# EXHIBIT C

# FINANCIAL STATEMENTS

# EXPETEC CORPORATION

*FINANCIAL STATEMENTS*
*DECEMBER 31, 2005 AND 2004*

# EXPETEC CORPORATION

Table of Contents


| | Page |
|---|---|
| **INDEPENDENT AUDITOR'S REPORT** | 1 |
| **FINANCIAL STATEMENTS** | |
| Balance Sheets | 2 |
| Statements of Operations | 3 |
| Stockholders' Equity (Deficit) | 4 |
| Cash Flows | 5 |
| Notes to Financial Statements | 7 |

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors
**Expetec Corporation**
Aberdeen, South Dakota

We have audited the balance sheets of **Expetec Corporation** (an S Corporation) as defined in Note 1, a wholly owned subsidiary of Jet Company, as of December 31, 2005 and 2004 and the related statements of operations, stockholders' equity (deficit), 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 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 do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Expetec Corporation** 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.

Eide Bailly LLP

Aberdeen, South Dakota
April 20, 2006

| | 2005 | 2004 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| CURRENT LIABILITIES | | |
| Outstanding checks in excess of deposits | $ 21,127 | $ - |
| Current portion of notes payable | 6,115 | 48,036 |
| Accounts payable | 229,254 | 239,886 |
| Accrued payroll taxes | 15,820 | 3,846 |
| Accrued interest | 1,542 | 161,627 |
| Accrued salaries and vacation | 7,558 | 3,681 |
| Other accrued liabilities | - | 11,120 |
| Deferred revenue | 56,243 | 90,808 |
| Total current liabilities | 337,659 | 559,004 |
| LONG TERM LIABILITIES | | |
| Related party long-term debt, net of unamortized discount | - | 2,504,226 |
| Notes payable, net of current portion | 35,524 | 3,547 |
| | 35,524 | 2,507,773 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Common stock, $.01 par value, authorized 2,000,000 shares: issued 506,419 and 561,219 shares for 2005 and 2004, respectively | 5,065 | 5,613 |
| Additional paid-in capital - common stock | 4,575,744 | 258,057 |
| Additional paid-in capital - warrants | - | 551,038 |
| Discount on common stock | (9,520) | (9,520) |
| | 4,571,289 | 805,188 |
| Less: treasury stock (64,000 shares at cost) | (15,000) | (15,000) |
| | 4,556,289 | 790,188 |
| Accumulated deficit | (4,366,759) | (2,390,862) |
| | 189,530 | (1,600,674) |
| | $ 562,713 | $ 1,466,103 |

# EXPETEC CORPORATION
## STATEMENTS OF OPERATIONS
## YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|---|---|
| REVENUE | | |
| Franchise fees | $ 245,319 | $ 510,806 |
| Business management system fees | 310,922 | 176,656 |
| Marketing fees | 187,279 | 405,635 |
| Call center revenues | 50,821 | 97,264 |
| Royalty fees | 138,889 | 139,398 |
| Other | 17,137 | 11,315 |
| | 950,367 | 1,341,074 |
| Commissions charged against franchise fees | - | (11,580) |
| | 950,367 | 1,329,494 |
| COST OF SALES | 417,279 | 359,902 |
| OPERATING EXPENSES | | |
| Provision for bad debts | 676,163 | 175,394 |
| Depreciation expense | 181,350 | 53,418 |
| Amortization expense | 22,999 | 12,838 |
| Other operating expenses | 1,096,214 | 1,336,996 |
| Total operating expenses | 1,976,726 | 1,578,646 |
| NET LOSS FROM OPERATIONS | (1,443,638) | (609,054) |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 10,437 | 133,007 |
| Interest expense | (538,589) | (539,305) |
| Loss on disposal of fixed assets | (4,107) | (1,417) |
| | (532,259) | (407,715) |
| NET LOSS | $ (1,975,897) | $ (1,016,769) |

See Notes to Financial Statements.

# EXPETEC CORPORATION
## STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
## YEARS ENDED DECEMBER 31, 2005 AND 2004

| | Common Stock | Additional paid-in Capital | | Discount on Common Stock | Stock Subscription Receivable | Treasury Stock | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | | Stock | Warrants | | | | | |
| BALANCE, JANUARY 1, 2004 | $ 5,613 | $ 258,057 | $ 323,334 | $ (9,520) | $ - | $ (15,000) | $ (1,374,093) | $ (811,609) |
| Net loss | - | - | - | - | - | - | (1,016,769) | (1,016,769) |
| Discount on issuance of debt due to detachable warrant feature | - | - | 227,704 | - | - | - | - | 227,704 |
| BALANCE, DECEMBER 31, 2004 | 5,613 | 258,057 | 551,038 | (9,520) | - | (15,000) | (2,390,862) | (1,600,674) |
| Net loss | - | - | - | - | - | - | (1,975,897) | (1,975,897) |
| Debt converted to equity by Jet Company | - | 3,766,101 | - | - | - | - | - | 3,766,101 |
| Cancellation of warrants | - | 551,038 | (551,038) | - | - | - | - | - |
| Shares retired | (548) | 548 | - | - | - | - | - | - |
| BALANCE, DECEMBER 31, 2005 | $ 5,065 | $ 4,575,744 | $ - | $ (9,520) | $ - | $ (15,000) | $ (4,366,759) | $ 189,530 |

See Notes to Financial Statements.

# EXPETEC CORPORATION
## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $ (1,975,897) | $ (1,016,769) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 181,350 | 53,418 |
| Amortization of other assets | 22,999 | 12,838 |
| Amortization of debt discount | 198,373 | 252,430 |
| Provision for bad debts | 676,163 | 175,394 |
| Loss on disposal of fixed assets | 4,107 | 1,417 |
| Accrued interest and late fees converted to paid in capital | 410,324 | - |
| Change in assets and liabilities: | | |
| Accounts receivable | (21,932) | 412 |
| Notes receivable franchisees | 24,453 | (471,199) |
| Inventory | 12,795 | 3,160 |
| Prepaid expenses | (12,235) | (14,501) |
| Other receivables | 12,376 | (33,905) |
| Accounts payable | (10,632) | (3,189) |
| Accrued liabilities | 6,273 | 135,959 |
| Deferred revenue | (34,565) | (93,185) |
| NET CASH USED FOR OPERATING ACTIVITIES | (506,048) | (997,720) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (5,145) | (332,844) |
| Website and database development costs | - | (1,000) |
| Purchase of trademark | (905) | (4,849) |
| Proceeds from sale of equipment | 1,065 | 7,587 |
| Payments on related party notes receivable | - | 1,882 |
| NET CASH USED FOR INVESTING ACTIVITIES | (4,985) | (329,224) |
| FINANCING ACTIVITIES | | |
| Increase in checks in excess of deposits | 21,127 | - |
| Payments on capital lease | - | (1,099) |
| Borrowings on notes payable | 472,000 | 1,316,600 |
| Principal payments on long-term borrowings | (53,393) | (245,871) |
| Finance costs | - | (21,000) |
| Additions to note payable for settlement agreement | 63,000 | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 502,734 | 1,048,630 |

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| | 2005 | 2004 |
|---|---|---|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (8,299) | (278,314) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 8,299 | 286,613 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ - | $ 8,299 |
| SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | $ 2,511 | $ 137,668 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Acquisition of plant, property and equipment by accounts payable | $ - | $ 10,000 |
| Acquisition of trademark by accounts payable | - | 1,443 |
| Financing fees included in accounts payable | - | 7,000 |
| Discount on issuance of debt instrument related to warrants | - | 227,704 |
| Debt and accrued interest converted to equity | 3,766,101 | - |

See Notes to Financial Statements.

## NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

*Principal Business Activity*

Expetec Corporation's (the Company) principal business activity is as a franchisor that grants franchises for businesses that offer on-site and off-site computer and technology services, website design, repairs, and related products. Technicians work at franchise locations and travel to customer businesses and homes with some outlets also selling computers and accessories. The franchisees are authorized "Expetec Technology Services" franchise stores with territorial rights to communities consisting of 1,000 businesses. The franchises are sold for an initial franchise fee plus monthly fees for royalty and advertising.

Effective December 28, 2005, Jet Company entered into a stock purchase agreement with the previous owners of the Company and as such, the Company became a wholly owned subsidiary of Jet Company. Upon completion of this transaction, the management of Jet Company converted the principal balance of long term debt and related accrued interest and late payment fees totaling $3,766,101 (see Note 5) to equity.

*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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for doubtful accounts and the estimated useful lives assigned to software.

During 2005, the Company modified its estimate of the remaining useful lives of certain software programs that as of May 2006 would no longer be in use. This change resulted in an increase in depreciation expense for 2005 of $100,356.

*Franchise Fees*

Revenue from sales of individual franchises is recognized, net of an allowance for uncollectible amounts, when substantially all significant services to be provided to the franchisee have been performed. When a franchise is sold, the Company agrees to provide certain services to the franchisee including assistance in business location, training personnel, implementation of an accounting system and design of a quality control program. Deferred franchise fee revenue at December 31, 2005 and 2004 which was $49,243 and $64,695, respectively, represents the portion of total revenue from initial franchise sales attributable to services required to be provided by the Company that have not yet been performed. All of the franchise fee revenues included in the accompanying financial statements are from initial franchise fees. The Company sold 21 and 26 franchises during the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, there were 51 franchise stores operating in 115 territories and 49 franchise stores operating in 133 territories, respectively.

*Business Management System Fees*

Business management system revenues are fees attributed to providing resources for new franchisees and are recognized as the individual franchise fees are recognized.

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*Marketing Fees*

Revenue from sales of individual franchises includes an initial local marketing fee. For this initial fee, the Company provides local marketing for the individual franchisees for one year. The franchisee also has an option to purchase additional marketing at the end of a year. These fees are recognized as the Company incurs expenses related to the marketing efforts for these franchisees. Deferred marketing fee revenue, which was $7,000 and $26,113 at December 31, 2005 and 2004, respectively, represents the portion of total marketing fee revenue from the initial fee attributable to marketing services required to be provided by the Company that has not yet been performed. The Company also has marketing fee revenues that are based on a percentage of each franchisee's service revenues and are recognized by the Company as franchisees are billed throughout the year.

*Call Center Revenues*

Revenues from the call center are recognized by the Company as franchisees or subcontractors complete dispatched service work and the respective warranty company is billed. In addition, amounts due to franchisees or subcontractors for warranty services performed are recognized by a charge to income upon completion of the service work.

*Royalty Fees*

Revenues from royalty fees are recognized based on the activity volume (both service work and inventory sales) of the respective franchisees.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Company considers all amounts held in checking, savings, money-market accounts and highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

*Receivables and Credit Policies*

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Notes receivable are stated at principal amounts plus accrued interest and are collateralized by inventory, equipment, receivables, intangibles and personal guarantees. Payments on notes receivable that are received after a 10 day grace period are assessed a delinquency fee of $30 per month. Due to the uncertainty regarding collection, delinquency fees are recognized as income when received.

Trade receivables are stated at the amount billed to the customer less a valuation allowance. Customer account balances with invoices dated over 30 days old are considered delinquent. A note receivable is considered delinquent when the debtor has missed one payment. The Company does not place notes receivable on nonaccrual status; therefore, interest accrues on the note until the receivable is current. As of December 31, 2005 and 2004, notes receivable past due greater than 90 days and still accruing interest totaled $0 and $426,756, respectively. Accounts receivable greater than 90 days equaled $29,655 and $59,881 as of December 31, 2005 and 2004, respectively.

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Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Payments of notes receivable are allocated first to delinquency fees, then accrued and unpaid interest with the remainder to the outstanding principal balance.

The carrying amount of trade and note receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all trade and note receivable balances that exceed 30 days from the scheduled payment date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. When management believes collectibility to be unlikely, accounts are charged against the allowance. In accordance with debt agreements through December 28, 2005, all trade and notes receivable served as collateral for the debt.

The changes in the allowance for doubtful accounts are as follows:

| | 2005 | 2004 |
|---|---|---|
| Balance, beginning of the year | $ 261,418 | $ 120,235 |
| Provision for bad debts | 676,163 | 175,394 |
| Charge-offs | (806,752) | (34,211) |
| Balance, end of year | $ 130,829 | $ 261,418 |

*Inventory*

Inventory consists primarily of business kits and is carried at the lower of cost or market computed on the first-in, first-out (FIFO) method.

*Website and Database Development Costs*

Website and database development costs are being amortized on the straight-line basis over three to fifteen years. Amortization expense for the years of 2006 and 2007 is estimated to be $1,992 per year, 2008 to be $803, and 2009 and 2010 to be $209.

*Trademarks*

Costs associated with obtaining a trademark for Computer Doctor International, Inc., Expetec Franchise Systems, ITSAM, and InstantFX are being amortized on the straight-line basis over fifteen years. Amortization expense for the next five years is estimated to be $2,014 per year.

*Finance Fees*

Finance fees are amortized on the straight line basis over the life of the loan.

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*Property and Equipment*

Property and equipment are stated at cost. Additions, renewals and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income. Depreciation is computed on a straight-line basis over the following estimated useful lives:

| Description | Estimated Useful Life |
|---|---|
| Furniture and equipment | 5-7 years |
| Vehicles | 5 years |
| Leasehold improvements | 39 years |

*Advertising Costs*

Advertising costs are expensed as incurred. Advertising expense was $146,010 and $316,500 for the years ended December 31, 2005 and 2004, respectively.

*Income Taxes*

Expetec Corporation, with the consent of its shareholders, has elected to be taxed under sections of the federal income tax law, which provide that, in lieu of corporation income taxes, the shareholders separately account for the Company's items of income, deductions, losses and credits on their personal returns. As a result of this election, no income taxes have been recognized in the accompanying financial statements.

*Concentration of Credit Risk*

The Company previously offered financing to new franchisees. These new franchisees were start-up companies with minimal collateral to secure the notes receivables (see Note 2). The maximum amount of loss due to credit risk is equal to the principal amount of the notes receivable and related accrued interest receivable.

*Reclassifications*

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation. Such reclassifications had no effect on the results of operations.

## NOTE 2 - NOTES RECEIVABLE FROM FRANCHISEES

At December 31, 2005 and 2004, the Company had 14 and 35 notes receivable from franchisees, respectively. Interest rates range from 10% to 18%. These notes receivable are from franchisees for the issuance of initial franchises which are secured by substantially all inventories, equipment, receivables and intangible assets held by the respective franchisee. The Company is not currently offering financing of new franchisees, which was discontinued during 2004. The financing program was voluntary. In 2005 and 2004, 0% and 75%, respectively of the new franchisees participated in the program.

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Approximate long-term receivable maturities are as follows:

| | | |
|---|---|---|
| 2006 | $ | 64,232 |
| 2007 | | 157,251 |
| 2008 | | 164,281 |

## NOTE 3 - RELATED PARTY NOTE RECEIVABLE

In 2003, the Company incurred settled a note payable and income tax liability for Fargo Properties, Inc., a related party, for a total of $103,565, which was classified as a note receivable. As of December 31, 2004, the outstanding principal balance of this note receivable was $101,683. During 2005, the remaining outstanding principal of this note was forgiven and charged to bad debt expense as part of a stock purchase agreement.

## NOTE 4 - NOTES PAYABLE

The Company has the following notes payable as of December 31:

| | **2005** | 2004 |
|---|---|---|
| Northeast Council of Governments, monthly payments of $1,212 including interest at 8%, matured October 15, 2005, secured by corporate assets and personal guarantees. This note was refinanced on February 15, 2006. The monthly payment amount changed to $884, including interest at 8%, and the maturity date was changed to February 15, 2008. At the time of refinancing, $1,962 of outstanding accrued interest was added to the principal balance of the note | $ **41,639** | $ 48,036 |
| Notes paid during the current year | - | 3,547 |
| | **41,639** | 51,583 |
| Less current portion | **(6,115)** | (51,583) |
| | $ **35,524** | $ - |

Approximate long-term debt maturities are as follows:

| | | |
|---|---|---|
| 2006 | $ | 6,115 |
| 2007 | | 7,895 |
| 2008 | | 27,629 |
| | $ | 41,639 |

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## NOTE 5 - RELATED PARTY LONG-TERM DEBT

On January 20, 2003, the Company entered into an agreement with a related party, Jet Company, for a multiple advance loan for up to $4,000,000. Under the terms of the agreement, the Company was to pay interest quarterly on the debt at 12% per annum. In addition, the agreement contained provisions for stock warrants (see Note 8). The agreement was set to mature on January 31, 2006.

Effective December 28, 2005, Jet Company entered into a stock purchase agreement whereby it became the 100% owner of Expetec Corporation. Upon completion of this transaction, the management of Jet Company converted the principal balance of long term debt owed them by Expetec in the amount of $3,194,150 to equity. The management of Jet Company also converted the related accrued interest and late payment fees related to the long term debt in the amount of $571,951 to equity. As such, the Company reflected the conversion of these related party payables as additional paid in capital as of December 28, 2005. Effective December 28, 2005, the management of Jet Company also cancelled the warrants that had been issued them by Expetec (see Note 8).

Interest expense on this related party debt totaled $336,162 and $531,380 for the years ended December 31, 2005 and 2004, respectively. Financing fees charged by Jet Company in 2005 and 2004 were $74,162 and $28,000, respectively.

The total outstanding principal balance of this debt at December 31, 2004 was $2,702,600 less a discount for the stock warrants of $198,374 which made the carrying value of this long term debt $2,504,226 as of December 31, 2004.

## NOTE 6 - CAPITAL LEASE OBLIGATIONS

The Company leases certain office equipment under capital leases. The cost of the capitalized lease equipment was $3,628 and accumulated amortization of the capitalized leased equipment at December 31, 2005 and 2004 was $2,479 and $1,753, respectively. Amortization expense is included in depreciation expense. The lease expired in 2004.

## NOTE 7 - RELATED PARTY COMMITMENTS

During 2004, the Company entered into an occupancy agreement to assist in furnishing hotel accommodations for franchisees while attending training at the corporate offices. The entity with which this agreement is made is owned by an immediate family member of one of Jet Company's primary shareholders. The Company has exclusive use of 147 room nights per month of which the Company is required to pay for 105 room nights per month at a rate of $75 per night. The total expense recorded under the terms of this agreement was $98,389 and $36,944. The agreement expires April 22, 2009. The minimum future rental commitment for the next five years is as follows:

| | | |
|---|---|---|
| 2005 | $ | 102,060 |
| 2006 | | 102,060 |
| 2007 | | 102,060 |
| 2008 | | 102,060 |
| 2009 | | 42,525 |
| | $ | 450,765 |

(continued on next page)

## NOTE 8 - WARRANTS

At December 31, 2004, the Company had outstanding warrants to issue shares of the Company's common stock upon redemption of the multiple advance note payable to Jet Company (see Note 5). At December 31, 2004, there were a total of 291,825 shares of common stock available under these warrants.

During 2005, Jet Company advanced $467,000 to Expetec Corporation in accordance with the loan agreement between the two companies. Expetec Corporation did not issue the related warrants under the provision of the loan agreements related to these cash advances. Jet Company approved this modification to the loan agreement for 2005.

Effective December 28, 2005, the management of Jet Company cancelled the warrants that had been issued to them by Expetec Corporation. The value originally assigned to the warrants on the issue dates totaled $551,038. The original balance of the warrants cancelled was recorded as additional paid in capital upon Jet Company becoming 100% owner of the Company.

## NOTE 9 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005 and 2004, the Company received royalty fees of $0 and $1,882 from various companies that are controlled by certain stockholders of the Company. At December 31, 2005 and 2004, the Company had accounts receivable from an employee of $2,449 and $0, respectively. At December 31, 2005 and 2004, the Company had accounts payable to Jet Company and other companies owned by one of the primary shareholders of Jet Company and an immediate family member of this shareholder of $128,430 and $10,106, respectively.

*Lease of Office Space*

The Company has a seven-year lease agreement with one of the primary shareholders of Jet Company for its office facilities, which expires in April 2009.

The total minimum rental commitment at December 31, 2005 under the above lease is as follows:

| | | |
|---|---|---|
| 2006 | $ | 51,920 |
| 2007 | | 53,120 |
| 2008 | | 54,320 |
| 2009 | | 18,240 |
| | $ | 177,600 |

The total rent expense relating to this lease and included in the statements of operations for the years ended December 31, 2005 and 2004 was $37,177 and $56,950, respectively.

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## NOTE 10 - PERFORMANCE STOCK PLAN

During 2005, the Company established a non-qualified performance stock plan for directors, officers and select managers of Expetec. Under the plan, the Company awards performance shares that represent a percentage of Class A shares issued and outstanding. This percentage varies by plan participant and is capped by the participant's agreement. The performance shares are fictitious shares and do not grant shareholders rights. Compensation for performance shares are paid upon death or disability of the participant or upon sale of 100% of the Company's stock or assets. Compensation may also be paid over a five year period after termination.

As part of this agreement and concurrent with the acquisition of the Company by Jet Company, one of the primary stockholders of Jet Company retired his 54,800 shares of Expetec common stock in exchange for an interest in this performance stock plan. The par value of these retired shares was $548.

As of December 31, 2005, the performance shares awarded and payable have a value of $0. No compensation expense was recorded during the year ended December 31, 2005.

## NOTE 11 - SUBSEQUENT EVENT

Subsequent to year end, the Company entered into capital lease agreements for hardware and softwareand Service CEO Software. Total value of the hardware and software leased is $200,847. The total minimum monthly payments required on these leases are $6,289 for 36 months.

## NOTE 12 - OPERATING LOSSES AND CASH POSITION

As shown in the accompanying financial statements, Expetec has incurred an operating loss the last two years. Operating losses were also incurred in 2003, 2002 and 2001 resulting in five years of operating losses. This created an uncertainty about Expetec's ability to continue as a going concern.

During 2005, Expetec came under new ownership (see Note 5) and new management. The new owners had previously financed the operations of Expetec so upon assumption of Expetec, debt, accrued interest and late fees totaling $3,766,101 previously owed to the new owners was converted to paid in capital resulting in a positive equity of $189,529 at December 31, 2005. The new owners have the capacity and the intent to continue funding Expetec operations until positive earnings are achieved. Between the takeover and December 28, 2005, an additional $472,000 of cash advances were made to the company that were later converted to equity (see Note 5). As of March 31, 2006, additional capital contributions of $325,000 have been provided to the Company in 2006 from Jet Company.

New management with an average of over 25 years of business experience has also been put in place. A new business plan is being put in place that includes a new franchise model, new and more stringent financial requirements to qualify a new franchisee, new systems to enable franchisor much improved monitoring and support of franchisees and much improved support and training for franchisees.

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The new business model includes a change to technology product sales resulting in residual income and fewer competitors compared to the old model of one time revenues and a full field of competitors. The new model also includes a simplified royalty structure making compliance much easier for franchisees.

The ability of Expetec to continue as a going concern is based on the ability of the new ownership and management to carry out its plan and generate revenues in excess of expenses or to obtain additional financial support from Jet Company. No adjustments have been made to the accompanying financial statements as a result of this contingency.

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# EXPETEC CORPORATION

*FINANCIAL STATEMENTS*
*DECEMBER 31, 2004 AND 2003*

# EXPETEC CORPORATION

Table of Contents

| | Page |
|---|---|
| **INDEPENDENT AUDITOR'S REPORT** | 1 |
| **FINANCIAL STATEMENTS** | |
| Balance Sheets | 2 |
| Income Statements | 3 |
| Stockholders' Equity (Deficit) | 4 |
| Cash Flows | 5 |
| Notes to Financial Statements | 7 |
| **INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION** | 15 |
| **SUPPLEMENTARY INFORMATION** | |
| Operating Expenses | 16 |

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CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors
**Expetec Corporation**
Aberdeen, South Dakota

We have audited the accompanying balance sheets of **Expetec Corporation** as of December 31, 2004 and 2003 and the related statements of income, stockholders' equity (deficit), 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Expetec Corporation** 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.

Our audit of Expetec Corporation was made for the purpose of forming an opinion on the basic statements taken as a whole. The pro forma balance sheet on page 2 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.

Eide Bailly LLP

Aberdeen, South Dakota
April 7, 2005

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# EXPETEC CORPORATION
## BALANCE SHEETS
## DECEMBER 31, 2004 AND 2003 (AUDITED) DECEMBER 31, 2004 PRO FORMA (UNAUDITED)

| | 2004 Pro Forma (Unaudited) | 2004 (Audited) | 2003 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 8,299 | $ 8,299 | $ 286,613 |
| Accounts receivable, (net of allowance for doubtful accounts of $20,250 and $23,867 for 2004 and 2003, respectively) | 65,095 | 65,095 | 57,178 |
| Accounts receivable, related party | - | - | 8,325 |
| Current portion of notes receivable from franchisees (net of allowance of $58,001 and $67,753 for 2004 and 2003, respectively) | 196,046 | 196,046 | 356,455 |
| Current portion notes receivable, related party | 11,569 | 11,569 | 11,107 |
| Inventory | 25,020 | 25,020 | 28,180 |
| Prepaid expenses | 14,501 | 14,501 | - |
| Other receivables | 37,370 | 37,370 | 11,790 |
| Total current assets | 357,900 | 357,900 | 759,648 |
| OTHER ASSETS | | | |
| Notes receivable from franchisees, less current portion (net of allowance for doubtful accounts of $183,167 and $28,615 for 2004 and 2003, respectively) | 619,108 | 619,108 | 154,573 |
| Related party notes receivable, less current portion | 90,114 | 90,114 | 92,458 |
| Website and database development costs, (net of accumulated amortization of $31,160 and $29,101 for 2004 and 2003, respectively) | 10,290 | 10,290 | 11,349 |
| Trademarks, (net of accumulated amortization of $6,465 and $4,750 for 2004 and 2003, respectively) | 22,833 | 22,833 | 18,256 |
| Finance fees (net of accumulated amortization of $9,064 and $0 for 2004 and 2003, respectively) | 18,936 | 18,936 | - |
| Deposits | 160 | 160 | 160 |
| | 761,441 | 761,441 | 276,796 |
| PROPERTY AND EQUIPMENT | | | |
| Furniture and fixtures | 475,106 | 475,106 | 158,236 |
| Vehicles | 16,131 | 16,131 | 21,911 |
| Leasehold improvements | 6,419 | 6,419 | 2,116 |
| | 497,656 | 497,656 | 182,263 |
| Less accumulated depreciation | 150,894 | 150,894 | 99,554 |
| | 346,762 | 346,762 | 82,709 |
| | $ 1,466,103 | $ 1,466,103 | $ 1,119,153 |

See Notes to Financial Statements.

| | 2004 Pro Forma (Unaudited) | 2004 (Audited) | 2003 (Audited) |
|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | | |
| CURRENT LIABILITIES | | | |
| Current portion of notes payable | $ 51,583 | $ 51,583 | $ 61,954 |
| Accounts payable | 239,886 | 239,886 | 238,416 |
| Accrued payroll taxes | 3,846 | 3,846 | 4,918 |
| Accrued interest | 226 | 161,627 | 12,420 |
| Accrued salaries | 3,681 | 3,681 | 26,977 |
| Other accrued liabilities | 11,120 | 11,120 | - |
| Deferred revenue | 90,808 | 90,808 | 183,993 |
| Current portion of capital lease | - | - | 1,099 |
| Total current liabilities | 401,150 | 562,551 | 529,777 |
| LONG TERM LIABILITIES | | | |
| Related party long-term debt, net of unamortized discount | - | 2,504,226 | 1,398,400 |
| Notes payable, net of current portion | - | - | 2,585 |
| | - | 2,504,226 | 1,400,985 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | | |
| Common stock, $.01 par value, authorized 2,000,000 shares: issued 561,219 shares for 2004 and 2003, respectively | 5,613 | 5,613 | 5,613 |
| Preferred stock | 3,000,000 | - | - |
| Additional paid-in capital - common stock | 258,057 | 258,057 | 258,057 |
| Additional paid-in capital - warrants | 216,665 | 551,038 | 323,334 |
| Discount on common stock | (9,520) | (9,520) | (9,520) |
| | 3,470,815 | 805,188 | 577,484 |
| Less: treasury stock (64,000 shares at cost) | (15,000) | (15,000) | (15,000) |
| | 3,455,815 | 790,188 | 562,484 |
| Accumulated deficit | (2,390,862) | (2,390,862) | (1,374,093) |
| | 1,064,953 | (1,600,674) | (811,609) |
| | $ 1,466,103 | $ 1,466,103 | $ 1,119,153 |

# EXPETEC CORPORATION
## STATEMENTS OF OPERATIONS
## YEARS ENDED DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| REVENUE | | |
| Franchise fees | $ 510,806 | $ 314,654 |
| Business management system fees | 165,309 | 213,589 |
| Local marketing fees | 312,922 | 156,167 |
| Call center revenues | 97,264 | 264,808 |
| Royalty fees | 139,398 | 165,369 |
| Marketing fees | 92,713 | 71,091 |
| Other | 34,378 | 3,857 |
| | 1,352,790 | 1,189,535 |
| Commissions charged against franchise fees | (11,580) | (5,402) |
| | 1,341,210 | 1,184,133 |
| COST OF SALES | 359,902 | 493,686 |
| OPERATING EXPENSES | 1,578,646 | 1,273,003 |
| LOSS FROM OPERATIONS | (597,338) | (582,556) |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 121,291 | 30,025 |
| Interest expense | (539,305) | (215,555) |
| Forgiveness of debt | - | 134,886 |
| Loss on disposal of fixed assets | (1,417) | - |
| | (419,431) | (50,644) |
| NET LOSS | $ (1,016,769) | $ (633,200) |

# EXPETEC CORPORATION
## STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
## YEARS ENDED DECEMBER 31, 2004 AND 2003

| | Common Stock | Common Stock Subscribed | Additional paid-in Capital | | Discount on Common Stock | Stock Subscription Receivable | Treasury Stock | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | Stock | Warrants | | | | | |
| BALANCE, JANUARY 1, 2003 | $ 5,332 | $ 281 | $ 258,057 | $ - | $ (9,520) | $ (67,320) | $ - | $ (740,893) | $ (554,063) |
| Net loss | - | - | - | - | - | - | - | (633,200) | (633,200) |
| Stock purchased placed in treasury | - | - | - | - | - | - | (15,000) | - | (15,000) |
| Issuance of 28,061 shares of common stock | 281 | (281) | - | - | - | - | - | - | - |
| Discount on issuance of debt due to detachable warrant feature | - | - | - | 323,334 | - | - | - | - | 323,334 |
| Rent in lieu of stock subscription payment | - | - | - | - | - | 67,320 | - | - | 67,320 |
| BALANCE, DECEMBER 31, 2003 | 5,613 | - | 258,057 | 323,334 | (9,520) | - | (15,000) | (1,374,093) | (811,609) |
| Net loss | - | - | - | - | - | - | - | (1,016,769) | (1,016,769) |
| Discount on issuance of debt due to detachable warrant feature | - | - | - | 227,704 | - | - | - | - | 227,704 |
| BALANCE, DECEMBER 31, 2004 | $ 5,613 | $ - | $ 258,057 | $ 551,038 | $ (9,520) | $ - | $ (15,000) | $ (2,390,862) | $ (1,600,674) |

See Notes to Financial Statements.

# EXPETEC CORPORATION
## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $ (1,016,769) | $ (633,200) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 53,418 | 25,538 |
| Amortization of other assets | 12,838 | 11,038 |
| Amortization of debt discount | 252,430 | 100,234 |
| Provision for bad debts | 175,394 | 166,671 |
| Loss on disposal of fixed assets | 1,417 | - |
| Rent in lieu of stock subscription | - | 67,320 |
| Forgiveness of debt | - | (134,251) |
| Capitalized interest on notes payable | - | 9,540 |
| Change in assets and liabilities: | | |
| Accounts receivable | 412 | 19,182 |
| Notes receivable franchisees | (471,199) | (589,758) |
| Inventory | 3,160 | (15,685) |
| Prepaid expenses | (14,501) | - |
| Other receivables | (33,905) | (9,921) |
| Accounts payable | (3,189) | (122,860) |
| Franchise fee refunds payable | - | (4,508) |
| Accrued liabilities | 135,959 | (19,590) |
| Deferred revenue | (93,185) | 143,993 |
| NET CASH USED BY OPERATING ACTIVITIES | (997,720) | (986,257) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (332,844) | (29,208) |
| Website and database development costs | (1,000) | (12,048) |
| Purchase of trademark | (4,849) | (13,164) |
| Proceeds from sale of equipment | 7,587 | - |
| NET CASH USED BY INVESTING ACTIVITIES | (331,106) | (54,420) |
| FINANCING ACTIVITIES | | |
| Payments on capital lease | (1,099) | (1,805) |
| Borrowings on notes payable | 1,316,600 | 1,607,500 |
| Principal payments on long-term borrowings | (245,871) | (275,987) |
| Finance costs | (21,000) | - |
| Payments on related party notes receivable | 1,882 | - |
| Purchase of treasury stock | - | (15,000) |
| NET CASH FROM FINANCING ACTIVITIES | 1,050,512 | 1,314,708 |

(continued on next page)

## STATEMENTS OF CASH FLOWS - page 2

| | 2004 | 2003 |
|---|---|---|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (278,314) | 274,031 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 286,613 | 12,582 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 8,299 | $ 286,613 |
| SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | $ 137,668 | $ 93,672 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Acquisition of plant, property and equipment by accounts payable | $ 10,000 | $ 13,784 |
| Acquisition of trademark by accounts payable | 1,443 | - |
| Financing fees included in accounts payable | 7,000 | - |
| Discount on issuance of debt instrument related to warrants | 227,704 | 323,334 |
| Note receivable issued upon assumption of related party debt | - | 103,565 |

See Notes to Financial Statements.

## NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

*Principal Business Activity*

Expetec Corporation's (the Company) principal business activity is as a franchisor that grants franchises for businesses that offer on-site and off-site computer and technology services, repairs, and related products. Technicians work at franchise locations and travel to customer businesses and homes with some outlets also selling computers and accessories. The franchisees are authorized "Expetec Technology Services" franchise stores with territorial rights to communities consisting of 1,000 businesses. The franchises are sold for an initial franchise fee plus monthly fees for royalty and advertising.

*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 revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for doubtful accounts.

*Franchise Fees*

Revenue from sales of individual franchises is recognized, net of an allowance for uncollectible amounts, when substantially all significant services to be provided to the franchisee have been performed. When a franchise is sold, the Company agrees to provide certain services to the franchisee including assistance in business location, training personnel, implementation of an accounting system and design of a quality control program. Deferred franchise fee revenue at December 31, 2004 and 2003 which was $64,695 and $92,160, respectively, represents the portion of total revenue from initial franchise sales attributable to services required to be provided by the Company that have not yet been performed. All of the franchise fee revenues included in the accompanying financial statements are from initial franchise fees. The Company sold 26 and 16 franchises during the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, there were 49 franchise stores operating in 133 territories and 52 franchise stores operating in 153 territories, respectively.

*Local Marketing Fees*

Revenue from sales of individual franchises includes an initial local marketing fee. For this initial fee, the Company provides local marketing for the individual franchisees for one year. The franchisee also has an option to purchase additional marketing at the end of a year. These fees are recognized as the Company incurs expenses related to the marketing efforts for these franchisees. Deferred marketing fee revenue, which was $26,113 and $91,833 at December 31, 2004 and 2003, respectively, represents the portion of total marketing fee revenue from the initial fee attributable to marketing services required to be provided by the Company that has not yet been performed.

*Business Management System Fees*

Business management system revenues are fees attributed to providing resources for new franchisees and are recognized as the individual franchise fees are recognized.

(continued on next page)

*Marketing Fees*

The Company also has marketing fee revenues that are based on a percentage of each franchisee's service revenues and are recognized by the Company as franchisees are billed throughout the year.

*Call Center Revenue*

Revenues from the call center are recognized by the Company as franchisees or subcontractors complete dispatched service work and the respective warranty company is billed. In addition, amounts due to franchisees or subcontractors for warranty services performed are recognized by a charge to income upon completion of the service work.

*Royalty Fees*

Revenues from royalty fees are recognized based on the activity volume (both service work and inventory sales) of the respective franchisees.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Company considers all amounts held in checking, savings, money-market accounts and highly liquid investments purchased with a maturity of three months or less to be cash.

*Receivables and Credit Policies*

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Notes receivable are stated at principal amounts plus accrued interest and are collateralized by inventory, equipment, receivables, intangibles and personal guarantees. Payments on notes receivable that are received after a 10 day grace period are assessed a delinquency fee of $30 per month. Due to the uncertainty regarding collection, delinquency fees are recognized as income when received.

Trade receivables are stated at the amount billed to the customer less a valuation allowance. Customer account balances with invoices dated over 30 days old are considered delinquent. A note receivable is considered delinquent when the debtor has missed one payment. The Company does not place notes receivable on nonaccrual status; therefore, interest accrues on the note until the receivable is current. As of December 31, 2004 and 2003, notes receivable past due greater than 90 days and still accruing interest totaled $426,756 and $26,110, respectively. Accounts receivable greater than 90 days equaled $59,881 and $56,645 as of December 31, 2004 and 2003, respectively.

Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Payments of notes receivable are allocated first to delinquency fees, then accrued and unpaid interest with the remainder to the outstanding principal balance.

(continued on next page)

The carrying amount of trade and note receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all trade and note receivable balances that exceed 30 days from the scheduled payment date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. When management believes collectibility to be unlikely, accounts are charged against the allowance. In accordance with debt agreements, all trade and notes receivable serve as collateral for the debt.

The change in the allowance for doubtful accounts is as follows:

| | 2004 | 2003 |
|---|---|---|
| Balance, beginning of the year | $ 120,235 | $ 20,000 |
| Provision for bad debts | 175,394 | 166,671 |
| Charge-offs | (34,211) | (66,436) |
| Balance, end of year | $ 261,418 | $ 120,235 |

*Inventory*

Inventory consists primarily of business kits and is carried at the lower of cost or market computed on the first-in, first-out (FIFO) method.

*Website and Database Development Costs*

Website and database development costs are being amortized on the straight-line basis over three to fifteen years. Amortization expense for the years of 2005, 2006, and 2007 will be $2,059 per year. Amortization expense for 2008 will be $1,360 and $67 for 2009.

*Trademarks*

Costs associated with obtaining a trademark for Computer Doctor International, Inc. and Expetec Franchise Systems are being amortized on the straight-line basis over fifteen years. Amortization expense for the next five years will be $1,953 per year.

*Finance Fees*

Finance fees are being amortized on the straight line basis over the life of the loan. Amortization expense for 2005 will be $17,480 and $1,457 for 2006.

(continued on next page)

*Property and Equipment*

Property and equipment are stated at cost. Additions, renewals and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income. Depreciation is computed on a straight-line basis over the following estimated useful lives:

| Description | Estimated Useful Life |
|---|---|
| Furniture and equipment | 5-7 years |
| Vehicles | 5 years |
| Leasehold improvements | 39 years |

*Advertising Costs*

Advertising costs are expensed as incurred. Advertising expense was $316,499 and $125,626 for the years ended December 31, 2004 and 2003, respectively.

*Income Taxes*

Expetec Corporation, with the consent of its shareholders, has elected to be taxed under sections of the federal income tax law, which provide that, in lieu of corporation income taxes, the shareholders separately account for the Company's items of income, deductions, losses and credits on their personal returns. As a result of this election, no income taxes have been recognized in the accompanying financial statements.

*Concentration of Credit Risk*

The Company previously offered financing to 100% of new franchisees. These new franchisees are start-up companies with minimal collateral to secure the notes receivables (see Note 2). The maximum amount of loss due to credit risk is equal to the principal amount of the notes receivable and related accrued interest receivable.

## NOTE 2 - NOTES RECEIVABLE FROM FRANCHISEES

At December 31, 2004 and 2003, the Company had 35 and 28 notes receivable from franchisees, respectively. Interest rates range from 6% to 19%. These notes receivable are from franchisees for the issuance of initial franchises which are secured by substantially all inventory, equipment, receivables and intangible assets held by the respective franchisee. The Company is not currently offering financing of new franchisees, which was discontinued during 2004. The financing program was voluntary. In 2004 and 2003, 75% and 100%, respectively of the new franchisees participated in the program. Of those, 11% and 12% for 2004 and 2003, respectively, secured financing from conventional sources and paid off their loan with the Company.

(continued on next page)

Approximate long-term receivable maturities are as follows:

| | | |
|---|---|---|
| 2005 | $ | 254,047 |
| 2006 | | 643,232 |
| 2007 | | 32,029 |
| 2008 | | 21,013 |
| 2009 | | 17,978 |
| Thereafter | | 88,024 |

## NOTE 3 - RELATED PARTY NOTES RECEIVABLE

The Company settled a note payable for Fargo Properties, Inc., a related party, for $63,450 (see Note 4) during 2003. The Company also settled an Internal Revenue payroll tax liability for $40,115 during 2003 for Fargo Properties, Inc. For consideration given, the Company has notes receivable from this related party for $101,684 and $103,565 as of December 31, 2004 and 2003, respectively. The related party is required to pay monthly payments until October 17, 2008. Accrued interest and interest income from this related party was $0 and $5,025 as of and for years ended December 31, 2004 and 2003, respectively. Fargo Properties. Inc. is a related party through common majority stockholder ownership. Maturities related to these notes are scheduled as follows:

| | | |
|---|---|---|
| 2005 | $ | 11,569 |
| 2006 | | 6,000 |
| 2007 | | 6,000 |
| 2008 | | 78,115 |

## NOTE 4 - NOTES PAYABLE

The Company has the following notes payable as of December 31:

| | **2004** | 2003 |
|---|---|---|
| Northeast Council of Governments, monthly payments of $1,212 including interest at 8%, matures October 15, 2005, secured by corporate assets and personal guarantees. | **$ 48,036** | $ 58,273 |
| North Western, monthly payments of $322, interest at 13%, maturing 10/19/2005, secured by phone system. | **3,547** | 6,266 |
| | **51,583** | 64,539 |
| Less current portion | **(51,583)** | (61,954) |
| | **$ -** | $ 2,585 |

(continued on next page)

During 2003, the Company satisfied their note payable and accrued interest with First State Bank of Warner for $166,549, resulting in debt forgiveness of $134,251. As part of the agreement, the Company settled the note payable for Fargo Properties, Inc., a related company, for $63,450. The Company issued a note receivable from Fargo Properties for $63,450 for the amount paid on its behalf as mentioned in Note 3.

## NOTE 5 - RELATED PARTY LONG-TERM DEBT

| | 2004 | 2003 |
|---|---|---|
| Jet Company, Inc., quarterly interest only payments at 12% maximum borrowings of $4,000,000, due January 31, 2006 | $ 2,702,600 | $ 1,607,500 |
| Shareholder note payable, interest only payments at 6% | - | 14,000 |
| | 2,702,600 | 1,621,500 |
| Less discount (net of accumulated amortization of $352,634 and $100,234 for 2004 and 2003, respectively.) | (198,374) | (223,100) |
| | $ 2,504,226 | $ 1,398,400 |

Approximate long-term debt maturities are as follows:

| | |
|---|---|
| 2005 | $ - |
| 2006 | 2,702,600 |

On January 20, 2003, the Company entered into an agreement with a related party, Jet Company, Inc. (Jet), a South Dakota corporation, for a multiple advance loan for up to $4,000,000. Under the terms of the agreement, the Company shall pay interest quarterly on the debt at 12% per annum. In addition, the agreement contains provisions for stock warrants (see Note 8). A portion of the proceeds of the multiple advance loan was assigned to the warrant feature of $551,038 and $323,334 as of December 31, 2004 and 2003, respectively. The discount is being amortized to interest expense over the term of the loan. Amortization related to the warrant feature equaled $252,430 and $100,234 for years ending December 31, 2004 and 2003, respectively. The agreement matures on January 31, 2006 at which time Jet can demand payment of the loan, or upon resolution of the board of directors of Jet, can release or forgive the loan. Upon payment in full, release or forgiveness, Jet has the option of exercising the warrants, at which time the Company shall issue common stock to Jet in accordance with the terms of the warrant agreement. The agreement contains certain covenant provisions that allow for Jet to accelerate the maturity date of the loan and warrants prior to January 31, 2006. The covenant provisions require working capital to be not less than $250,000 at any time the warrants are outstanding, monthly financial statements to be provided to Jet in accordance with accounting principles generally accepted in the United States of America, and financial statements as of December 31, 2004 and 2003 to be in SEC format. The Company is in default with their loan agreements due to not preparing monthly GAAP basis financial statements, working capital being less than $250,000 and not providing audited financial statements in SEC format. Jet has waived these covenants and requirements for the years ending December 31, 2004 and 2003.

Interest expense on related party debt, including amortization of the discount, totaled $531,380 and $199,605 for the years ended December 31, 2004 and 2003, respectively. Financing fees charged by Jet in 2004 and 2003 were $28,000 and $0, respectively

(continued on next page)

## NOTE 6 - CAPITAL LEASE OBLIGATIONS

The Company leases certain office equipment under capital leases. The cost of the capitalized lease equipment was $3,628 and accumulated amortization of the capitalized leased equipment at December 31, 2004 and 2003 was $1,753 and $1,028, respectively. Amortization expense is included in depreciation expense. The lease expired in 2004, therefore requiring no future lease payments.

## NOTE 7 - COMMITMENTS

The Company entered into an occupancy agreement during 2004 to assist in furnishing hotel accommodations for franchisees while attending training at the corporate offices. The Company has exclusive use of 147 room nights per month of which the Company is required to pay for 105 room nights per month at a rate of $75 per night. Occupancy fees paid for the year ended December 31, 2004 was $36,944. The agreement expires April 22, 2009 and the minimum future rental commitment for the 2005 to 2008 is $94,500 and $39,375 for 2009.

## NOTE 8 - OUTSTANDING WARRANTS

At December 31, 2004 and 2003, the Company had outstanding warrants to issue shares of the Company's common stock upon redemption of the multiple advance note payable to Jet (Note 5.) The warrants become exercisable on January 1, 2006, or sooner as provided by the agreement and expire March 1, 2006. If the entire $4,000,000 is advanced under the agreement, the number of shares that will be issued will result in Jet and its owners having a combined ownership of 49% of the then issued and outstanding shares of the Company. If less than $4,000,000 is advanced under the agreement, the number of shares issued shall be the pro-rata result of the actual advances divided by the original agreement of $4,000,000 to determine the actual percentage that shall be issued. At December 31, 2004 and 2003, based on advances of $2,702,600 and $1,607,500, respectively, from Jet, 291,825 and 173,577 shares of common stock were respectively reserved for that purpose.

## NOTE 9 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2004 and 2003, the Company paid $0 and $23,543, respectively, to Fargo Properties, Inc. for call center cost of goods sold.

During the years ended December 31, 2004 and 2003, the Company received royalty fees of $1,882 and $0 from various companies that are controlled by certain stockholders of the Company. At December 31, 2004 and 2003, the Company had accounts receivable from a related party of $0 and $8,325, respectively. At December 31, 2004 and 2003, the Company had accounts payable to related parties of $10,106 and $0, respectively.

*Lease of Office Space*

The Company has a seven-year lease agreement with a shareholder for its office facilities, which expires in April 2009. The Company entered into a stock in lieu of rent agreement for fifteen months of the lease in which the landlord received shares of stock in lieu of rent income (see Note 10). Therefore, the lease obligation for 2003 was settled with stock instead of cash. The Company was engaged in a consulting agreement with this shareholder that expired December 31, 2003. Consulting fees for the year ended December 31, 2003 was $9,000.

(continued on next page)

The total minimum rental commitment at December 31, 2004 under the above lease is as follows:

| | | |
|---|---|---|
| 2005 | $ | 54,980 |
| 2006 | | 56,280 |
| 2007 | | 57,580 |
| 2008 | | 58,880 |
| 2009 | | 18,240 |
| | $ | 245,960 |

The total rent expense included in the statements of income for the years ended December 31, 2004 and 2003 was $56,950 and $67,320, respectively.

## NOTE 10 - STOCK IN LIEU OF RENT

During the year ended December 31, 2002, the Company entered into an agreement in which 28,061 shares of common stock would be issued in lieu of fifteen months of rent at a value of $84,150. The stock was issued in January 2003. Three months of rent was expensed in 2002 in the amount of $16,830 and a stock subscription receivable of $67,320 was recorded at December 31, 2002, for the rent that was expensed in 2003.

## NOTE 11 - SUBSEQUENT EVENT

Subsequent to year end, the Company's outstanding note balance with Jet (see Note 5) had increased to $2,770,150.

## NOTE 12 - PRO FORMA BALANCE SHEET (UNAUDITED)

The pro forma balance sheet is presented to show the direct and significant effects on historical information had a pending transaction occurred prior to December 31, 2004. Subsequent to year end, the Company and Jet are in the process of restructuring their note payable agreement in that the Company will convert the debt to equity by issuing Jet one share of $3,000,000 preferred stock. Dividends will accrue at 12% per annum and will be paid quarterly. At the Company's option, the preferred stock can be redeemed and the Company shall issue common stock to Jet which the number of shares issued shall represent no less than ten (10) percent of the then issued and outstanding shares of common stock of the Company. This transaction, once completed, will eliminate the long term note and related interest payable to Jet (see Note 5), reduce the additional paid in capital – warrants (see Note 8) and add preferred stock. In addition, the transaction, once completed, will revoke the Company's Subchapter S election, which provides that, in lieu of corporation income taxes, the shareholders separately account for the Company's items of income, deductions, losses and credits on their personal returns. As a result the Company will then pay taxes at the corporate level. Due to previous losses, no tax liability or deferred taxes have been recognized in the accompanying pro-forma balance sheet. Because the transaction will occur between related parties, no gain will be recorded on the restructuring. The pro-forma balance sheet should be read in conjunction with the related historical information and the pro forma balance sheet is not necessarily indicative of the results that would have been attained if the transaction or event had actually taken place during the period depicted.

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