common stock	-	100,100
Net Cash Provided by (Used in) Financing Activities	<u>12,627</u>	<u>100,100</u>
Net Increase (Decrease) in Cash	211,684	95,122
Cash at Beginning of Year	95,122	-
Cash at End of Year	<u>\$ 306,806</u>	<u>\$ 95,122</u>

SUPPLEMENTAL INFORMATION:

Interest paid	\$ 675	\$ -
Income taxes paid	<u>\$ 30,000</u>	<u>\$ -</u>

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ABRAKADOODLE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

1. Basis of Presentation and Description of Business

Abrakadoodle, Inc. ("the Company") was incorporated October 17, 2003 in Virginia. The Company was formed to develop and sell franchises. Franchisees will provide art education services to schools and other host educational sites. The Company will provide support to franchisees and may sell products to franchisees and the public. As of December 31, 2003, the Company was a development stage company and was organizing, obtaining capital and developing the franchise system. During 2004, the Company is not considered to be a development stage enterprise.

2. Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the amount the Company expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and writes off all balances that are considered uncollectible.

Furniture and Equipment

Furniture and equipment is stated at cost. Depreciation is determined using the modified accelerated cost recovery system over the estimated useful lives of the assets which range from 3 to 7 years. In 2004, the Company recorded depreciation expense of \$2,448. During 2003, the Company recorded no depreciation expense.

Organization Costs

Organization costs are expensed in the period incurred.

ABRAKADOODLE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

Revenue Recognition

Franchise sales fees relate to single-center sales. Revenue related to these sales will be recognized when all material services or conditions relating to the sales have been substantially performed or satisfied by the Company. The criteria for substantial performance include: (1) the receipt of an executed franchise license agreement, (2) receipt of the nonrefundable initial payment of the franchise fee, and (3) completion of requisite training by the franchisee. During 2004, the Company recorded sales of 21 franchises.

Franchise sales fees not meeting the recognition criteria are recorded as deferred income. Commissions due on sales of franchises are recorded when the franchisee has been accepted by the Company.

Franchise royalties received from franchise owners will be reported as revenue as the royalties are earned and become receivable unless collection is not reasonably assured. Revenues from the Company's own classes will be recognized in the period the services are provided.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable when the assets and liabilities are recovered or settled.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

3. Stockholders' Equity

On December 15, 2003, the Company issued 2,000 shares of common stock to three shareholders in recognition of services they have and will provide. In 2004, the Company issued 5,500 additional shares of common stock to recognize performance received from two shareholders and in consideration of future services. The Company recorded compensation expense for the value of the shares issued in each year based on the estimated fair market value of each share as of the date of issuance.

ABRAKADOODLE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

4. Concentrations of Credit Risk

The Company maintains substantially all its cash balances at a financial institution located in the greater Washington, D.C. metropolitan area. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004, the Company's uninsured cash balances were \$121,928.

5. Long-term Liabilities

Long-term liabilities at December 31, 2004 consisted of the following:

	<u>2004</u>	<u>2003</u>
Note payable to Chrysler Financial Services with interest at 7.49% due January 16, 2009 secured by a Company owned vehicle.	<u>\$12,627</u>	<u>\$ -0-</u>

Maturities of long-term liabilities are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2005	\$2,759
2006	2,969
2007	3,199
2008	3,447
2009	<u>253</u>
Total	<u>\$12,627</u>

6. Income Taxes

The provision for income taxes consists of the following components:

	<u>2004</u>	<u>2003</u>
Current taxes:		
Federal	\$26,308	\$-0-
State	<u>7,377</u>	<u>-0-</u>
	<u>33,685</u>	<u>-0-</u>
Deferred taxes:		
Federal	3,781	-0-
State	<u>953</u>	<u>-0-</u>
	<u>4,734</u>	<u>-0-</u>
Total taxes	<u>\$38,419</u>	<u>\$-0-</u>