



FINANCIAL STATEMENTS

EXHIBIT 1

Avalar Network, Inc.
Balance Sheet
 As of November 9, 2006

2:31 PM
 11/09/06
 Accrual Basis

	Nov 9, 06
ASSETS	
Current Assets	
Checking/Savings	
1001 - Bank Of America	-64,428.19
1005 - ROYAL BANK OF CANADA	10,000.00
Total Checking/Savings	-54,428.19
Accounts Receivable	
Return Checks	25.00
1205 - Accounts Receivable	39,973.41
Total Accounts Receivable	39,998.41
Other Current Assets	
1210 - Employee Receivable	299.73
1250 - Prepaid Expenses	19,339.00
1260 - Worker's Comp Deposit	2,028.00
1270 - Security Deposit - Las Vegas	7,950.00
1275 - Security Deposits-Utilities	1,691.14
1304 - N/R E.Crouse	7,887.01
1306 - Note Receivable-Darren George	10,000.00
1700 - Note Receivable-Chuck Scoble	-0.30
Total Other Current Assets	49,194.58
Total Current Assets	34,764.80
Fixed Assets	
1405 - Office Furniture	9,213.49
1405-10 - Office Furniture-Las Vegas	47,734.73
1410 - Computer Equipment	44,219.39
1415 - Computer Software	28,275.66
1420 - Office Equipment	28,498.74
1420-10 - Office Equipment - Las Vegas	45,089.90
1421 - Leasehold Improvements	11,212.50
1425 - Vehicles	58,267.87
1430 - Airplane - Cessna 182	159,906.25
1500 - Less Accumulated Depreciation	-147,972.00
Total Fixed Assets	284,446.53
Other Assets	
1308 - MTD/LHA Properties, LLC	11,689.53
1600 - Deferred Tax Asset	18,000.00
1640 - Goodwill-CPS Alliance	40,000.00
1641 - Marketing Development	42,500.00
1642 - Accum Amort-Marketing Developme	-7,792.00
1643 - Web Site Development	26,480.00

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	<u>Nov 9, 06</u>
1660 · Trademark-CPS Alliance	18,845.86
1670 · Less Accumulated Amortization	-18,529.00
Total Other Assets	<u>131,194.39</u>
TOTAL ASSETS	<u>450,405.72</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	5,061.66
2000 · Accounts Payable	5,061.66
Total Accounts Payable	<u>5,061.66</u>
Credit Cards	
2100 · Credit Cards Payable	24,276.38
2100-20 · CITI Mastercard	24,276.38
Total 2100 · Credit Cards Payable	<u>24,276.38</u>
Total Credit Cards	<u>24,276.38</u>
Other Current Liabilities	
2010 · Petty Cash	-200.00
2060 · Payable Profit Sharing	245,586.97
2110 · Direct Deposit Liabilities	-0.89
2200 · Payroll Liabilities	674.00
2300 · Income Taxes Payable	800.00
2361 · Cessna Loan - Current Portion	4,003.23
2400 · Stockholder Loan-Chuck Scoble	30,694.48
Total Other Current Liabilities	<u>281,557.79</u>
Total Current Liabilities	<u>310,895.83</u>
Long Term Liabilities	
2330 · Hunnicutt Loan	60,000.00
2350 · GMAC- Hummer Long Term Portion	13,088.67
2351 · GMAC- Hummer Auto Deduction	7,914.38
2352 · BofA Directline/68181003392499	20,000.00
2360 · Note Payable - Cessna	120,782.98
Total Long Term Liabilities	<u>221,786.03</u>
Total Liabilities	<u>532,681.86</u>

Avalar Network, Inc.
Balance Sheet
As of November 9, 2006

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11/09/06
Accrual Basis

	<u>Nov 9, 06</u>
Equity	
3000 · Capital Stock	256,475.86
3100 · Additional Paid-In Capital	74,500.00
3400 · Retained Earnings	-127,136.38
3400-10 · Dividends Paid Out	-74,251.25
3500 · Operating Bal Equity	-18,811.50
Net Income	-193,052.87
Total Equity	<u>-82,276.14</u>
TOTAL LIABILITIES & EQUITY	<u>450,405.72</u>

Avalar Network, Inc.
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SCHOENHOLZ & SPIEGEL, LLP
Independent Auditors' Report

To the Stockholders
Avalar Network, Inc.
Las Vegas, NV.

We have audited the accompanying balance sheets of Avalar Network, Inc., as of June 30, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Avalar Network, Inc. as of June 30, 2006 and 2005 the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

Walnut Creek, California
August 25, 2006

Paully Spiegel

Schoenholz & Spiegel, LLP
Certified Public Accountants

Avalar Network, Inc.
Balance Sheets
As of June 30,

	2006	2005
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 12,329	\$ 106,543
Accounts Receivable	305,911	245,614
Employee Receivable	300	300
Loan to Stockholder	32,461	-
Deferred Tax Asset	18,000	-
Prepaid State Taxes	-	5,360
Prepaid Expenses	21,054	20,588
Total Current Assets	390,055	378,405
Property and Equipment	432,419	346,416
Less: Accumulated Depreciation	(147,972)	(91,792)
Property and Equipment, Net	284,447	254,624
Goodwill	40,000	40,000
Intangible Assets, Net	61,505	4,086
Other Assets	10,766	9,020
Total Assets	\$ 786,773	\$ 686,135

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts Payable	\$ 144,097	\$ 27,717
Royalties Payable	292,032	189,581
Payroll Taxes Payable	13,216	3,759
Income Taxes Payable	800	-
Deferred Tax Liability	-	10,200
Long-Term Debt, Current Portion	76,497	15,494
Total Current Liabilities	526,642	246,751
Long-Term Debt, Net of Current Portion	133,872	150,369
Total Liabilities	660,514	397,120
Stockholders' Equity		
Common Stock; No Par Value, Authorized 3,000,000 Shares, Issued and Outstanding 1,536,250 Shares	256,476	256,476
Additional Paid-In Capital	74,500	74,500
Retained Earnings	(204,717)	(41,961)
Total Stockholders' Equity	126,259	289,015
Total Liabilities and Stockholders' Equity	\$ 786,773	\$ 686,135

See Notes to Financial Statements

Avalar Network, Inc.
Statements of Operations
For The Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Fees and Other Revenues			
Royalty Fees	\$ 2,684,870	\$ 1,981,873	\$ 1,329,262
Franchise Fee - Initial Purchase	273,580	121,100	56,500
Licensing Fee	6,000	62,485	90,090
Area Development	75,000	70,600	-
Other Revenues	54,706	19,355	1,500
Total Fees and Other Revenues	<u>3,094,156</u>	<u>2,255,413</u>	<u>1,477,352</u>
Operating Expenses:			
Accounting	12,186	9,553	12,996
Advertising	159,455	260,332	119,374
Amortization	11,561	3,769	3,769
Auto	19,825	17,959	11,115
Check Processing	-	5,670	15,576
Computer Consulting	137,101	71,123	26,670
Consulting	66,491	60,833	44,280
Depreciation	56,180	40,392	31,148
Donations	375	-	-
Dues and Subscriptions	6,613	5,487	5,852
Insurance	5,454	6,858	-
Legal Fees	43,065	8,865	12,617
Licenses and Permits	455	400	4,778
Marketing	118,872	5,899	1,911
Miscellaneous	11,199	10,701	6,187
Meals and Entertainment	33,637	47,499	28,657
Office	40,192	17,075	15,515
Promotion	8,646	53,786	7,782
Payroll Salaries	582,086	356,002	147,704
Payroll Taxes	72,598	38,647	14,468
Other Taxes	10,375	18,312	-
Postage and Delivery	26,499	11,000	3,926
Printing and Reproduction	26,170	52,189	47,012
Professional Fees	25,605	13,886	-
Revenue Sharing	1,305,327	901,783	664,131
Rent	113,456	54,260	16,625
Repairs	7,297	8,847	5,652
Sales Commission	144,204	59,350	19,450
Start Up Costs	245	54,303	-
Telephone	22,067	9,477	10,133
Training and Seminars	243	7,701	10,000
Travel	125,544	95,000	66,393
Utilities	8,645	34	1,014
Total Operating Expenses	<u>3,201,668</u>	<u>2,306,992</u>	<u>1,354,735</u>
Operating Income	<u>(107,512)</u>	<u>(51,579)</u>	<u>122,617</u>
Other Income (Expenses):			
Other Income	2,900	-	-
Interest Income	-	6,310	-
Interest Expense	(10,068)	(11,243)	(7,711)
Income Before Income Taxes	<u>(114,680)</u>	<u>(56,512)</u>	<u>114,906</u>
Income Tax (Benefit) Expense	<u>(27,400)</u>	<u>(8,042)</u>	<u>37,329</u>
Net Income (Loss)	<u>\$ (87,280)</u>	<u>\$ (48,470)</u>	<u>\$ 77,577</u>

See Notes to Financial Statements

Avalar Network, Inc.
Statements of Changes in Stockholders' Equity
For the Years Ended June 30, 2006, 2005 and 2004

	Common		Additional Paid-In Capital	Retained Earnings (Deficit)	Total
	Shares	Stock			
Balance at June 30, 2003	1,536,250	\$ 256,476	\$ 74,500	\$ 4,208	\$ 335,184
Net Income	-	-	-	77,577	77,577
Balance at June 30, 2004	1,536,250	256,476	74,500	81,785	412,761
Stockholder Dividend	-	-	-	(75,276)	(75,276)
Net Loss	-	-	-	(48,470)	(48,470)
Balance at June 30, 2005	1,536,250	256,476	74,500	(41,961)	289,015
Stockholder Dividend	-	-	-	(75,476)	(75,476)
Net Loss	-	-	-	(87,280)	(87,280)
Balance at June 30, 2006	1,536,250	\$ 256,476	\$ 74,500	\$ (204,717)	\$ 126,259

See Notes to Financial Statements

Avalar Network, Inc.
Statements of Cash Flows
For The Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities			
Net Income (Loss)	\$ (87,280)	\$ (48,470)	\$ 77,577
Adjustment to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Deferred Taxes	(28,200)	(9,550)	26,382
Depreciation	56,180	40,392	31,148
Amortization	11,561	3,769	3,769
(Increase) Decrease in Operating Assets:			
Accounts Receivable	(60,297)	(69,485)	(87,453)
Employee Receivable	-	807	(807)
Loan to Stockholder	(32,461)	-	11,748
Prepaid Expenses	(466)	(74)	(20,514)
Other Assets	(1,746)	(9,020)	-
Increase (Decrease) in Operating Assets:			
Accounts Payable	116,380	16,949	296
Royalties Payable	102,451	27,549	72,348
Payroll Taxes Payable	9,457	3,591	168
Income Taxes Payable	800	(9,240)	9,240
	<u>86,379</u>	<u>(52,782)</u>	<u>123,902</u>
Net Cash Provided (Used) by Operating Activities			
Cash Flows From Investing Activities:			
Purchase of Property and Equipment	(86,003)	(57,317)	(56,816)
Marketing Video Development	(42,500)	-	-
Web Site Development	(26,480)	-	-
Collection of Notes Receivable	-	-	2,877
Collection of Notes Receivable - Stockholder	-	144,252	-
	<u>(154,983)</u>	<u>86,935</u>	<u>(53,939)</u>
Net Cash Provided (Used) by Investing Activities			
Cash Flows From Financing Activities:			
Payments on Note Payable	(15,494)	(14,555)	(12,044)
Notes Payable Proceeds	60,000	-	-
Payment of Stockholder Dividend	(75,476)	(75,276)	-
	<u>(30,970)</u>	<u>(89,831)</u>	<u>(12,044)</u>
Net Cash Provided (Used) by Financing Activities			
Net Increase (Decrease) in Cash	(99,574)	(55,678)	57,919
Cash - Beginning Balances	<u>106,543</u>	<u>158,841</u>	<u>100,922</u>
Cash - Ending Balances	<u>\$ 12,329</u>	<u>\$ 106,543</u>	<u>\$ 158,841</u>

See Notes to Financial Statements

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Avalar Network, Inc. (the Company) was incorporated in July 1999 in the state of California under the name of RE 100, Inc. In August 2002, the Company filed an amendment to the articles of incorporation to change its name from RE 100, Inc. to Avalar Network, Inc. In May 2003, the Company merged its California Corporation into its Nevada Corporation to form a single Corporation.

The Company offers franchises under which independently owned and operated real estate and mortgage brokerage offices are authorized to do business under the trade name "Avalar Network, Inc." The Company earns a certain percentage of each franchisee's agents' gross commission income as royalty fee income. The Company franchises include a special revenue sharing program "Path to Success" which allows franchisee's agents to participate in a portion of the Corporation royalty income by sponsoring new franchisees and sales affiliates. The Company supports the activities of its franchisees by providing manuals and materials to use in the operation of the franchisee's offices, offering courses, seminars, conventions and meetings, and administering the "Path to Success" revenue sharing program.

At June 30, 2006, the Company has 118 franchises located in eighteen states. The Company's administrative and sales offices are located in Las Vegas, Nevada.

Revenue Recognition

The Company is entitled to 5% of each franchisee's agents' gross commission income on royalty fees of \$100,000 and 2% on royalty fees above \$100,000. Revenue from royalties is recognized upon closing of the real estate transactions by the franchisee's agents.

Revenue from franchise sales is recognized when all the conditions relating to the sale of a franchise have been substantially performed or satisfied. The Company, depending on the franchise office size, charges an initial franchise fee of \$15,000, with an additional \$2,500 per branch office.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets ranging from 3-7 years.

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and disclosures. Accordingly, the actual amounts could differ from those estimates.

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 arising primarily from differences between financial and tax purposes. Deferred income taxes are determined using the tax rates expected to be in effect when the taxes are actually paid. The deferred tax asset represents the future tax return consequences of those differences, which will be deductible when the asset is settled.

NOTE 2 - CONCENTRATION OF CASH HELD AT BANKS

The Company maintains cash at a bank. Accounts up to \$100,000 are insured by the Federal Deposit Insurance Corporation. At June 30, 2006 the Company's bank balances did not exceed \$100,000, as such, all funds were insured. At June 30, 2005, because the Company's bank balances exceeded \$100,000, not all balances were insured.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30,

	<u>2006</u>	<u>2005</u>
Computer Equipment	\$ 44,219	\$ 31,929
Computer Software	28,276	13,832
Cessna Airplane	159,906	159,906
Office Equipment	130,537	82,481
Leasehold Improvements	11,213	-
Vehicle	<u>58,268</u>	<u>58,268</u>
Total Property and Equipment	432,419	346,416
Less: Accumulated Depreciation	<u>147,972</u>	<u>91,792</u>
Property and Equipment, Net	<u>\$284,447</u>	<u>\$254,624</u>

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charged to operations was \$56,180 for the year ended June 30, 2006, \$40,392 for the year ended June 30, 2005, and \$31,148 for the year ended June 30, 2004.

NOTE 4 - GOODWILL

In 2003, the Company merged with CPS Alliance. As part of that merger \$40,000 was recognized as Goodwill. During the current year the Company determined that the estimated fair value of the goodwill exceeded its carrying value.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consists of the following as of June 30,

	<u>2006</u>	<u>2005</u>
Trademark	\$ 18,846	\$18,846
Marketing Development	42,500	-
Website Development	<u>26,480</u>	<u>-</u>
Total Intangible Assets	87,826	18,846
Less: Accumulated Amortization	<u>26,321</u>	<u>14,760</u>
Intangible Assets, Net	<u>\$ 61,505</u>	<u>\$ 4,086</u>

Amortization charged to operations was \$11,561 for the year ended June 30, 2006, \$3,769 for the year ended June 30, 2005, and \$3,769 for the year ended June 30, 2004.

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 6 - LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	<u>2006</u>	<u>2005</u>
Note payable to an individual, unsecured, bearing interest at 10.00% per annum, payable in monthly installments of \$500, due April 8, 2016.	\$ 60,000	\$ -
Note payable to a bank, secured by company auto, bearing interest at 6.25% per annum, payable in monthly installments of \$1,145, due June 21, 2008.	25,583	37,320
Note payable to a bank, secured by company asset, bearing interest at 6.36% per annum, payable in monthly installments of \$1,970, due December 21, 2023.	<u>124,786</u>	<u>128,543</u>
Total Long-Term Debt	210,369	165,863
Less: Current Portion	<u>76,497</u>	<u>15,494</u>
Long-Term Debt, Net of Current Portion	<u>\$133,872</u>	<u>\$150,369</u>

Maturities of long-term debt over the next five years are as follows:

<u>June 30</u>	<u>Amount</u>
2007	76,497
2008	17,354
2009	4,545
2010	4,842
2011	5,157
Thereafter	<u>101,974</u>
Total	<u>\$210,369</u>

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 7 - LEASES

The Company leases office facilities under non-cancelable leases through October 31, 2008 and 2015. The office leases require the Company to pay for insurance and maintenance.

At June 30, 2006 future minimum rental payments are as follows:

<u>June 30</u>	<u>Amount</u>
2007	110,400
2008	110,400
2009	100,400
2010	95,400
2011	95,400
Thereafter	<u>381,600</u>
Total	<u>\$893,600</u>

Rent charged to operations was \$113,456 for the year ended June 30, 2006, \$49,975 for the year ended June 30, 2005, and \$16,625 for the year ended June 30, 2004.

NOTE 8 - INCOME TAXES

Income tax expense for the years ended June 30 was as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Federal	\$ -	\$ -	\$ -
State	<u>800</u>	<u>800</u>	<u>10,712</u>
	800	800	10,712
Deferred:			
Federal	(17,300)	(13,264)	26,617
State	<u>(10,900)</u>	<u>4,422</u>	<u>-</u>
	<u>(28,200)</u>	<u>(8,842)</u>	<u>26,617</u>
Income Tax (Benefit) Provision	<u>\$(27,400)</u>	<u>\$(8,042)</u>	<u>\$37,329</u>

At June 30, 2006 and 2005, the net deferred tax amount resulted from using differing depreciation methods for financial and tax reporting purposes, and the difference between the accrual basis method used for financial reporting and the cash basis method used for tax reporting. The Company has available at June 30, 2006, \$70,000 of unused federal operating loss carry forward and \$110,000 of unused California operating loss carry forward. Both may be applied against future taxable income. The federal carry forward expires June 30, 2023. The California carry forward expires June 30, 2012.

Avalar Network, Inc.
Notes to Financial Statements
June 30, 2006

NOTE 9 - RELATED PARTY TRANSACTIONS

The Company had the following related party transactions and balances as of and for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Transactions:			
Royalty Fee Income from Related Corporation	\$1,082,381	\$978,859	\$728,369
Accounts Receivable from Related Parties	\$ -	\$ -	\$ -
The Company rents its Las Vegas office facilities from a corporate officer under a long-term lease. Rent included in operations	\$ 95,400	\$ -	\$ -
The Company paid consulting fees to a corporate officer.	\$ 70,000	\$ 60,000	\$ 60,000

NOTE 10 - CASH FLOW INFORMATION

Supplemental cash flow information for the years ended June 30 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash paid during the year for interest	\$10,068	\$ 11,243	\$ 5,488
Cash paid during the year for income taxes	\$ -	\$ 18,349	\$ 3,060