

DIRECT SUCCESS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003



HOULDSWORTH
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AN INDEPENDENT MEMBER OF
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ALLIANCE

DIRECT SUCCESS, INC.
DECEMBER 31, 2004 AND 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Direct Success, Inc.
Costa Mesa, California

We have audited the accompanying balance sheets of Direct Success, Inc. as of December 31, 2004 and 2003, and the related statements of operations, changes in shareholders' 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 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 Direct Success, Inc. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in note 10 to the financial statements, the Company has a deficiency in shareholders' equity that raises substantial doubt about its ability to continue as a going concern. Management's plans are to raise additional equity and this matter is described in note 10. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.



October 19, 2005

DIRECT SUCCESS, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	\$ 359,664	\$ 530,196
Investments	190,000	83,000
Accounts receivable	22,737	120,909
Prepaid expenses	10,000	35,699
Inventory	340,268	286,355
	922,669	1,056,159
PROPERTY AND EQUIPMENT,		
Net of accumulated depreciation	17,404	28,993
INTANGIBLE ASSETS,		
Net of accumulated amortization	62,679	184,943
OTHER ASSETS		
DEPOSITS	46,760	51,829
	39,163	10,349
	\$ 1,088,675	\$ 1,332,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 16,215	\$ 103,996
Accrued expenses	21,362	7,760
Short-term debt	-	2,388
	37,577	114,144
SHAREHOLDERS' EQUITY		
Common stock, no par value; 100 million shares authorized, issued and outstanding were 22,030,937 and 19,919,756 at December 31, 2004 and 2003.	6,790,059	4,947,034
Minority interest in Direct Success LLC#1 and #2	275,000	275,000
Retained earnings	(6,013,961)	(4,003,905)
	1,051,098	1,218,129
	\$ 1,088,675	\$ 1,332,273

See notes to financial statements

DIRECT SUCCESS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
REVENUES	\$ 1,626,384	\$ 1,548,995
COST OF GOODS SOLD	2,017,484	2,192,244
GROSS LOSS	(391,100)	(643,249)
OPERATING EXPENSES		
Professional fees	289,334	110,750
Salaries and wages	574,126	900,787
Amortization and depreciation	347,629	481,173
General and administrative expenses	407,867	610,071
	1,618,956	2,102,781
NET LOSS	\$ (2,010,056)	\$ (2,746,030)

See notes to financial statements

DIRECT SUCCESS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004		2003			
	Common Stock	Minority Interest	Retained Earnings	Common Stock	Minority Interest	Retained Earnings
BALANCE, BEGINNING OF YEAR	\$ 4,947,034	\$ 275,000	\$ (4,003,905)	\$ 1,889,320	\$ 125,000	\$ (1,257,875)
ADDITIONAL STOCK OR INTEREST	1,843,025	-	-	3,057,714	150,000	-
NET LOSS	-	-	(2,010,056)	-	-	(2,746,030)
BALANCE, END OF YEAR	\$ 6,790,059	\$ 275,000	\$ (6,013,961)	\$ 4,947,034	\$ 275,000	\$ (4,003,905)

See notes to financial statements

DIRECT SUCCESS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,010,056)	\$ (2,746,030)
Adjustment to reconcile net income to net cash used by operating activities:		
Depreciation	12,889	8,685
Amortization	334,740	472,488
(Increase) or decrease in current assets:		
Accounts receivable	98,172	(65,266)
Prepaid expenses	25,699	(16,000)
Inventory	(53,913)	(256,536)
Deposits	(28,814)	(9,955)
Other assets	5,069	45,172
Increase or (decrease) in current liabilities:		
Accounts payable	(87,781)	98,116
Accrued expenses	13,592	7,264
Net cash used by operating activities	(1,690,403)	(2,462,062)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in intangible asset	(212,466)	(289,324)
Proceed from investments	-	132,054
Purchase of investments	(107,000)	-
Purchases of equipment	(1,300)	(3,000)
Net cash used by investing activities	(320,766)	(160,270)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of stock	1,843,025	3,057,714
Repayment of short-term debt	(2,388)	(3,385)
Net cash provided by financing activities	1,840,637	3,054,329
NET CHANGE IN CASH	(170,532)	431,997
CASH, BEGINNING OF YEAR	530,196	98,199
CASH, END OF YEAR	\$ 359,664	\$ 530,196

See notes to financial statements

DIRECT SUCCESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER, 31, 2004 AND 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The consolidated financial statements include the accounts of Direct Success, Inc. and its subsidiaries. Direct Success, Inc. (the Company) creates limited liability companies to market products through direct response to television infomercials. The companies obtain the distribution, production, and licensing rights to a product in exchange for royalty agreements based on the sales of the products. The Company sets up the production, marketing and the distribution of the products.

Basis of Consolidation

The consolidated financial statements include the accounts of Direct Success, Inc. and the accounts of its limited liability subsidiaries, Direct Success LLC #1, of which Direct Success, Inc. owns 85%, Direct Success LLC #2, of which Direct Success owns 75%, and Direct Success LLC #3, which is wholly owned by Direct Success, Inc. (collectively referred to as Direct Success, Inc.). The Company consolidated all entities in which it has a controlling interest. All material inter-company transactions have been eliminated.

Property, Equipment and Depreciation

Property and equipment has been stated at cost. Depreciation is provided on an accelerated double-declining balance method over the estimated useful lives of the assets.

Use of Estimates

Timely preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts, some of which may require revision in future periods.

Inventory

Inventory is valued on the cost basis, and accounted for on a first-in-first-out or FIFO basis.

Income Taxes

Direct Success, Inc. is currently being taxed as a C corporation under the IRS code. LLC #2 and LLC #3 have elected to be taxed as partnerships under the IRS code.

NOTE 2. INVESTMENTS

The Company holds an investment of \$190,000 in a closely held company. The investment is carried at cost given there is no ready market for this investment.

DIRECT SUCCESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER, 31, 2004 AND 2003

NOTE 3. LICENSING AGREEMENTS

In May 2003, LLC #1 entered into a purchase agreement to purchase the right to license the Torso – T, a piece of exercise equipment. The Company paid \$108,500 for these rights and in return also received the rights to the seller's right to receive one-half of one percent on the adjusted gross revenue generated from the Naomi Judd infomercial.

In February 2002, LLC #2 entered into an agreement to license, market and distribute a golf training aid called Swingpower that the Company renamed the Power Connection. In return for these rights the Company agreed to pay a \$50,000 up front fee and royalty of six percent on all cash receipts generated by the product .

In October 2002, LLC #3 entered into an agreement to license, market and distribute the Banjo Minnow, a fish lure product. In return for these rights the Company agreed to pay the greater of a minimum of \$90,000 a year or royalties on all cash receipts generated by the product on the following scale:

Sales of:		
\$ 1 - \$ 10,000,000		3%
\$ 10,000,000 - \$ 20,000,000		4%
\$ 20,000,000 and over		5%

NOTE 4. PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	<u>2004</u>	<u>2003</u>
Direct Success, Inc.		
Office equipment	\$ 18,403	\$ 18,403
Furniture and fixtures	12,039	12,039
LLC #2		
Molds	8,000	8,000
LLC #3		
Molds	3,000	3,000
Website	<u>1,300</u>	<u>-</u>
	42,742	41,442
Accumulated depreciation	<u>(25,338)</u>	<u>(12,449)</u>
	<u>\$ 17,404</u>	<u>\$ 28,993</u>

NOTE 5. INCOME TAXES

The tax benefit was not reflected due to a 100% valuation allowance provided as a result of losses and an uncertainty of future profitability.

DIRECT SUCCESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 6. CAPITAL LEASE

The Company leases office equipment under a capital lease. The economic substance of the lease is that the Company is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Company's assets and liabilities.

The following is an analysis of the leased assets included in property and equipment:

	2003
Equipment	\$ 6,971
Less accumulated amortization	4,842
	\$ 2,129

The following is a schedule by year of the future minimum payments required under the lease together with their present value as of December 31, 2003 are:

2004	\$ 2,431
Total minimum lease payments	2,431
Less amount representing interest	302
Present value of minimum lease payments, all current	\$ 2,129

The lease was completely paid off by December 31, 2004.

NOTE 7. OPERATING LEASE

The Company leases office space under an operating lease agreement. The lease was for August 15, 2002 thru August 15, 2004 and was renewed thru February 1, 2006 with a deposit of \$5,712 and total future rental payments are as follows:

2003	\$ 68,544
2004	68,544
2005	32,584
2006	1,217

NOTE 8. SUBSEQUENT EVENT

The Company subleased its marketing rights to the Banjo Minnow product in May 2005. This sublicense includes the rights for the sublicensee to use the infomercial created by the Company. In return the Company will receive royalties on all sales of the product in the future.

DIRECT SUCCESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 9. ACQUIRED INTANGIBLE ASSETS

The company books intangibles at cost and amortizes them over their useful lives. The consolidated intangible assets consists of the following:

	2004	2003
LLC # 1		
Infomercial production costs	\$ 338,680	\$ 161,080
Accumulated amortization	(338,680)	(161,080)
Unamortized intangible assets	\$ -	\$ -
LLC # 2		
Infomercial production costs	\$ 351,475	\$ 326,609
Accumulated amortization	(351,475)	(262,001)
Unamortized intangible assets	\$ -	\$ 64,608
LLC # 3		
Infomercial production costs	\$ 194,657	\$ 184,657
Accumulated amortization	(131,978)	(64,322)
Unamortized intangible assets	\$ 62,679	\$ 120,335
Consolidated totals		
Infomercial production costs	\$ 884,812	\$ 672,346
Accumulated amortization	(822,133)	(487,403)
Unamortized intangible assets	\$ 62,679	\$ 184,943

Total amortization expenses related to the above-mentioned intangible assets were \$337,320 for the year ended, December 31, 2004 and \$469,908 for the year ended, December 31, 2003.

Estimated future amortization expense by year is as follows:

2005	\$ 62,679
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NOTE 10. GOING CONCERN

During the year ended December 31, 2003, the Company incurred operating losses of \$2,746,030 and during the year ended December 31, 2004 the Company incurred losses of \$2,010,056. Notwithstanding these continued losses, these financial statements have been prepared by management on a going concern basis.

DIRECT SUCCESS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 10. GOING CONCERN (CONTINUED)

The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Certain conditions, discussed below, currently exist which raise substantial doubt upon the validity of this assumption. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. If the Company were unable to continue as a going concern, assets and liabilities would require restatement on a liquidation basis, which would differ materially from the going concern basis.

The Company's future operations are dependent upon the marketing of its products and the Company's ability to secure sufficient financing to continue operations and marketing of its products. There can be no assurance that the Company's products will be able to secure market acceptance or that successful commercialization of its products will be achieved.

The Company's operations to December 31, 2004 have been financed through the issuance of stock. The Company does not have sufficient working capital to sustain its current level of operations until December 31, 2005. Continued and significant financial support from shareholders, related parties and external sources will be required to fund operations.