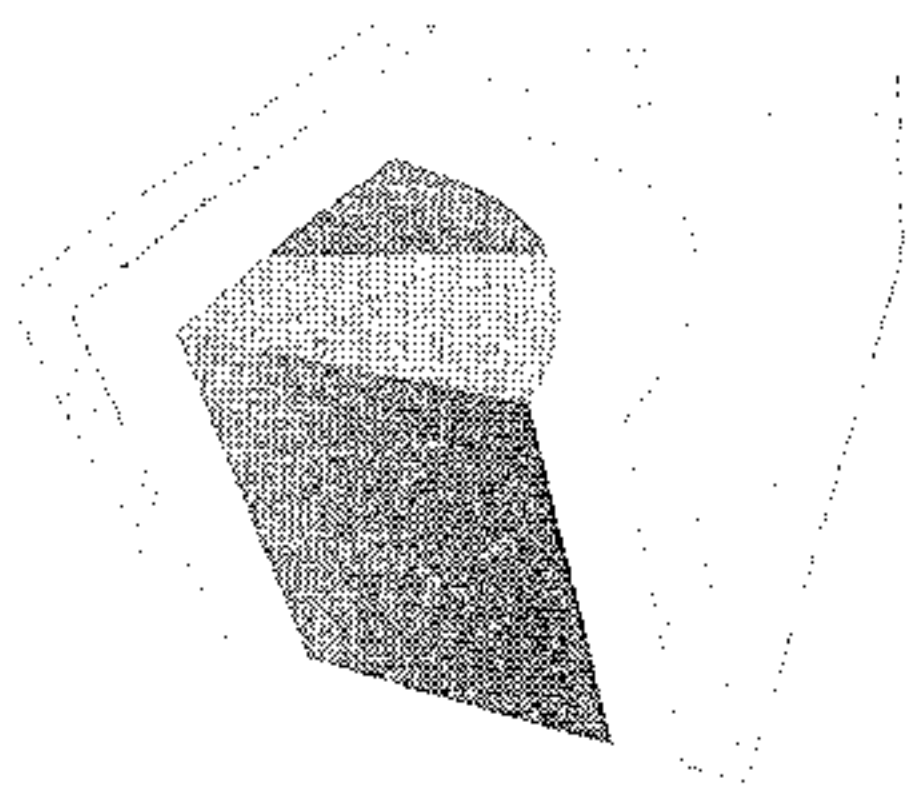


**BULLZI SECURITY, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2010



**K&A&B&A**  
CONSULTANTS  
CPA ACCOUNTANTS CONSULTANTS

Tel 352-243-8460 • Fax 407-386-6336  
1635 E Hwy 50 • Ste 103 • Clermont, FL 34711

[www.KabaConsulting.com](http://www.KabaConsulting.com)

## ACCOUNTANT'S COMPILATION REPORT

To the Stockholders  
Bullzi, Inc. and Subsidiary

We have compiled the accompanying consolidated balance sheet of Bullzi, Inc. and Subsidiary as of September 30, 2010, and the related consolidated statement of operations, statement of changes in stockholders' equity and cash flows for the period ended September 30, 2010, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of a departure from generally accepted accounting principles described in the following paragraph.

Generally accepted accounting principles require that deferred income taxes be recognized for the tax effects of differences between the financial and tax bases of assets and liabilities and for operating losses and tax credits that are available to offset future taxable income. The Company has not recorded deferred taxes in the accompanying financial statements. The effects of this departure from generally accepted accounting principles have not been determined.

*K&A&B&A*

October 18, 2010

Certified Public Accountants

## CONTENTS

	<i>Page</i>
ACCOUNTANT'S COMPILATION REPORT	1
CONSOLIDATED BALANCE SHEET (UNAUDITED)	2
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)	3
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)	4
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	6

**BULLZI SECURITY, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

September 30, 2010

**ASSETS**

	<u>2010</u>
<b>CURRENT ASSETS:</b>	
Cash	\$ 8,854
Accounts receivable	<u>86,656</u>
<b>TOTAL CURRENT ASSETS</b>	<u>95,510</u>
PROPERTY AND EQUIPMENT, net	<u>25,808</u>
<b>OTHER ASSETS:</b>	
Goodwill	112,091
Other receivables	22,718
Other assets	<u>23,270</u>
<b>TOTAL OTHER ASSETS</b>	<u>158,079</u>
	<u><u>\$ 279,397</u></u>

## LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2010</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 162,143
Accrued expenses	47,124
Due to stockholders	<u>1,345</u>
 TOTAL CURRENT LIABILITIES	 <u>210,612</u>
 COMMITMENTS AND CONTINGENCIES	
 STOCKHOLDERS' EQUITY:	
Common stock - \$.00004 par value	
100,000,000 shares authorized	2,078
Additional paid-in capital	864,692
Accumulated deficit	<u>(797,985)</u>
 TOTAL STOCKHOLDERS' EQUITY	 <u>68,785</u>
	 <u><u>\$ 279,397</u></u>

See notes to consolidated financial statements (unaudited).

**BULLZI SECURITY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)**

For the Period Ended September 30, 2010

	<u>2010</u>
NET REVENUE	\$ 669,067
COST OF SALES	<u>306,762</u>
GROSS PROFIT	<u>362,305</u>
OPERATING EXPENSES:	
Salaries & wages - officers	107,508
Professional and consulting fees	29,957
Salaries & wages - non officers	49,580
Selling, general and administrative	138,231
Depreciation	<u>6,723</u>
TOTAL OPERATING EXPENSES	<u>331,999</u>
NET INCOME	<u><u>\$ 30,306</u></u>

See notes to consolidated financial statements (unaudited).

**BULLZI SECURITY, INC. AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

For the Period Ended September 30, 2010

	<u>Common Stock - Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in-Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance - December 31, 2007	51,950,041	\$ 2,078	\$ 864,692	\$ (813,482)	\$ 53,288
Net income	-	-	-	771,716	771,716
Balance - December 31, 2008	<u>51,950,041</u>	<u>2,078</u>	<u>864,692</u>	<u>(41,766)</u>	<u>825,004</u>
Net loss	-	-	-	(29,155)	(29,155)
Balance - December 31, 2009	51,950,041	\$ 2,078	\$ 864,692	\$ (828,291)	\$ 38,479
Net income	-	-	-	30,306	30,306
Balance - September 30, 2010	<u>51,950,041</u>	<u>2,078</u>	<u>864,692</u>	<u>(797,985)</u>	<u>68,785</u>

See notes to consolidated financial statements (unaudited).

**BULLZI SECURITY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

For the Period Ended September 30, 2010

	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 30,306
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	6,723
Cash flows from changes in net assets and liabilities:	
Accounts receivable	247,617
Due to stockholder	540
Other receivables	(18,400)
Accounts payable	(232,699)
Accrued expenses	(6,382)
Net cash provided by operating activities	<u>27,705</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of property & equipment	<u>(25,808)</u>
Net cash used in operating activities	<u>(25,808)</u>
<b>NET INCREASE IN CASH</b>	1,897
CASH - Beginning of period	<u>6,957</u>
CASH - End of period	<u><u>\$ 8,854</u></u>

See notes to consolidated financial statements (unaudited).



## BULLZI SECURITY, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Period Ended September 30, 2010

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Nature of Operations*** – Bullzi Security, Inc. (the Company) is a corporation duly organized under the laws of the state of Nevada which commenced operations on October 25, 2004. The Company is an eLearning company which provides web based security training solutions that use multimedia technology, such as audio, graphics, animation, video and text. The Company has operations in New York, New Jersey and Florida.

The Company is a publicly traded company. The Company received its public stock symbol from NASDAQ on December 15, 2006. In addition, the Company received its Depository Trust Company (DTC) eligibility on January 2007.

***Principles of Consolidation*** –The consolidated financial statements includes the accounts of the Company and its wholly-owned subsidiary, Creative Forecast, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

***Accounts Receivable*** – Accounts receivable are customer obligations due under normal trade terms. The Company evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, it records a specific allowance to reduce the amounts recorded to what it believes will be collected. The Company may also record an additional reserve which is determined based on historical experience and its assessment of the general financial conditions affecting its customer base. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Management has evaluated the Company's accounts receivable and feels that all amounts are collectible, therefore as of September 30, 2010 no allowance for doubtful accounts receivable has been recorded.

***Property and Equipment*** – Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Major additions and improvements that extend the useful lives of the equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

***Goodwill*** – In accordance with GAAP, goodwill is no longer amortized. Goodwill is subject to at least an annual assessment for impairment. Goodwill impairment tests consist of a comparison of the reporting unit's fair value with its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. If the carrying value of a reporting unit exceeds its estimated fair value, goodwill is written down to its implied fair value. Management of the Company has evaluated goodwill for impairment and deems goodwill is not impaired for the period ended September 30, 2010.

## BULLZI SECURITY, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Period Ended September 30, 2010

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

**Revenue Recognition** – Revenue is generated primarily from consulting engagements and is billed and recognized as services are rendered.

**Advertising Costs** – The Company charges the cost of advertising to operations as incurred. The Company has not incurred any advertising costs for the period ended September 30, 2010.

**Income Taxes** – For income tax purposes the Company is a regular “C” Corporation and therefore is liable for federal and state and local taxes where applicable. Effective January 1, 2009, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FASB ASC 740-10). Under this Interpretation, the Company is required to evaluate each of its tax positions to determine if they are more likely than not to be sustained if the taxing authority examines the respective position. The Company has evaluated each of its tax positions and has determined that no provision or liability for income taxes is necessary.

The Company files income tax returns in the U.S. federal jurisdiction. The Company is subject to U.S. federal income tax examination by tax authorities for the period ended September 30, 2010.

**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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## BULLZI SECURITY, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Period Ended September 30, 2010

#### NOTE 2 PROPERTY AND EQUIPMENT

At September 30, 2010, property and equipment is summarized as follows:

	Estimated Useful Lives	2010
Furniture, fixtures and equipment	5 – 7 years	\$ 84,350
Computer software and equipment	3 – 5 years	66,945
		<u>151,295</u>
Less: accumulated depreciation and amortization		<u>(125,487)</u>
		<u>\$ 25,808</u>

#### NOTE 3 COMMITMENTS

##### *Employment agreement*

The Company has entered into an employment agreement with a majority shareholder of the Company. The agreement calls for a minimum annual compensation of \$150,000 plus various other commission related incentives.

##### *Warrants*

The Company has issued approximately 3,800,000 non-expiring common stock warrants with exercise prices ranging from \$.035 - \$.25 per share all of which remain outstanding as of September 30, 2010. Redemption of such warrants is strictly at the discretion of the warrant holders and no certain date exists for which the warrants are required to be exercised or forfeited.

#### NOTE 4 SIGNIFICANT CUSTOMERS

During the period ended September 30, 2010, approximately 53% of the Company's revenues were comprised from one customer.

**BULLZI SECURITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the Period Ended September 30, 2010

**NOTE 5 RELATED PARTY TRANSACTIONS**

During the period ended September 30, 2010, the Company loaned \$18,400 to a company wholly owned by an immediate family member of the Company's major shareholder. The loan bears interest at 6% per annum. The loan including all accrued interest on the unpaid principal balances matures on April 15, 2011. As of September 30, 2010 the balance of the loan receivable is \$18,400 and is included in other receivables in the accompanying balance sheet.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND  
RESULTS OF OPERATIONS**

**Bullzi Security, Inc.**

**1052 Montgomery Road, Suite 1073  
Altamonte Springs, Florida 32714**

**Federal ID No.: 20-1840083**

**CUSIP No.: 12045P 10 6**

---

**ISSUER'S EQUITY SECURITIES**

**As of September 30, 2010**

**Common Stock**

**100,000,000 shares of Common Stock, par value \$0.001 per share, authorized  
52,100,030 shares of Common Stock issued and outstanding**

**ALL INFORMATION FURNISHED HEREIN HAS BEEN PREPARED FROM THE BOOKS AND RECORDS OF THE COMPANY IN ACCORDANCE WITH RULE 15c2-11 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

**NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED HEREIN IN CONNECTION WITH THE COMPANY. ANY REPRESENTATIONS NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN MADE OR AUTHORIZED BY THE COMPANY.**

**DELIVERY OF THIS INFORMATION FILE, AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE FIRST WRITTEN ABOVE.**

The undersigned hereby certifies that they have prepared and reviewed the information and the notes hereto, and the information herein is true, complete and presented fairly, in all materials respects.

September 30, 2010

By: /s/ Thomas W. Welch  
Thomas W. Welch  
Chief Executive Officer

**COPIES OF THIS INFORMATION AND DISCLOSURE STATEMENT ARE AVAILABLE FROM THE ISSUER UPON REQUEST.**

## **Disclosure Regarding Forward-Looking Statements**

This Information and Disclosure Statement contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company’s expectations or beliefs concerning future events. The words *believe*, *expect*, *anticipate*, *intend*, *estimate*, *project*, and similar expressions, are intended to identify forward-looking statements. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including without limitations, the factors described in this Management’s Discussion and Analysis of Financial Condition and Results of Operations Statement.

Investors are cautioned not to place undue reliance on such forward-looking statements because they speak only of the Company’s views as of the statement dates. Although the Company has attempted to list the important factors that presently affect the Company’s business and operating results, the Company further cautions investors that other factors may in the future provide to be important in affecting the Company’s results of operations. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

## **Overview**

The following sections focus on the key indicators reviewed by management in evaluating our financial condition and operating performance, including the following:

- Revenue generated from providing information security services and training products;
- Expenses associated with developing our education products and delivering our services; and
- Cash available to continue development of our training programs and service agreements.

The following Management’s Discussion and Analysis (“MD&A”) is intended to help the reader understand our results of operations and financial condition and should be read in conjunction with the accompanying financial statements and the notes thereto and the financial statements and the notes thereto contained in our September 30, 2010 Quarterly Report. This overview summarizes the MD&A, which includes the following sections:

- Our Business — a general description of our business, our services and our business strategy.
- Results of Operations — an analysis of our results of operations for the periods presented in our financial statements.
- Liquidity, Capital Resources and Financial Position — an analysis of our cash position and cash flows, as well as a discussion of our financing arrangements.
- Critical Accounting Policies and Estimates — a discussion of our critical accounting policies that require critical judgments, assumptions and estimates.

## Our Business

Bullzi Security (“the Company”) is an information security consultancy firm with a specialty on security education. The Company intends to capitalize on the dramatic growth in the security market by delivering highly valuable professional services, security products, security training, and managed security services. Through our consulting services and integrated delivery solutions, the Company’s business strategy is to help organizations protect key assets, including persons, property, information, brand, and reputation.

The information that is possessed by companies today, is their greatest asset, and as we have seen lately, is subject to unauthorized access, breaches, loss of data, etc. The business world must be ready to protect this information and be prepared to detect and respond to cyber attacks. To assist our clients in the protection of critical information, the Company supports the following two lines of business:

- Information Security Consulting
- Information Security Education

### Information Security Consulting

The Company uses proprietary techniques, based on industry standards (ISO-27002) as well as the most reliable, up-to-date automated security assessment tools, to generate security profiles of essential information systems. The vulnerability testing service focuses on the client’s IT exposures. With the recent rash of breaches and unauthorized access that have made the news, along with federal mandates such as Healthcare Insurance Portability and Accountability Act (HIPAA); North American Electric Reliability Council (NERC); the Gramm-Leach-Bliley Act (GLBA) and the Sarbanes-Oxley Act (SOX), the Company is positioned to provide a variety of information security consulting services.

The majority of the consulting work in 2010 was related to NERC CIP compliance and computer forensics. During the 9 month period ending September 30, 2010, consulting sales were \$385,616 which is up \$356,903 from \$28,713 for sales from the same period in 2009. The Company had an unexpected increase in services revenue during 3Q10. This is not expected to continue in 4Q10.

### Information Security Education

The Company currently provides security education and training services to over 300,000 users world-wide in 14 languages. The WISE training product is based on a recurring revenue model that allows us to maintain our client base and associated revenue for years into the future. Bullzi Security's wholly-owned subsidiary, WISE Learning Solutions LLC, owns all of the training programs and intellectual property associated with this product. It also maintains a Learning Management System (LMS) infrastructure that allows us to host training programs for those clients that do not have the required infrastructure.

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
WISE License – Initial Sales	121,344	159,333
WISE License – Annual Renewal	94,603	89,272
Course Creator Sales	8,640	18,521
WISE Modifications	21,765	20,776
WISE ASP Hosting	36,556	50,620

The new WISE sales in 2010 included a new WISE licenses for Advance America and and Alliance Pipeline, as well a WISE Assurance Package to Aegon, an Enterprise License upgrade for Shoppers Drugmart and a license for our new Medicare Training course for New Jersey Department of Health Services.

The Company has created a number of new courses over the past six months and these will be released in the coming months. The expense related to course development has already been incurred and has reported in our financials.

## Results of Operations

### *Executive Summary*

The results of our operations for the six months ended September 30, 2010 and 2009 are as follows:

	<u>September 30, 2010</u>	<u>September 30, 2009</u>	<u>Change</u>	<u>% Change</u>
Total Income	669,067	371,166	297,901	45%
Total COGS	306,762	33,706	273,056	89%
Gross Profitability	362,305	337,460	24,845	7%
Total Expenses	<u>331,999</u>	<u>450,700</u>	(118,701)	-35%
<b>Net Income (Loss)</b>	<b>30,306</b>	<b>(113,240)</b>	<b>143,546</b>	

The Bullzi services revenue is based upon an hourly rate of \$187.50 to \$250.00 per hour plus expenses. This provides a 65% gross margin when direct labor is used to provide the services. If outside consultants are used to provide such services, the margin is reduced to 25 – 35%.

Our training revenue is comprised of the initial license fee (volume discount pricing), customization fees and hosting fees (if hosting is required). Most projects have 3 – 5 days of customization, which is charged out at \$1,500 per day.

## General and Administrative Expenses

General and administrative expenses stayed fairly consistent for the 6 month period ending June 30, 2009 and 2010, respectively. Prior to 2009, Bullzi Security cut expenses extensively to prepare for the economic downfall. A portion of the Officer Compensation is being deferred so that Company funds can be invested in new product development.

## Other Income and Expenses

None

## Liquidity and Capital Resources

The Company has limited capital reserves and has operated on cash flows since 2007. The Company plans to raise Capital, once the stock price reaches a minimum of 10x revenue. The Company has been trading at approximately 1x revenue for the past six months and Management believes that this is an extremely low valuation for a product firm in the security space.



## **Operating Activities**

Operating activities include revenues we receive from information security consulting services and the sale of the WISE education program (including license fees, hosting fees and customization fees) to our customers, the costs incurred in the delivery of those products and services, general and administrative expenses, and depletion/depreciation expenses.

The Company We will continue to provide both information security consulting services and education products to our customers. In doing so, we will use our own employees when feasible. When required, we will use outside resources.

## **Investing Activities**

There are no external investments.

The Company will continue in investing in new product development on the WISE education series out of available cash flows.

## **Financing Activities**

The Company has no debt and has not raised capital since October 2007. Once the valuation of the Company stock hits a “reasonable” value, the Company will seek to raise additional capital for, both, internal growth and acquisitions.

## **Off-Balance Sheet Arrangements**

None

## **Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with the timing of revenue recognition and stock-based compensation. Below is a summary of these critical accounting policies.

## **Revenue Recognition**

The Company's revenues consist mainly of security consulting fees, WISE License fees, hosting fees, and WISE customization fees. The Company recognizes the WISE License and hosting fees upon signing of the annual license agreement and recognizes the WISE customization fees and security consulting fee in one of two ways. For small projects, the Company recognizes these fees only upon completion of the work. For larger projects, the Company may use percentage-of-completion method. The percentage-of-completion method requires management to estimate the percent of work that is completed on a particular project, which could change materially throughout the duration of the project and result in significant fluctuations in revenue recognized during the reporting periods throughout the project. The Company did not recognize any revenues pursuant to the percentage-of-completion method during the 9 months ended September 30, 2010 or 2009.

## **Share-based compensation**

In order to retain key employees directors, the Company, at its discretion, has the option of issuing annual Stock Options (of up to 5% of the outstanding number of shares) to key employees and directors. Since 2007, the Company has issued 7,500,000 Stock Options to key employees and directors. The Stock Option period is from February 1 – March 31 of each year. The option price for these options is set to the share closing price on the date of issue.