Copyright © 2006, Decor & You, Inc., All Rights Reserved.

F

EXHIBIT FIN

FINANCIAL STATEMENTS

DECOR & YOU, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

DECOR & YOU, INC.

CONTENTS

Blum, Shapiro & Company, P.C.
Certified Public Accountants
and Business Consultants

29 South Main Street
P.O. Box 272000
West Hartford, CT 06127-2000

Tel 860.561.4000
Fax 860.521.9241
www.blumshapiro.com

BlumShapiro

Independent Auditors' Report

Decor & You, Inc.

We have audited the accompanying balance sheets of Decor & You, Inc., as of December 31, 2005 and 2004, and the related statements of operations, changes in retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of Decor & You, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Decor & You, Inc., at 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.

Blum, Shapiro + Company, P.C.

January 20, 2006

An Independent Member of Baker Tilly International

DECOR & YOU, INC.

AUDITED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Current Assets		
Cash	$ 147,245	$ 163,821
Accounts receivable	66,494	112,096
Prepaid expenses and deferred costs	70,379	31,930
Total current assets	284,118	307,847
Property and Equipment		
Computer equipment	20,124	14,272
Furniture and fixtures	1,647	721
	21,771	14,993
Less accumulated depreciation	11,693	8,836
Net property and equipment	10,078	6,157
Other Assets		
Website development costs, net of amortization	4,121	10,301
Security deposits	175	175
Deferred income taxes	122,497	16,912
Total other assets	126,793	27,388
Total Assets	$ 420,989	$ 341,392

(Continued on next page)

DECOR & YOU, INC.

AUDITED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2005 AND 2004

	2005	2004
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	$ 169,083	$ 65,735
Accrued expenses	40,946	9,986
Deferred franchise fee revenue	184,500	70,010
Lines of credit	135,313	60,387
Loans payable - officers	730	730
Total current liabilities	530,572	206,848
Stockholders' Equity (Deficit)		
Common stock	11,000	11,000
Preferred stock	215,000	215,000
Retained earnings (deficit)	(335,583)	(91,456)
Total stockholders' equity (deficit)	(109,583)	134,544
Total Liabilities and Stockholders' Equity (Deficit)	$ 420,989	$ 341,392

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.
AUDITED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Revenue		
Franchise fees	$ 762,370	$ 891,543
Royalties	429,519	186,750
Advertising fund	169,378	63,153
Design services and fees	-	50,505
Other revenue	7,193	12,482
Total revenue	1,368,460	1,204,433
Costs of Revenue		
Commissions	266,815	55,199
Placement fee expense	109,000	103,000
Royalties expense	67,336	20,175
National Advertising Fund Expenditures	171,641	7,423
Total costs of revenue	614,792	185,797
Gross Profit	753,668	1,018,636
Operating Expenses		
Training expense	349,470	184,361
Payroll (including officer salaries) and payroll taxes	283,937	320,467
Professional development	87,932	10,384
Professional fees	72,255	48,812
Advertising	61,325	79,179
Promotion expense	45,670	101,685
Office expense and postage	36,392	14,986
Rent	27,550	-
Printing and reproduction	23,987	20,583
Travel, meals and entertainment	22,029	11,261
Telephone and utilities	21,518	12,217
Other expenses	15,454	5,492
Insurance	11,532	11,521
Auto expense	9,835	5,379
Depreciation and amortization	9,038	9,161
Dues and subscriptions	5,363	4,658
Bank charges	2,958	1,837
Licenses and fees	2,265	3,410
Internet expense	555	7,123
Franchise development expense	-	150,000
Bad debt expense	-	14,733
Recruiting	-	37,843
Total operating expenses	1,089,065	1,055,092
Loss from Operations	(335,397)	(36,456)
Other Expense		
Interest expense	(13,206)	(9,149)
Loss Before Income Tax Benefit	(348,603)	(45,605)
Income Tax Benefit	104,476	11,881
Net Loss	$ (244,127)	$ (33,724)

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

AUDITED STATEMENTS OF CHANGES IN RETAINED EARNINGS (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Retained Earnings (Deficit) - Beginning of Year	$ (91,456)	$ (57,732)
Net Loss	(244,127)	(33,724)
Retained Earnings (Deficit) - End of Year	$ (335,583)	$ (91,456)

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

AUDITED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows from Operating Activities		
Net loss	$ (244,127)	$ (33,724)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	-	14,733
Depreciation and amortization	9,038	9,161
Deferred income tax benefit	(105,585)	(12,601)
(Increase) decrease in operating assets:		
Accounts receivable	45,602	153,608
Prepaid expenses and deferred costs	(38,450)	(21,756)
Other assets	-	(175)
Increase (decrease) in operating liabilities:		
Accounts payable	103,348	52,900
Accrued expenses	30,960	(35,788)
Deferred franchise fee revenue	114,490	885
Net cash provided by (used in) operating activities	(84,724)	127,243
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,778)	(1,054)
Net cash used in investing activities	(6,778)	(1,054)
Cash Flows from Financing Activities		
Proceeds of (payments on) lines of credit	74,926	(13,870)
Net cash provided by (used in) financing activities	74,926	(13,870)
Net Increase (Decrease) in Cash	(16,576)	112,319
Cash - Beginning of Year	163,821	51,502
Cash - End of Year	$ 147,245	$ 163,821

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - **Organization:**

Decor & You, Inc. (the Company) was organized as a C corporation in January 1998 in the State of Delaware. Karen Powell, president of the Company, and Josie Cicerale, vice president and secretary, each own 50% of the outstanding shares. The Company has and is continuing to develop a network of Decor designers/decorators and provides common marketing, advertising, promotions products, training programs and related services.

Note 2 - **Summary of Significant Accounting Policies:**

Cash and Cash Equivalents - The Company classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk on cash and cash equivalents.

Customer and Franchise Receivables - Trade receivable balances are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Accounts that are determined to be uncollectible are written off through a charge to the valuation allowance. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment - Property and equipment are recorded at cost and include additions, major renewals and betterments. The Company capitalizes amounts greater than $500. Depreciation is provided in the amounts which amortize the cost of each asset over its estimated useful life utilizing the straight-line method.

Impairment of long-lived assets is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management does not believe that there is any impairment of the long-lived assets as of December 31, 2005.

Revenue Recognition:

Franchise Fees - The Company has developed a plan to enable its franchised businesses to benefit from an organized, cohesive and systematic approach using the Company proprietary name and common standards, marketing approaches and training. Revenue related to the sale of franchises is recognized when required franchisor services have been substantially completed.

Royalties - The Company, through franchisee placement of new clients, receives certain placement and processing fees. The Company then makes a payment to the corresponding franchisee in accordance with percentages and amounts outlined in the respective franchise agreement. The Company also receives standard amounts from new franchisees related to intranet/extranet set-up as outlined in the respective franchise agreement.

National Advertising Program - The Company collects a standard monthly fee from each franchisee for the purpose of general advertising. The amounts collected are required to be expended by the Company for advertising that benefits the franchisees.

All other advertising production costs are expensed by the Company as they are incurred.

Deferred Revenue - In the normal course of business, the Company will receive franchise fee payments prior to the completion of its required franchisor services under the respective agreements. These advance payments are reflected as deferred revenue in the accompanying audited balance sheets.

Income Taxes - Deferred income tax assets and liabilities are recognized for the temporary differences between the amounts reported for financial statement and income tax purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in the financial statements include the valuation of the deferred income tax asset. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to be consistent with current year classifications.

Note 3 - **Notes Payable:**

The Company has unsecured lines of credit with banks as follows:

	2005	2004
Bank line in the amount of $103,200 at 1.75% over the prime rate	$ 86,499	$ 39,702
Bank line in the amount of $35,000 expiring July 2006	29,314	20,685
Bank line in the amount of $25,000 at 2.5% over the prime rate	19,500	-
	$ 135,313	$ 60,387

Note 4 - **Corporate Income Tax:**

As of December 31, 2005 and 2004, the Company has recorded deferred tax assets of $122,497 and $16,912, respectively, primarily resulting from the tax benefit of net operating losses and the timing of revenue recognition.

The income tax benefit consists of the following components:

		2005		2004
Current tax expense	$	1,109	$	770
Deferred tax benefit		(105,585)		(12,601)
	$	(104,476)	$	(11,831)

Note 5 - **Related Party Transactions:**

The Company has engaged in transactions with TES Franchising, LLC, and The Entrepreneur's Source, Inc. TES Franchising, LLC's 100% owner and managing partner is Terry Powell, the husband of Karen Powell. The Entrepreneur's Source, Inc., is owned 100% by Terry Powell.

The Company entered into a two-year agreement that would allow TES Franchising, LLC, to be the exclusive agent for the marketing of franchises for Decor & You, Inc. The Company paid approximately $129,750 and $275,000 under this agreement during 2005 and 2004, respectively, and approximately $18,000 and $24,000 was owed to TES Franchising, LLC, as of December 31, 2005 and 2004, respectively, which has been included in accounts payable. The Company also has transactions with Décor & More, Inc., a company owned by Karen Powell and Josie Cicerale. Approximately $1,000 was paid to Décor & More, Inc., during 2004 for miscellaneous expenses.

In addition, for 2005, the Company paid TES Franchising, LLC, $30,000 as a subtenant for the space it occupies leased by TES Franchising, LLC, and $4,200 as reimbursement for use of a TES Franchising, LLC, automobile and $1,083 for miscellaneous expenses.

Design service fees of approximately $150,000 were received from TES Franchising, LLC, during 2004. Also, $49,500 in fees was received per a marketing agreement in 2004.

Note 6 - **Management's Plans:**

2005 was a building year for Décor & You, Inc. The Company concentrated its efforts on continuing to grow its network of franchisees and to provide its franchise directors and regional directors the resources and tools with which to achieve their goals. Significant resources were expended during 2005 to enhance training and support services for the Company designers and expand the network of franchisees. These efforts and expenditures are expected to help the Company designers achieve greater sales in 2006, which, in turn, will improve the financial results of the Company. In addition, the Company is expecting to decrease certain expenditures in 2006, primarily related to its annual conference. The Company's shareholders are committed to the continued success of all of the Company designers and regional directors, and one shareholder has personally committed to provide the capital and intellectual resources necessary through at least December 31, 2006 to assure the Company's success.

Note 7 - **Cash Flows:**

Additional Cash Flow Information - The Company paid cash for interest of $13,206 and $9,149 during the years ended December 31, 2005 and 2004, respectively.

Management Discussion and Analysis

2005 was a building year for Decor & You, Inc. We concentrated our efforts on providing more effective training to our Decor Designers and Regional Directors to help them grow their businesses and to achieve their goals.

Among the highlights of that process are as follows:

REVENUES

Revenues from all areas increased 14% over 2004 levels, to nearly $1.4million. Most dramatic was the increase in royalties from our decorator sales, which increased 230% over 2004 levels to $429,519, representing over $4 million of decorator product sales. National Ad Fund revenues also dramatically increased, 268%, providing us with additional resources to increase the marketing materials and venues available to our Decor Designers.

These revenue increases occurred despite the requirement under FAS 45 to defer the recognition of $ 184,500 of franchise revenue from 2005 until 2006, an increase deferral of $114,490 over the prior year . For further explanation of this revenue recognition policy, see the note under accounting changes.

EXPENDITURES

Of course, the revenues did not increase without the additional cost of personnel, promotion and training associated with supporting our new franchisees. Some of the more significant increases are as follows:

Cost of Development Sales

Although our revenues increased modestly over the prior year, the direct costs of generating those revenues increased dramatically in 2005. A critical piece of our growth includes the assistance of our Regional Directors and outside representatives. As a result, commission expense increased 486% to $266,815.

Advertising and Promotion

A significant investment was made in advertising and promotion to enhance the recognition of Decor & You as the premier source for home/commercial decorating franchise opportunities. Our investment in development and advertising expenditures increased 134% over the previous year amount to nearly $296,000. We promoted at franchise shows around the country, launched a new advertising campaign and increased our presence on the internet.

Training

Additional investments were made in training our franchisees: Regional Directors and Decor Designers. Training related expenditures increase 190% to $349,470 for 2005, including over $80,000 for the annual conference and the addition of a Field Consultant. We also continued to enhance DecorNet and instituted processes to help our decorators do a more effective and efficient job.

Accounting for the recognition of revenues

Based on the recommendation of our new auditors, the Company adopted in 2004 accounting practices in accordance with Financial Accounting Statement 45 ("FAS 45") relating to the recognition of the revenues from the sale of franchises. FAS 45 requires that revenues from the sale of franchises not be recognized until all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor. Substantial performance by the franchisor means that (a) the franchisor has no remaining obligation or intent to refund any cash or forgive any unpaid notes or receivables; (b) substantially all of the initial services of the franchisor required by the franchise agreement have been performed; and (c) no other material conditions or obligations related to the determination of substantial performance exist. For the Company, substantial performance is satisfied after the franchisee has completed the initial training at Part #1.

With the implementation of FAS 45, the Company was required to defer the recognition of $184,500 of franchise revenue and related costs of $70,379 from 2004 until 2006 as compared to $70,010 of franchise revenue and related costs of $30,156 from 2004 until 2005. As a result of this correction in the Company's revenue recognition policies, net income from operations was decreased in 2005 by $73,898 as compared to an increase in 2004 of $30,871.

NET INCOME FROM OPERATIONS.

As a result of our efforts and continued emphasis on enhancing our development and training infrastructure, our net income fell to a loss of $244,127 in 2005 from a loss of $33,724 in 2004.

DECOR & YOU, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

DECOR & YOU, INC.

CONTENTS

Blum, Shapiro & Company, P.C.
Certified Public Accountants
and Business Consultants
29 South Main Street
P.O. Box 272000
West Hartford, CT 06127-2000
Tel 860.561.4000
Fax 860.521.9241
www.blumshapiro.com

BlumShapiro

Independent Auditors' Report

Decor & You, Inc.

We have audited the accompanying balance sheet of Decor & You, Inc., as of December 31, 2004 and the related statements of operations, changes in retained earnings (deficit) and cash flows for the year 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. The financial statements of Decor & You, Inc., as of and for the year ended December 31, 2003 were audited by other auditors whose report, dated March 12, 2004, expressed an unqualified opinion on those statements.

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 2004 financial statements referred to above present fairly, in all material respects, the financial position of Decor & You, Inc., as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

January 21, 2005

An Independent Member of Baker Tilly International

DECOR & YOU, INC.

AUDITED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

		2004		2003 (Restated)
ASSETS				
Current Assets				
Cash	$	163,821	$	51,502
Accounts receivable		112,096		280,437
Deferred costs		30,156		8,400
Prepaid expenses		595		595
Prepaid corporate taxes		1,179		1,179
Total current assets		307,847		342,113
Property and Equipment				
Computer equipment		14,272		13,218
Furniture and fixtures		721		721
		14,993		13,939
Less accumulated depreciation		8,836		5,856
Net property and equipment		6,157		8,083
Other Assets				
Website development costs, net of amortization		10,301		16,482
Other assets		175		-
Deferred income taxes		16,912		4,311
Total other assets		27,388		20,793
Total Assets	$	341,392	$	370,989

(Continued on next page)

DECOR & YOU, INC.

AUDITED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2004 AND 2003

		2004		2003 (Restated)
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$	65,735	$	12,835
Accrued liabilities		1,570		850
Credit cards payable		5,646		20,921
Deferred franchise fee revenue		70,010		69,125
Lines of credit		60,387		92,154
Loans payable - officers		730		730
Payroll taxes payable		2,770		6,106
Total current liabilities		206,848		202,721
Stockholders' Equity				
Common stock		11,000		11,000
Preferred stock		215,000		215,000
Retained earnings (deficit)		(91,456)		(57,732)
Total stockholders' equity		134,544		168,268
Total Liabilities and Stockholders' Equity	$	341,392	$	370,989

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.
AUDITED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003 (Restated)
Revenue		
Franchise fees	$ 891,543	$ 298,730
Royalties	186,750	67,466
Advertising fund	63,153	26,558
Design services and fees	50,505	170,000
Other revenue	12,482	6,068
Total revenue	1,204,433	568,822
Operating Expenses		
Payroll (including officer salaries) and payroll taxes	320,467	188,614
Training expense	184,361	104,313
Franchise development expense	150,000	-
Placement fee expense	103,000	-
Promotion expense	101,685	69,573
Advertising	79,179	31,338
Commissions	55,199	21,550
Professional fees	48,812	40,064
Recruiting	37,843	20,015
Printing and reproduction	20,583	29,565
Royalties expense	20,175	6,623
Office expense and postage	14,986	9,708
Bad debt expense	14,733	-
Telephone and utilities	12,217	10,296
Insurance	11,521	4,552
Travel, meals and entertainment	11,261	4,105
Professional development	10,384	13,510
Depreciation and amortization	9,161	4,847
National Ad expense	7,423	8,871
Internet expense	7,123	3,078
Other expenses	5,442	3,653
Auto expense	5,379	3,359
Dues and subscriptions	4,658	3,957
Licenses and fees	3,410	4,598
Bank charges	1,837	1,994
Total operating expenses	1,240,839	588,183
Loss from Operations	(36,406)	(19,361)
Other Expense		
Interest expense	(9,149)	(860)
Loss Before Income Tax Benefit	(45,555)	(20,221)
Income Tax Benefit	11,831	5,081
Net Loss	$ (33,724)	$ (15,140)

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

AUDITED STATEMENTS OF CHANGES IN RETAINED EARNINGS (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

		2004		2003 (Restated)
Retained Earnings (Deficit) - Beginning of Year	$	(57,732)	$	24,458
Net Loss		(33,724)		(15,140)
Prior Period Adjustment		-		(67,050)
Retained Earnings (Deficit) - End of Year	$	(91,456)	$	(57,732)

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

AUDITED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003 (Restated)
Cash Flows from Operating Activities		
Net loss	$ (33,724)	$ (15,140)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,161	2,787
Deferred income tax benefit	(12,601)	(5,625)
(Increase) decrease in operating assets:		
Accounts receivable	168,341	(280,437)
Deferred costs	(21,756)	13,051
Prepaid expenses	-	(595)
Prepaid corporate taxes	-	(1,179)
Website development costs, net	-	(16,482)
Other assets	(175)	-
Increase (decrease) in operating liabilities:		
Accounts payable	52,900	10,335
Accrued liabilities	720	(4,858)
Corporate tax payable	-	(3,022)
Credit cards payable	(15,275)	18,347
Deferred franchise fee revenue	885	(19,375)
Due to affiliates	-	(2,000)
Payroll taxes payable	(3,336)	(109)
Net cash provided by (used in) operating activities	145,140	(304,302)
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,054)	-
Net cash used in investing activities	(1,054)	-
Cash Flows from Financing Activities		
Proceeds of (payments on) lines of credit	(31,767)	92,154
Changes in officer loans	-	(70,917)
Issuance of preferred stock	-	215,000
Net cash provided by (used in) financing activities	(31,767)	236,237
Net Increase (Decrease) in Cash	112,319	(68,065)
Cash - Beginning of Year	51,502	119,567
Cash - End of Year	$ 163,821	$ 51,502

The accompanying notes are an integral part of the financial statements

DECOR & YOU, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - **Organization:**

Decor & You, Inc. (the Company) was organized as a C corporation in January 1998 in the State of Delaware. Karen Powell, president of the Company and Josie Cicerale, vice president and secretary, each own 50% of the outstanding shares. The Company has and is continuing to develop a network of Decor designers/decorators and provides common marketing, advertising, promotions products, training programs and related services.

Note 2 - **Summary of Significant Accounting Policies:**

Cash and Cash Equivalents - The Company classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk on cash and cash equivalents.

Customer and Franchise Receivables - Trade receivable balances are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Accounts that are determined to be uncollectible are written off through a charge to the valuation allowance. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment - Property and equipment are recorded at cost and include additions, major renewals and betterments. The Company capitalizes amounts greater than $500. Depreciation is provided in the amounts which amortize the cost of each asset over its estimated useful life utilizing the straight-line method.

Impairment of long-lived assets is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management does not believe that there is any impairment of the long-lived assets as of December 31, 2004.

Revenue Recognition:

Franchise Fees - The Company has developed a plan to enable its franchised businesses to benefit from an organized, cohesive and systematic approach using the Company proprietary name and common standards, marketing approaches and training. Revenue related to the sale of franchises is recognized when required franchisor services have been substantially completed.

Royalties - The Company, through franchisee placement of new clients, receives certain placement and processing fees. The Company then makes a payment to the corresponding franchisee in accordance with percentages and amounts outlined in the respective franchise agreement. The Company also receives standard amounts from new franchisees related to intranet/extranet set-up as outlined in the respective franchise agreement.

National Advertising Program - The Company collects a standard monthly fee from each franchisee for the purpose of general advertising. The amounts collected are required to be expended by the Company for advertising that benefits the franchisees.

All other advertising production costs are expensed by the Company as they are incurred.

Deferred Revenue - In the normal course of business, the Company will receive franchise fee payments prior to the completion of its required franchisor services under the respective agreements. These advance payments are reflected as deferred revenue in the accompanying audited balance sheets.

Income Taxes - Deferred income tax assets and liabilities are recognized for the temporary differences between the amounts reported for financial statement and income tax purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to be consistent with current year classifications.

Note 3 - **Notes Payable:**

The Company has an unsecured line of credit with a bank in the amount of $103,200 at 1.75% over the prime rate. The Company had an outstanding balance of $39,702 and $51,856 as of December 31, 2004 and 2003, respectively. The Company has an additional $35,000 unsecured line of credit with a bank with an outstanding balance of $20,685 and $22,401 as of December 31, 2004 and 2003, respectively. This line of credit expires in July 2005. A prior business line of credit had an outstanding balance of $17,897 as of December 31, 2003.

Note 4 - **Prior Year Restatement:**

During 2004, the Company identified an error in its previous accounting for franchise fee revenues as compared to its established accounting policies. The error impacted the accompanying financial statements as follows:

		2003 (Previously Reported)		2003 (Restated)
Retained earnings (deficit) - beginning of year	$	24,458	$	(42,592)
Franchise fees revenue		279,355		298,730
Net loss		(20,265)		(15,140)
Deferred costs		-		8,400
Deferred franchise fee revenue		-		69,125

Note 5 - **Corporate Income Tax:**

As of December 31, 2004 and 2003, the Company has recorded deferred tax assets of $16,912 and $4,311, respectively, primarily resulting from timing of revenue recognition.

The income tax benefit consists of the following components:

		2004		2003
Current tax expense	$	770	$	544
Deferred tax benefit		(12,601)		(5,625)
	$	(11,831)	$	(5,081)

Note 6 - **Related Party Transactions:**

The Company has engaged in transactions with TES Franchising, LLC, and The Entrepreneur's Source, Inc. TES Franchising, LLC's 99% owner and managing partner is Terry Powell, the husband of Karen Powell. The Entrepreneur's Source, Inc., is owned 100% by Terry Powell.

The Company entered into a two-year agreement that would allow TES Franchising, LLC, to be the exclusive agent for the marketing of franchises for Decor & You, Inc. The Company paid approximately $275,000 under this agreement during 2004, and approximately $24,000 was owed to TES Franchising, LLC, as of December 31, 2004, which has been included in accounts payable. The Company also has transactions with Décor & More, Inc., a company owned by Karen Powell and Josie Ciccrale. Approximately $1,000 was paid during 2004 for miscellaneous expenses.

Design service fees of approximately $150,000 were received from TES Franchising, LLC, during 2004. Also, $49,500 and $20,000 was received per a marketing agreement in 2004 and 2003, respectively.

In addition, the Company is occupying a portion of the space that is rented and paid for by TES Franchising, LLC.

Note 7 - **Cash Flows:**

Additional Cash Flow Information:

		2004		2003
Cash paid during the year for:				
Interest	$	7,123	$	859
Income taxes		-		4,745

Management Discussion and Analysis

2004 was a building year for Decor & You, Inc. We concentrated our efforts on building on our foundation to grow our network of franchisees and to provide our franchise directors and regional directors the resources and tools with which to achieve their goals.

Among the highlights of that process are as follows:

REVENUES

Revenues from all areas increased 111% over 2003 levels, topping the $1 million mark for the first time in our history. Increases came from both the sale of new Franchisees and an increase in royalties from Decor Designer sales.

This was the first full year for our full time Franchise Director and we added personnel to assist in screening our many leads. We also developed a closer working relationship with TES Franchising, LLC that greatly helped our Franchise Directors to generate the increased revenue.

The results of these actions show a dramatic increase in the sale of new franchisees. We added ten new Regional Directors, increasing revenues to $445,080, a 452% increase from 2003. We also added a record number of new Decor Designers, increasing revenue in that area to $446,463, a 105% increase over 2003.

Our existing and the new Decor Designers produced at a much higher level, resulting in a substantial increase in revenues from royalties to $146,750, an increase of 117% over 2003.

These revenue increases occurred despite the requirement to implement FAS 45 and defer the recognition of $70,010 of franchise revenue from 2004 until 2005. For further explanation of this accounting change, see the note under accounting changes.

EXPENDITURES

Our focus for 2004 was to build on our foundation to allow us to add more franchisees and to provide additional support in training, promotional materials and the Internet to assist our Decor Designers to increase sales. This came with added costs and some of the more significant increases are as follows:

Advertising and Promotion

A significant investment was made in advertising and promotion to enhance the recognition of Decor as the premier source for home decorating franchising opportunities. Our investment in development and advertising expenditures increased 134% over the previous year amount to nearly $296,000. Besides the position of full time Franchise director, we added the position of VP of Development toward the end of the year, promoted at franchise shows around the country, launched a new advertising campaign at a cost of nearly $20,000 and increased our presence on the internet.

Training

Additional investments were made in training our regional developers and franchise decorators. Training related expenditures increase 109% to $218,365 for 2004. We enhanced Decor.net and instituted processes to help our decorators do a more effective and efficient job.

Accounting for the recognition of revenues

As a result of consultation with our new auditors, the Company adopted in 2004 accounting guidance in accordance with Financial Accounting Statement 45 ("FAS 45") relating to the recognition of the revenues from the sale of franchises. FAS 45 requires that revenues from the sale of franchises not be recognized until all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor. Substantial performance by the franchisor means that (a) the franchisor has no remaining obligation or intent to refund any cash or forgive any unpaid notes or receivables; (b) substantially all of the initial services of the franchisor required by the franchise agreement have been performed; and (c) no other material conditions or obligations related to the determination of substantial performance exist. For the Company, substantial performance is satisfied after the franchisee has completed the initial training at Phase #1.

As a result of the implementation of FAS 45, the Company was required to defer the recognition of $70,010 of franchise revenue and related costs of $30,156 from 2004 until 2005. In addition, the Company restated results of operations for the year 2003, deferring revenues of $69,125 into 2004 and the related costs of $8,400 from 2003 into 2004. As a result of this correction in the Company's accounting policies, Net income from operations was increased in 2004 by $30,871 and net income from operations was increased in 2003 by $6,325.

NET INCOME FROM OPERATIONS

As a result of our efforts and continued emphasis on development and training, our net income fell to a loss of ($36,518) in 2004 from a restated profit of $13,940 in 2003.