INTERIORS
by Decorating Den®

DECORATING DEN SYSTEMS, INC.

EXHIBIT D
FINANCIAL STATEMENTS OF DDSI

DECORATING DEN SYSTEMS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2005, 2004, AND 2003

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

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DECEMBER 31, 2005, 2004, AND 2003

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Decorating Den Systems, Inc.
and Subsidiaries

We have audited the accompanying consolidated balance sheets of Decorating Den Systems, Inc. and Subsidiaries (the Company) as of December 31, 2005, 2004, and 2003, and the related consolidated statements of income and changes in retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of Decorating Den Systems, Inc. and Subsidiaries. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Decorating Den Systems, Inc. and Subsidiaries at December 31, 2005, 2004, and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Walpert & Wolpoff, LLP

Rockville, Maryland
March 3, 2006

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005, 2004, AND 2003

ASSETS

	2005	2004	2003
CURRENT ASSETS			
Cash and Cash Equivalents	$ 864,252	$ 452,518	$ 233,178
Accounts and Licensing Receivables			
Regional Licensing Note Receivable, Current Portion	101,883	247,358	337,443
Franchise Sales Receivable	216,695	266,906	297,178
Service Fees and Other	422,706	463,901	447,996
Less Allowance for Doubtful Accounts	(67,017)	(93,817)	(223,255)
Prepaid Expenses and Other	5,621	13,136	4,734
Current Portion of Deferred Income Tax Asset	118,076	95,000	202,000
TOTAL CURRENT ASSETS	1,662,216	1,445,002	1,299,274
PROPERTY AND EQUIPMENT, NET	547,088	321,888	90,177
OTHER ASSETS			
Regional Licensing Notes Receivable, Net of Current Portion and Allowance for Doubtful Accounts	951,823	1,239,552	1,261,690
Reacquired Regional Licenses, Net of Amortization	330,674	435,154	674,954
Cash Surrender Value of Life Insurance	189,862	186,763	159,149
Due From Affiliates	-0-	212,923	125,000
Deferred Income Tax Asset, Net of Current Portion	36,424	50,000	3,000
Deposits	1,440	-0-	8,230
TOTAL OTHER ASSETS	1,510,223	2,124,392	2,232,023
TOTAL ASSETS	$ 3,719,527	$ 3,891,282	$ 3,621,474

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

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005, 2004, AND 2003

LIABILITIES AND STOCKHOLDERS' EQUITY

	2005	2004	2003
CURRENT LIABILITIES			
Current Portion of Long-Term Debt	$ 89,631	$ 88,001	$ 79,546
Line of Credit	-0-	-0-	75,000
Current Portion of Construction Loan	23,000	47,908	-0-
Accounts Payable	152,582	318,094	228,437
Accrued Expenses	358,529	450,914	364,132
Income Tax Liability	13,827	-0-	-0-
Deferred Franchise Revenue	26,574	17,765	15,895
Deferred Income Tax Liability	240,790	144,000	-0-
Due to Affiliates	34,419	54,633	69,812
TOTAL CURRENT LIABILITIES	939,352	1,121,315	832,822
LONG-TERM LIABILITIES			
Long-Term Debt, Net of Current Portion	632,058	806,630	908,092
Construction Loan, Net of Current Portion	250,828	-0-	-0-
TOTAL LONG-TERM LIABILITIES	882,886	806,630	908,092
TOTAL LIABILITIES	1,822,238	1,927,945	1,740,914
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY			
Class A (Voting) Common Stock, $1 Par Value; 4,600 Shares Authorized, Issued, and Outstanding	4,600	4,600	4,600
Class B (Nonvoting) Common Stock, $1 Par Value; 45,400 Shares Authorized; 600 Shares Issued; 150 Shares Outstanding	600	600	600
Additional Paid-In Capital	13,349	13,349	13,349
Retained Earnings	2,021,520	2,087,568	2,004,791
	2,040,069	2,106,117	2,023,340
Less 450 Shares of Class B (Nonvoting) Common Stock in Treasury, at Cost	(142,780)	(142,780)	(142,780)
TOTAL STOCKHOLDERS' EQUITY	1,897,289	1,963,337	1,880,560
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,719,527	$ 3,891,282	$ 3,621,474

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

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	2005	2004	2003
FRANCHISE REVENUE			
Franchise Sales	$ 1,385,719	$ 1,122,030	$ 1,250,425
Regional Licensing Fees	202,695	403,298	327,948
Franchise Service Fees	3,295,814	2,914,510	2,386,895
Other Franchise Services	617,289	783,377	743,985
GROSS FRANCHISE REVENUE	5,501,517	5,223,215	4,709,253
LESS DIRECT COSTS OF FRANCHISE REVENUE	2,300,655	1,970,009	2,073,025
GROSS PROFIT FROM FRANCHISE REVENUE	3,200,862	3,253,206	2,636,228
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	2,867,245	2,771,847	2,705,241
INCOME (LOSS) FROM OPERATIONS	333,617	481,359	(69,013)
OTHER INCOME (EXPENSES)			
Interest Income (Expense), Net	(75,489)	(88,471)	(90,009)
Other, Net	19,194	(104,235)	159,881
TOTAL OTHER INCOME (EXPENSES)	(56,295)	(192,706)	69,872
INCOME BEFORE PROVISION FOR INCOME TAX BENEFIT (EXPENSE)	277,322	288,653	859
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)	(143,370)	(205,876)	8,000
NET INCOME	133,952	82,777	8,859
DIVIDENDS PAID	(200,000)	-0-	-0-
RETAINED EARNINGS, BEGINNING OF YEAR	2,087,568	2,004,791	1,995,932
RETAINED EARNINGS, END OF YEAR	$ 2,021,520	$ 2,087,568	$ 2,004,791

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

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 133,952	$ 82,777	$ 8,859
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities			
Depreciation and Amortization	230,840	266,553	279,975
Loss on Disposal of Fixed Assets	-0-	4,152	-0-
Provision for Losses on Accounts and Notes Receivable	6,169	(47,364)	64,360
Write Off of Security Deposit	-0-	8,230	-0-
Write Off of Long-Term Debt	-0-	-0-	(20,000)
Gain on Sale of Reacquired Regional License	(44,320)	-0-	-0-
Deferred Income Taxes	87,290	204,000	(8,000)
Cash Surrender Value of Life Insurance	(3,099)	(27,614)	(159,149)
Changes in Operating Assets and Liabilities			
Franchise Receivables	50,211	30,272	162,717
Notes Receivable	387,931	30,149	217,739
Service Fees and Other	41,195	(15,905)	(123,306)
Due From Affiliates	212,923	(87,923)	(125,000)
Prepaid Expenses and Other	6,075	(8,402)	56,753
Accounts Payable	(165,512)	89,657	76,549
Accrued Expenses	(92,385)	86,782	73,256
Income Tax Payable	13,827	-0-	-0-
Due to Affiliates	(20,214)	(15,179)	(84,346)
Deferred Franchise Revenue	8,809	1,870	(214,273)
Total Adjustments	719,740	519,278	197,275
Net Cash Provided by Operating Activities	853,692	602,055	206,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Property and Equipment	(239,782)	(244,812)	(7,669)
Acquisition of Regional License	(7,696)	-0-	-0-
Net Cash Used by Investing Activities	(247,478)	(244,812)	(7,669)

(Continued)

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

DECORATING DEN SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	2005	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Change in Line of Credit	$ -0-	$ (75,000)	$ (50,000)
Principal Payments on Long-Term Debt	(220,400)	(110,811)	(123,887)
Proceeds From Construction Loan	240,112	47,908	-0-
Principal Payments on Construction Loan	(14,192)	-0-	-0-
Payment of Cash Dividends	(200,000)	-0-	-0-
Net Cash Used by Financing Activities	(194,480)	(137,903)	(173,887)
NET INCREASE IN CASH	411,734	219,340	24,578
CASH, BEGINNING OF YEAR	452,518	233,178	208,600
CASH, END OF YEAR	$ 864,252	$ 452,518	$ 233,178
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash Paid During the Year for			
Interest	$ 75,489	$ 88,471	$ 90,009
Income Taxes	$ 42,253	$ 1,876	$ -0-

SUMMARY OF NONCASH INVESTING AND FINANCING ACTIVITIES

During 2003, the Company financed the reacquisition of a regional license with long-term debt of $24,000.

During 2004, the Company financed a new van for $17,804.

During 2005, the Company financed a new truck for $47,458.

During 2005, the Company reacquired a regional license for $112,304 through releasing a note receivable.

During 2005, the Company sold a regional license for $100,000 through financing a note receivable.

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

Note 1 - Organization and Summary of Significant Accounting Policies

Organization
Decorating Den Systems, Inc. (DDSI) is a Missouri corporation incorporated in 1969. DDSI sells regional licenses and franchises, and provides purchasing, training, marketing and other services to franchisees doing business as Interiors by Decorating Den in parts of the United States and Canada. Operations in the United Kingdom were terminated in September 2004.

Principles of Consolidation
The consolidated financial statements include the accounts of DDSI and its wholly owned subsidiaries, DI, Inc. which was dissolved on December 8, 2003, and DDSI, Limited (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation.

Concentration of Credit Risk
The Company maintains cash in financial institutions with insurance provided by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. During the year, the balance in certain accounts may exceed the FDIC insurance limitation.

Cash Equivalents
Cash equivalents are defined as highly liquid, short-term investments whose maturity dates do not extend past 3 months from the original date of purchase.

Property and Equipment
Property and equipment are recorded at cost. Depreciation is computed utilizing accelerated methods over the estimated useful lives of the property and equipment which range from 3 to 7 years. Leasehold improvements are amortized over the shorter of the lease term or the life of the improvement.

Accounts and Notes Receivable
The Company has recorded a total allowance for bad debts of $175,712, $239,127, and $411,380 as of December 31, 2005, 2004, and 2003, respectively, to provide for losses which may be sustained on the realization of its receivables using the allowance method of which $67,017, $93,817, and $223,255, respectively, is recorded as a current allowance (see Note 2 for long-term portion of the allowance).

Reacquired Regional Licenses
Reacquired regional licenses consist of licenses reacquired in various regions in the United States and the United Kingdom totaling $1,856,794 with accumulated amortization of $1,526,120 as of December 31, 2005. The reacquired licenses are amortized over 4- or 8-year periods. Amortization expense for the years ended December 31, 2005, 2004, and 2003, was $168,800, $239,800, and $256,830, respectively.

Franchise Revenue
Franchise sales and regional license fees are recognized as revenue, net of a provision for uncollectible amounts, as services required by the franchise or regional license agreement have been substantially performed by the Company. The Company or its representative is obligated to provide the following services to the franchisee or regional licensee: training in decorating, sales and promotion, and assistance with the set-up and commencement of the franchisee's business.

Note 1 - (Cont.) Other franchise service fees include revenue from training, promotional materials, and reimbursement for services provided to the Fund Trusts (see Note 9).

Included in the consolidated statements of income are franchise sales and service fees received from franchises in regions held and operated directly by the Company.

Total revenue from Company owned regions was $3,382,054, $2,766,189, and $2,222,030 with direct franchise costs of $2,820,414, $2,380,237, and $2,001,321 (prior to elimination entries) for the years ended December 31, 2005, 2004, and 2003, respectively.

Deferred Franchise Revenue
Deferred franchise revenue includes fees received from initial franchise and regional license sales which will be recognized as income as services required are substantially performed by the Company. The Company only defers the portion of the franchise fee related to training.

Income Taxes
The Company is a C Corporation and has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting of income taxes.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. The principal temporary differences arise from the use of different methods for the recognition of bad debts and revenue on certain long-term receivables for financial statement and federal income tax purposes. The tax effects of these temporary differences are shown in the consolidated financial statements as deferred income tax assets.

Impairment of Long-Lived Assets
The Company periodically evaluates the recoverability of its long-lived assets. This evaluation consists of a comparison of the carrying value of assets with the assets expected future cash flow undiscounted and without interest costs. If the carrying value of an asset exceeds the expected future cash flows, impairment exists. An impairment loss is measured by the amount by which the carrying value of the asset exceeds future discounted cash flows. No impairment losses have been recognized to date.

Foreign Currency Translation
The assets and liabilities of the Company's foreign operation are translated into U.S. dollars at current exchange rates as of the date of the consolidated balance sheets and revenues and expenses are translated at an average exchange rate for the year. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Transaction and translation gains and losses were immaterial as of and for the years ended December 31, 2005, 2004, and 2003, and therefore, are not disclosed separately in these consolidated financial statements.

Note 1 - (Cont.) **Use of Estimates**

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

Advertising

The Company expenses advertising associated with franchise sales activities as incurred. Total franchise advertising expense for the years ended December 31, 2005, 2004, and 2003, was $446,949, $308,649, and $248,510, respectively.

Note 2 - Regional Licensing Notes Receivable

The components of regional licensing notes receivable are as follows at December 31, 2005, 2004, and 2003:

	2005	2004	2003
Regional Licensing Notes Receivable	$ 1,162,401	$ 1,632,220	$ 1,787,708
Less Current Portion	101,883	247,358	337,443
Long-Term Portion of Regional Licensing Notes Receivable	1,060,518	1,384,862	1,450,265
Less Allowance for Doubtful Accounts on Long-Term Portion of Notes	(108,695)	(145,310)	(188,575)
	$ 951,823	$ 1,239,552	$ 1,261,690

Licensing receivables arise from sales of regional licenses and have terms ranging from 3 to 9 years with interest rates ranging from 6% to 9% per annum. Interest earned on licensing receivables is included in regional licensing fees. Annual maturities of regional licensing receivables are as follows:

Year Ending December 31, 2006	$ 101,883
2007	189,561
2008	221,852
2009	213,360
2010	209,338
Thereafter	226,407
	$ 1,162,401

Note 3 - Property and Equipment

Property and equipment consist of the following at December 31, 2005, 2004, and 2003:

	2005	2004	2003
Office Furniture and Equipment	$ 173,058	$ 259,064	$ 236,281
Automobiles	165,871	115,913	119,015
Leasehold Improvements	431,694	224,714	40,711
	770,623	599,691	396,007
Less Accumulated Depreciation and Amortization	(223,535)	(277,803)	(305,830)
	$ 547,088	$ 321,888	$ 90,177

Depreciation and amortization expense during 2005, 2004, and 2003, was approximately $62,040, $26,753, and $17,444, respectively.

Note 4 - Short-Term Debt

Line of Credit

The Company had a bank line of credit which provided for maximum borrowings of $250,000. Amounts outstanding under the line bore interest at the prime rate plus 1% (interest rate of 5.00% at December 31, 2003). The outstanding balance under the line at December 31, 2003, was $75,000. This line of credit was closed in May 2004. The Company also opened a new line of credit in July 2004 which provided for maximum borrowing of $250,000. Amounts outstanding under the line bear interest at the prime rate plus 1.00% (interest of 7.25 and 6.25% at December 31, 2005 and 2004). There were no amounts outstanding on the line of credit at December 31, 2005 and 2004. The line of credit contains certain financial covenants. At December 31, 2005 and 2004, the Company was in compliance with the covenants.

Construction Loan

The Company obtained a construction line of credit which provides for maximum borrowings of $294,000. Amounts outstanding under the line bear interest at 6.625%. The outstanding balance under the construction line at December 31, 2004, was $47,908. The construction line of credit was converted to a note on June 1, 2005. The principal amount of the note was for $288,020, which was the amount outstanding on the construction line of credit on the conversion date. The note bears interest at 6.625%. The note matures on May 31, 2008, is secured by accounts receivable, notes receivable, property and equipment, and is guaranteed by the principal stockholder. The outstanding balance under the construction loan at December 31, 2005, was $273,828.

Note 4 - (Cont.) The maturity of the construction loan as of December 31, 2005, is as follows:

Year Ending December 31, 2006	$	23,000
2007		24,259
2008		226,569
	$	273,828

Note 5 - Long-Term Debt

Long-term debt consists of the following at December 31, 2005, 2004, and 2003:

	2005	2004	2003
9.0% Subordinated Debenture, Due to Stockholders, Due on April 1, 2007, Interest-Only Payments Paid Monthly	$ 449,000	$ 580,000	$ 610,000
Unsecured Notes Payable, Due in Monthly Installments With Interest Imputed at Rates Ranging From 6.0% to 9.0%, Maturing Through August 2008	210,932	281,754	348,438
Notes Payable Secured by Automobiles; Due in Various Monthly Installments at Various Interest Rates Ranging From 4.0% to 8.0%, Through October 2010	61,757	32,877	29,200
	721,689	894,631	987,638
Less Current Portion	89,631	88,001	79,546
	$ 632,058	$ 806,630	$ 908,092

The maturity of the notes payable as of December 31, 2005, is as follows:

Year Ending December 31, 2006	$	89,631
2007		541,550
2008		69,384
2009		12,363
2010		8,761
	$	721,689

Note 6 - Commitments

The Company leases a facility from the principal stockholder in Easton, Maryland, which expires on March 31, 2009, and requires rent payments of $8,750 per month. The lease also includes periodic fixed escalations. Additionally, the Company leases a facility from the principal stockholder in Cambridge, Maryland, which expires on December 31, 2006, and requires rent payments of $3,512 per month. The Company also leases a facility in Indianapolis, Indiana, which expires on December 31, 2008, and requires rent payments of $1,444 per month.

The Company leases a vehicle which expires on September 30, 2007, and requires monthly payments of $846 per month.

	Office and Facilities	Vehicle	Total
Year Ending December 31, 2006	$ 155,354	$ 10,153	$ 165,507
2007	125,478	7,614	133,092
2008	129,804	-0-	129,804
2009	28,392	-0-	28,392
	$ 439,028	$ 17,767	$ 456,795

Rent expense during 2005, 2004, and 2003, was approximately $113,437, $163,766, and $153,388, respectively.

Note 7 - Subordinated Debenture

The Company had previously issued 800 shares of preferred stock to the existing majority stockholder for $800,000. During 2000, the Company redeemed 800 shares of preferred stock and issued a subordinated debenture in the amount of $800,000 which was subsequently reduced by $90,000 and $100,000 in 2001 and 2000, respectively, as a reduction against the loan to stockholder. During 2005 and 2004, an additional $50,000 and $30,000 of the debentures were redeemed by the Company, respectively. Additionally, as of December 31, 2005, a loan receivable from the majority stockholder in the amount of $81,000 was netted against the debenture. The subordinated debenture balance at December 31, 2005, 2004, and 2003, was $449,000, 580,000, and $610,000, respectively.

Note 8 - Income Taxes

The provision for income taxes for the years ended December 31, 2005, 2004, and 2003, is as follows:

	2005	2004	2003
Income Tax Expense			
Current	$ 56,080	$ 1,876	$ -0-
Deferred	87,290	204,000	(8,000)
	$ 143,370	$ 205,876	$ (8,000)

Note 8 - (Cont.) Deferred income tax assets at December 31, 2005, 2004, and 2003, result from the following items:

	2005	2004	2003
Differences Between Financial Statement and Income Tax Accounting for			
Reserves for Bad Debts	$ 67,859	$ 93,000	$ 158,900
Deferred Franchise Revenue	-0-	-0-	(93,900)
Prepaid Franchise Expenses	84,232	38,000	-0-
Other	2,409	14,000	21,800
Net Operating Loss Carryforwards	-0-	-0-	118,200
Deferred Income Tax Asset	$ 154,500	$ 145,000	$ 205,000

Deferred income tax liabilities at December 31, 2005, 2004, and 2003, result from the following items:

	2005	2004	2003
Differences Between Financial Statement and Income Tax Accounting for			
Deferred Franchise Revenue	$ 206,177	$ 144,000	$ -0-
Accumulated Depreciation	34,613	-0-	-0-
Deferred Income Tax Liability	$ 240,790	$ 144,000	$ -0-

Generally accepted accounting principles require deferred income tax assets to be reduced by a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. No valuation allowance was deemed necessary for the years ended December 31, 2005, 2004, and 2003.

The primary difference in the effective tax rate compared to the statutory rate is related to permanent differences for officer's life insurance, nondeductible meals and entertainment expenses, and Canadian tax which is computed on gross receipts. Additionally, in 2003, the cash surrender value of life insurance and expired foreign tax credits also accounted for the difference in the effective tax rate.

Note 9 - Related Party Transactions

The National Marketing Fund Trust (NMF) receives franchisee contributions which are used for national marketing programs. NMF was created by the Company to effect the provisions of the Decorating Den Franchise Agreement. NMF incurs the expense of the public relations and advertising departments. NMF paid the Company $94,080, $87,467, and $54,000 in 2005, 2004, and 2003, respectively, for administrative services.

Note 9 - (Cont.) The Merchandising Incentive Fund Trust (MIF) was created by the Company and receives preferred supplier contributions which are used to fund merchandising programs, information technology systems and resources, research and development, franchisee incentive programs, and administrative costs. MIF reimbursed the Company $32,501, $299,352, and $126,931 in 2005, 2004, and 2003, respectively, for these expenses.

In 1997, the Company entered into a regional management agreement for the state of California with Decorating Den Professional Services, Inc. (PSI) under which PSI receives the lesser of: (a) service revenue generated in California, or (b) $6,000 per month. PSI is owned 100% by the principal stockholder of the Company. The management agreement expired December 1, 2005.

Related Party Transactions

Due from (to) affiliates are noninterest bearing and due on demand. The amounts as of December 31, 2005, 2004, and 2003, are as follows:

	2005	2004	2003
Due From MIF	$ -0-	$ 212,923	$ 125,000
Due to NMF	(34,419)	(54,633)	(33,806)
Loan to Stockholder	-0-	-0-	(36,006)
	$ (34,419)	$ 158,290	$ 55,188

Note 10 - Employee Benefit Plans

The Company has a profit-sharing plan covering substantially all employees that qualify under Section 401(k) of the Internal Revenue Code (IRC). The plan provides for voluntary employee contributions of up to 20% of their aggregate earnings. The Company may also make voluntary contributions in a plan year. The Company did not make any contributions in 2005, 2004, or 2003.

In 1992, the Company established a deferred compensation plan for selected members of management with benefits determined based on the book value of the Company. Benefits earned through December 31, 2005, under this plan have not been significant.

Note 11 - Foreign Operations

The Company has regional franchise and master franchise agreements in Canada and Great Britain. Franchise and service fees are recognized in accordance with the terms of these agreements and the Company's revenue recognition policies. Revenue recognized from foreign sources in 2005, 2004, and 2003, was approximately $215,000, $245,000, and $286,000, respectively (stated in U.S. dollars).

Note 12 - Costs Associated With Exit Activities in the United Kingdom

In September 2004, DDSI decided to cease operations in the United Kingdom. As of December 31, 2004, a total loss on disposal of activities is $67,540, including a liability of $14,200 for the estimated loss on the disposal of the United Kingdom division. The loss on disposal of activities is included in other expenses on the consolidated statements of income and changes in retained earnings. Operations in the United Kingdom were closed by the end of October 2005.