

Edgar Filing: ENDO NETWORKS INC - Form 10KSB

ENDO NETWORKS INC  
Form 10KSB  
January 15, 2003

FORM 10-KSB

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002, OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: (333-42640)

Endo Networks, Inc.

-----  
(Exact name of registrant as specified in its charter)

-----  
(Former name of registrant if changed since last report)

Nevada

75-2882833

-----  
(State of Incorporation)

-----  
(Tax ID No.)

2624 Dunwin Drive, Unite #3, Mississauga, Ontario, Canada

L5L3T5

-----  
(Address of principal executive offices)

-----  
(ZIP code)

Registrant's telephone number, including area code: (905) 820-8800

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the past 12 months and (2) has been subject to such filing requirement for the past 90 days.

X YES NO  
--- ---

Aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2002: \$ 1,789,475

Shares of common stock outstanding at September 30, 2002: 12,568,966

PART I.

ITEM 1: DESCRIPTION OF BUSINESS

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## OVERVIEW

Endo Networks Inc. builds interactive public networks.

The component parts generally deployed within a public location include an in-house TV service (with several strategically placed TVs), a background audio service, and various touchscreen interactive devices (kiosks, tablet PCs, wireless handhelds, etc.).

The corporate head office is located at 2624 Dunwin Drive, Unit 3, Mississauga, Ontario, Canada, 20 minutes from Toronto and 60 minutes from Buffalo.

Endo Networks currently does business under two primary brands: Endo Networks and Streamline Media. The Endo Networks ([www.endonetworks.com](http://www.endonetworks.com)) brand encompasses all network related business. The Streamline Media ([www.streamlinemedia.com](http://www.streamlinemedia.com)) brand encompasses traditional Internet and interactive design/production work not related to the network business. The Streamline Media business provides an important source of revenue and continually exposes our design and production team to new ideas and technologies, which in turn benefit our Endo Networks business as they utilize the same competencies.

As of December 2002 Endo Networks had 18 total employees, 15 full-time.

## PRODUCTS/SERVICES/MARKETS

### Deployment Locations

Endo Networks deployments are located in high-traffic public areas including:

- Events (i.e. consumer and trade shows)
- Retail stores
- Restaurants
- Government community centers

Endo Networks deployments are able to utilize any available form of connectivity for remote management and content delivery.

### Applications

Endo Networks deployments are used to deliver a combination of third party and proprietary applications in the following categories:

#### Entertainment

Background music, In-house TV and Radio, trivia, games...

#### Advertising and promotion

Exterior branding, Radio-style commercials, TV commercials, Instant coupons, Interactive promotions, Contests, 1 to 1 relationship marketing (CRM)...

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#### Information and training

Nutrition guides, Directories, Store locators, Interactive staff training...

#### Loyalty and rewards

Points, Rewards, 1 to 1 relationship marketing (CRM)...

#### Internet and eCommerce

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Web link, eMail, Surf, Shop, connect to back end systems...

Essentially, any application and/or service which requires a network technology platform for delivery.

These applications target both consumers and employees. The combination of TV, audio and interactive creates a uniquely effective and measurable communication medium.

### Deployment Categories

Network deployments fall into one of two additional categories: Paid or Placed.

#### Paid Deployments

In a Paid deployment, we receive full payment with margin for every product and service we provide, either on a recurring monthly basis (i.e. lease or rent), or one-time (i.e. purchase). We generally also receive a commission if we bring any cost-recovery to the deployment, i.e. an outside brand that pays to utilize some of the network capacity in synergy with the primary client. Retail, Event and Government deployments are all generally Paid deployments. While Paid deployments offer the stability of one payment partner, they offer less margin for Endo Networks long term, and require potentially lengthy approval, pilot and expansion stages.

#### Placed Deployments

In a Placed deployment, Endo Networks is responsible for the cost of the deployment, and recovers that cost with margin from a "coalition" of stakeholders sharing the network resource. Generally, the host location receives the base deployment at no charge providing a certain level of deployment performance. Revenue is generated through recurring charges such as advertising or application sales commission, transactional charges such as lead generation, instant gift certificate or jukebox, and one-time charges such as custom development or software license.

Stakeholders include the host location, outside brands, and Endo Networks.

- \* The host location receives a basic package of CRM and promotional services at no charge, but may also subscribe to several step-up services in the same categories.

Outside brands may be:

- \* brand advertisers utilizing our deployment to generate sales leads or brand awareness, or actually conduct "e-commerce" style transactions.

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- \* 3rd party applications which we re-sell into the location to either the location or the guests within the location.
- \* Endo Networks utilizes the deployment to promote our own brands, to reach more potential host locations and more outside brands, and to drive use of the interactive stations for increased revenue.

### Network Access

In the short term, consumer and staff access to applications is via freestanding network access points such as kiosks, while management is provided with a

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wireless appliance for access to various application functionality.

In the medium term, additional network access points will be deployed for consumer and staff access, i.e. in booths at restaurants, or dedicated employee-access stations.

In the long term, we will provide network access via wireless local area networking technology to the user's own device.

### COMPETITORS

Endo Networks is a true convergence business - our business opportunity has been created by (and is driven by) the continued convergence of applications and technology onto a PC platform, enabling us to provide value to an almost endless number of applications through effective sharing of the network resource. This also creates a substantial number of non-direct competitors, i.e. the non-aggregated initiatives currently providing a limited service in any of our target categories.

In North America, there are no established initiatives in the interactive public network space which pursue a strategy of aggregation and integration as does Endo Networks. There may be direct competitors operating on a regional basis, but as of December 2002 we have not encountered any direct competition. The enormous number of potential locations means there is ample room for direct competition, which can assist in growing the market segment.

If we look for other business initiatives that compete with us for space in a host location, there are many. These initiatives are generally single or limited function network or non-network devices that compete with part of the Endo Networks service offering. In some cases, these initiatives may represent potential application partners for Endo Networks - for example, these applications may wish to exit the network deploy/manage segment of their business, and instead negotiate carriage with Endo Networks. This allows the application to focus more of their resources on improving their application, and enhances our offering.

It is our strategy to pursue opportunities for non-exclusive partnerships with initiatives which might currently be categorized as competitors.

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A partial list of initiatives with which we compete or potentially partner is as follows:

#### Audio services

This includes all forms of background audio used in a host location, i.e. Musac, DMX, Radio, Jukebox, etc. The flexibility and functionality of our partner's background audio solution greatly exceeds anything else currently available on the market. This solution leverages our investment in infrastructure to benefit from a powerful server, touchscreen, TVs, wireless and other peripherals, at a cost less than building and maintaining their own network. No single purpose network can afford this level of network deployment, and therefore they cannot offer this level of functionality on their current business models.

Client Controlled Media (In-house TV)

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An emerging market opportunity lies with Client Controlled Media (a.k.a. Place Based Media). This technology leverages digital servers and network distribution technology to deliver a "private label" in-house TV service. Endo currently offers a proprietary In-house TV service which leverages our deployment for greatly enhanced functionality. Long term, it is our desire to secure an application partner to grow this offering. Short term, as part of our overall integrated offering our In-house TV service is very compelling.

### Gift Cards

Many retail businesses are migrating from traditional paper-based gift certificates to gift cards, which function essentially as a private label currency. We are currently working with leading providers of this technology to offer a "one card" loyalty/gift/cashless ATM solution to our partners, which will be integrated into our entire offering, essentially giving us a new form of currency. This will also serve to reduce our cash collection costs. Once again, the benefits of aggregating this application into our total solution provide a substantial competitive advantage.

### HR/Learning Management Systems

An interactive network access point, combined with TV and audio, affords a unique opportunity for a retailer to measurably communicate with their own staff as well as customers. From the initial job application, to ongoing daily communications, to employee growth, Endo Networks will shortly deliver a unique solution for our location partners. We are working with several partners with leadership positions in these fields to jointly deliver this new integrated offering in 2002. As with all other applications, the aggregation provides a competitive advantage.

### Bank machines

The primary reason a retailer offers a bank machine on their premise is because a substantial percentage of the transactions result in money spent at that retailer. The above mentioned Gift Card technology currently in development will allow retailers a better alternative, integrating this functionality with their CRM initiatives. By eliminating the need to store large amounts of cash in a bank machine on the location, Endo Networks benefits from a substantially lower cost of managing the service.

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Future opportunities for partnership and new competition:

- POS (Cash Registers)
- CRM
- Gaming
- Internet Access/eMail Stations
- Supply Chain Management
- Automation
- Telecommunication

As direct competitors emerge, it will be the continual improvement of our service offering and the continual strengthening of our network of relationships that will entrench us with our existing clients, and make our service increasingly more attractive to new potential clients. This will require our employees to be "out of the box" thinkers, exceedingly synergy-minded. It will

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also require a continual investment in research and development. We are pursuing several forms of legal and contractual hardware, software, process, brand and relationship protection to further strengthen our competitive position.

### SUPPLIERS

Effective outsourcing is a key enabler of the rapid growth of Endo Networks.

We have selected hardware partners based on their ability to scale production and delivery of physical network components to hundreds or even thousands of units monthly. We have selected application partners with careful attention to their infrastructure capabilities to ensure they are scalable. We are currently evaluating regional, national and international service networks based on their ability to provide a reliable service level, and integrate with our network management systems. And we have selected our network management systems and software based on scalability and functionality.

### FINANCING

#### Operations

Current operations are financed out of cash flow, and are at the current level of growth. Investment in operations to enable enhanced growth will be commensurate with new revenues, although additional sources of funding to accelerate growth will be explored.

#### Network Infrastructure

Endo Networks currently has access to all necessary financing for deployment of network infrastructure. As projects move from pilot to roll-out, there will be opportunities for new financing.

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### CUSTOMERS

#### Deployments

Our focus has been on securing business in our four initial categories (Retail, Food Service, Events and Government) in the Greater Toronto Area of Ontario. Projects are selected based on their ability to expand post-pilot - therefore, focus has been on large chains and franchises, or on particular categories where all the locations are similar (i.e. Pubs), with particular emphasis on those with US counterparts. Often, a customer will participate with us at several different levels, i.e. as a host location and as an outside brand partner on a deployment into another host location with an attractive customer demographic or other synergies. The status of each of these categories is discussed below:

#### Retail

We have active deployments with several retail chains, with several more projects nearing the deployment stage in mass merchandise retail and automotive retail.

#### Food Service

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We have active Food Service projects in both Pub and Casual Dining categories. We expect expansion this year of both these categories, and new projects in Family Dining and Night Club categories.

### Events

We have a number of active event and field marketing projects. There are a number of additional projects booked for 2003, and in proposal stage.

### Government

Most governments are currently investigating the use of interactive public network technology to improve the service they offer their citizens, and implement a plan for future cost avoidance. Endo Networks has formalized a relationship with a company that provides software solutions to several hundred governments in North America. Through this relationship we will continue to expand our projects in this category.

### Future Potential Deployment Categories

Doctors Offices Shopping Malls Grocery Stores  
Airports Convenience Stores  
Resorts/Hotels Office Buildings

### Outside Brand Partners

Outside brand partners are an important part of most Endo deployments. Based on extremely strong, measurable results, we have a number of outside brand partner relationships, and more in negotiation, tied to specific projects.

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There are many factors which make our offering more attractive to outside brand partners than other advertising vehicles, however, perhaps the most important is availability of action. We can communicate a call to action very effectively via Audio and TV, to which the target potential customer can respond immediately via our Interactive touchscreens - before the call to action has a chance to be diluted by competing messages.

### APPLICATION PARTNERS

Historically, a substantial portion of our application offering has been proprietary to Endo Networks. This year, as various projects gain traction, we have started to integrate a number of leading third-party applications for automotive, training, behavioural profiling, CRM and background audio. We intend to continue aggressively pursuing partnerships with leaders currently providing non-aggregated applications into our target markets. This will allow us to leverage their core competencies, delivering a continually-improving solution to our partners, while allowing us to shift resources away from application development and towards network growth.

### ACQUISITION STRATEGY

Not applicable.

### ITEM 2: DESCRIPTION OF PROPERTY

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### HARDWARE RELATED TO DEPLOYMENTS

Endo Networks currently leases infrastructure equipment (including servers, monitors, TVs, touchscreens, Internet appliances, sound systems, switches, etc.).

### SOURCE CODE

Endo Networks currently owns source code as follows:  
Proprietary applications including audio, video and interactive Content management applications  
Various eCommerce applications  
Code related to integrating third party applications

### ITEM 3: LEGAL PROCEEDINGS

The Company is not involved in any legal proceedings.

### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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## PART II.

### ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### a. Market Information.

The Company's common stock is currently traded on the NASDAQ bulletin board. The following were the high and low sales prices for each quarter for which the Company's stock traded:

Period		High	Low
Calendar Year 2001	4th quarter	\$1.25	\$0.30
Calendar Year 2002	1st quarter	\$1.01	\$0.60
	2nd quarter	\$1.00	\$0.30
	3rd quarter	\$0.75	\$0.30

#### b. Holders

There are approximately one hundred (100) shareholders.

#### c. Dividends

Registrant has not paid a dividend to the holders of its common stock and does not anticipate paying dividends in the near future.

#### e. Warrants

Registrant has no warrants outstanding.

### ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION SUMMARY OF 2002

Revenues for the year ended September 30, 2002 were \$792,482 compared with \$98,531 for the period from inception (January 30, 2001) to September 30, 2001 and cost of sales for the same periods were \$379,328 and \$0 respectively. Sales



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increased by 800% because we were developing contacts and generating business. In the prior period we performed only service work and therefore the cost of sales was zero. In the year ended September 30, 2002, our revenues consisted not only of service but of product deployments which caused us to have cost of sales of \$379,328 or 48% of sales. Along with the increase in sales our expenses increased from a total of \$102,300 in the prior period to \$572,941 in the year ended September 30, 2002, a 560% increase. This was due to increased depreciation and amortization of equipment that we deployed on jobs and increased expenses of the work performed. One of the main reasons for the increase in expenses was that we are growing and constantly putting more funds back into developing new ideas and proposals to continue our growth.

### Deployments

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Continued to prove the attractiveness of an aggregated model to host locations  
Proved our ability to remotely manage and support a deployment  
Generated substantial revenue from Paid deployments in:

- Food Service (Pub)
- Event (Field Marketing, Home Shows)
- Retail (Beer, Duty Free, Garden Center)

Initiated projects with major international brands in all target categories.

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### APPLICATIONS

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Expanded our expert understanding of how to customize applications for touch and public use.

Expanded our expert understanding of how to aggregate applications for maximum effectiveness.

Integrated 802.11 b wireless networking

Developed initial version of applications for TabletPC and PocketPC.

Integrated Endo applications with leading application providers in Automotive sector, and began integration with leading providers of POS, HR and CRM applications

### OUTSIDE BRAND PARTNERS

Continued to show substantial ROI to outside brand partners

Developed new relationships with outside brand partners in key categories related to deployments.

### ACQUISITION

Not applicable

### OPERATIONS

Funded operations out of revenue

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Introduced new management structure for increased efficiency and better responsiveness

Endo Networks Inc. will provide an annual report including audited statements on request.

Endo Networks Inc. files quarterly reports with the SEC.

Public may read and copy any materials filed by Endo Networks with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995  
This discussion may contain certain "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this release, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, changes or anticipated changes in regulatory environments, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonally, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other press releases to the public or filings made by the company with the Securities and Exchange Commission, the ability to secure partnership or joint-venture

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relationships with other entities, the ability to raise additional capital to finance expansion, and the risks inherent in new product and service introductions and the entry into new geographic markets. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements. For further information, which could cause actual results to differ from the Company's expectations, as well as other factors, which could affect the Company's financial statements, please refer to the Company's report filed with the Securities and Exchange Commission.

Endo Networks Inc. (905) 820 8800 [www.endonetworks.com](http://www.endonetworks.com)

### ITEM 7: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Certified Public Accountant is attached hereto.

### ITEM 8: CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III.

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### ITEM 9: DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The following persons serve as directors and officers of Registrant:

Peter B. Day            President, Secretary and Director  
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Served since November 2001 and expires at the next annual meeting

Wayne Holm  
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Served since November 2001 and expires at the next annual meeting

PETER B. DAY - President, Secretary and Director Mr. Day attended the University of Toronto from 1989 to 1992 studying English, History and Psychology and attended Humber College in 2000 studying Telecommunications. Mr. Day work experience follows: General Manager and Partner in Down Home Satellite Programming, Inc. from 1996 to 1998. Marketing Director and General Manager for Galaxy Satellite Programming, Inc. from 1998 to 2000. Vice President and Partner in Streamline Media, Inc., a computer software and web design company from 2000 to present. President of Endo Networks, Inc. from 2000 to present.

WAYNE HOLM - DIRECTOR Mr. Holm attended Simon Frazier University from 1965 to 1970 and played in the Canadian Football League from 1969 to 1974. Mr. Holm's recent work experience follows: In 1989 he co-founded Spectra Food Corporation in 1989 and became Vice President. Vice President and Co-CEO for The Spectra Group of Great Restaurants, Inc. from 1993 to 1997. Chairman of the Board for The Spectra Group of Great Restaurants, Inc. from 1997 to 2001, and became President and Chief Operating Officer in 2001. Mr. Holm also became the Senior Vice President for Branding and Concept Development for Cara Operations Limited in 2000.

### ITEM 10: EXECUTIVE COMPENSATION

The Company paid no compensation to its officers and directors in the fiscal year ended September 30, 2002.

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The Company has no retirement or stock option or bonus plan.

### ITEM 11: SECURITY OWNERSHIP OF MANAGEMENT AND BENEFICIAL OWNERS

Set forth below is the direct ownership of Registrant's common Stock by management and any owner of 5% or more of Stock of Registrant.

TITLE OF SECURITIES	NAME AND ADDRESS OF OWNER	AMOUNT OF SHARES	% OF CLASS OWNED
COMMON	PETER B. DAY 2624 DUNWIN DRIVE, UNIT #3 MISSISSUAGA, ONTARIO L5L 3T5	4,577,500	37.9%
COMMON	DEAN T. HIEBERT 2624 DUNWIN DRIVE, UNIT #3 MISSISSUAGA, ONTARIO L5L 3T5	2,432,500	20.2%

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COMMON	WAYNE HOLM 2624 DUNWIN DRIVE, UNIT #3 MISSISSUAGA, ONTARIO L5L 3T5	100,000	0.8%
COMMON	WOODBIDGE MANAGEMENT, LTD. 192 BLUE HILL ROAD SOUTH NASSAU, BAHAMAS	2,000,000	16.6%
COMMON	ALL OFFICERS, DIRECTORS & BENEFICIAL HOLDERS AS A GROUP	9,685,000	80.1%

### ITEM 12: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 2001, the Company issued 4,577,500 shares to its Peter B. Day and issued 2,432,500 to Dean Hiebert in consideration for intellectual property.

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### PART IV.

#### ITEM 13: EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report:  
Included in Part II, Item 8 of this report:

Report of Independent Public Accountant  
Balance Sheet as of September 30, 2002

Statements of Operations - Period January 30, 2001 (date of inception) to  
September 30, 2001 and for the Year Ended September 30, 2002

Statement of Stockholders' Equity - Period from January 30, 2001 (date of  
inception) to September 30, 2002

Statement of Cash Flows - Period January 30, 2001 (date of inception) to  
September 30, 2001 and for the Year Ended September 30, 2002

Notes to the Financial Statements

(b) The following reports on Form 8-K were filed for the Company during the  
year:

None

(c) The Company is not filing any exhibits.

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### SIGNATURES.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### Item 9: Regulation FD Disclosure

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer executed the following written statements which statements accompanied the filing with the Securities and Exchange Commission of this Quarterly Report on Form 10-KSB:

Certification Pursuant To 18 U.S.C. Section 1350,  
As Adopted Pursuant To  
Section 906 of The Sarbanes-Oxley Act of 2002

I, Peter B. Day, Chief Executive Officer and Chief Financial Officer of Endo Networks, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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\* the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

\* the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Endo Networks, Inc.  
Registrant

By: Peter B. Day  
-----  
Peter B. Day  
Its: President and Chief Financial Officer

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MALONE & BAILEY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS  
5444 Westheimer, Suite 2080  
Houston, Texas 77056  
713-840-1210 Fax 713-840-9034

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors ENDO Networks, Inc. (formerly Discount Mortgage Source, Inc.)

We have audited the accompanying balance sheet of ENDO Networks, Inc. as of September 30, 2002 and the related statements of operations, stockholders' equity, and cash flows for year ended September 30, 2002 and the period from inception (January 30, 2001) through September 30, 2001. 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 audit in accordance with auditing standards generally accepted in the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ENDO Networks, Inc. as of September 30, 2002, and the results of operations and its cash flows for the year ended September 30, 2002 and the period from inception (January 30, 2001) through September 30, 2001 in conformity with accounting principles generally accepted in the United States.

/S/ MALONE & BAILEY, PLLC

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MALONE & BAILEY, PLLC  
HOUSTON, TEXAS

January 13, 2003

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ENDO NETWORKS, INC.

BALANCE SHEET  
September 30, 2002

ASSETS

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CURRENT ASSETS:

Cash	\$18,9
Accounts receivable	69,7
Parts inventory	12,7
Prepaid expenses	50,7

Total current assets	152,0
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PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$125,339	422,6
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TOTAL ASSETS	\$574,7
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LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Accounts payable	\$45,4
Accrued expenses	85,3
Capitalized leases - current	142,0

Total current liabilities	272,8
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Capitalized leases - net of current portion	185,7
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TOTAL LIABILITIES	458,5
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STOCKHOLDERS' EQUITY

Common stock, \$0.001 par value, 50,000,000 authorized, 12,568,866 shares issued and outstanding	12,5
Subscriptions receivable	(25,3)
Additional paid-in-capital	292,4
Accumulated deficit	(163,5)

Total Stockholders' Equity	116,1
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$574,7
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See accompanying summary of accounting policies and notes to consolidated financial statements

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ENDO NETWORKS, INC.

## STATEMENTS OF OPERATIONS

For the Year Ended September 30, 2002, and  
 Period from Date of Inception (January 30, 2001) to September 30, 2001

	Year ended Sept 30, 2002	Date of inception (Jan 30, 2001) to Sept 30, 2001
REVENUE	\$792,482	\$98,531
COST OF REVENUES	379,328	
GROSS PROFIT	413,154	98,531
OPERATING EXPENSE:		
Depreciation and amortization	135,042	36,057
General and administrative	437,899	66,243
Total Operating Expense	572,941	102,300
NET INCOME (LOSS)	(\$159,787)	(3,769)
Weighted average shares outstanding	12,404,352	7,539,344
Loss per share - basic	(\$0.01)	(\$0.00)

See accompanying summary of accounting policies and notes to consolidated financial statements



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ENDO NETWORKS, INC.

STATEMENT OF STOCKHOLDERS' EQUITY AND ACCUMULATED DEFICIT  
 Period from Date of Inception (January 30, 2001) to September 30, 2002

	Common Shares	Common Amount	Subscriptions Receivable	Pa Ca
Balance, January 30, 2001 (date of inception)	-0-	\$ -0-	\$ -0-	
Shares issued for:				
Assets	7,060,000	7,060		
Cash	359,000	359	(19,980)	
Services	1,472,666	1,473		
Rent and expenses	500,000	500		
Reverse acquisition with Discount Mortgage Source, Inc. - effective 9/30/2001	2,679,300	2,679		
Net loss				
Balance, September 30, 2001	12,070,966	12,071	(19,980)	
Shares issued for:				
Cash	497,900	498	(5,328)	
Net loss				
Balance, September 30, 2002	12,568,866	\$12,569	(\$25,308)	

See accompanying summary of accounting policies and notes to consolidated financial statements

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ENDO NETWORKS, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2002, and  
 Period from Date of Inception (January 30, 2001) to September 30, 2001

	Year ended Sept 30, 2002	Date (Jan Sept
	-----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(\$159,787)	
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	135,042	
Stock issued for services		
(Increase) in accounts receivable	(58,335)	
(Increase) decrease in customer deposits	40,345	
(Increase) in prepaid expenses	50,563	
(Increase) in parts inventory	(12,700)	
Increase in accounts payable	20,241	
Increase in accrued expenses	69,084	
	-----	
NET CASH USED BY OPERATING ACTIVITIES:	(16,763)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of assets	(282,815)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock	178,742	
Subscriptions receivable	(5,328)	
Proceeds from lease financing	262,962	
Payments on lease financing	(118,337)	
	-----	
Total cash flows from financing activities	318,039	
	-----	
NET INCREASE IN CASH	\$18,551	
CASH, BEGINNING OF PERIOD	352	
	-----	
CASH, END OF PERIOD	\$18,903	
	=====	

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Non-cash activities in period ended March 31, 2001

-----  
The Company issued 6,950,000 shares for assets in January 2001.

See accompanying summary of accounting policies and notes to consolidated financial statements

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ENDO NETWORKS, INC.  
Notes to Financial Statements  
September 30, 2002

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Business

Endo Networks, Inc. (ENDO) is an interactive media, promotion, application, and advertising aggregator deploying through wireless capable public access portals to retail and restaurant locations across North America. Endo also develops application software and client controlled media including television and radio.

#### Cash Equivalents

ENDO considers all highly liquid investment instruments purchased with original maturities of three months or less when acquired to be cash equivalents.

#### Revenue Recognition

ENDO recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. ENDO recognizes revenue from the sale of advertising related products and services like interactive advertising, studio promotion, and event management as the services are performed. ENDO maintains allowances for doubtful accounts on all its accounts receivable for estimated losses resulting from the inability of its customers and others to make required payments. If the financial condition of ENDO's customers and others were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### Management Estimates

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

#### Furniture and Equipment

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Furniture and equipment are stated at cost. Depreciation of furniture and equipment is calculated on straight-line method over the estimated useful lives of the assets

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No impairment losses have been recorded since inception.

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### 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.

### Income (loss) per Share

The basic net loss per common share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding.

Diluted net loss per common share is computed by dividing the net loss applicable to common stockholders, adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the year ended September 30, 2002 potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share. These securities consisted of 220,000 options at September 30, 2002. For the period from inception through September 30, 2001 there were no common stock equivalents outstanding.

### Recently Issued Accounting Pronouncements

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on ENDO's results of operations, financial position or cash flow.

### Stock-Based Compensation

The Company accounts for stock-based compensation under the intrinsic value method. Under this method, ENDO recognizes no compensation expense for stock options granted when the number of underlying shares is known and exercise price of the option is greater than or equal to the fair market value of the stock on the date of grant.

### Foreign Currency

ENDO has the U.S dollar designated as its functional currency. Financial statements are remeasured to U.S. dollars for reporting purposes using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets and related elements of expense. Revenue and

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other expense elements are remeasured at rates that approximate the rates in effect on the transaction dates. Remeasured gains and losses are included in general and administrative expense.

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### Software Capitalization

ENDO adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". In accordance with this standard, certain direct development costs associated with internal-use software are capitalized, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

### NOTE B - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following as of September 30, 2002:

	ESTIMATED USEFUL LIVES IN YEARS	
-----		
Furniture and equipment	5 - 7	\$ 438,301
Computer equipment and software	3 - 5	22,365
Intellectual property	2	26,523
Application development (software)	3	87,343
 Less: accumulated depreciation and amortization		 (151,862)
		-----
		\$ 422,670
		=====

Depreciation and amortization expense was \$135,042 and \$36,057 for the periods ending September 30, 2002 and 2001, respectively.

### NOTE C - LEASES

The Company leases equipment under long-term lease agreements. The leases covering certain equipment, which expire over the next four years, are classified as capital leases. Property and equipment includes equipment under capital leases of \$367,875, less accumulated depreciation of \$80,545, at September 30, 2002.

The future minimum lease payments for capital leases and for operating leases (with initial or remaining noncancellable terms in excess of one year) as of September 30, 2002 follow:

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YEARS ENDING	CAPITAL LEASES
2003	\$ 139,861
2004	133,464
2005	51,079
2006	3,419
Total minimum lease payments	327,824
Less amount representing executory costs	(2,197)
Net minimum lease payments	325,627
Less amount representing interest	(38,279)
Present value of net minimum lease payments	287,348
Less current maturities	(183,460)
	\$ 103,888

The Company leases its office space for \$2,000 per month on a month to month basis. The Company had no operating leases for the years ended September 30, 2002 and 2001.

NOTE D - INCOME TAXES

The Company had net operating losses of \$163,556 for the period from inception (January 30, 2001) to September 30, 2002. No deferred tax asset has been recognized for the operating loss as any valuation allowance would reduce the benefit to zero.

Operating losses expire:	2021	\$ 3,769
	2022	\$ 159,787

The Company has adopted the asset and liability method of accounting for income taxes as required by SFAS No. 109. In accordance with SFAS No. 109, the Company has recorded a valuation allowance equal to the deferred tax asset as a result of ENDO's "going concern" opinion referred to in Note F and the uncertainty that it will be realized.

The components of the provision (benefit) for income taxes included in the financial statements as of September 30, 2001 are as follows:

Deferred tax assets:	Sept 30, 2002
	-----
Net operating loss carryforwards	\$ (163,556)
Valuation allowance	163,556
	-----
Total deferred income tax assets	-0-
Total deferred income tax liabilities	-0-
	-----
Net deferred income tax assets	\$ -0-
	=====

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### NOTE E - STOCKHOLDERS' EQUITY

#### Common Stock:

The Company is authorized to issue 50,000,000 common shares of stock at a par value of \$0.001 per share. These shares have full voting rights. At September 30, 2002, there were 12,568,866 shares outstanding. The Company has not paid a dividend to its shareholders.

#### Stock Options:

No compensation cost has been recognized for grants under the stock option plans since all grants pursuant to these plans have been made at the current estimated fair values of ENDO's common stock at the grant date. Had compensation cost of ENDO's stock options been determined based on the fair value at the grant date for awards in fiscal 2002, ENDO's pre-tax loss in fiscal 2002 would have been increased by approximately \$33,000.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal 2002: zero dividend yield, expected volatility of 100%; risk-free interest rate of 4.0% and expected lives of 2 years.

The options granted have an exercise price of \$.50 per share and vest at the date of issuance. The maximum term of the options is two years.

The following table summarizes stock option activity:

Outstanding, October 1, 2001	-
Granted	220,000
Canceled or expired	-
Exercised	-
	-----
Outstanding, September 30, 2002	220,000
	=====
Exercisable at September 30, 2002	220,000
	=====
Weighted-average grant-date fair value of options, granted during the year	\$ .15
Weighted-average remaining, years of contractual life	1
	=====

### NOTE F - CONCENTRATIONS OF CREDIT RISK

As of September 30, 2002, amounts due from three customers amounted to 68% of total trade accounts receivable.

One customer accounted for 29% and 60% of total revenues for the year ended September 30, 2002 and for the period from inception through September 30, 2001, respectively.

