

38 Studios, LLC

(A Development Stage Company)

Financial Statements and Supplementary Information

December 31, 2008

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To the Board of Directors
38 Studios, LLC

We have compiled the accompanying statement of assets, liabilities, and members' equity- income tax basis of 38 Studios, LLC (a development stage company) as of December 31, 2008, and the related statements of revenues and expenses- income tax basis, changes in members' equity- income tax basis and cash flows- income tax basis for the current quarter and twelve month period ended December 31, 2008, and the accompanying supplementary information- income tax basis contained in Schedules A through K which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements and supplementary schedules have been prepared on the accounting basis used by the Company for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenues, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

David Wasserman, CPA, P.C.

Sudbury, Massachusetts
April 20, 2009

38 STUDIOS, LLC**(A Development Stage Company)****Statement of Assets, Liabilities and Members' Equity - Income Tax Basis****December 31, 2008**

ASSETS	
CURRENT ASSETS	
Cash	\$ 308,819
Due from Mentor Media, LLC	<u>5,828</u>
Total Current Assets	\$ 314,647
PROPERTY AND EQUIPMENT	
Computer and Office Equipment	533,799
Computer Software	482,830
Furniture & Fixtures	354,448
Leasehold Improvements	<u>269,659</u>
Total Property and Equipment	1,620,736
Less: Accumulated Depreciation	<u>551,040</u>
Property and Equipment, Net	1,069,696
OTHER ASSETS	
Mentor Media- Intellectual Property (Net of Amortization)	1,801,023
Notes Receivable- Long Term	137,124
Security Deposit- Office Lease	<u>120,000</u>
Total Other Assets	<u>2,058,147</u>
TOTAL ASSETS	\$ <u>3,442,490</u>
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Credit Card Payable	\$ 42,012
Retirement Plan Contributions Payable	35,282
Taxes Payable	51,107
Current Liabilities- Other	<u>5,216</u>
Total Current Liabilities	\$ 133,617
LONG-TERM LIABILITIES	
Note Payable- Credit Line	11,492,851
Note Payable- Mentor Media, LLC	480,000
Accrued Rent Payable	<u>263,310</u>
Total Long-Term Liabilities	<u>12,236,161</u>
TOTAL LIABILITIES	12,369,778
MEMBERS' EQUITY	
Members' Equity (Deficit)	<u>(8,927,288)</u>
TOTAL MEMBERS' EQUITY	<u>(8,927,288)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ <u>3,442,490</u>

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38 STUDIOS, LLC

(A Development Stage Company)

Statements of Revenues and Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

	<u>4th Qtr 2008</u>	<u>YTD</u>
Revenue	\$ 1,003	\$ 10,158
Direct Costs:		
Art Expenses (Schedule A)	479,103	1,903,628
Audio Expenses (Schedule B)	53,462	100,894
Azeroth Advisor Expenses (Schedule C)	42,478	56,368
Design Expenses (Schedule D)	344,898	1,216,559
Engineering Expenses (Schedule E)	342,748	2,305,683
Production Expenses (Schedule F)	176,488	497,568
Quality Assurance Expenses (Schedule G)	<u>29,080</u>	<u>120,721</u>
Total Direct Costs	<u>1,468,257</u>	<u>6,201,421</u>
Operating Expenses:		
Administration Expenses (Schedule H)	912,641	3,016,690
Information Technology Expenses (Schedule I)	121,554	472,780
Marketing Expenses (Schedule J)	119,886	434,948
Web Services Expenses (Schedule K)	<u>105,771</u>	<u>411,695</u>
Total Operating Expenses	<u>1,259,852</u>	<u>4,336,113</u>
Income (Loss) from Operations	(2,727,106)	(10,527,376)
Interest Income	2,019	13,468
Interest Expense	<u>(131,699)</u>	<u>(364,242)</u>
Net Income (Loss)	\$ <u>(2,856,786)</u>	\$ <u>(10,878,150)</u>

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38 STUDIOS, LLC**(A Development Stage Company)****Statements of Cash Flows - Income Tax Basis****Current Quarter and Twelve Month Period Ended December 31, 2008**

	<u>4th Qtr 2008</u>	<u>YTD</u>
Cash Flows from Operating Activities		
Net Income (Loss)	\$ (2,856,786)	\$ (10,878,150)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	139,286	336,708
Amortization	32,191	78,976
Change in assets and liabilities:		
Employee Advance	235	1,569
Due from Mentor Media, LLC	16	(5,828)
Prepaid Rent	29,063	29,063
Notes Receivable- Long-Term	(667)	(3,215)
Deposits- Other	0	14,655
Credit Card Payable	(22,473)	756
Retirement Plan Contributions Payable	8,636	9,116
Taxes Payable	(587)	50,253
Current Liabilities- Other	(7,021)	1,412
Accrued Rent Payable	14,238	68,360
Net Cash Used in Operating Activities	<u>(2,663,869)</u>	<u>(10,296,325)</u>
Cash Flows from Investing Activities		
Acquisitions of Property and Equipment	(87,333)	(518,097)
Mentor Media- Intellectual Property	0	(1,880,000)
Net Cash Used in Investing Activities	<u>(87,333)</u>	<u>(2,398,097)</u>
Cash Flows from Financing Activities		
Proceeds from Capital Contributions	600	3,400,696
Proceeds from Note Payable- Credit Line	2,718,310	8,442,191
Proceeds from Note Payable- Mentor Media, LLC	0	480,000
Net Cash Provided by Financing Activities	<u>2,718,910</u>	<u>12,322,887</u>
Net Increase (Decrease) in Cash and cash equivalents	(32,292)	(371,535)
Cash and cash equivalents at Beginning of Period	<u>341,111</u>	<u>680,354</u>
Cash and cash equivalents at End of Period	\$ <u>308,819</u>	\$ <u>308,819</u>

SUPPLEMENTAL DISCLOSURES

Cash Flows from Operating Activities reflect Interest Payments of \$ 131,699 \$ 364,242

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38 Studios, LLC
Supplementary Information
December 31, 2008

38 STUDIOS, LLC

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Schedule A - Analysis of Art Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE A

ART EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 411,474	1,465,450
Payroll Tax Expense	27,731	108,359
Employee Benefits	29,336	220,983
Advertising	250	250
Communication Expense	0	40
Computer Expense	176	293
Computer Support Services	0	4,137
Conference Expense	0	4,032
Job Recruitment	0	20,239
Office Supplies	89	920
Relocation Expense	5,323	54,220
Travel, Meals and Entertainment	2,125	14,320
Travel- Conferences	0	4,150
Travel- Job Recruitment	0	3,636
Video Production	<u>2,599</u>	<u>2,599</u>
Total Art Expenses	\$ <u>479,103</u>	<u>1,903,628</u>

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38 STUDIOS, LLC

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Schedule B - Analysis of Audio Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE B

AUDIO EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 47,500	59,432
Payroll Tax Expense	3,634	4,546
Employee Benefits	1,010	1,010
Computer Expense	0	192
Office Expense	0	33
Relocation Expense	0	27,408
Travel, Meals & Entertainment	925	4,446
Travel- Job Recruitment	<u>393</u>	<u>3,827</u>
Total Audio Expenses	\$ <u>53,462</u>	<u>100,894</u>

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38 STUDIOS, LLC

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Schedule C - Analysis of Azeroth Advisor Expenses - Income Tax Basis Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE C

AZEROTH ADVISOR EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Outside Services	\$ 42,385	55,718
Credit Card Processing Fees	0	299
PayPal Fees	<u>93</u>	<u>351</u>
Total Azeroth Advisor Expenses	\$ <u>42,478</u>	<u>56,368</u>

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Schedule D - Analysis of Design Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE D

DESIGN EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 250,823	895,222
Payroll Tax Expense	19,157	65,593
Employee Benefits	18,943	152,120
Communication Expense	0	40
Computer Expense	238	847
Conference Expense	0	2,935
Job Recruitment	0	585
Office Expense	43	727
Relocation Expense	47,321	66,029
Travel, Meals and Entertainment	5,789	22,066
Travel- Conferences	548	6,086
Travel- Job Recruitment	<u>2,036</u>	<u>4,309</u>
Total Design Expenses	\$ <u>344,898</u>	<u>1,216,559</u>

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38 STUDIOS, LLC

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Schedule E - Analysis of Engineering Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE E

ENGINEERING EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 284,333	931,587
Payroll Tax Expense	17,250	62,295
Employee Benefits	22,077	116,379
Communication Expense	0	87
Computer Expense	158	477
Conference Expense	0	2,285
Job Recruitment	2,082	2,666
Office Expense	319	909
R&D Software License Fees	0	1,107,500
Relocation Expense	13,750	65,215
Travel, Meals and Entertainment	1,126	13,171
Travel- Job Recruitment	<u>1,653</u>	<u>3,112</u>
Total Engineering Expenses	\$ <u>342,748</u>	<u>2,305,683</u>

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Schedule F - Analysis of Production Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE F

PRODUCTION EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 111,100	363,622
Payroll Tax Expense	8,499	27,260
Employee Benefits	5,464	46,080
Communication Expense	0	10
Computer Expense	0	90
Conference Expense	0	795
Education and Training	0	498
Job Recruitment	30,000	30,000
Office Expense	5,982	7,243
Relocation Expense	11,514	11,514
Travel, Meals and Entertainment	3,929	7,575
Travel- Conferences	0	289
Travel- Job Recruitment	<u>0</u>	<u>2,592</u>
Total Production Expenses	\$ <u>176,488</u>	<u>497,568</u>

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Schedule G - Analysis of Quality Assurance Expenses - Income Tax Basis Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE G

QUALITY ASSURANCE EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 22,500	85,398
Payroll Tax Expense	1,721	6,533
Employee Benefits	2,168	14,604
Education and Training	0	249
Office Expense	76	76
Professional Services- Other	2,450	2,450
Relocation Expense	0	6,406
Travel, Meals and Entertainment	165	3,997
Travel- Job Recruitment	<u>0</u>	<u>1,008</u>
Total Quality Assurance Expenses	\$ <u>29,080</u>	<u>120,721</u>

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Schedule H - Analysis of Administration Expenses - Income Tax Basis

Current Quarter and Twelve Month Period Ended December 31, 2008

SCHEDULE H

ADMINISTRATION EXPENSES:	<u>4th Qtr 2008</u>	<u>YTD</u>
Salaries	\$ 208,290	936,620
Payroll Tax Expense	9,493	74,727
Employee Benefits	182,948	285,516
Advertising	0	1,000
Amortization	32,191	78,976
Communication Expense	11,039	43,370
Company Functions	0	2,783
Computer Expense	123	9,308
Computer Support Services	0	3,492
Conference Expense	217	5,186
Depreciation	139,286	336,708
Education and Training	3,408	9,045
Equipment Rental	2,793	7,334
Insurance	11,234	14,979
Job Recruitment	535	1,824
Office Expense	11,759	61,390
Payroll Processing Fees	8,261	29,052
Professional Services- Accounting	17,306	84,126
Professional Services- Executive Search	0	15,000
Professional Services- Financial Services	5,600	28,800
Professional Services- Legal	31,589	181,453
Professional Services- Photography Service	1,680	1,680
Professional Services- Other	2,452	11,288
Relocation Expense	9,537	23,533
Rent- Office Space	135,744	442,977
Rent- Rental Properties	0	18,895
Rent- Rental Properties- Furniture	0	2,287
Repairs & Maintenance- Office Space	7,332	22,434
Repairs & Maintenance- Rental Properties	0	1,812
Taxes- Other	2,000	2,200
Travel, Meals and Entertainment	66,075	224,851
Travel- Conferences	0	4,319
Travel- Job Recruitment	224	498
Utilities- Office	11,525	42,144
Utilities- Rental Properties	0	7,083
Total Administration Expenses	\$ <u>912,641</u>	<u>3,016,690</u>

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