## EXHIBIT H

## FINANCIAL STATEMENTS

Exhibit H includes financial statements for the year ended August 31, 2006, August 31, 2005, and August 31, 2004.

KPMG

# GEEKS ON CALL AMERICA, INC.

Financial Statements

August 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

**GEEKS ON CALL AMERICA, INC.**

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KPMG

**KPMG LLP**
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

## Independent Auditors' Report

The Board of Directors
Geeks on Call America, Inc.:

We have audited the accompanying balance sheets of Geeks on Call America, Inc. (a Virginia corporation) (the Company) as of August 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 Geeks on Call America, Inc. as of August 31, 2006 and 2005, 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.

KPMG LLP

December 20, 2006

**GEEKS ON CALL AMERICA, INC.**

Balance Sheets

August 31, 2006 and 2005

| Assets (Note 7) | | 2006 | 2005 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 667,856 | 1,128,034 |
| Accounts receivable, net of allowance for doubtful accounts of $13,031 and $0 in 2006 and 2005, respectively | | 253,456 | 187,821 |
| Notes receivable, current portion | | 17,822 | 50,893 |
| Investments | | 43,239 | 41,180 |
| Inventory | | 86,820 | 58,050 |
| Prepaid expenses | | 115,586 | 107,068 |
| Total current assets | | 1,184,779 | 1,573,046 |
| Property and equipment, net (notes 2 and 4) | | 591,475 | 471,834 |
| Notes receivable, excluding current portion | | 33,694 | 28,046 |
| Other assets | | 11,341 | 15,043 |
| Total assets | $ | 1,821,289 | 2,087,969 |
| **Liabilities and Stockholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 508,750 | 407,790 |
| Line of credit (note 7) | | 200,000 | |
| Accrued liabilities | | 93,047 | 217,184 |
| Obligation under capital lease, current portion (note 4) | | 61,082 | — |
| Deferred franchise and initial advertising fees | | 204,301 | 314,580 |
| Total current liabilities | | 1,067,180 | 939,554 |
| Long-term liabilities: | | | |
| Obligation under capital lease, excluding current portion (note 4) | | 100,645 | — |
| Deferred rent expense | | 35,061 | 26,044 |
| Total liabilities | | 1,202,886 | 965,598 |
| Stockholders' equity (note 5): | | | |
| Preferred stock Class B, no par value. Authorized, 167,130 shares, issued and outstanding at August 31, 2006 and 2005, 160,404 and 167,130 shares, respectively | | 1,979,661 | 1,948,361 |
| Preferred stock Class C, no par value. Authorized 128,870 shares; issued and outstanding at August 31, 2006 and 2005, 119,784 and 0 shares, respectively | | 674,212 | — |
| Preferred stock Class D, no par value. Authorized 179,860 shares; issued and outstanding at August 31, 2006, 0 shares | | — | — |
| Common stock, no par value. Authorized 5,000,000 shares; issued and outstanding at August 31, 2006 and 2005, 2,222,786 shares and 2,182,752 shares, respectively | | — | — |
| Additional paid-in capital | | 1,841,535 | 1,405,271 |
| Accumulated deficit | | (3,877,005) | (2,231,261) |
| Total stockholders' equity | | 618,403 | 1,122,371 |
| Commitments, contingencies and subsequent events (notes 4, 5, 6 and 7) | | | |
| Total liabilities and stockholders' equity | $ | 1,821,289 | 2,087,969 |

See accompanying notes to financial statements.

**GEEKS ON CALL AMERICA, INC.**

Statements of Operations

Years ended August 31, 2006 and 2005

| | | 2006 | 2005 |
|---|---|---|---|
| Revenues: | | | |
| Franchise, area developer, and initial advertising fees | $ | 1,655,899 | 4,507,920 |
| Royalties and advertising fees | | 6,203,505 | 4,603,387 |
| Other | | 222,979 | 323,125 |
| Total revenue | | 8,082,383 | 9,434,432 |
| Operations: | | | |
| Advertising expenses | | 4,753,415 | 4,556,004 |
| General and administrative and other expenses | | 4,806,243 | 4,898,935 |
| Loss from operations | | (1,477,275) | (20,507) |
| Other income, net | | 15,913 | 23,581 |
| Income (loss) before income taxes | | (1,461,362) | 3,074 |
| Income taxes (note 3) | | — | — |
| Net income (loss) | | (1,461,362) | 3,074 |
| Preferred dividend | | 184,382 | 180,000 |
| Net income available to common shareholders | $ | (1,645,744) | (176,926) |

See accompanying notes to financial statements.

# GEEKS ON CALL AMERICA, INC.

Statements of Changes in Stockholders' Equity

Years ended August 31, 2006 and 2005

| | Common stock | | Preferred stock, Class A | | Preferred stock, Class B | | Preferred stock, Class C | | Additional | Accumulated | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | paid-in capital | deficit | Total |
| Balance at August 31, 2004 | 2,174,853 | $ — | — | $ — | 167,130 | $ 1,768,361 | — | $ — | 1,376,308 | (2,054,335) | 1,090,334 |
| Grant of common stock to employees | 7,899 | — | — | — | — | — | — | — | 28,963 | — | 28,963 |
| Preferred stock dividend | — | — | — | — | — | 180,000 | — | — | — | (180,000) | — |
| Net income | — | — | — | — | — | — | — | — | — | 3,074 | 3,074 |
| Balance at August 31, 2005 | 2,182,752 | — | — | — | 167,130 | 1,948,361 | — | — | 1,405,271 | (2,231,261) | 1,122,371 |
| Grant of common stock to employees | 3,524 | — | — | — | — | — | — | — | 35,244 | — | 35,244 |
| Sale of common and preferred stock | 43,500 | — | — | — | — | — | 119,784 | 666,000 | 415,000 | — | 1,081,000 |
| Preferred stock dividend | — | — | — | — | — | 176,170 | — | 8,212 | — | (184,382) | — |
| Redemption of common and preferred stock | (6,990) | — | — | — | (6,726) | (144,870) | — | — | (13,980) | — | (158,850) |
| Net loss | — | — | — | — | — | — | — | — | — | (1,461,362) | (1,461,362) |
| Balance at August 31, 2006 | 2,222,786 | $ — | — | $ — | 160,404 | $ 1,979,661 | 119,784 | $ 674,212 | 1,841,535 | (3,877,005) | 618,403 |

See accompanying notes to financial statements.

## GEEKS ON CALL AMERICA, INC.

Statements of Cash Flows

Years ended August 31, 2006 and 2005

| | | 2006 | 2005 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net (loss) income | $ | (1,461,362) | 3,074 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | | 194,018 | 152,605 |
| Compensation expense for stock granted to employees | | 35,244 | 28,963 |
| Loss on sale of property and equipment | | 3,750 | — |
| Changes in assets and liabilities increasing (decreasing) cash flows from operating activities: | | | |
| Accounts receivable | | (65,635) | 13,313 |
| Inventory | | (28,770) | (9,234) |
| Prepaid expense | | (8,518) | (50,631) |
| Other assets | | 3,702 | — |
| Accounts payable | | 100,960 | (175,274) |
| Accrued liabilities | | (124,137) | 144,421 |
| Deferred rent expense | | 9,017 | 26,044 |
| Deferred franchise fees | | (110,279) | 40,080 |
| Net cash (used in) provided by operating activities | | (1,452,010) | 173,361 |
| Cash flows from investing activities: | | | |
| Issuance of loans to franchisees and others | | (5,648) | (5,000) |
| Repayment of loans by franchisees and others | | 33,071 | 62,976 |
| Purchase of investments | | (2,059) | (1,958) |
| Proceeds from the sale of investments | | — | 501,435 |
| Purchases of property and equipment | | (125,142) | (225,537) |
| Net cash (used in) provided by investing activities | | (99,778) | 331,916 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of preferred stock | | 415,000 | — |
| Redemption of common and preferred stock | | (158,850) | — |
| Repayment of capital lease obligations | | (30,540) | |
| Borrowings on line of credit | | 200,000 | — |
| Proceeds from issuance of preferred stock, net | | 666,000 | — |
| Net cash provided by financing activities | | 1,091,610 | — |
| Net (decrease) increase in cash and cash equivalents | | (460,178) | 505,277 |
| Cash and cash equivalents, beginning of year | | 1,128,034 | 622,757 |
| Cash and cash equivalents, end of year | $ | 667,856 | 1,128,034 |
| Supplemental disclosure of cash flow information - Cash paid for interest | $ | 4,704 | — |
| Supplemental disclosure of noncash investing activity - Equipment acquired under capital lease | $ | 192,267 | — |

See accompanying notes to financial statements.

## (1) Organization and Significant Accounting Policies

### *(a) Organization*

Geeks on Call America, Inc. (a Virginia corporation) (the Company) is a franchisor of computer training and support franchises throughout the United States. The Company has franchises in 22 states and 21 states at August 31, 2006 and 2005, respectively.

### *(b) Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents amounted to $667,856 and $616,194 at August 31, 2006 and 2005, respectively.

### *(c) Investments*

The Company determines the appropriate classification of marketable debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At August 31, 2006 and 2005, the Company's investments consist of certificates of deposit classified as held-to-maturity and are carried at their face value, which is equivalent to their fair value.

### *(d) Accounts Receivable*

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts includes the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management estimates the allowance for doubtful accounts based upon specific identification of potential uncollectible accounts. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its accounts receivable.

### *(e) Notes Receivable*

Notes receivable are recorded at cost, less allowance for doubtful accounts, if required. The repayment of the notes receivable is dependent on the performance of the underlying franchises that collateralize the note. An allowance, if required, is estimated based on a comparison of amounts due to the estimated fair value of the underlying franchise.

At August 31, 2006 and 2005, notes receivable primarily relate to bridge loans offered to the franchise during the time in which the franchise is establishing their permanent financing with a third-party lender. Notes receivable bear interest at 9% based on the balance outstanding and are recorded at face value. Interest is recognized over the life of the note.

### *(f) Inventory*

Inventory consists of marketing and promotional materials and business forms for sale to franchisees. Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis (FIFO).

(g) ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are depreciated over the shorter of the life of the lease or seven years. Property and equipment are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Office furniture and equipment | 10 years |
| Computer equipment | 5 years |
| Vehicles | 5 years |
| Software | 3 years |

(h) ***Impairment of Long-Lived Assets***

The Company reviews its long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(i) ***Advertising***

The Company expenses advertising costs as they are incurred.

(j) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) ***Deferred Franchise Fees***

The Company may receive all or part of the initial franchise or advertising fee prior to the execution of the franchise agreement or completion of the earnings process. These amounts are classified as deferred revenue until the fee qualifies to be recognized as revenue or is refunded.

(l) ***Revenue Recognition***

Franchise fee revenue is recognized when obligations of the Company to prepare the franchisee for operation have been substantially completed. Area developer sales, wherein the Company sells the rights to develop a territory or market, are nonrefundable fees recognized upon signature of the Area Development Agreement and substantial completion of all obligations associated with the opening of the first franchise under the agreement. Initial advertising fees are recognized when the territory is open and the related advertising has been performed. Ongoing royalties and advertising fees are recognized currently as the franchised territory generates sales and ongoing advertising is performed.

***(m) Restricted Stock Awards***

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its restricted stock awards. As such, compensation expense is recorded over the vesting period based on the estimated fair value of the shares at the measurement date. Financial Accounting Standards Board Statement No. 123 (Statement 123), *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by Statement 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure only requirements of Statement 123. There is no pro forma impact on net income for any of the periods presented.

***(n) Use of Estimates***

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## (2) Property and Equipment

Property and equipment consisted of the following as of August 31, 2006 and 2005:

| | | 2006 | 2005 |
|---|---|---|---|
| Office furniture and equipment | $ | 346,208 | 143,980 |
| Computer equipment | | 352,204 | 255,271 |
| Leasehold improvements | | 51,267 | 39,672 |
| Software | | 260,044 | 259,257 |
| Vehicles | | 60,885 | 77,638 |
| Property and equipment | | 1,070,608 | 775,818 |
| Less accumulated depreciation and amortization | | (479,133) | (303,984) |
| Property and equipment, net | $ | 591,475 | 471,834 |

## (3) Income Taxes

The provision (benefit) for income taxes differs from amounts computed by applying statutory tax rates to loss before income taxes primarily due to state income taxes, net of federal income tax benefits, nondeductible meals and entertainment expenses, and the change in valuation allowance.



(Continued)

Cumulative deferred tax assets (liabilities) at August 31, 2006 and 2005 are comprised of the following:

| | 2006 | 2005 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss and contribution carryforwards | $ 1,260,000 | 726,000 |
| Other | 12,000 | 4,000 |
| Total gross deferred tax assets | 1,272,000 | 730,000 |
| Less valuation allowance | (1,245,000) | (697,000) |
| | 27,000 | 33,000 |
| Deferred tax liability: | | |
| Property, plant and equipment, due to differences in depreciation and amortization | (27,000) | (33,000) |
| | $ — | — |

As of August 31, 2006, the Company has generated net operating loss carryforwards of approximately $3.3 million that will expire in the following years: $652,000 in 2021, $455,000 in 2022, $805,000 in 2023, and $1.4 million in 2024.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the Company's historical losses, management cannot assert that it is more likely than not that the net deferred tax assets at August 31, 2006 and 2005 will be realized. Accordingly, the Company provided a full valuation allowance against its net deferred tax assets at August 31, 2006 and 2005.

## (4) Leases

The Company leases its office facilities under an operating lease that expires November 30, 2012. The Company also leases office equipment under operating leases expiring at various dates through 2007. Future minimum leases as of August 31, 2006 are as follows:

| | Amount |
|---|---|
| Year ending August 31: | |
| 2007 | $ 168,692 |
| 2008 | 167,848 |
| 2009 | 172,345 |
| 2010 | 177,510 |
| 2011 | 182,839 |
| Thereafter | 236,462 |
| Total minimum lease payments | $ 1,105,696 |

Rent expense amounted to $171,302 and $143,521 for the years ended August 31, 2006 and 2005, respectively.

The Company leases certain equipment under capital lease. The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of August 31, 2006:

| | | Amount |
|---|---|---|
| Year ending August 31: | | |
| 2007 | $ | 61,082 |
| 2008 | | 61,082 |
| 2009 | | 61,082 |
| Total minimum lease payments | | 183,246 |
| Less amount representing interest | | (21,519) |
| Present value of minimum lease payments | | 161,727 |
| Less current portion | | (61,082) |
| Obligation under capital lease, excluding current portion | $ | 100,645 |

The cost and accumulated amortization of capital leased assets was $192,267 and $9,503, respectively, at August 31, 2006. No assets were held under capital lease in 2005. Amortization expense is included in depreciation and amortization.

## (5) Stockholders' Equity

### (a) *Preferred Stock and Exchangeable Shares*

The Company has four authorized classes of preferred stock: Class A has 200,000 authorized shares, Class B has 167,130 authorized shares, Class C has 128,870 authorized shares, and Class D has 179,860 shares. All classes have no par value.

Class A preferred stock does not carry voting rights. The shares are redeemable upon demand at the original purchase price plus any accrued dividends. Each share is convertible by the shareholder for one share of common stock after a holding period of one year. Effective May 6, 2004, all outstanding shares of Class A preferred stock were converted to shares of common stock.

Class B preferred stock carries voting rights and is entitled to receive, when and as declared by the board of directors, cumulative annual dividends at the annual rate of $1.08 per share which will accumulate and accrue from day to day thereafter, whether or not earned or declared. Unless full dividends on the Class B preferred stock for all past and current dividend periods have been paid or declared, no dividends other than a dividend payable solely in common stock will be paid or declared by the Company. The Company also cannot sell, redeem or acquire shares of common stock or Class A preferred stock unless all dividends of Class B preferred stock have been paid or declared. The Class B preferred stock has a liquidation value of $1,800,000 plus any accrued and unpaid dividends ($429,156 at August 31, 2006).

All, but not less than all, of the Series B preferred stock will be convertible, at the option of the holders, at any time into fully paid and nonassessable shares of the common stock at a price of $5.56 per share.

Holders of the Class B preferred stock can require the Company to repurchase the shares commencing five years from the date of issue at the market value of the Company multiplied by the put fraction. The put fraction numerator is the number of shares of common stock the Series B preferred stock is convertible to, and the denominator is the sum of these shares plus the then outstanding common stock.

Class C preferred stock carries voting rights and is entitled to receive, when and as declared by the Board of Directors, cumulative annual dividends at the annual rate of $0.56 per share, which will accumulate and accrue from day to day thereafter, whether or not earned or declared. Unless full dividends on the Class C preferred stock for all past and current dividend periods have been paid or declared, no dividends other than a dividend payable solely in common stock will be paid or declared by the Company. The Company also cannot sell, redeem or acquire shares of common stock unless all dividends of Class C preferred stock have been paid or declared. The Class C preferred stock has a liquidation value of $716,517 plus any accrued and unpaid dividends ($8,212 at August 31, 2006).

All, but not less than all, of the Series C preferred stock will be convertible, at the option of the holders, at any time into fully paid and nonassessable shares of the common stock at a price of $5.56 per share.

Holders of the Class C preferred stock can require the Company to repurchase the shares commencing five years from the date of issue at the market value of the Company multiplied by the put fraction. The put fraction numerator is the number of shares of common stock the Series C preferred stock is convertible to, and the denominator is the sum of these shares plus the then outstanding common stock.

Class D preferred stock carries voting rights and is entitled to receive, when and as declared by the board of directors, cumulative annual dividends at the annual rate of $0.56 per share, which will accumulate and accrue from day to day thereafter, whether or not earned or declared. Unless full dividends on the Class D preferred stock for all past and current dividend periods have been paid or declared, no dividends other than a dividend payable solely in common stock will be paid or declared by the Company. The Company also cannot sell, redeem or acquire shares of common stock or Class A preferred stock unless all dividends of Class D preferred stock have been paid or declared. At August 31, 2006, there were no Class D shares issued and outstanding. Subsequent to August 31, 2006, the Company sold 73,741 shares for $410,000.

***(b)*** ***Restricted Stock Awards***

Since 2002, 166,800 shares of common stock have been awarded under restricted stock award plans. All of the shares issued in 2002 and 2003 were fully vested at the date of grant. In 2004, the Company granted 29,700 restricted shares to employees, which vest over a four-year period. Additionally, the 2004 plan gives the Company the option to repurchase the shares related to any employee terminated within the first two years of the grant. As a result, the number of shares was not fixed at grant date and final measurement did not occur until the repurchase period expired in 2006. The Company repurchased 6,990 shares under this arrangement in 2006. Since inception, 8,811 shares of the 2004 grant have been forfeited. Compensation expense recorded for the year ended August 31, 2006, related to the 2004 restricted stock award was $35,244, based on an estimated $10 per share value of common stock and 26.7% vesting during the year. Compensation expense recorded for the year ended August 31, 2005, related to the 2004 restricted stock award was $28,963, based on an estimated $11 per share value of common stock and 26.6% vesting in the second year of the award.

*(c) Stock Dividend*

In December 2005, the Board of Directors declared a share dividend to all common shareholders so that two common shares of the Company were issued to such common shareholders in addition to each one common share currently held. All prior year amounts have been retroactively adjusted to reflect the stock dividend.

**(6) Commitments and Contingencies**

The Company has guaranteed borrowings of two franchises with third parties that provided financing to purchase a franchise. Under the arrangements, which were entered into in 2001, the Company would be required to perform in the event of nonpayment by the franchisees to the third parties. Management does not expect to be required to perform under the guarantee as the franchises have been in compliance with the terms of the agreement. Outstanding debt related to these guarantees total $2,127 and $28,300 as of August 31, 2006 and 2005, respectively. The underlying debt is expected to be fully repaid in 2007. The Company does not hold any assets as collateral that could be liquidated, nor do they have recourse provisions that would enable them to recover any amounts paid under the guarantee agreement.

**(7) Line of Credit**

In June 2005, the Company obtained a line of credit with a financial institution, which allows for borrowings up to $200,000 and accrues interest at prime plus 0.5%. The line is collateralized by inventory, accounts, equipment, and instruments of the Company and does not have an expiration. There was $200,000 borrowed against the line at August 31, 2006. The line does not contain any financial covenants.

The Company increased the amount of the line of credit to $700,000 on October 13, 2006.

KPMG

**GEEKS ON CALL AMERICA, INC.**

Financial Statements

August 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

**GEEKS ON CALL AMERICA, INC.**

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KPMG

**KPMG LLP**
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

## Independent Auditors' Report

The Board of Directors
Geeks on Call America, Inc.:

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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 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 Geeks on Call America, Inc. as of August 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.

KPMG LLP

November 8, 2005

**GEEKS ON CALL AMERICA, INC.**

Balance Sheets

August 31, 2005 and 2004

| **Assets** | | 2005 | 2004 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 1,128,034 | 622,757 |
| Short-term investments | | — | 501,435 |
| Accounts receivable, net of allowance for doubtful accounts of $0 and $20,000 in 2005 and 2004, respectively, | | 187,821 | 201,134 |
| Notes receivable, current portion | | 50,893 | 67,890 |
| Inventory | | 58,050 | 48,816 |
| Prepaid expenses | | 107,068 | 56,437 |
| Total current assets | | 1,531,866 | 1,498,469 |
| Property and equipment, net (note 2) | | 471,834 | 400,695 |
| Notes receivable, excluding current portion | | 28,046 | 69,025 |
| Investments | | 41,180 | 39,222 |
| Other assets | | 15,043 | 13,250 |
| Total assets | $ | 2,087,969 | 2,020,661 |
| **Liabilities and Stockholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 407,790 | 583,064 |
| Accrued liabilities | | 217,184 | 72,763 |
| Deferred franchise and initial advertising fees | | 314,580 | 274,500 |
| Total current liabilities | | 939,554 | 930,327 |
| Long-term liabilities - | | | |
| Deferred rent expense | | 26,044 | — |
| Total liabilities | | 965,598 | 930,327 |
| Stockholders' equity (note 5): | | | |
| Preferred stock, no par value. Authorized, issued and outstanding 167,130 shares | | 1,948,361 | 1,768,361 |
| Common stock, no par value. Authorized 1,700,000 shares; issued and outstanding at August 31, 2005 and 2004, 727,584 shares and 724,951 shares, respectively | | — | — |
| Additional paid in capital | | 1,405,271 | 1,376,308 |
| Accumulated deficit | | (2,231,261) | (2,054,335) |
| Total stockholders' equity | | 1,122,371 | 1,090,334 |
| Commitments and contingencies (notes 4 and 6) | | | |
| Total liabilities and stockholders' equity | $ | 2,087,969 | 2,020,661 |

See accompanying notes to financial statements.

**GEEKS ON CALL AMERICA, INC.**

Statements of Operations

Years ended August 31, 2005 and 2004

| | | 2005 | 2004 |
|---|---|---|---|
| Revenues: | | | |
| Franchise, area developer, and initial advertising fees | $ | 4,507,920 | 3,039,542 |
| Royalties and advertising fees | | 4,603,387 | 2,348,867 |
| Other | | 323,125 | 218,189 |
| Total revenue | | 9,434,432 | 5,606,598 |
| Operations: | | | |
| Advertising expenses | | 4,556,004 | 3,296,371 |
| General and administrative and other expenses | | 4,898,935 | 3,057,212 |
| Loss from operations | | (20,507) | (746,985) |
| Legal settlement | | — | (100,000) |
| Other income, net | | 23,581 | 3,179 |
| Income (loss) before income taxes | | 3,074 | (843,806) |
| Income taxes (note 3) | | — | — |
| Net income (loss) | | 3,074 | (843,806) |
| Preferred dividend | | 180,000 | 72,986 |
| Net income available to common shareholders | $ | (176,926) | (916,792) |

See accompanying notes to financial statements.

# GEEKS ON CALL AMERICA, INC.

Statements of Stockholders' Equity

Years ended August 31, 2005 and 2004

| | Common stock | | Preferred stock, Class A | | Preferred Stock, Class B | | Additional | Accumulated | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | paid-in capital | deficit | Total |
| Balance at September 1, 2003 | 720,562 | $ — | 4,000 | $ 40,000 | — | $ — | 1,323,093 | (1,137,543) | 225,550 |
| Common stock issued | 7,409 | — | — | — | — | — | 81,500 | — | 81,500 |
| Grant of common stock to employees | 1,980 | — | — | — | — | — | 21,715 | — | 21,715 |
| Issuance of preferred stock, net of issuance costs of $104,625 | — | — | — | — | 167,130 | 1,695,375 | — | — | 1,695,375 |
| Conversion of preferred stock to common stock | 4,000 | — | (4,000) | (40,000) | — | — | 40,000 | — | — |
| Retirement of common stock | (9,000) | — | — | — | — | — | (90,000) | — | (90,000) |
| Preferred stock dividend | — | — | — | — | — | 72,986 | — | (72,986) | — |
| Net loss | — | — | — | — | — | — | — | (843,806) | (843,806) |
| Balance at August 31, 2004 | 724,951 | — | — | — | 167,130 | 1,768,361 | 1,376,308 | (2,054,335) | 1,090,334 |
| Grant of common stock to employees | 2,633 | — | — | — | — | — | 28,963 | — | 28,963 |
| Preferred stock dividend | — | — | — | — | — | 180,000 | — | (180,000) | — |
| Net income | — | — | — | — | — | — | — | 3,074 | 3,074 |
| Balance at August 31, 2005 | 727,584 | $ — | — | $ — | 167,130 | $ 1,948,361 | 1,405,271 | (2,231,261) | 1,122,371 |

See accompanying notes to financial statements.

## GEEKS ON CALL AMERICA, INC.

Statements of Cash Flows

Years ended August 31, 2005 and 2004

| | | 2005 | 2004 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ | 3,074 | (843,806) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | | 152,605 | 136,065 |
| Compensation expense for stock granted to employees | | 28,963 | 21,715 |
| Loss on sale of property and equipment | | — | 15,723 |
| Changes in assets and liabilities increasing (decreasing) cash flows from operating activities: | | | |
| Accounts receivable | | 13,313 | 165,942 |
| Inventory | | (9,234) | (25,471) |
| Prepaid expense | | (50,631) | (13,722) |
| Accounts payable | | (175,274) | 406,357 |
| Accrued liabilities | | 144,421 | 54,254 |
| Deferred rent expense | | 26,044 | |
| Deferred franchise fees | | 40,080 | (175,764) |
| Net cash provided by (used in) operating activities | | 173,361 | (258,707) |
| Cash flows from investing activities: | | | |
| Issuance of loans to franchisees and others | | (5,000) | (96,858) |
| Repayment of loans by franchisees and others | | 62,976 | — |
| Purchase of investments | | (1,958) | (540,657) |
| Proceeds from the sale of investments | | 501,435 | — |
| Proceeds from sale of property and equipment | | — | 12,000 |
| Purchases of property and equipment | | (225,537) | (308,672) |
| Net cash provided by (used in) investing activities | | 331,916 | (934,187) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | | — | 81,500 |
| Redemption of common stock | | — | (90,000) |
| Proceeds from issuance of preferred stock, net | | — | 1,695,375 |
| Principal payments on long-term debt | | — | (112,884) |
| Net cash provided by financing activities | | — | 1,573,991 |
| Net increase in cash and cash equivalents | | 505,277 | 381,097 |
| Cash and cash equivalents, beginning of year | | 622,757 | 241,660 |
| Cash and cash equivalents, end of year | $ | 1,128,034 | 622,757 |
| Supplemental disclosure of cash flow information - Cash paid for interest | $ | — | 9,089 |

Supplemental disclosure of noncash transaction -
As of May 6, 2004, the Company converted 4,000 shares of preferred stock to 4,000 common shares.

See accompanying notes to financial statements.

## (1) Organization and Significant Accounting Policies

### *(a) Organization*

Geeks on Call America, Inc. (a Virginia corporation) (the Company) is a franchisor of computer training and support franchises throughout the United States. The Company has franchises in 21 states and 13 states at August 31, 2005 and 2004, respectively.

### *(b) Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents amounted to $616,194 and $300,562 at August 31, 2005 and 2004, respectively.

### *(c) Investments*

The Company determines the appropriate classification of marketable debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At August 31, 2004, the Company's investments consist of certificates of deposit classified as held-to-maturity and are carried at their face value which is equivalent to their fair value.

### *(d) Accounts Receivable*

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts includes the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management estimates the allowance for doubtful accounts based upon specific identification of potential uncollectible accounts. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its accounts receivable.

### *(e) Notes Receivable*

Notes receivable are recorded at cost, less allowance for doubtful accounts, if required. The repayment of the notes receivable is dependent on the performance of the underlying franchises which collateralize the note. An allowance, if required, is estimated based on a comparison of amounts due to the estimated fair value of the underlying franchise.

At August 31, 2005 and 2004, notes receivable primarily relate to bridge loans offered to the franchise during the time in which the franchise is establishing their permanent financing with a third-party lender. Notes receivable bear interest at 9% based on the balance outstanding and are recorded at face value. Interest is recognized over the life of the note.

### *(f) Inventory*

Inventory consists of marketing and promotional materials and business forms for sale to franchisees. Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis (FIFO).

*(g) Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are depreciated over the shorter of the life of the lease, or seven years. All assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Office furniture and equipment | 10 years |
| Computer equipment | 5 years |
| Vehicles | 5 years |
| Software | 3 years |

*(h) Impairment of Long-Lived Assets*

The Company reviews its long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

*(i) Advertising*

The Company expenses advertising costs as they are incurred.

*(j) Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*(k) Deferred Franchise Fees*

The Company may receive all or part of the initial franchise or advertising fee prior to the execution of the franchise agreement or completion of the earnings process. These amounts are classified as deferred revenue until the fee qualifies to be recognized as revenue or is refunded.

*(l)* ***Revenue Recognition***

Franchise fee revenue is recognized when obligations of the Company to prepare the franchisee for operation have been substantially completed. Area developer sales, wherein the Company sells the rights to develop a territory or market, are non-refundable fees recognized upon signature of the Area Development Agreement and substantial completion of all obligations associated with the opening of the first franchise under the agreement. Initial advertising fees are recognized when the territory is open and the related advertising has been performed. Ongoing royalties and advertising fees are recognized currently as the franchised territory generates sales and ongoing advertising is performed.

*(m)* ***Restricted Stock Awards***

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its restricted stock awards. As such, compensation expense is recorded over the vesting period based on the estimated fair value of the shares at the measurement date. Financial Accounting Standards Board Statement No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by Statement 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure only requirements of Statement 123. There is no pro forma impact on net income as presented.

*(n)* ***Use of Estimates***

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**(2) Property and Equipment**

Property and equipment consisted of the following as of August 31, 2005 and 2004:

| | | 2005 | 2004 |
|---|---|---|---|
| Office furniture and equipment | $ | 143,980 | 81,157 |
| Computer equipment | | 255,271 | 151,901 |
| Leasehold improvements | | 39,672 | 12,145 |
| Software | | 259,257 | 227,434 |
| Vehicles | | 77,638 | 77,645 |
| Property and equipment | | 775,818 | 550,282 |
| Less accumulated depreciation and amortization | | (303,984) | (149,587) |
| Property and equipment, net | $ | 471,834 | 400,695 |

## GEEKS ON CALL AMERICA, INC.

Notes to Financial Statements

August 31, 2005 and 2004

### (3) Income Taxes

The provision (benefit) for income taxes differs from amounts computed by applying statutory tax rates to loss before income taxes primarily due to state income taxes, net of federal income tax benefits, nondeductible meals and entertainment expenses, and the change in valuation allowance.

Cumulative deferred tax assets (liabilities) at August 31, 2005 and 2004 are comprised of the following:

| | | 2005 | 2004 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Trade accounts receivable, due to allowance for doubtful accounts | $ | — | 8,000 |
| Net operating loss and contribution carryforwards | | 726,000 | 733,000 |
| Other | | 4,000 | 7,000 |
| Total gross deferred tax assets | | 730,000 | 748,000 |
| Less valuation allowance | | (697,000) | (715,000) |
| | | 33,000 | 33,000 |
| Deferred tax liability - | | | |
| Property, plant and equipment, due to differences in depreciation and amortization | | (33,000) | (33,000) |
| Net deferred tax asset | $ | — | — |

As of August 31, 2005, the Company has generated net operating loss carryforwards of approximately $1,912,000 that will expire in the following years $652,000 in 2021, $455,000 in 2022, and $805,000 in 2023.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the Company's historical losses, management cannot assert that the net deferred tax assets at August 31, 2005 and 2004 will be realized. Accordingly, the Company provided a full valuation allowance against its net deferred tax assets at August 31, 2005 and 2004.

## (4) Leases

The Company leases its office facilities under an operating lease that expires November 30, 2012. The Company also leases office equipment under operating leases expiring at various dates through 2007. Future minimum leases as of August 31, 2005 are as follows:

| | | Amount |
|---|---|---|
| Year ending August 31: | | |
| 2006 | $ | 158,069 |
| 2007 | | 164,347 |
| 2008 | | 162,850 |
| 2009 | | 167,735 |
| 2010 | | 172,767 |
| Thereafter | | 397,948 |
| Total minimum lease payments | $ | 1,223,716 |

Rent expense amounted to $143,521 and $90,226 for the years ended August 31, 2005 and 2004, respectively.

## (5) Stockholders' Equity

### *(a) Preferred Stock and Exchangeable Shares*

The Company has two authorized classes of preferred stock: Class A has 200,000 authorized shares and Class B has 167,130 authorized shares. Both classes have no par value.

Class A preferred stock does not carry voting rights. The shares are redeemable upon demand at the original purchase price plus any accrued dividends. Each share is convertible by the shareholder for one share of common stock after a holding period of one year. Effective May 6, 2004, all 4,000 outstanding shares of Class A preferred stock were converted to 4,000 shares of common stock.

Class B preferred stock carries voting rights and is entitled to receive, when and as declared by the Board of Directors, cumulative annual dividends at the annual rate of $1.08 per share which will accumulate and accrue from day to day thereafter, whether or not earned or declared. Unless full dividends on the Class B preferred stock for all past and current dividend periods have been paid or declared, no dividends other than a dividend payable solely in common stock will be paid or declared by the Company. The Company also cannot sell, redeem or acquire shares of common stock or Class A preferred stock unless all dividends of Class B preferred stock have been paid or declared. The Class B preferred stock has a liquidation value of $1,800,000 plus any accrued and unpaid dividends ($252,986 at August 31, 2005).

All, but not less than all, of the Series B preferred stock will be convertible, at the option of the holders, at any time into fully paid and non-assessable shares of the common stock at a price of $10.77 per share.

Holders of the Class B preferred stock can require the Company to repurchase the shares commencing five years from the date of issue at the market value of the Company multiplied by the put fraction. The put fraction numerator is the number of shares of common stock the Series B preferred stock is convertible to, and the denominator is the sum of these shares plus the then outstanding common stock.

In August 2005, an investment group including certain officers and directors of the Company purchased all of the class B preferred stock from the current holder for $3,600,000. The transaction is expected to be funded on or before November 5, 2005.

*(b)* ***Restricted Stock Awards***

Since 2002, 55,600 shares of common stock have been awarded under restricted stock award plans. All of the shares issued in 2002 and 2003 were fully vested at the date of grant. In 2004, the Company granted 9,900 restricted shares to employees, which vest over a four-year period. Additionally, the 2004 plan gives the Company the option to repurchase the shares related to any employee terminated within the first two years of the grant. As a result, the number of shares is not fixed at grant date and measurement must occur when the number of shares becomes fixed. Compensation expense recorded for the year ended August 31, 2005, related to the 2004 restricted stock award was $28,963, based on an estimated $11 per share value of common stock and 26.6% vesting in the second year of the award. Compensation expense recorded for the year ended August 31, 2004, related to the 2004 restricted stock award was $21,715, based on an estimated $11.00 per share value of common stock and 20% vesting for the first year of the award.

**(6) Commitments and contingencies**

The Company has guaranteed borrowings of two franchises with third parties that provide financing to purchase a franchise. Under the arrangements, which were entered into in 2001, the Company would be required to perform in the event of nonpayment by the franchisees to the third parties. Guaranteed borrowings total $87,500. Management does not expect to be required to perform under the guarantee as the franchises have been in compliance with the terms of the agreement. Outstanding debt related to these guarantees total $28,300 and $46,600 as of August 31, 2005 and 2004, respectively. The underlying debt is expected to be fully repaid in 2008. The Company does not hold any assets as collateral that could be liquidated, nor do they have recourse provisions that would enable them to recover any amounts paid under the guarantee agreement.

**(7) Line of Credit**

In June 2005, the Company obtained a line of credit with a financial institution, which allows for borrowings up to $200,000 and accrues interest at prime plus 0.5%. The line is collateralized by inventory, accounts, equipment, and instruments of the Company and does not have an expiration. There were no borrowings against the line at August 31, 2005. The line does not contain any financial covenants.