EXHIBIT A
FINANCIAL STATEMENTS

HINZMAN & ASSOCIATES
A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS

6339 Nancy Ridge Drive • Suite 200
San Diego, California 92121
Phone: (858) 535-1600
Fax: (858) 535-1649

CONSENT OF INDEPENDENT ACCOUNTANTS

February 28, 2006

We hereby consent to the use in the Franchise Offering circular constituting part of this Uniform Franchise Registration application of the following report relating to the financial statements of Concerto Networks, Inc. which appears as an attachment in such offering circular.

Reporting Period	Report Date
December 31, 2003	March 1, 2004
December 31, 2004	March 11, 2005
December 31, 2005	February 28, 2006

Hinzman & Associates

HINZMAN & ASSOCIATES
Certified Public Accountants
A Professional Corporation

Concerto Networks, Inc.

Audited Financial Statements
And Additional Information

For the Years Ended
December 31, 2005 and 2004

Concerto Networks, Inc.

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HINZMAN & ASSOCIATES
A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

February 28, 2006

To the Board of Directors
Concerto Networks, Inc.
San Diego, California

We have audited the accompanying balance sheets of Concerto Networks, Inc. as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Concerto Networks, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hinzman & Associates

Hinzman & Associates
A Professional Corporation
Certified Public Accountants

Concerto Networks, Inc.
Balance Sheet
December 31, 2005 and 2004

Assets

	2005	2004
Current assets:		
Cash	$ 214,253	$ 176,322
Accounts receivable	127,217	1,069
Inventory	10,839	25,498
Prepaid expenses	21,507	11,345
Total current assets	373,816	214,234
Property and equipment, net	64,861	84,744
Intangible assets, net	19,574	-
Deposits	5,434	14,342
	$ 463,685	$ 313,320

Liabilities and Stockholders' Equity

	2005	2004
Current liabilities:		
Accounts payable	$ 17,781	$ 48,821
Accrued expenses	29,051	64,075
Advertising fee payable	-	5,281
Advance franchise fees	-	11,925
Current portion of long-term debt	7,927	7,141
Total current liabilities	54,759	137,243
Long-term debt, net of current portion	699	8,626
Stockholders' equity:		
Common stock	1,421,423	1,052,000
Accumulated deficit	(1,013,196)	(884,549)
Total stockholders' equity	408,227	167,451
	$ 463,685	$ 313,320

Concerto Networks, Inc.
Statement of Operations
For the Years Ended December 31, 2005 and 2004

		2005		2004
Income				
Franchise income	$	689,243	$	477,272
Royalty and marketing fees		57,470		12,551
Sales of equipment and marketing materials		163,552		81,785
Other income		79,911		27,345
		990,176		598,953
Expenses				
Costs of equipment and marketing materials		112,835		59,781
General and administrative expenses		999,066		1,127,093
		1,111,901		1,186,874
Operating loss		(121,725)		(587,921)
Other income (expense)				
Interest income		454		-
Interest expense		(6,576)		(8,769)
Loss before income taxes		(127,847)		(596,690)
Income tax expense		800		690
Net loss	$	(128,647)	$	(597,380)

Concerto Networks, Inc.
Statement of Changes in Stockholders' Equity
For the years ended December 31, 2005 and 2004

	Common Stock		Retained	
	Shares	Value	Earnings	Total
Balances at December 31, 2003	18,469,858	$ 786,929	$ (287,169)	$ 499,760
Common stock issued for cash	530,142	265,071	-	265,071
Net loss	-	-	(597,380)	(597,380)
Balances at December 31, 2004	19,000,000	1,052,000	(884,549)	167,451
Common stock issued for cash	1,109,092	210,000	-	210,000
Common stock issued for expenses	53,496	29,423	-	29,423
Stock options exercised for cash	1,000,001	150,000	-	150,000
Stock options exercised for expenses	466,667	70,000	-	70,000
Common stock redeemed	(4,000,000)	(90,000)	-	(90,000)
Net loss	-	-	(128,647)	(128,647)
Balances at December 31, 2005	17,629,256	$ 1,421,423	$ (1,013,196)	$ 408,227

Concerto Networks, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Net loss	$ (128,647)	$ (597,380)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	24,534	22,331
Amortization	1,030	-
Loss on disposal of fixed assets	351	-
(Increase) decrease in:		
Accounts receivable	(126,148)	(1,069)
Inventory	14,659	(25,498)
Prepaid expenses and deposits	(1,254)	34,601
Increase in:		
Accounts payable	(31,040)	24,184
Accrued expenses	(35,024)	66,821
Advertising fee payable	(5,281)	-
Advance franchise fees	(11,925)	11,925
Net cash used by operating activities	(298,745)	(464,085)
Cash flows from investing activities		
Purchase of fixed assets	(5,002)	(42,770)
Acquisition of trademarks	(20,604)	-
Net cash used by investing activities	(25,606)	(42,770)
Cash flows from financing activities		
Payments on notes payable	(7,141)	(6,272)
Proceeds from common stock issuance	459,423	265,071
Common stock purchased from shareholder	(90,000)	-
Net cash provided by financing activities	362,282	258,799
Net increase in cash	37,931	(248,056)
Cash, beginning of period	176,322	424,378
Cash, end of period	$ 214,253	$ 176,322
Supplemental schedule of cash flow information:		
Interest paid in cash	$ 6,576	$ 8,769
Taxes paid in cash	$ 800	$ 690
Supplemental disclosure of noncash activities:		
Fixed assets acquired with note payable	$ -	$ 22,039

Concerto Networks, Inc.
Notes to Financial Statements
December 31, 2005 and 2004

1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concerto Networks, Inc. (The Company) was incorporated in California on July 1, 2002. The Company was formed for the purpose of franchising mobile, onsite information technology and computer network solution businesses.

Basis of accounting

The financial statements of the Company have been prepared in conformity with generally accepted accounting principles on the accrual basis and accordingly reflect all significant assets, payables and other liabilities.

Concentration of credit risk

The Company maintains most of its cash balances at one financial institution and the balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2005 and 2004, the Company's uninsured cash balances totaled $78,000 and $47,500, respectively.

Accounts receivable

Accounts receivable consists of franchise fees due from franchisees, partner commissions and marketing materials that franchisees purchase directly from the Company. Accounts are charged to bad debt expense as they are deemed uncollectible. The Company considers accounts receivable to be fully collectible.

Inventory

Inventories, consisting primarily of equipment and marketing materials, are stated at average cost.

Property and equipment

It is the Company's policy to capitalize property and equipment over $500. Lesser amounts are expensed. Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets, generally three to seven years for all assets.

Intangible assets

Intangible assets, consisting of costs incurred securing trademark rights, are recorded at cost and amortized over the ten year useful lives of the assets using the straight-line method.

1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Franchise agreement

The Company's franchise agreement currently requires an initial non-refundable fee of $15,750 per franchise. Area development and master license franchises are also available. The Company has the discretion to discount or waive franchise and area development fees. Initial franchise and area development fees are primarily intended to compensate the Company for the granting of the franchise, the right to use the Company's trademark and to offset the costs of developing partnering agreements with hardware and/or software suppliers as well as the operations manual. The term of the initial franchise and area development agreement is 10 years. An option to renew the agreement for another 10-year term is available at 25% of the then current initial franchise fee and 10% of the initial area development fee.

Franchise fees and associated costs are recognized as revenue and expense when the franchise commences operations. Franchise fees received from franchises that have not yet commenced operations are recorded as a liability; costs associated with such advance franchise fees are recorded as an asset. Area development fees and the associated costs are recognized as revenue and expense upon execution and receipt of fees.

Franchise agreements also provide for continuing royalty, advertising and marketing fees which are based on gross sales and are payable immediately upon every itemized sales transaction. The royalty fee, 14% of gross sales, compensates the Company for various advisory services that it provides to the franchise on an ongoing basis and is subject to a minimum payment of $150 per month. The advertising fee, 2% of gross sales, is set aside in a separate trust account and used for corporate and local advertising as determined by management. The marketing fee, 1% of gross sales, compensates the Company for various marketing efforts as determined by management.

Royalty and marketing fees are recognized as revenue when earned. Advertising fees received are recorded as advertising fees payable; this franchise liability is reduced as such advertising expenses are incurred.

The Company is obligated to share fees generated by new franchises with area developers if there is an area developer in the franchise territory. Domestic area developers are entitled to receive 30% of all initial franchise fees and 30% of all royalty fees generated by franchises within their territory. The Company is entitled to receive 7-10 % of ongoing international master license gross revenues in the form of royalties.

1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Deferred taxes are recognized for the temporary differences between the tax basis of the Company's assets and liabilities and their reported amounts. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), and net operating loss carry forwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The measurement of deferred tax assets and liabilities is based on provision of the enacted tax law; the effect of future changes in tax laws or rates are not considered.

Stock option plan

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock options. Under APB 25, when the exercise price of stock options equals the fair market value of the underlying stock of the date of grant, no compensation expense is recognized. The Company will be required to follow Statement of Financial Accounting Standards (SFAS) No. 123R, "Accounting for Stock-Based Compensation" for the year ended December 31, 2006. Under the provisions of Statement No. 123R the Company may be required to record additional compensation expense based on the grant-date fair value of the stock options and expected volatility of the Company's share price.

Advertising expense

It is the Company's policy to expense advertising costs as they are incurred. During the years ended December 31, 2005 and December 31, 2004, advertising expense totaled $75,466 and $81,573, respectively.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates

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

2. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2005 and 2004 consists of the following:

	2005	2004
Computer equipment	$ 75,318	$ 75,673
Office equipment	17,474	17,474
Furniture and fixtures	28,344	28,344
Leasehold improvements	2,545	-
	123,681	121,491
Less accumulated depreciation	(58,820)	(36,747)
	$ 64,861	$ 84,744

3. INTANGIBLE ASSETS

Intangible assets as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Trademark rights	$ 20,604	$ -
Less accumulated amortization	(1,030)	-
	$ 19,574	$ -

4. LONG-TERM DEBT

Long-term debt at December 31, 2005 consisted of a note payable secured by office furniture with monthly payments of $705 through January 2007, including interest at an imputed rate of 11%.

Future maturities of long-term debt are as follows:

Year ended December 31, 2006	$ 7,927
December 31, 2007	699
Total maturities	$ 8,626

5. STOCKHOLDERS' EQUITY

The Company is authorized to issue a total of 41,000,000 shares of no par value stock; consisting of 37,000,000 shares of common stock and 4,000,000 shares of preferred stock. Eleven million common stock shares have been reserved for an employee stock option plan. Unless otherwise determined by the Board, grants of shares from this pool to employees are subject to a vesting schedule.

During 2005 the Company redeemed and retired four million shares of common stock from a shareholder for $90,000.

In September 2003, the Company issued a private placement memorandum for 2,000,000 shares of common stock at an offering price of $0.50 per share. As of December 31, 2005, all shares were issued for a total of $1,000,000.

6. INCOME TAXES

The income tax provision consists of minimal state income taxes at December 31, 2005 and 2004.

Deferred income tax assets consist of a net operating loss carry forward. Deferred tax liabilities are the result of using different depreciation methods for financial reporting than those used for income tax purposes. Due to the uncertainty regarding the level of future earnings, the Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized, principally due to the expiration of net operating loss carry forwards

The Company's deferred tax assets and liabilities as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Deferred tax assets	$ 342,000	$ 301,000
Less valuation allowance	(338,000)	(295,000)
Deferred tax liablities	(4,000)	(6,000)
	$ -	$ -

At December 31, 2005, the Company had net operating loss carry forwards totaling approximately $1,000,000 expiring in various years through 2025 for federal purposes and 2011 for state purposes.

7. FRANCHISE INFORMATION

Franchise statistics at December 31, 2005 include:

	Franchise	Area Developer	Master License
Franchises in operation at beginning of year	18	5	1
New franchises granted	21	1	2
Existing franchises terminated	-5	0	0
Franchises in operation at end of year	34	6	3

8. RELATED PARTY TRANSACTIONS

The Company utilizes the services of a local franchisee to provide franchise support services to new and existing franchises. A total of $8,000 was paid to this franchisee during the year ended December 31, 2005.

9. STOCK OPTION PLAN

The Company has granted stock options for common stock to employees, board members and advisors. The stock options are exercisable at a price equal to the market value, as determined by the Board of Directors, on the date of the grant. Sock options vest at various times and expire at the earlier of 10 years from issue date or termination of employment or consulting relationship. The Company has not recorded any compensation costs associated with the options granted because it estimates the fair value of the options to be nominal.

A summary of the status of the Company's stock option plan at December 31, 2005 and changes for the year then ended includes:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2004	355,500	$ 0.50
Granted	9,448,000	0.16
Forfeited	(12,500)	0.50
Exercised	(1,466,667)	0.15
Outstanding at December 31, 2005	8,324,333	0.17
Exercisable at December 31, 2005	1,058,333	$ 0.22

9. STOCK OPTION PLAN (Continued)

Information about stock options outstanding at December 31, 2005 includes:

	Exercise Price	Number Outstanding at December 31, 2005	Number Exercisable at December 31, 2005
Options expire year ending:			
December 31, 2013	$ 0.50	150,000	150,000
December 31, 2014	$ 0.50	195,500	65,500
December 31, 2015	$ 0.50	182,500	-
December 31, 2015	$ 0.55	25,000	-
December 31, 2015	$ 0.15	7,771,333	842,833
Options at December 31, 2005		8,324,333	1,058,333

10. COMMITMENTS

The Company leases office space under an operating lease which expires August 31, 2008. Future minimum lease payments under operating leases at December 31, 2005 are as follows:

Year ended December 31, 2006	$ 65,900
December 31, 2007	67,800
December 31, 2008	46,100
	$ 179,800

Total rent expense for the years ended December 31, 2005 and 2004 was $73,200 and $86,100, respectively. Sublease income received from franchisee totaled $18,700 for the year ended December 31, 2004.

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

February 28, 2006

To the Board of Directors
Concerto Networks, Inc.
San Diego, California

Our report on our audit of the basic financial statements of Concerto Networks, Inc. for 2005 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following Statement of Operations- 2005 Half Year Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Hinzman & Associates

Hinzman & Associates
A Professional Corporation
Certified Public Accountants

Concerto Networks, Inc.
Additional Information
Statement of Operations - 2005 Half Year Analysis

	1/1/05-6/30/05	7/1/05-12/31/05	1/1/05-12/31/05
Income			
Franchise income	$ 213,203	$ 476,040	$ 689,243
Royalty and marketing fees	22,909	34,561	57,470
Sales of equipment and marketing materials	94,688	68,864	163,552
Other income	37,197	42,714	79,911
	367,997	622,179	990,176
Expenses			
Costs of equipment and marketing materials	67,896	44,939	112,835
General and administrative expenses	510,829	488,237	999,066
	578,725	533,176	1,111,901
Operating loss	(210,728)	89,003	(121,725)
Other income (expense)			
Interest income	1	453	454
Interest expense	(5,563)	(1,013)	(6,576)
Loss before income taxes	(216,290)	88,443	(127,847)
Income tax expense	400	400	800
Net loss	$ (216,690)	$ 88,043	$ (128,647)

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CONSENT OF INDEPENDENT ACCOUNTANTS

March 11, 2005

We hereby consent to the use in the Franchise Offering circular constituting part of this Uniform Franchise Registration application of the following report relating to the financial statements of Concerto Networks, Inc. which appears as an attachment in such offering circular.

Reporting Period	Report Date
December 31, 2003	March 1, 2004
December 31, 2004	March 11, 2005

Hinzman & Associates

HINZMAN & ASSOCIATES
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Concerto Networks, Inc.

Audited Financial Statements

For the Years Ended
December 31, 2004 and 2003

Concerto Networks, Inc.

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INDEPENDENT AUDITOR'S REPORT

March 11, 2005

To the Board of Directors
Concerto Networks, Inc.
San Diego, California

We have audited the accompanying balance sheets of Concerto Networks, Inc. as of December 31, 2004 and 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Concerto Networks, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hinzman & Associates

HINZMAN & ASSOCIATES
Certified Public Accountants
A Professional Corporation

Concerto Networks, Inc.
Balance Sheet
December 31, 2004 and 2003

Assets

	2004	2003
Current assets:		
Cash	$ 176,322	$ 424,378
Accounts receivable	1,069	-
Inventory	25,498	-
Prepaid expenses	11,345	45,946
Total current assets	214,234	470,324
Property and equipment:		
Computer equipment	75,673	49,901
Office equipment	17,474	5,781
Furniture and fixtures	28,344	1,000
	121,491	56,682
Less accumulated depreciation	(36,747)	(14,416)
	84,744	42,266
Deposits	14,342	14,342
	$ 313,320	$ 526,932

Liabilities and Stockholders' Equity

	2004	2003
Current liabilities:		
Accounts payable	$ 48,821	$ 24,637
Accrued expenses	64,075	2,535
Advertising fee payable	5,281	-
Advance franchise fees	11,925	-
Current portion of long-term debt	7,141	-
Total current liabilities	137,243	27,172
Long-term debt, net of current portion	8,626	-
Stockholders' equity:		
Common stock	1,052,000	786,929
Accumulated deficit	(884,549)	(287,169)
Total stockholders' equity	167,451	499,760
	$ 313,320	$ 526,932

Concerto Networks, Inc.
Statement of Operations
For the Years Ended December 31, 2004 and 2003

	2004	2003
Franchise income		
Franchise fees	$ 223,098	$ 1,200
Area development fees	141,174	-
Master license fees	30,000	7,000
Training fees	83,000	8,300
Royalty and marketing fees	12,551	596
Equipment and marketing materials	81,785	-
Other income	27,345	844
	598,953	17,940
Cost of goods sold		
Equipment and marketing materials	59,781	807
Gross margin	539,172	17,133
General and administrative expenses	1,127,093	272,565
Operating loss	(587,921)	(255,432)
Other income (expense)		
Interest income	-	3
Interest expense	(8,769)	(3,312)
Loss before income taxes	(596,690)	(258,741)
Income tax expense	690	800
Net loss	$ (597,380)	$ (259,541)

Concerto Networks, Inc.
Statement of Changes in Stockholders' Equity
For the years ended December 31, 2004 and 2003

	Common Stock		Retained	
	Shares	**Value**	**Earnings**	**Total**
Balances at December 31, 2002	52,000	$ 52,000	$ (27,628)	$ 24,372
Issuance of founders common stock	16,948,000	-	-	-
Conversion of notes payable to Series B common stock	159,858	79,929	-	79,929
Series B common stock issued for cash	1,310,000	655,000	-	655,000
Net loss	-	-	(259,541)	(259,541)
Balances at December 31, 2003	18,469,858	786,929	(287,169)	499,760
Series B common stock issued for cash	530,142	265,071	-	265,071
Net loss	-	-	(597,380)	(597,380)
Balances at December 31, 2004	19,000,000	$ 1,052,000	$ (884,549)	$ 167,451

Concerto Networks, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net loss	$ (597,380)	$ (259,541)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	22,331	12,671
(Increase) decrease in:		
Accounts receivable	(1,069)	-
Inventory	(25,498)	-
Prepaid expenses and deposits	34,601	(59,538)
Increase in:		
Accounts payable	24,184	17,411
Accrued expenses	66,821	2,184
Advance franchise fees	11,925	-
Net cash used by operating activities	(464,085)	(286,813)
Cash flows from investing activities		
Purchase of fixed assets	(42,770)	(27,352)
Net cash used by investing activities	(42,770)	(27,352)
Cash flows from financing activities		
Advances from shareholder	-	(15,205)
Conversion of notes payable to Series B common stock	-	79,404
Payments on notes payable	(6,272)	-
Proceeds from Series B common stock issuance	265,071	655,000
Net cash provided by financing activities	258,799	719,199
Net increase in cash	(248,056)	405,034
Cash, beginning of period	424,378	19,344
Cash, end of period	$ 176,322	$ 424,378
Supplemental schedule of cash flow information:		
Interest paid in cash	$ 8,769	$ 3,312
Taxes paid in cash	$ 690	$ 800
Supplemental disclosure of noncash activities:		
Fixed assets contributed in exchange for common stock	$ -	$ 525
Fixed assets acquired with note payable	$ 22,039	$ -

Concerto Networks, Inc.
Notes to Financial Statements
December 31, 2004 and 2003

1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concerto Networks, Inc. (The Company) was incorporated in California on July 1, 2002. The Company was formed for the purpose of franchising mobile, onsite information technology and computer network solution businesses.

Basis of accounting

The financial statements of the Company have been prepared in conformity with generally accepted accounting principles on the accrual basis and accordingly reflect all significant assets, payables and other liabilities.

Concentration of credit risk

The Company maintains most of its cash balances at one financial institution and the balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2004 and 2003, the Company's uninsured cash balances totaled $47,500 and $323,000, respectively.

Accounts receivable

Accounts receivable consists of marketing materials and other IT items that franchisees purchase directly from Concerto. Accounts are charged to bad debt expense as they are deemed uncollectible. The Company considers accounts receivable to be fully collectible.

Inventory

Inventories, consisting primarily of equipment and marketing materials, are stated at average cost.

Property and equipment

It is the Company's policy to capitalize property and equipment over $500. Lesser amounts are expensed. Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets, generally three to seven years for all assets.

Concerto Networks, Inc.
Notes to Financial Statements
December 31, 2004 and 2003

1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise agreement

The Company's franchise agreement currently requires an initial non-refundable fee of $15,750 per franchise. Area development and master license franchises are also available. The Company has the discretion to discount or waive franchise and area development fees. Initial franchise and area development fees are primarily intended to compensate the Company for the granting of the franchise, the right to use the Company's trademark and to offset the costs of developing partnering agreements with hardware and/or software suppliers as well as the operations manual. The term of the initial franchise and area development agreement is 10 years. An option to renew the agreement for another 10-year term is available at 25% of the then current initial franchise fee and 10% of the initial area development fee.

Franchise fees and associated costs are recognized as revenue and expense when the franchise commences operations. Franchise fees received from franchises that have not yet commenced operations are recorded as a liability; costs associated with such advance franchise fees are recorded as an asset. Area development fees and the associated costs are recognized as revenue and expense upon execution and receipt of fees.

Franchise agreements also provide for continuing royalty, advertising and marketing fees which are based on gross sales and are payable immediately upon every itemized sales transaction. The royalty fee, 14% of gross sales, compensates the Company for various advisory services that it provides to the franchise on an ongoing basis and is subject to a minimum payment of $150 per month. The advertising fee, 2% of gross sales, is set aside in a separate trust account and used for corporate and local advertising as determined by management. The marketing fee, 1% of gross sales, compensates the Company for various marketing efforts as determined by management.

Royalty and marketing fees are recognized as revenue when earned. Advertising fees received are recorded as advertising fees payable; this franchise liability is reduced as such advertising expenses are incurred.

1. **NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company is obligated to share fees generated by new franchises with area developers if there is an area developer in the franchise territory. Domestic area developers are entitled to receive 30% of all initial franchise fees and 30% of all royalty fees generated by franchises within their territory. International area developers are entitled to receive 7.5% of all initial franchise fees as well as 5% of all master license gross revenues.

Income taxes

Deferred taxes are provided for the temporary differences between the tax basis of the Company's assets and liabilities and their reported amounts. The Company follows the policy of treating any tax credit as a reduction of the income tax expense in the year the credit is used and an increase in income tax expense in the year the recapture of any credit is required.

The Company has generated operating loss carry forwards that can be utilized to offset future taxable income for federal and state purposes. Operating loss carry forwards totaled approximately $900,000 and $300,000 at December 31, 2004 and 2003 respectively, and will begin to expire in 2022 for federal purposes and 2009 for state purposes.

Advertising expense

It is the Company's policy to expense advertising costs as they are incurred. During the years ended December 31, 2004 and December 31, 2003, advertising expense totaled $81,573 and $15,146, respectively.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates

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

2. **LONG-TERM DEBT**

Long-term debt at December 31, 2004 consisted of a note payable secured by office furniture with monthly payments of $705 through January 2007, including interest at an imputed rate of 11%.

2. LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

Year ended December 31, 2005	$	7,141
December 31, 2006		7,927
December 31, 2007		699
Total maturities	$	15,767

3. STOCKHOLDERS' EQUITY

The Company is authorized to issue a total of 34,000,000 shares of no par value stock, consisting of 26,000,000 shares of common stock, 4,000,000 shares of series B common stock and 4,000,000 shares of preferred stock. One million common stock shares have been reserved for an employee stock option plan. Unless otherwise determined by the Board, grants of shares from this pool to employees are subject to a vesting schedule.

During the year ending December 31, 2003, 16,948,000 shares of common stock were issued to the founders of the Company at no charge.

In September 2003, the Company issued a private placement memorandum for 2,000,000 shares of series B common stock at an offering price of $0.50 per share. As of December 31, 2004, 1,840,142 shares were issued for a total of $920,071. In addition, notes payable from related parties totaling $79,929 were converted to 159,858 series B shares. During 2004 all series B common shares were converted to common stock.

4. FRANCHISE INFORMATION

Franchise statistics include:

Franchises in operation at beginning of year	1
New franchises granted	18
Franchises in operation at end of year	19

At December 31, 2004 the Company had received deposits for 6 additional franchises that are expected to begin operation in early 2005.

5. RELATED PARTY TRANSACTIONS

As of December 31, 2002, outstanding notes payable to shareholders of $15,205 were payable on demand. These notes, plus accrued interest at 5%, were converted to series B common stock in October 2003 at $.50 per share.

Notes payable to shareholders of $62,000 were issued during the year ended December 31, 2003. These notes, plus accrued interest of 5 - 7.5%, were converted to series B common stock in October 2003 at $.50 per share.

6. STOCK OPTION PLAN

The Company has granted stock options for common stock to employees, board members and advisors. The stock options are exercisable at a price equal to the market value, as determined by the Board of Directors, on the date of the grant. Sock options vest at various times and expire at the earlier of 10 years from issue date or termination of employment or consulting relationship. The Company has not recorded any compensation costs associated with the options granted because it estimates the fair value of the options to be nominal.

A summary of he status of the Company's stock option plan at December 31, 2004 and changes for the year then ended includes:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	150,000	$ 0.50
Granted	250,500	0.50
Forfeited	(45,000)	0.50
Exercised	-	-
Outstanding at December 31, 2004	355,500	0.50
Exercisable at December 31, 2004	55,500	$ 0.50

Information about stock options outstanding at December 31, 2004 includes:

	Exercise Price	Number Outstanding at December 31, 2004	Number Exercisable at December 31, 2004
Options expire year ending:			
December 31, 2013	$ 0.50	150,000	50,000
December 31, 2014	$ 0.50	205,500	5,500
Options at December 31, 2004		355,500	55,500

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7. COMMITMENTS

The Company leases office space under an operating lease which expires August 15, 2005. The Company has sub-leased part of its office space to a franchisee through May 15, 2005.

Future minimum lease payments and sublease income under operating leases at December 31, 2004 are as follows:

	Lease Payments	Sublease Income	Net Lease Payments
Year ended December 31, 2005	$ 53,800	$ 8,000	$ 45,800

Total rent expense for the years ended December 31, 2004 and 2003 was $86,100 and $9,000, respectively.

8. CONTINUING OPERATIONS

As reflected in the accompanying financial statements, the Company has declining cash balances, continuing operating losses and negative retained earnings. These factors raise concerns about the Company's ability to meet its operating needs for the next twelve months.

Management believes that the Company will be able to meet future operating needs by increasing revenues and/or raising additional funds through stock sales. Management had projected a larger start up loss for 2004 than actually experienced and is projecting positive cash flow in 2005 as a result of increased operating revenues.

The ability of the Company to continue to meet its operating needs is dependent upon the success of these plans.