

**Internet Multicasting Service, Inc.
(A Delaware Nonprofit Corporation)**

Financial Statements

December 31, 2001, 2000 and 1999

Board of Directors
Internet Multicasting Service, Inc.
Stewarts Point, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial position of Internet Multicasting Service, Inc. (the Organization) as of December 31, 2001, 2000 and 1999 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Internet Multicasting Service, Inc. 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 Organization's financial position as of December 31, 2001, 2000 and 1999 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, in January 2002, the Organization entered into a merger agreement for the acquisition of all of the assets of NetTopBox, Inc. in exchange for promissory notes totaling \$977,500. It is the Organization's intent to repay the promissory notes by obtaining sponsorships of up to \$3,500,000.

Frank, Rimerman & Co. LLP

June 13, 2002

Internet Multicasting Service, Inc.
Statements of Financial Position
December 31, 2001, 2000 and 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 18,433	\$ 52,357	\$ 946
Interest receivable	-	-	3,300
Note receivable from related party	-	-	50,000
Total current assets	<u>18,433</u>	<u>52,357</u>	<u>54,246</u>
Investment	-	50,000	50,000
Computer Equipment, net	<u>63,132</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 81,565</u></u>	<u><u>\$ 102,357</u></u>	<u><u>\$ 104,246</u></u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued expenses	<u>\$ 30,682</u>	<u>\$ -</u>	<u>\$ -</u>
Total current liabilities	30,682	-	-
Unrestricted Net Assets	<u>50,883</u>	<u>102,357</u>	<u>104,246</u>
Total liabilities and net assets	<u><u>\$ 81,565</u></u>	<u><u>\$ 102,357</u></u>	<u><u>\$ 104,246</u></u>

See Notes to Financial Statements

Internet Multicasting Service, Inc.
Statements of Activities
Years Ended December 31, 2001, 2000 and 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Public Support and Revenue			
Public support:			
Contributions	\$ 129,770	\$ -	\$ -
Revenue:			
Interest and other income	412	1,697	3,300
Total public support and revenue	<u>130,182</u>	<u>1,697</u>	<u>3,300</u>
Expenses			
Program services:			
Internet public works projects	87,704	3,375	-
Support services:			
Management and general	35,409	211	-
Fundraising	8,543	-	-
Total expenses	<u>131,656</u>	<u>3,586</u>	<u>-</u>
Other:			
Capital loss	50,000	-	-
Change in Net Assets	(51,474)	(1,889)	3,300
Net Assets Unrestricted, beginning of year	<u>102,357</u>	<u>104,246</u>	<u>100,946</u>
Net Assets Unrestricted, end of year	<u>\$ 50,883</u>	<u>\$ 102,357</u>	<u>\$ 104,246</u>

See Notes to Financial Statements

Internet Multicasting Service, Inc.
Statements of Functional Expenses
Years Ended December 31, 2001, 2000 and 1999

	Program Services			Support Services			Total 2001 Program and Support Services	Total 2000 Program and Support Services	Total 1999 Program and Support Services
	Internet			Fundraising					
	Public Works Projects	Total Program Services	Management and General	Management and General	Fundraising	Total Support Services			
Direct Expenses:									
Contract labor	\$ 37,435	\$ 37,435	\$ -	\$ -	\$ -	\$ -	\$ 37,435	\$ -	\$ -
Office	6,215	6,215	9,874	-	-	9,874	16,089	-	-
Projects expense	8,306	8,306	-	-	-	-	8,306	3,375	-
Telephone	-	-	4,688	-	-	4,688	4,688	-	-
Postage and shipping	755	755	755	754	-	1,509	2,264	-	-
Printing and public relations	-	-	-	912	-	912	912	-	-
Travel	17,350	17,350	-	4,337	-	4,337	21,687	-	-
Membership dues	-	-	345	-	-	345	345	-	-
Internet service	7,626	7,626	-	1,907	-	1,907	9,533	-	-
Professional fees	-	-	19,337	-	-	19,337	19,337	-	-
License and permits	-	-	285	-	-	285	285	90	-
Other	-	-	125	633	-	758	758	121	-
Total direct expenses	77,687	77,687	35,409	8,543	-	43,952	121,639	3,586	-
Depreciation and Amortization	10,017	10,017	-	-	-	-	10,017	-	-
Total expenses	\$ 87,704	\$ 87,704	\$ 35,409	\$ 8,543	\$ -	\$ 43,952	\$ 131,656	\$ 3,586	\$ -

See Notes to Financial Statements

Internet Multicasting Service, Inc.
Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash Flows from Operating Activities			
Change in net assets	\$ (51,474)	\$ (1,889)	\$ 3,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Donated computer equipment	(73,149)	-	-
Depreciation	10,017	-	-
Realized capital losses	50,000	-	-
Interest accrued on note receivable	-	-	(3,300)
Changes in operating assets and liabilities:			
Accounts payable	30,682	-	-
Net cash provided by operating activities	<u>(33,924)</u>	<u>(1,889)</u>	<u>-</u>
Cash Flows from Investing Activities			
Collection of note receivable and accrued interest	-	53,300	-
Net cash provided by investing activities	-	53,300	-
Net Increase (Decrease) in Cash and Cash Equivalents	(33,924)	51,411	-
Cash and Cash Equivalents, beginning of year	52,357	946	946
Cash and Cash Equivalents, end of year	<u>\$ 18,433</u>	<u>\$ 52,357</u>	<u>\$ 946</u>

See Notes to Financial Statements

Internet Multicasting Service, Inc.
Notes to Financial Statements

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Internet Multicasting Service, Inc. (the Organization) is a Delaware nonprofit corporation founded in 1993. The Organization conceives, implements, and manages public works projects on the global Internet computer network.

Significant Accounting Policies

Basis of Presentation:

The Organization presents its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 117 (SFAS 117), *Financial Statements of Not-For-Profit Organizations*. SFAS 117 requires not-for-profit organizations to segregate their assets, liabilities and net assets, and operations into three categories: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are those available for use in the general activities of the Foundation. Unrestricted net assets generally result from unrestricted support and proceeds from donated property. Temporarily restricted assets are generally those whose use is restricted by the donor, based on time or purpose. Generally, these funds will be expended over a period of time for specific use and are not available for the Organization's general activities. Temporarily restricted assets are generally restricted to a specific use in perpetuity. As of December 31, 2001, 2000 and 1999, the Organization did not have temporarily or permanently restricted assets.

Contributions:

The Organization accounts for contributions and promises to give in accordance with provisions of Statement of Financial Accounting Standards No. 116 (SFAS 116), *Accounting for Contributions Received and Contributions Made*. SFAS 116 requires that contributions received, including unconditional promises to give (pledges), be recognized as revenue at their fair value in the period the contribution or pledge is made. SFAS 116 also requires not-for-profit organizations to distinguish between contributions received that increase any of the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

Internet Multicasting Service, Inc.
Notes to Financial Statements

1. Nature of Activities and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents includes all short-term highly liquid investments with original maturities of three months or less are considered to be cash.

Investment:

The Organization accounted for its investment under the cost method.

Computer Equipment:

The Organization capitalizes equipment acquisitions over \$500. Purchased assets are recorded at cost. Donated assets are recorded as contributions at their estimated fair value. Depreciation is provided on a straight-line basis over 2 years.

Income Taxes:

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and State franchise taxes under Section 23701(d) of the California Revenue and Taxation Code.

Allocation of Functional Expenses:

The costs of providing the various programs and services have been summarized on a functional basis in the Statement of Functional Expenses. Direct expenses are allocated to the related program. Indirect expenses are allocated based on the equipment used by the program.

Use of Estimates:

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

Internet Multicasting Service, Inc.
Notes to Financial Statements

2. Computer Equipment

Computer equipment consists of the following at December 31:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Computer hardware	\$ 73,149	\$ -	\$ -
Less accumulated depreciation	<u>(10,017)</u>	<u>-</u>	<u>-</u>
	<u>\$ 63,132</u>	<u>\$ -</u>	<u>\$ -</u>

3. Related Party Transactions

Three of the Board members of the Organization were shareholders of Invisible Worlds, Inc. (IW). The Organization entered into two transactions with IW.

Note Receivable from Related Party:

During 1998 the Organization transferred computer equipment to IW in exchange for a note receivable. The note receivable had an original maturity of December 31, 2003 with interest payable annually at 6.6%. The note was repaid in May 2000.

Investment:

During 1998 the Organization transferred intellectual property to IW in exchange for 500,000 shares of IW common stock valued at \$50,000. During 2001 IW ceased operations and was dissolved. The investment was written off as a capital loss.

4. Subsequent Acquisitions

On January 16, 2002 the Organization entered into an agreement for the merger of NetTopBox, Inc. into the Organization. Three of the Board members of the Organization were also stockholders of NetTopBox, Inc. Under the terms of the merger agreement, the Organization agreed to pay NetTopBox, Inc. \$977,500 in the form of promissory notes in exchange for all of its outstanding stock. The promissory notes are due no later than one year from the close of the merger; however, the Organization is required to pay 50% of any monies received to reduce the principal on the outstanding notes. The promissory notes do not include interest and are secured by all of the assets of NetTopBox, Inc., including intellectual property, acquired by the Organization. It is the Organization's intent to fund the repayment of the notes and anticipated projects and development by obtaining sponsorships of up to \$3,500,000.

Internet Multicasting Service, Inc.
Notes to Financial Statements

4. Subsequent Acquisitions (continued)

On April 7, 2002 the Organization entered into an agreement to acquire assets of Alkindi, Inc., consisting of software, including the source code, related documentation and all relevant specification documents. Consideration for this transaction was in the form of an in-kind contribution of approximately \$120,000 and a purchase price of \$1.00 in return for a promise by the Organization to place all assets acquired in the public domain.