

TaxMasters, Inc.
BALANCE SHEETS
(Unaudited)

	<u>As of March 31,</u>	<u>As of December 31,</u>
	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,141,575	\$ 2,892,895
Short-term investments	315,640	313,663
Accounts receivable trade, net	14,592,868	11,426,037
Deferred tax asset	2,203,647	1,654,130
Prepaid expenses	38,750	125,000
Total current assets	<u>21,292,480</u>	<u>16,411,725</u>
Property and equipment, net	2,368,101	2,533,387
Note receivable	254,551	250,000
Investments	426,104	423,968
Deferred tax asset, net of current	2,673,053	3,709,430
Other Assets	17,000	17,000
TOTAL ASSETS	<u><u>\$ 27,031,289</u></u>	<u><u>\$ 23,345,510</u></u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,869,656	\$ 3,099,427
Accounts payable related parties	-	117,673
Accrued Liabilities	2,221,256	2,448,783
Deferred revenue	25,019,008	20,478,350
Capital lease obligation	547,573	568,562
Note payable to related party	4,467,842	4,582,718
Total current liabilities	<u>34,125,335</u>	<u>31,295,513</u>
LONG TERM DEBT		
Capital lease obligations, net of current portions	1,625,098	1,708,588
Deferred revenue, net of current portion	-	-
Total liabilities	<u>35,750,433</u>	<u>33,004,101</u>
COMMITMENTS AND CONTIGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.001 par value, 500,000,000 shares authorized, 1,000 shares issued and outstanding at December 31, 2009 and December 31, 2008	1	1
Common stock, \$0.001 par value, 1,000,000,000 authorized, 339,675,899 and 301,000,000 shares issued and outstanding at December 31, 2009 and December 31, 2008, respectively	339,676	339,676
Additional paid-in capital	199,768	199,768
Accumulated deficit	<u>(9,258,589)</u>	<u>(10,198,036)</u>
Total stockholders' deficit	<u>(8,719,144)</u>	<u>(9,658,591)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u><u>\$ 27,031,289</u></u>	<u><u>\$ 23,345,510</u></u>

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See notes to financial statements.

TaxMasters, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31,	
	2010	2009
REVENUES, net	\$ 11,346,527	\$ 7,270,794
OPERATING COSTS AND EXPENSES:		
Selling, general and administrative expenses	4,871,073	3,173,927
Compensation	4,797,720	2,855,799
Depreciation	192,752	25,263
Total operating costs and expenses	9,861,545	6,054,989
NET INCOME (LOSS) FROM OPERATIONS	1,484,982	1,215,805
OTHER INCOME (EXPENSE):		
Interest income	12,688	13,170
Interest expense	(71,363)	(12,824)
Total other income (expense)	(58,675)	346
NET INCOME (LOSS) BEFORE INCOME TAXES	1,426,307	1,216,151
Income tax benefit	486,860	-
NET INCOME (LOSS)	\$ 939,447	\$ 1,216,151
EARNINGS PER COMMON SHARE		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic	339,675,899	301,000,000
Diluted	339,675,899	301,000,000

See notes to financial statements.

CASH FLOWS

For the three months ended March 31,

(Unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 939,447	\$ 1,216,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred tax asset	486,860	-
Depreciation and amortization	192,752	25,263
Deferred rent	147,044	119,888
Interest accrued on note receivable	(4,554)	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,166,830)	(497,082)
Prepaid service	86,250	-
Accounts payable and accrued liabilities	(1,604,342)	(779,665)
Accounts payable to related parties	(117,673)	235,000
Deferred revenue	4,540,658	1,771,597
Net cash provided by operating activities	1,499,612	2,091,153
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts (Purchase) of investments, net	(4,113)	(9,069)
Issuance of note receivable	-	-
Purchase of fixed assets	-	-
Net cash used in investing activities	(4,113)	(9,069)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of capital lease obligations	(131,943)	(38,761)
Repayment, net of accrued interest, of note payable to related party	(114,876)	-
Proceeds on notes payable to related party	-	72,000
Distributions to shareholders prior to conversion to C corp	-	(1,701,125)
Net cash used in financing activities	(246,819)	(1,667,886)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,248,680	414,198
CASH AND CASH EQUIVALENTS—Beginning of year	2,892,895	3,683,467
CASH AND CASH EQUIVALENTS—End of period	\$ 4,141,575	\$ 4,097,665
Supplemental schedule for cash flow information		
Cash paid for taxes	\$ -	\$ -
Cash paid for interest	\$ 71,363	\$ 12,824
NON CASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property and equipment by seller financing	\$ 27,564	\$ 174,400