

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

INNOVATION HOLDINGS
Form 10KSB/A
May 24, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 000-27777

INNOVATION HOLDINGS, INC.
F/K/A BLAGMAN MEDIA INTERNATIONAL, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

91-1923501

(I.R.S. Employer
Identification Number)

14622 Ventura Boulevard, Suite 1015
Sherman Oaks, California 91403

(Address of Principal Executive Offices) (Zip Code)

(818) 426-8737

(Issuer's Telephone Number, Including Area Code)

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

Securities registered pursuant to Section 12(g) of the Exchange Act: Common
Stock \$.001 par value

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding
12 months (or for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the past
90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-KSB or any amendment to
this Form 10-KSB.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. [X] Yes [] No

Issuer's net revenues for 2003 were \$83,652.

The number of shares outstanding of each of the Issuer's classes of common stock, as of December 31, 2003 was 31,682,095. As of May 18, 2004 the stock totals 39,397,187 to reflect the 1-500 split effective on April 23, 2004.

Transitional Small Business Disclosure Format (check one): [] Yes [X] No

TABLE OF CONTENTS

PART I	PAGE
Item 1. Description of Business.....	4
Item 2. Description of Property.....	10
Item 3. Legal Proceedings.....	10
Item 4. Submission of Matters to a Vote of Security Holders.....	11
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholders Matters.....	12
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	13
Item 7. Financial Statements.....	17
Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.....	17
Item 8a. Controls and Procedures.....	17
PART III	
Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.....	18
Item 10. Executive Compensation.....	19
Item 11. Security Ownership of Certain Beneficial Owners and Management...	20
Item 12. Certain Relationships and Related Transactions.....	21
Item 13. Exhibits, List and Reports on Form 8-K.....	21
Item 14: Principal Accountant Fees and Services.....	21
Signatures.....	23

NOTE RELATING TO STOCK SPLIT

On April 23, 2004, we effectuated a 1-for-500 reverse stock split with respect to our Common Shares. Whenever we make any reference in this annual report to the grant or issuance of Common Shares, or options or warrants to purchase Common Shares, such references shall, for comparison purposes, be made in reference to post-reverse numbers and, in the case of options and warrants, post-reverse exercise prices, unless we state otherwise.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

In this annual report we make a number of statements, referred to as "forward-looking statements," which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through the words and phrases such as "seek," "anticipate," "believe," "expect," "intend," "plan," "budget," "project," "may be," "may continue," "may likely result," and similar expressions. When reading any forward-looking statement, you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, including those relating to:

- o whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- o our ability to attract the qualified personnel to implement our growth strategies;
- o our ability to develop sales, marketing and distribution capabilities;
- o the accuracy of our estimates and projections;
- o our ability to fund short-term and long-term financing needs;
- o changes in our business plan and corporate strategies; and o other risks and uncertainties discussed in greater detail in the section of this annual report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this annual report, as well as other public reports filed with the United States Securities and Exchange Commission (the "SEC"). You should not place undue reliance on any forward-looking statement contained in this annual report to reflect new events or circumstances unless and to the extent required by applicable law.

iii

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW

Innovation Holdings, Inc. f/k/a Blagman Media International, Inc. is a Nevada corporation (collectively with its subsidiaries, the "Company," "we," "us," or "our"), which is the successor to a corporation founded in 1961. We are a direct marketing firm that has transitioned into a form of a holding company seeking out business opportunities and product ownership focused on direct response opportunities. Through these investments and ownership opportunities, Innovation will through direct response advertising, market products directly to consumers.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Innovation Holdings is based in Sherman Oaks, California and principally provides direct market services for our clients and their products and services through television, radio, Internet, print and outdoor advertising media. In addition, we provide extensive assistance in backend marketing and creative production.

CORPORATE HISTORY AND DEVELOPMENT

We began operations in 1994 as a sole proprietorship and formed a corporation, Blagman Media International, Inc., in early 1999. On August 2, 1999, we completed a reverse acquisition with Unisat, Inc., an inactive, public non-reporting company, founded in 1961 and formerly known as Combined Companies, Inc. On the same date, Unisat, Inc. changed its name to Blagman Media International, Inc. and we therefore have two Nevada entities with the same name. The transaction was structured as a share exchange, in which Robert Blagman exchanged all of his shares in the privately held entity for 8,200,000 common shares of Unisat, Inc. In April 2000, we entered into a share exchange agreement with MNS Eagle Equity Group I, an inactive, reporting Nevada corporation, which resulted in our becoming the parent reporting company.

The primary purpose of these transactions was to give us access to a public market, to create a new corporate vehicle with which to build a more expansive media-buying infrastructure, thereby allowing us to leverage our direct marketing and direct response efforts. Currently, we are actively pursuing acquisitions and various strategic and working relationships which, if successful, will allow us to create a "network" of alliance partners with the capacity to deliver a broader range of services in a more cost-efficient manner.

In 2001, internally we focused on our core competencies by making quantitative media buys and in assisting our clients in implementing traditional radio, television and out of home media strategies. Given the general uncertainties in Internet advertising and Internet business models that developed in late 2000, and which continue, we plan to monitor the use and styles of Internet advertising. In this way, we can assess the opportunities available to us in Internet advertising while not making any firm financial commitments to an Internet strategy. In addition to considering merger and acquisition opportunities for consolidation and industry growth, we are continuing to pursue an expansion in the television production field through strategic alliances.

4

In 2001, we also actively pursued acquisitions and completed our first industry acquisition transaction in March 2002 when Century Media, Inc. ("Century") became a wholly-owned subsidiary under the name Blagman-Century Media, Inc. ("Blagman-Century"), subsequently renamed Century Media, Inc. We had been negotiating since early 2001 to acquire Century Media, a Santa Monica based advertising agency in business for over ten years with historical billings and placements that ranged from \$35 million to \$110 million. In 2001, we entered into agreements to acquire all of the outstanding stock of Century, but certain requirements were not satisfied. In October 2001, we concluded that the purchase price for Century, which was then set at \$5.7 million cash plus the assumption of significant debt, needed to be substantially reduced as a result of our due diligence conclusions.

In March 2002, we completed the transaction through a merger of a wholly-owned special purpose subsidiary into Century in exchange for the payment of the equivalent of \$100.00 per share to the shareholders of Century (\$12.50 in cash and the balance in shares of the common stock of the parent company (hereafter "Common Shares"), repayment of \$749,778 in debentures through the issuance of

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Common Shares, and the recognition of debts. As a result, at closing approximately \$600,000 in cash and \$2.2 million in restricted Common Shares were distributed to holders of existing Century shares, debentures, and certain stock rights. Under the merger agreement, the Common Shares were valued at the closing bid price over the seven days prior to the date of the agreement or \$0.4429, resulting in the issuance of 5,111,303 new Common Shares to the holders of Century shares, debentures and certain stock rights. Century also had continuing debt obligations due to affiliates and third parties of approximately \$1.6 million, exclusive of trade and contingency obligations. In connection with our interest in the Century transaction, we provided management services to Century from late 2001 to early 2002, essentially on a reimbursement basis. As a result of the overwhelming debt and departures by members of Century, we no longer consider this acquisition viable. We are in the process of resolving all issues related to the Century acquisition.

Following the acquisition of Century Media in March 2002, the Company had determined that Century Media was not strategic to the Company's ongoing objectives and has discontinued capital and human resource investment in Century Media effective as of December 2002.

BUSINESS ACTIVITIES

Our principal business is media buying, with a specific focus on direct marketing and direct response advertising. Direct marketing is any communication or advertisement to a consumer or business that is designed to generate a direct interest in the form of an order for a specific product of service, a request for information, or a visit to a place of business with a predetermined demographic audience. Direct marketing efforts generally attract the response by offering an incentive to the targeted audience through a broad range of media vehicles including catalogs, bill inserts, coupon mailings, telemarketing, events, and traditional direct mail. Direct marketing is intended to gain consumer interest and awareness and produce sales over a period of time through a response to the materials or the broadcast but, generally, direct marketing does not solicit an immediate response or purchase. The Company's revenues for direct marketing services are generated from media commissions which are paid in advance to us as media is placed and purchased and from fees for direct services to the client.

5

In contrast to direct marketing, direct response utilizes direct marketing's array of media vehicles, but also targets a non-specific demographic audience through media time available as "remnants" or "surplus" after normal network and prime advertising has been purchased. When there is a slowdown or recession in the "general advertiser" market, as existed in the 2001 economic slowdown, the direct response industry can flourish because of the excess media inventory. That trend has slowed due to the dramatic extent of the economic slowdown. Direct response's main purpose is to generate an immediate profitable transaction from the broad non-targeted audience it reaches. Direct response firms handle all aspects of a media campaign by merging the roles of product developer, marketer, and merchant. They often receive a percentage of sales revenues, as well as fees based on time purchased or actual services rendered. While direct response media buys and programming can be either long form (more than 2 minutes and generally 30 minutes in length) or short form (generally 30 to 120 seconds in length), the most commonly recognized direct response format is the "infomercial," a 30-minute television program demonstrating a product, providing testimonials, offering additional tie-in merchandise and motivating the audience to order the product while they are watching.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

To date, our major focus has been on direct marketing services. According to the Direct Marketing Association (DMA), overall sales through direct marketing (during 2002, the most recent period available) in the United States were approximately \$1.8 trillion and are expected to continue to increase. The proliferation of cable, network and non-network television, Internet and radio has made traditional media choices less effective and audiences harder to reach. This proliferation has increased the obstacles to reaching a mass audience in traditional media formats and increased the cost of capturing a consumer's attention. In contrast to traditional general media marketing, the results of a direct marketing or a direct response campaign are easily quantifiable because any responses can be tied directly to the marketing dollars used to generate them. Clients utilizing direct marketing and direct response campaigns have immediate feedback on whether or not their advertising has effectively translated into sales or revenues.

The direct marketing system requires advertisers to focus on the most effective time and media slots for the product they are selling. As a result, media buying has become more precise and agencies have tended to specialize in certain product lines or media outlets. We believe that there is a need to reverse the fragmentation through business and service consolidation so clients can benefit from broader marketing, increased buying power and the economies of scale.

The following chart compares the characteristics of traditional advertising with the direct marketing and direct response approaches:

6

GENERAL ADVERTISING VS. DIRECT MARKET AND DIRECT RESPONSE

GENERAL ADVERTISING	DIRECT MARKET AND DIRECT RESPONSE
Purpose is to create positive awareness	Purpose is to create an instant sale product or service for product of service
Builds awareness for a sale	Makes a sale or contact now, directly in place, under the buyer's control. Traditional advertising and place under the seller's control
Provides information	Seller tests and receives information
Sells products	Sells offers.
Creates markets	Discovers markets.
Seeks to influence behavior	Seeks to model or repeat behavior.
Creates sales	Creates customers.
Vaguely measurable	Fully accountable. Every response is measured (cost/order, cost/lead, etc)

If advertising is an "art," direct mail and direct response are a "science" because variables are documented, tested, and turned into constants, which are "replicated" in further "applications" to achieve the same or better results.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Direct response employs a range of strategies and techniques and tests them in various combinations to achieve maximum marketing results at the lowest cost. Based on the current and continuing trends in advertising, direct marketing will be a common form of advertising as the century continues, especially as more and more companies embrace direct marketing to improve their operations results and consumer exposure.

REVENUE SOURCES

The Company expects to generate revenue from the investment of capital in certain opportunities it is now seeking out in the direct response arena. Revenues have been curtailed over the past year while the firm regroups and evolves out of the problems associated with its association with a financial firm now being investigated by the SEC.

7

For full details please refer to [HTTP://WWW.SEC.GOV/LITIGATION/LITRELEASES/LR18057.HTM](http://www.sec.gov/litigation/litreleases/LR18057.htm). The ramifications of the association with the group named in the SEC investigation have caused a dramatic slowdown of the company's day to day business.

The Company also represents its advertising clients for exclusive placement of services covering productions, advertising, marketing/media, telemarketing and fulfillment activities. These services generally include a monthly fee for developing and advising on the complete marketing strategy and tactics, and related market research to establish the target identity and demographic for TV, radio and outdoor placements and a commission on the actual production series. Consistent with industry practice, we approve the media purchase orders, receive full payment from the client before the media airs and remit the media payments after deducting commissions and the media charges as they are billed to us.

COMPETITION

We compete with much larger advertising agencies that have greater financial and personnel resources to service their accounts. We seek to meet the competitive challenges these larger agencies pose. Our boutique size, ability to offer advanced client services and personal attention allows the Company to differentiate itself from many competitors. We compete through our thorough research, selective competitive intelligence on consumer and customer trends, use of our growing database on what motivates people to buy, and the quality and reliability in executing our client's direct response targeted programs. Our main competitors are Hawthorne Media, Cmedia, Mercury Media and most general/traditional advertising firms.

DEPENDENCE ON LIMITED CLIENTS

During 2002, the firm had a small group of clients that included Greenpeace, Amnesty International, the Red Skelton Estate and a variety of other small companies. During 2003 due to a refocus of our business direction, most if not all of our media and advertising transactions are being outsourced to third party entities to enhance the financial growth of Innovation Holdings. By year's end Innovation Holdings held no client contracts as it regroups and prepares to invest and acquire new product opportunities.

ALLIANCES

We originally expanded our market presence through alliances with larger enterprises and associations where our particular expertise was valuable and our

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

ability, as a smaller entity, to respond quickly in a flexible manner allowed the larger organization to enhance its marketing and advertising services. Historically, our main alliance was with Eicoff & Company, a subsidiary of Ogilvy & Mather. Eicoff & Company is the oldest, largest, and one of the most successful direct marketing firms in the country and the number one short form-advertising agency in the world with billings exceeding \$150 million. After becoming a publicly traded company, this alliance was compromised due to possible conflicts with our pending acquisitions, we are currently actively seeking new affiliations.

8

FINANCING TRANSACTIONS

On July 12, 2001, we entered into an equity line of credit agreement for up to \$15 million in credit with Gazelle Group LLP ("Gazelle") and DRH Investment Company LLC ("DRH"). This agreement covers a total of 900,000 Common Shares pursuant to the equity line of credit agreement from time to time during a three-year period beginning on the date of the agreement. The amount of issuable securities is tied to the market price of our Common Stock and as a result of our low stock price during 2002 and 2003; we have been unable to draw against the equity line of credit.

Pursuant to the terms of the equity line of credit agreement, the dollar amount of each sale is to be determined by us, subject to a maximum limit based on our Common Shares' trading volume. At least 13 trading days must occur between sales. In turn, Gazelle and DRH may sell our stock in the open market, sell our stock to other investors through negotiated transactions or hold our Common Shares in their own portfolios. As a practical matter, access to the equity line also requires an effective registration statement for the resale of such securities and our registration statement is not yet effective.

In July 2001, the Company entered into an agreement with May Davis Group, Inc. to act as exclusive agent in connection with a Securities Purchase Agreement for issuance and sale by the Company through a private placement of 100 Series B convertible preferred shares with a par value of \$0.001 per share at a securities purchase price of \$10,000 per share for an aggregate amount of \$1,000,000 for which the Company has received a full net amount of \$810,000 and has issued the Series B Preferred Stock which is convertible as specified, into Common Shares.

INTELLECTUAL PROPERTY

We have no patents, trademarks, licenses or any other intangible assets that would impact its value or earnings.

RESEARCH AND DEVELOPMENT OF ADVERTISING ACTIVITIES

We estimate that we spend approximately 68% of our time on research and development activities related to marketing strategies or techniques. We believe research on consumer trends is one of our competitive advantages.

ENVIRONMENTAL REGULATION

The cost and effects of compliance with environmental laws for federal, state or local governments are inconsequential.

9

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

EMPLOYEES

As of December 31, 2003, we had one full-time employee, the Chief Executive Officer, who is not represented by a collective bargaining unit. We also have one independent contractor working for us on an as-needed basis to assist in the bookkeeping for the Company.

ITEM 2. DESCRIPTION OF PROPERTY

The lease term on our office space located at 1901 Avenue of the Stars, Los Angeles, California, ended on April 30, 2003. We currently are renting a small executive office on a month-to-month basis and are looking for new space in which to relocate our executive offices when cash flow permits.

ITEM 3. LEGAL PROCEEDINGS

Subsequent to the Century Media transaction, TMT Media Corporation asserted that under the April 2000 Acquisition Agreement with Century Media, as a result of the transaction between the Company and Century Media, it is entitled, as of April 22, 2002, to a \$1,250,000 contingent amount and to the payment in full of the balance of \$609,564 due on the \$700,000 note delivered in the 2000 acquisition of TMT by Century Media. The Company and Century Media dispute this position and are seeking to resolve the matter. In May 2002, TMT filed a lawsuit captioned TMT MEDIA CORPORATION V. BLAGMAN CENTURY MEDIA, INC. ET AL, in Superior Court of California, County of Los Angeles, Case No. BC273368, naming the Company, Century Media and Robert Blagman personally, seeking the accelerated amount of approximately \$1,859,564. The named defendants have filed a general denial to TMT Media's allegations and have asserted numerous affirmative defenses. Mr. Blagman demurred to the allegations raised against him and since the pleading was successful, Robert Blagman is no longer a party to this lawsuit. On December 2, 2003, TMT Media Corporation was granted Summary Judgment against Blagman-Century Media, Inc., Blagman Media International, Inc. and Century Media, Inc. in the amount of \$2,081,291.60. The Company's prior legal counsel failed to file any opposition to the summary judgment motion which resulted in attorneys' fees and costs being granted for \$152,320.75 and \$9,361.69 respectively. Newly retained legal counsel for the Company's has found that former counsel failed to file any opposition to the motion. The Company's current legal counsel will aggressively and vigorously file a motion to be relieved of the default as to the summary judgment motion, file the proposed opposition to reopen the case and seek damages against prior legal counsel based upon a theory of legal malpractice.

10

PRINVEST CAPITAL CORP. V. CENTURY MEDIA, INC. ET AL, is pending in the Superior Court of Los Angeles County, Case No. BC292131. This litigation was initiated by a creditor of Century Media in regards to an obligation incurred prior to the merger of Innovation with Century Media. Prinvest Capital is claiming an amount owed of \$166, 653.67. On January 30, 2004, Prinvest Capital Corp. was granted Summary Judgment against Century Media, Inc. and Blagman Media International, Inc. a/k/a Innovation Holdings in the amount of \$166,653.67 and interest in the amount of \$72,308.71. The Company's prior legal counsel failed to file any opposition to the summary judgment motion. On May 4, 2004, motion for attorneys' fees and costs was granted for \$35,115.50 and \$1,294.30 respectively. The motion was vigorously opposed by the Company's new legal counsel on the grounds there was an unethical conflict of interest with plaintiff's counsel, Buchalter Nemer

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Fields & Younger, associating with Reed Smith. There are currently cross-actions in this case brought by Century Media, Inc. and Innovation Holdings, Inc. against former management Peter Lambert and Al Lapin and Peter Lambert, Yona Lapin and Al Lapin against Innovation Holdings, Inc., Blagman Media International, Inc. and Century Media, Inc. A settlement was recently reached with Reed Smith Crosby Heafy LLP. The remaining cross-actions are set for binding arbitration on November 2004. On May 18, 2004 a hearing for a charging order is pending against co-defendants Lambert and Lapin. The Company's new legal counsel will aggressively and vigorously file a motion to be relieved of the default as to the summary judgment motion and file the proposed opposition to reopen the case for a defense. An appeal of the attorneys' fees and costs will also be filed. The binding arbitration will be aggressively prosecuted to indemnify the companies against any liability that may occur by the summary judgment and attorneys' fees and costs awarded to date.

YIGAL I. BOSCH V. BLAGMAN MEDIA INTERNATIONAL, INC., INNOVATION HOLDINGS, INC. is pending in U.S.D.C. So. Dist.,

Texas, Case No. H032860. This is a shareholder action against the Company for alleged mismanagement and issuing alleged misleading statements. The Company is engaging counsel in Texas to represent the Company to aggressively defend this action that management strongly believes was brought in bad faith.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS.

Until March 10, 2003, our Common Shares traded on the Over the Counter on the Bulletin Board under the symbol BMII.OB. From March 10, 2003 until April 23, 2004, our Common Shares traded Over the Counter on the Bulletin Board under the symbol INOV.OB. In April 2004, the Company effectuated a 1-for-500 reverse split and NASDAQ assigned the Company a new trading symbol, IVHO.OB, under which our Common Shares are now trading. All references to the number of shares issued and the sales price of our Common Shares have been adjusted to reflect the 1-for-500 reverse split.

11

The following table sets forth the high and low sales price of our Common Shares on its principal market for the fiscal years ended December 31, 2002 and December 31, 2003.

PERIOD	BID PRICE	
	HIGH	LOW
2003*:		
Fourth Quarter	\$0.0001	\$0.0001
Third Quarter	\$0.0002	\$0.0001
Second Quarter	\$0.05	\$0.0001
First Quarter	\$0.42	\$0.0001

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

2002*:

Fourth Quarter	\$0.0001	\$0.0001
Third Quarter	\$0.0001	\$0.0001
Second quarter	\$0.0001	\$0.0001
First Quarter	\$0.0001	\$0.0001

* Throughout the fiscal years ended December 31, 2003 and 2002, our Common Shares traded at prices well below \$0.001 per share.

DIVIDEND POLICY

We have not paid any cash dividends on our Common Shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included as part of this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors.

12

GENERAL

RESULTS OF OPERATIONS

Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002

NET REVENUES

Net Revenues for the year ended December 31, 2003 as compared to the year ended December 31, 2002 decreased from \$437,241 to \$83,652.

Operating expenses decreased to \$7,419,165 (71%) from \$25,434,569 in 2002 due primarily to the Company canceling consultant contracts and a decrease in stock issuances for legal, wages, consulting, board fees and license agreements as well as an overall decrease in overhead. Stock issued for compensation and services decreased from \$23,182,439 to \$6,011,658 (74%).

The Company also recognized in 2002 a \$3,300,000 expense which represented the market value of fraudulently issued common shares of the Company, and a loss from discontinued operations of \$12,966,399. In 2003 no such event took place reducing the total other income expense to \$265,789 in 2003 from \$3,358,421 in 2002 a decrease of 92%. During 2002, the Company acquired Century Media, Inc. and subsequent to the acquisition the Company determined that Century Media, Inc. did not meet its strategic objectives and decided to discontinue and abandon the operations of Century Media, Inc. Therefore, the operations of

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Century Media, Inc. are included in discontinued operations.

The total net loss of the Company in 2003 was \$8,035,776 compared to \$41,322,148 for 2002 or an 81% decrease.

The Company is continuing to rationalize its operating expenses to its revenues and the needs of a public entity. While management believes that it has now addressed the principal effects of the direct and indirect Non-Cash

Compensation and other equity commitments and dilution matters which arose from the Unisat and MNS transactions, from the Company's early experiences as a public entity and from consultant payments, the Company may continue to use equity, debt and cash to complete acquisitions or to fund other compensation matters, including amounts due to Mr. Blagman as deferred salary and signing bonus amounts under his employment agreement and the pre-existing Board commitment to allow Mr. Blagman to maintain up to 51% equity ownership in the Company.

Interest expense was not a significant item in 2002 or 2003 and decreased from \$58,958 in 2002 to \$53,304 (9.6%) in 2003. Because the Company records revenues as received and generally commits to time expenditures only when there is assurance of payment from its clients, interest costs and advertising revenue adjustments are small.

13

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2003, compared to December 31, 2002, there was no appreciable cash available. In 2002 there was \$31,779 in accounts receivable while posting at \$0 in 2003. These conditions, including the addition of \$9,645 at December 31, 2003 of assets related to discontinued operations, resulted in an overall decrease in current assets from \$382,985 to \$9,647 (98% decrease) from December 31, 2002 to December 31, 2003.

Accounts payable and accrued expenses, including cash overdraft at December 31, 2003 was \$1,780,024 compared to \$1,554,758 at December 31, 2002 (15% increase). Accrued compensation to officer and amounts due to officer increased from \$1,314,392 at December 31, 2002 to \$1,897,344 at December 31, 2003 (44% increase). Additionally, the Company reflected \$10,835,472 as total liabilities related to discontinued operations. The significant decrease in the working capital of the Company continues to be a direct result of the acquisition of Century Media as well as the adverse effects of the departure of key employees in third quarter 2002. As the employees departed most of the active accounts departed Century as well. The debt associated with Century was the single and most devastating factor. The attempt to manage the debt, the layoffs, resignations and loss of major accounts resulted in a total shut down of the Century operation. The Century operation also caused a tremendous drain on all cash flow, time, focus and assets at Innovation Holdings.

During 2003, the Company issued Common Shares of which 23,323,315 related to consulting, 302,540 were issued as Non-Cash Compensation, 5,052,490 were issued for legal fees, and 2,989,351 were for license agreements. These transactions resulted in 31,682,095 Common Shares outstanding at December 31, 2003.

During 2003, the market price of our Common Shares continued to be well below expected levels. We believe that there continues to be pertinent underlying causes. First, we apparently were one of the companies targeted in an organized pattern of depressing prices through shorting by a group pursuing a coordinated

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

effort to effect and profit from a falling share price and from attempts to extort favorable stock issuances from the Company without fair consideration. Management initiated referrals to appropriate regulatory agencies for their action. While actions from these referrals may reduce future manipulation, it cannot eliminate the impact of the downward price spiral. The second factor apparently affecting our price was the market reaction to the increase in authorized and issued Common Shares which we undertook to compensate consultants in our industry, to support Company growth and to effect the Century transaction.

Management is currently sorting out the Century transaction and collateral issues associated with that transaction and pursuing other initiatives to expand the Company's operations internally and through strategic alliances or acquisitions with other industry partners. These endeavors will be funded in part from operations but will also require additional capital funding which the Company hopes to raise through debt or equity financing arrangements, if appropriate financing is available, on reasonable and acceptable terms.

14

During 2003, we focused a significant effort to the unwinding of Century Media. While the Century Media transaction adds existing debt and trade payables, management believes that these obligations are being contained and can be funded from operations, internal organic growth, increased billings, legal avenues and extensive operating cost reductions and efficiencies. We have departed from our earlier strategy to assist in funding selected aspects of the growth of Century Media and new strategic hires and alliances that will not facilitate positive financial growth.

The Company intends to continue to seek additional working capital to meet its operating requirements and to provide further capital for expansion, acquisitions or strategic alliances with businesses that are complementary to the Company's long-term business objectives. Additional capital will be needed to maintain the growth plans of the Company. In addition negotiations and payment plans will be established for preexisting Century debt.

Another factor which has taken a substantial amount of time and funding to overcome is the Companies victimization at the hands of a specific financial firm now under investigation with the SEC. More details are available at <http://www.sec.gov/litigation/complaints/comp18057.htm>

If substantial additional working capital does not become available, management believes that the active search and completion of key acquisitions along with proper legal restructuring and planning will be sufficient to meet essential capital requirements for the next 12 months but will not support growth.

However, the Company currently has a deficit. As a result, the Company's financial statements for the period ended December 31, 2003 have been prepared on a going concern basis which contemplated the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of \$8,035,686 for the year ended December 31, 2003, and has a working capital deficiency of \$ tbd and a stockholders deficiency at December 31, 2003 of \$15,194,926, and may not enable it to meet such objectives as presently structured. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NEW FINANCIAL PRONOUNCEMENTS

The Financial Accounting Standards Board has recently issued new accounting

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

pronouncements. Please see Note 1 to the financial statements for a summary of these pronouncements. Management does not believe that the adoption of these pronouncements will have a material effect on the financial position or results of operations of the Company.

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, the matters discussed herein are forward-looking statements that involve risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products and prices and other factors discussed in this annual report. (See page iii of this report, "Special Note Regarding Forward-Looking Statements.")

15

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission ("SEC") recently issued Financial Reporting release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" (FRR 60), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

Based upon the foregoing definition, the Registrant's most critical accounting policies include:

Revenue Recognition

The Company recognizes revenue from the sale of media time to advertising clients when the related advertisement is broadcasted. Included in the monies received from advertising clients are amounts which represent the reimbursement of media time purchased on behalf of the customer for the related advertisements. These media purchase reimbursements have been accounted for as an offset to the related media purchases for the respective advertisement and not as gross revenues as required under EITF 99-19 and SAB 101. Monies received prior to the broadcast of the related advertisement are recorded as deferred revenue. In addition, the Company earns commissions in connection with the procurement of media time on behalf of advertising clients. Such commissions are also considered earned when the underlying advertisement is broadcasted. Additionally, the Company has entered into contractual agreements with other advertising firms to share revenues based upon the terms of the specific agreements. The income produced by these revenue-sharing contracts are recognized as media or commission income depending upon the nature of the income earned from the agreement.

Asset Impairment

The Company reviews its long-lived assets and identifiable intangibles for impairment in accordance with SFAS 144, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

impairment loss is recognized. Otherwise, an impairment loss is not recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles would be based on the fair value of the asset.

16

ITEM 7. FINANCIAL STATEMENTS

Financial statements as of and for the year ended December 31, 2003, and for the year ended December 31, 2002 are presented in a separate section of this report following Item 14.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and President, our Executive Vice President and Secretary and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective under Rule 13a-15.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-KSB that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following table sets forth certain information with respect to our directors and executive officers:

NAME	AGE	POSITION
Robert Blagman	47	Chairman of the Board, Chief Executive Officer, Secretary
Andrew Given	45	Director
Walter Lubars (1)	73	Director
Jeff Wald (1)	52	Director

BUSINESS EXPERIENCE OF DIRECTORS

ROBERT BLAGMAN founded our business as a sole proprietorship in 1994 and has been the Chief Executive Officer of the Company and Chairman of the Board of Directors since the transactions with Unisat, Inc. in August 1999. Prior to

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

founding the enterprise, he was an executive in advertising marketing at: Disney KCAL Channel in Los Angeles (national advertising sales manager 1992-1994); KCOP in Los Angeles (local advertising sales manager 1989-1992); and Katz Communications (various titles leading to national advertising sales manager 1978-1989).

17

ANDREW GIVEN has served as President of Production for The Shooting Gallery and as head of Gun For Hire (motion picture/television production). From 1990 to 1999, he held numerous management and other positions at Universal Studios, including an executive producer focused on cost management of films. Mr. Givens has served on the Company's Board of Directors since August 1999.

WALTER LUBARS has been a professor of advertising at Boston University for over 30 years. Mr. Lubars now is semi-retired and works part-time as a professor emeritus. He has served on the Board of Directors of the Company since August 1999.

JEFF WALD has been the News Director for KTLA Channel 5 in Los Angeles for the past five years. KTLA is part of the Tribune Company. He has served on the Board of Directors of the Company since August 1999.

Each director will hold office until the next annual meeting of shareholders and until the election and qualification of his successor. None of the directors is a director of any other reporting company.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

All of the directors and executive officers of the Company did not file initial reports on Form 3 until November 2000 when they were first aware of the requirement. Based solely on the review of Form 4 and 5 filed since then, all subsequent reports were filed without delinquencies.

18

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth for 2001, 2002, and 2003 each component of compensation paid or awarded to, or earned by, our executive officers.

Name of Executive and Principal Position	Year	ANNUAL COMPENSATION				LONG-TE
		Salary	Bonus	Other	Restricted Stock	AWARDS Securities Underlying Options & SARS
Robert Blagman Chief Executive	2003	\$376,200 (1)	\$150,000 (4)	\$ --	--	--
	2002	\$342,000 (2)	\$150,000 (4)	\$ --	--	--

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Officer / Chief	2001	\$300,000 (3)	\$150,000 (4)	\$ --	--	--
Financial Officer						

(1) Includes \$ 376,200 of 2003 compensation which Mr. Blagman has deferred under his employment agreement dated January 1, 2000.

(2) Includes \$204,750 of 2002 compensation which Mr. Blagman has deferred under his employment agreement dated January 1, 2000.

(3) Includes \$77,500 of 2001 compensation which Mr. Blagman has deferred under his employment agreement dated January 1, 2000.

(4) Bonuses for Mr. Blagman for the years 2001, 2002 and 2003 have been deferred.

Pursuant to a pre-existing Board commitment which allows Mr. Blagman to maintain up to a 51% equity ownership in the Company, Mr. Blagman may elect to use all or a portion of his deferred salary and signing bonus amounts to acquire Common Shares of the Company.

OTHER COMPENSATION

(a) There are no annuity, pension or retirement benefits proposed to be paid to officers, directors, or employees of the Registrant in the event of retirement at normal retirement date as there was no existing plan as of December 31, 2003 provided for, or contributed to, by the Registrant.

(b) No remuneration is proposed to be paid in the future directly or indirectly by the Registrant to any officer or director since there was no existing plan as of December 31, 2003 which provides for such payment, except for an employee stock incentive plan. The Registrant had granted options to purchase 37,200 shares of common stock pursuant to the 2002 Stock Compensation Plan during the fiscal year ended December 31, 2002.

COMPENSATION OF DIRECTORS

The directors have served without cash compensation. In November 2000 and January 2001, each of the directors was granted options to acquire 50,000 100 and 100,000 200 Common Shares, respectively, at an exercise price of \$0.25 and \$0.09 per share, respectively, the market price on that date. The options are fully vested and exercisable until September 30, 2005 and January 23, 2006, respectively.

EMPLOYMENT AGREEMENTS

On January 1, 2000, we entered into an employment agreement with Robert Blagman, our Chairman and Chief Executive Officer, for a term of five years. The employment agreement calls for a base salary, after annual incremental increases, ranging from \$240,000 to \$420,000. The agreement also calls for a signing bonus of \$750,000 to be paid over the term of the employment agreement. In addition, pursuant to a pre-existing Board commitment which allows Mr. Blagman to maintain up to a 51% equity ownership in the Company, Mr. Blagman may elect to use all or a portion of his deferred salary and signing bonus amounts to acquire Common Shares of the Company.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

The following table sets forth information regarding the beneficial ownership of shares of the Company's common stock as of December 31, 2003, (31,682,095 issued and outstanding) by (i) all stockholders known to the Company to be beneficial owners of more than 5% of the outstanding common stock; and (ii) all directors and executive officers of the Company, individually and as a group:

Name and Address of Beneficial Owner (1)	Title of Class	Amount Ownership
Robert Blagman 14622 Ventura Boulevard Suite 1015 Sherman Oaks, CA 91403	Common Shares	1,256
Andrew Given 14622 Ventura Boulevard Suite 1015 Sherman Oaks, CA 91403	Common Shares	300
Walter Lubars 14622 Ventura Boulevard Suite 1015 Sherman Oaks, CA 91403	Common Shares	10,300
Jeff Wald 14622 Ventura Boulevard Suite 1015 Sherman Oaks, CA 91403	Common Shares	300
Marc R. Tow, Esq. 3900 Birch Street Suite 113 Newport Beach, CA 92660	Common Shares	4,001,000
Leanna Sidhu 6720 Muirlands Drive La Jolla, CA 92037	Common Shares	600
Directors and executive officers as a group	Common Shares	1,267

(1) Except as noted in any footnotes below, each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them.

(2) The amount owned is based on issued common stock, as well as stock options that are currently exercisable.

(3) Includes 100 common shares issuable upon the exercise of fully vested common share purchase options at an exercise price of \$0.025 per share, granted on November 8, 2002 pursuant to the Company's Employee Stock Incentive Plan, which

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

expire on September 30, 2005. Includes 200 common shares issuable upon the exercise of fully vested common share purchase options at an exercise price of \$0.09 per share, granted on November 23, 2001 pursuant to the Company's Employee Stock Incentive Plan, which expire on January 23, 2006.

(4) These common shares were issued for legal services.

* Owns less than 1%

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the year ended December 31, 2003, and subsequently through March 2004, the Company issued 4,001,000 common shares to Marc R. Tow, as compensation for legal services to be rendered to the Company. These shares represent 10.15% of the issued and outstanding shares of the Company. In March 2004, the Company terminated the services of Mr. Tow. Pending a review of legal bills and value or services rendered the stock issued to Mr. Tow have been placed on hold.

During the fiscal year ended December 31, 2003, there have not been any other transactions that have occurred between the Registrant and its officers, directors, and five percent or greater shareholders.

ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K.

a) Exhibits.

Exhibits included or incorporated by reference herein are set forth under the Exhibit Index

b) Reports on Form 8-K.

There were no reports on Form 8-K filed during the last quarter of the fiscal year covered by this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for our audit of annual financial statements and review of financial statements included in our Form 10-KSBs and 10-QSBs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were:

2003:	\$58,182 - Weinberg & Company, P.A.
2002:	\$105,022- Weinberg & Company, P.A.

21

(2) Tax Fees

The aggregate fees billed in each of the last two fiscal years for tax services provided by the principal accountant were:

2003:	\$17,031- Weinberg & Company, P.A.
2002:	\$10,535- Weinberg & Company, P.A.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

(2) All Other Fees

The aggregate fees billed in each of the last two fiscal years for the products and services provided by the principal accountant other than the services in paragraph (1) were:

2003: \$0
2002: \$13,441 - Weinberg & Company, P.A.

22

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.

Dated: May 21, 2004

Innovation Holdings, Inc.

By: /s/ ROBERT J. BLAGMAN

Robert J. Blagman,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated

Date: May 21, 2004

/s/ ANDREW GIVEN

Andrew Given

Date: May 21, 2004

/s/ WALTER LUBARS

Walter Lubars

Date: May 21, 2004

/s/ JEFFREY WALD

Jeffrey Wald

23

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN
MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN
MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES

CONTENTS

PAGE	1	INDEPENDENT AUDITORS' REPORT
PAGE	2	CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002
PAGE	3	CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31
PAGE	4-5	CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY F DECEMBER 31, 2003 AND 2002
PAGE	6	CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31
PAGES	7 - 24	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:
Innovation Holdings, Inc.
(Formerly Blagman Media International, Inc.)

We have audited the accompanying consolidated balance sheets of Innovation Holdings, Inc. (f/k/a Blagman Media International, Inc.) and Subsidiaries (the "Company") as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of Innovation Holdings, Inc. (f/k/a Blagman Media International, Inc.) and Subsidiaries as of December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, the Company has a net loss of \$8,035,776 and a negative cash flow from operations of \$248,707 for the year ended December 31, 2003, and a working capital deficiency of \$14,964,864 and a stockholders'

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

deficiency of \$15,194,926 at December 31, 2003. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters is also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida
May 18, 2004

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002

ASSETS

CURRENT ASSETS

Cash
Accounts receivable
Prepaid media and other current assets, net of allowance of 236,418 at December 31, 2003
Assets related to discontinued operations

Total Current Assets

PROPERTY & EQUIPMENT - NET

OTHER ASSETS

License agreement, net of amortization of \$7,781
Deposits

Total Other Assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

Cash overdraft
Notes payable-current portion
Accounts payable
Accrued expenses
Accrued compensation - officers
Due to officer
Capital lease obligation - current portion
Liabilities related to discontinued operations

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Total Current Liabilities

LONG-TERM LIABILITIES

Notes payable
Capital lease obligation - long-term portion

Total Long-Term Liabilities

TOTAL LIABILITIES

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIENCY

Preferred stock, series A, \$.001 par value, super convertible redeemable preferred stock, 10,000,000 shares authorized, 0 shares issued and outstanding
Preferred stock, series B, \$.001 par value, super convertible redeemable preferred stock, 100 shares authorized, 100 shares issued and outstanding
Common stock, \$.001 par value, 20,000,000,000 shares authorized, 31,682,095 and 7,639 shares issued and outstanding in 2003 and 2002, respectively
Additional paid in capital
Accumulated deficit

Total Stockholders' Deficiency

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY

See accompanying notes to consolidated financial statements.

2

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003
REVENUES - NET	\$ -----
OPERATING EXPENSES	
Selling, general and administrative	7,3
Depreciation and amortization	-----
Total Operating Expenses	7,4
LOSS FROM OPERATIONS	(7,3)

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

OTHER INCOME (EXPENSE)	
Loss on fraudulent issuance of common stock	(
Interest expense	(2
Legal settlement	
Interest income	
Other income	
Total Other Income (Expense)	(2

LOSS FROM CONTINUING OPERATIONS	(7,6
LOSS FROM DISCONTINUED OPERATIONS	(4

NET LOSS	\$ (8,0

NET LOSS PER COMMON SHARE - BASIC AND DILUTED - CONTINUING OPERATIONS	\$
=====	
NET LOSS PER COMMON SHARE - BASIC AND DILUTED - DISCONTINUED OPERATIONS	\$
=====	
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	\$
=====	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	3,0
=====	

See accompanying notes to consolidated financial statements.

3

INNOVATION HOLDINGS, INC. AND (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balance, January 1, 2002	100	1	303	--
Stock issued for acquisition of Century Media, Inc.	--	--	408	--
Stock issued for Century Media debentures	--	--	589	1
Stock issued for services	--	--	4,379	4

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

Stock issued for failed acquisition	--	--	30	--
Stock issued fraudulently	--	--	1,930	2
Subscription receivable	--	--	--	--
Deferred stock compensation	--	--	--	--
Net Loss 2002	--	--	--	--
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2002	100	\$ 1	7,639	\$ 7
	=====	=====	=====	=====

	Subscriptions Receivable	Deferred Stock Based Compensation	Total
	-----	-----	-----
Balance, January 1, 2002	(15,334)	(17,965,923)	(964,989)
Stock issued for acquisition of Century Media, Inc.	--	--	903,292
Stock issued for Century Media debentures	--	--	1,304,540
Stock issued for services	--	--	5,216,516
Stock issued for failed acquisition	--	--	172,500
Stock issued fraudulently	--	--	3,300,000
Subscription receivable	15,334	--	--
Deferred stock compensation	--	17,965,923	17,965,923
Net Loss 2002	--	--	(41,322,148)
	-----	-----	-----
BALANCE, DECEMBER 31, 2002	\$ --	\$ --	\$ (13,424,366)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Stock issued for legal fees			5,052,490	\$ 5,052
Stock issued for consulting			23,323,315	23,323
Stock issued for wages			302,540	303
Stock issued for board of directors fees			1,262	1
Stock issued for license agreement			2,989,351	2,989
Stock issued for settlement of accounts payable			5,600	6
Stock cancelled in association with board of directors fees			(102)	--
Net Loss, 2003				
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2003	100	\$ 1	31,682,095	\$ 31,682
	=====	=====	=====	=====

	Subscriptions Receivable	Deferred Stock Based Compensation	Total
	-----	-----	-----
Stock issued for legal fees	--	--	1,184,300
Stock issued for consulting			4,619,208
Stock issued for wages	--	--	81,590
Stock issued for board of directors fees	--	--	220,500
Stock issued for license agreement	--	--	149,468
Stock issued for settlement of accounts payable	--	--	28,000
Stock cancelled in association with board of directors fees	--	--	(17,850)
Net Loss, 2003	--	--	(8,035,776)
	-----	-----	-----
BALANCE, DECEMBER 31, 2003	\$ --	\$ --	\$ (15,194,926)
	=====	=====	=====

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

See accompanying notes to consolidated financial statements.

5

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss from continuing operations
Adjustments to reconcile net loss from continuing operations to net cash (used in) operating activities:

Depreciation and amortization
Provision for bad debt
Loss on fraudulent issuance of common stock
Stock issued for failed acquisition
Stock issued for compensation and services
Changes in operating assets and liabilities:
(Increase) decrease in:

 Accounts receivable
 Prepaid media and other current assets
 Deposits
Increase (decrease) in:

 Accounts payable and accrued expenses
 Accrued compensation - officers
 Deferred revenue

Net Cash (Used In) Operating Activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment
Deposit on investment

Net Cash (Used In) Investing Activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Due from officer
Loan proceeds
Cash overdraft
Payments under capital lease obligation

Net Cash Provided By Financing Activities

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

NET (DECREASE) INCREASE IN CASH

CASH - BEGINNING OF YEAR

CASH - END OF YEAR

Cash paid during the year for - interest

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

In March 2002, the Company issued 859 shares of common stock with a fair value of \$1,901,582 for the acquisition of Century Media, Inc. including the payoff of existing debentures, options and notes on the books of the acquiree.

The Company acquired \$52,239 of property and equipment through capitalized leases during the year ended December 31, 2002.

In June 2003, the Company entered into a license agreement with a value of \$149,468 paid by the issuance of 2,989,351 shares of common stock valued at the fair market value of the stock on the date of grant.

In September 30, 2003, the Company settled \$2,000 of accrued payroll by giving the employees a computer with a net book value of \$2,000.

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) ORGANIZATION

On March 22, 2002, the Company acquired 100% of the outstanding common stock of Century Media, Inc., a California corporation engaged in the media business (See Note 2).

On February 10, 2003, the stockholders of the Company approved an amendment to the articles of incorporation changing the name of the Company to Innovation Holdings, Inc. (referred to as the "Company").

In February 2003, the Board of Directors authorized a 5,000 for 1 reverse stock split. All share and par share amounts in the accompanying consolidated financial statements and footnotes have been restated to give effect to such reverse stock split.

In April, 2004, the Board of Directors authorized a 500 for 1 reverse stock split. All share and per share amounts in the accompanying consolidated financial statements and footnotes have been restated to give effect to such reverse stock split.

(B) PRINCIPLES OF CONSOLIDATION

The accompanying 2003 and 2002 consolidated financial statements of the Company include the accounts of the parent entity and its wholly owned

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

(C) USE OF ESTIMATES

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(D) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's accounts payable and accrued expenses, accrued compensation, capital lease obligation and notes and loans payable, approximate fair value due to the relatively short period to maturity for these instruments.

7

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

(E) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated economic useful lives of 5 to 7 years. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized.

(F) IMPAIRMENT OF LONG-LIVED ASSETS

Beginning January 1, 2002, the Company reviews long-lived assets for impairment under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the year ended December 31, 2002, the Company recorded impairment charges of \$3,048,484 created during the Century Media acquisition and \$5,599,007 related to the customer list obtained during the Century Media acquisition and \$167,649 for fixed assets acquired in the Century Media acquisition as the Company determined these assets were not recoverable (See Note 2).

(G) REVENUE RECOGNITION

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

The Company recognizes revenue from the sale of media time to advertising clients when the related advertisement is broadcasted. Included in the monies received from advertising clients are amounts which represent the reimbursement of media time purchased on behalf of the customer for the related advertisements. These media purchase reimbursements have been accounted for as an offset to the related media purchases for the respective advertisement and not as gross revenues as required under EITF 99-19 and Staff Accounting Bulletin No. 101. Monies received prior to the broadcast of the related advertisement are recorded as deferred revenue. In addition, the Company earns commissions in connection with the procurement of media time on behalf of advertising clients. Such commissions are also considered earned when the underlying advertisement is broadcasted. Additionally, the Company has entered into contractual agreements with other advertising firms to share revenues based upon the terms of the specific agreements. The income produced by these revenue-sharing contracts are recognized as media or commission income depending upon the nature of the income earned from the agreement.

(H) INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing

8

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

assets and liabilities and their respective tax bases. 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.

(I) LOSS PER COMMON SHARE

Basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding. All share and per share amounts have been restated to give effect to a 5,000 for 1 reverse stock split in February 2003, and a 500 for 1 reverse stock split in April 2004, as discussed in Note 6.

(J) RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and /or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a stand-alone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered items is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus is applicable to agreements entered into in fiscal periods beginning after June 15, 2003.

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. This statement is effective for contracts entered into or modified after June 30, 2003 and all of its provisions should be applied prospectively.

9

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous pronouncements, issuers could account for as equity. The new accounting guidance contained in SFAS No. 150 requires that those instruments be classified as liabilities in the balance sheet.

SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type includes put options and forward purchase contracts, which involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this SFAS is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

Most of the provisions of Statement 150 are consistent with the existing definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The remaining provisions of this SFAS are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own shares. This SFAS is effective for financial instruments entered into or modified after May 31, 2003 and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of a non-public entity, as to which the effective date is for fiscal periods beginning after December 15, 2004.

In January 2003, and as revised in December 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities"

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

"Interpretation No. 46"), an interpretation of Accounting Research Bulletin ("ARB") No. 51", "Consolidated Financial Statements". Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated support from other parties, which is provided through another interest that will absorb some or all of the expected losses of the entity; (ii) the equity investors lack

10

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

one or more of the following essential characteristics of a controlling financial interest: the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights; or the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities; the right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses. Interpretation No. 46, as revised, also requires expanded disclosures by the primary beneficiary (as defined) of a variable interest entity and by an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary.

Interpretation No. 46, as revised, applies to small business issuers no later than the end of the first reporting period that ends after December 15, 2004. This effective date includes those entities to which Interpretation No. 46 had previously been applied. However, prior to the required application of Interpretation No. 46, a public entity that is a small business issuer shall apply Interpretation No. 46 to those entities that are considered to be special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003.

Interpretation No. 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated.

In June 2003, the FASB issued an Exposure Draft for proposed SFAS entitled "Qualifying Special Purpose Entities ("QSPE") and Isolation of transferred Assets", an amendment of SFAS No. 140 ("The Exposure Draft"). The Exposure Draft is a proposal that is subject to change and as such, is not yet authoritative. If the proposal is enacted in its current form, it will amend and clarify SFAS 140. The Exposure Draft would prohibit an entity from being a QSPE if it enters into an agreement that obliged a transferor of financial assets, its affiliates, or its agents to deliver additional cash or other assets to fulfill the special-purposes entity's obligation to beneficial interest holders.

The adoption of these recent pronouncements are not expected to have a material effect on the Company's consolidated financial position or results of operations.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

(K) STOCK BASED COMPENSATION

The Company accounts for employee stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Under APB 25, no compensation expense is recorded when the terms of the award are fixed and the exercise price of the employee stock option equals or exceeds the fair value of the

11

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

underlying stock on the date of grant. The Company adopted the disclosure-only provisions of No. 123, "Accounting for Stock-Based Compensation", as modified by the transitional and disclosure provisions of SFAS NO. 148.

(L) RECLASSIFICATION

Certain reclassifications have been made to previously reported amounts to conform to the current years presentation.

NOTE 2 DISCONTINUED OPERATIONS

Pursuant to an Agreement and Plan of Reorganization dated March 4, 2002, effective March 22, 2002, the Company acquired 100% of the outstanding stock of Century Media, Inc., a California corporation ("Century") by merging Blagman USA, Inc., into Century.

Pursuant to the transaction, the Company acquired all of the capital stock of Century for cash and common stock of the Company, assumed current debt obligations and unexercised option and stock appreciation rights of Century and assumed accrued and ongoing trade and other obligations. Prior to the closing, the parties negotiated with the holders of portions of the outstanding Century debt to restructure the term and payments of such debt and in certain cases, to allow for the issuance of shares of common stock of the Company in lieu of cash payments. Currently, the Company remains obligated on certain contingent obligations including \$1.25 million from the TMT Media Corporation acquisition by Century in 2000 (See Note 10(A)).

At closing, holders of Century shares received twenty cents per Century share, of which two and one-half cents was payable in cash and the balance of seventeen and one-half cents was payable by the delivery of shares of common stock of the Company, for a total of \$903,292, and 14,377 options.

In relation to the acquisition, the Company recorded goodwill in the amount of \$3,048,484, and recorded an intangible asset of \$5,855,286 related to the customer list acquired. The Company evaluated the customer list and assigned it a three-year life.

The Company's management performs on-going business reviews based on quantitative and qualitative measures and assesses the need to record

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

impairment losses when impairment indicators are identified. In the third quarter of 2002, the review made by management of the Company determined that the goodwill related to Century's business and the customer list acquired in the acquisition were not recoverable. The Company then recorded impairment charges of \$3,048,484 and \$5,599,007 (net of amortization) related to the goodwill and customer list, respectively.

12

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA INTERNATIONAL, INC.) AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

In December 2002, management of the Company determined that it would no longer invest its capital and human resources into Century and entered into a plan to discontinue and abandon the operations of Century. Effective with the fourth quarter of 2002, this operating entity is reflected as a discontinued operation.

For the period from acquisition to December 31, 2002, revenues and loss from discontinued operations were as follows:

Revenues	\$	3,459,294
Net loss from discontinued operations	\$	12,966,399

For the year-ended December 31, 2003, a loss from discontinued operations of \$434,474 was incurred. This was primarily for additional interest expense on notes payable and legal costs of defending lawsuits (See Note 11).

Assets and liabilities of the discontinued operations as of December 31, 2003 were as follows:

Assets		
Cash	\$	313
Prepaid expenses		7,005
Deposits		2,327

Total Assets	\$	9,645

Liabilities		
Accounts payable	\$	5,606,399
Accrued expenses		1,478,352
Deferred revenue		1,364,866
Notes payable		2,356,575
Capital lease obligation		29,280

Total Liabilities		10,835,472

Net liabilities of discontinued operations	\$	10,825,827
		=====

The creditors of Century Media have filed various actions for breach of contract. Said actions arise out of obligations incurred by Century Media prior to the merger with the Company. The Company disputes these claims

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

and is actively seeking to resolve these matters.

13

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

NOTE 3 DUE TO OFFICER

During the years ended December 31, 2003 and 2002, an officer of the Company made advances to the Company to assist with operations. These advances were non-interest bearing and have no set repayment terms. As of December 31, 2003 and 2002, the Company owed the officer \$68,406 and \$112,844, respectively.

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31:

	2003	2002
	-----	-----
Computer equipment	\$ 103,415	\$ 106,083
Furniture and fixtures	43,851	43,852
Office equipment	14,974	14,973
Leasehold improvements	-	2,876
	-----	-----
	162,240	167,784
Less: Accumulated depreciation	(88,489)	(62,882)
	-----	-----
Property and equipment - net	\$ 73,751	\$ 104,902
	=====	=====

Depreciation expense was \$29,150 and \$33,324 in 2003 and 2002, respectively.

NOTE 5 NOTES PAYABLE

The following schedule reflects notes and loans payable as of December 31:

	2003	2002
	-----	-----
Note payable, interest at 6% due March 31, 2001. The holder of the note is currently not demanding payment and the note continues to accrue interest.	\$ 50,000	\$ 50,000
Note payable - related party, interest at 6%, due March 30, 2006, unsecured.	163,500	163,500
Note payable - stockholder, interest at 6%, due		

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

April 2, 2006, unsecured.	85,000	85,000
\$197,000 note payable - stockholder, interest at 6%, principal and interest due April 9, 2006, unsecured.	197,000	197,000

14

	2003	
	-----	-----
\$100,000 note payable, interest at 3.8%, principal and interest due January 10, 2004, unsecured.	93,450	
\$75,000 note payable, interest at 4%, principal and interest due January 27, 2004, unsecured.	41,200	
\$10,000 note payable, interest at 2.8%, principal and interest due February 11, 2004, unsecured.	10,000	
\$45,000 note payable, interest at 4%, principal and interest due April 2, 2004, face amount \$45,000, unsecured.	33,075	
\$112,000 note payable, interest at 4%, principal and interest due June 24, 2004, face amount \$112,000, unsecured.	112,000	
\$20,000 note payable, interest at 4%, principal and interest due September 8, 2004, unsecured.	20,000	
	-----	-----
	805,225	
Less: current portion	(359,725)	
	-----	-----
	=====	=====
Notes and loans payable - long-term portion	\$ 445,500	\$
	=====	=====

On January 10, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$100,000 at an interest rate of 3.8% per annum. Principal and interest were due no later than January 10, 2004. As of the report date, this loan has not been repaid.

On January 27, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$75,000 at an interest rate of 4% per annum. Principal and interest were due no later than January 27, 2004. As of the report date, this loan has not been repaid.

On February 11, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$10,000 at an interest rate of 2.8% per annum. Principal and interest were due no later than February 11, 2004. As of the report date, this loan has not

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

been repaid.

15

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

On June 24, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$112,000 at an interest rate of 4% per annum. Principal and interest are due no later than June 24, 2004.

On April 2, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$45,000 at an interest rate of 4% per annum. Principal and interest were due no later than April 2, 2004. As of the report date this loan has not been repaid.

On September 8, 2003, the Company entered into a note payable whereby the lender agreed to fund the Company on an as needed basis up to \$20,000 at an interest rate of 4% per annum. Principal and interest are due no later than September 8, 2004.

NOTE 6 STOCKHOLDERS' DEFICIENCY

In February 2003, the Board of Directors authorized a 5,000 for 1 reverse stock split. All share and per share amounts in the accompanying consolidated financial statements and footnotes have been restated to give effect to such reverse stock split.

In April 2004, the Board of Directors authorized a 500 for 1 reverse stock split. All share and per share amounts in the accompanying consolidated financial statements and footnotes have been restated to give effect to such reverse stock split.

On August 18, 2003, the Company issued 1,000,000 shares of common stock valued at \$50,000 to an attorney for services rendered in connection with the establishment of the trust agreements. The fair value of the shares issued was based upon the market price of the Company's common stock on the date of grant.

During 2003 the Company issued 2,989,351 shares of restricted common stock to an unrelated party as consideration for a license agreement entered into on June 28, 2003 valued at \$149,468. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant. The amount is included in other assets in the accompanying consolidated balance sheet as of December 31, 2003. The term of this license agreement is for a period of 10 years. Amortization expense for the year ended December 31, 2003 was \$7,781.

During 2003, the Company issued 302,540 shares of common stock for employee bonus compensation valued at \$81,590. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant. The amount was expensed to selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003.

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

16

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

During 2003, the Company issued approximately 12,600 shares of restricted common stock to the Chief Executive Officer and subsequently cancelled and rescinded the issuance. Accordingly, the Company has not included these shares in its equity. The Company also issued 1,262 shares of common stock to three directors of the Company for services valued at \$220,500. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant. The amount was expensed to selling, general and administrative expenses in the accompanying statement of operations for the year ended December 31, 2003.

During 2003, the Company issued 23,323,315 shares of common stock for consulting services valued at \$4,619,208. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant. The total value has been expensed to selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003.

During 2003, 4,052,490 shares of common stock were issued to the Company's attorney for services valued at \$1,134,300. Of this amount \$1,058,300 has been expensed to selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003 and \$76,000 offset a previously recorded accounts payable to this attorney. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant.

During 2002, management of the Company deemed that 1,930 shares of common stock were fraudulently issued. However these shares were not recorded by the Company until December 31, 2002, when it was discovered that as part of the fraud, such shares were also subsequently sold in the open market and are no longer recoverable. These shares were recorded on the books at their fair value and the Company recognized a charge of \$3,300,000 as a loss on fraudulent issuance of common stock at December 31, 2002.

During 2002, 4,379 shares of common stock with a fair value of \$5,216,516 were issued for consulting services. The fair value of the issued shares was based upon the market price of the Company's stock on the date of grant.

On July 25, 2002, the Board of Directors of the Company increased the total authorized common stock from 5,000,000,000 to 20,000,000,000 par value \$.001 per share.

In 2001, the Company issued 294 shares of common stock for compensation, consulting, legal and other services having a fair value of \$19,680,219 based upon the per share fair value at the date of the issuance. At December 31, 2001, \$17,965,923 of this amount was for future services, and had been deferred and shown as a contra to equity. During 2002, the underlying contracts and agreements for the above services and stock-based

17

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

compensation were cancelled, terminated or expired and therefore the entire \$17,965,923 was expensed for the year ended December 31, 2002.

On February 16, 2000, the Board of Directors agreed to offer up to .50 shares of common stock, pursuant to Regulation D, Section 4(6) of the Securities and Exchange Act of 1933, as amended. The offer was fully subscribed to by September 30, 2000 and \$984,666 of the \$1,000,000 subscription has been received as of December 31, 2001. In 2002, the balance due on the subscription receivable of \$15,334 was deemed uncollectable and written off against additional paid-in capital.

Pursuant to the terms and conditions of two separate trust agreements, shares of the Company's common stock were transferred in trust to an attorney who will act as trustee of the Innovative Holdings, Inc. Shareholder and Creditor Trusts ("Shareholder Trust" or "Creditor Trust"). In addition to the shares, the Company has assigned to the trusts the results and possible proceeds of pending future litigation.

The Shareholder Trust has been established to respond to the Company's concern that shareholders of record as of January 1, 2002 through July 31, 2002 were adversely affected by the action of outside parties effecting the share price and value of the Company throughout these dates. The Company intends to provide some measure of compensation to its shareholders for their related losses.

The Creditor Trust has been established to return the maximum amount to Century Media's creditors (assumed by the Company as a result of the Century Media acquisition) and to allow the Company to continue to operate without interruption. Following the submission of claims and validation of such claims, the trustee will liquidate the trust property and distribute the proceeds to the trust beneficiaries in a manner the trustee deems most beneficial.

During 2003, the Company issued 4 million shares of restricted stock to the trusts. The trust shares are not included in the outstanding shares because they are being held in escrow by the trustee. Additional stock will be required to be issued to achieve this financial goal.

NOTE 7 COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

On January 1, 2000, the Company entered into employment agreements with the Chief Executive Officer (CEO) and Chief Operations Officer (COO) for five and three years, respectively. The agreements call for a base salary, after annual incremental increases,

INNOVATION HOLDINGS, INC. (FORMERLY BLAGMAN MEDIA
INTERNATIONAL, INC.) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

ranging from \$240,000 to \$420,000 for the CEO and \$135,000 to \$180,000 for the COO. The agreements also call for signing bonuses of \$750,000 for the CEO and \$350,000 for the COO to be paid in equal monthly payments over the term of the respective employment agreements. For the years ended December 31, 2003 and 2002, the Company incurred expenses related to these agreements in the aggregate of \$582,952 and \$788,667, and \$1,897,344 and \$1,314,392 has been accrued at December 31, 2003 and 2002, respectively. Effective January 2002, the COO resigned her position with the Company. The employment agreement will be fulfilled by the Company in accordance with its original terms.

NOTE 8 CONCENTRATIONS

Approximately 90% and 97% of revenues were derived from three and one customers, respectively, for the years ended 2003 and 2002. Approximately 87% of accounts receivable was due from one customer as of December 31, 2002.

NOTE 9 INCOME TAXES

The provisions for income taxes for the years ended December 31, 2003 and 2002 is summarized as follows:

	2003	2002
	-----	-----
Current:		
Federal	\$ --	\$ --
State	--	--
Deferred - Federal and State	--	--
	-----	-----
Total provisions for income taxes	\$ --	\$ --
	=====	=====

Deferred income taxes arise from the temporary differences in reporting assets and liabilities for income tax purposes. These temporary differences primarily resulted from net operating losses, different amortization methods used for financial and tax purposes, and receivable reserves deducted for financial statement purposes and accrued expenses.

At December 31, 2003, the Company has a net operating loss carryforward of approximately \$47,765,000 that may be offset against future taxable income expiring on various dates beginning in 2018 through 2023. This net operating loss may be restricted in future years under Section 382 of the Internal Revenue Code.

The components of the deferred tax assets and liabilities at December 31, 2003 and 2002 are as follows:

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

	2003		2002
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets
Deferred income taxes, current:			
Accounts receivable reserves	\$80,382	\$ --	\$ --
Total Current	80,382	--	--
Valuation allowance	(80,382)	--	--
Net Current	--	--	--
Deferred income taxes, non-current:			
Net operating loss carryforward	16,240,170	--	13,593,446
Amortization	--	2,646,132	--
Accrued expenses	645,096	--	--
Total Long-Term	16,885,266	2,646,132	13,593,446
Net Long-Term	14,239,134	--	13,593,446
Valuation allowance	(14,239,134)	--	(13,593,446)
Net Deferred Tax Assets/Liabilities	\$ --	\$ --	\$ --

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance was recorded at December 31, 2003 and 2002 because the realization of such deferred assets is not more likely than not.

The valuation allowance as of January 1, 2003 was \$13,593,446. The net change in the valuation allowance during the year ended December 31, 2003 was an increase of approximately \$726,070.

NOTE 10 CAPITAL LEASE OBLIGATIONS

The Company is in default of its capital lease agreement at December 31, 2003. The Company is also in discussions with the lessor to settle the matter. Due to the default, the entire amount due under the lease has been classified as current in the accompanying consolidated balance sheets.

NOTE 11 LITIGATION

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

- (A) Subsequent to the Blagman/Century merger transaction described in Note 2, TMT Media Corporation ("TMT") has asserted that under the April 2000 acquisition agreement (whereby Century acquired TMT), as a result of the transaction between the Company and Century, it is entitled, as of April 22, 2002, to the \$1,250,000 contingent amount and to the payment in full of the balance of \$609,564 due on the \$700,000 note delivered in the 2000 acquisition of TMT by Century.

The Company and Century dispute this position and are seeking to resolve the matter. In May 2002, TMT initiated a proceeding TMT MEDIA CORPORATION VS. BLAGMAN CENTURY MEDIA, INC. et al. (Superior Court of California, County of Los Angeles, Case BC273368) against the Company, Century and a shareholder personally, claiming the accelerated amount of \$1,859,564. Management has filed a general denial to TMT's allegations and has asserted numerous affirmative defenses and plans to begin a mediation in June to resolve this case. In December 2003, TMT was granted a Summary judgement against the Company in the accelerated amount of \$2,242,975, which includes additional interest on the \$1,250,000 contingent amount and the \$609,564 note plus attorney's fees and costs incurred by TMT. The Company's former attorney failed to file any opposition to the summary judgement motion. The Company's current attorney will file a motion to be relieved of the default as to this summary judgement. As of December 31, 2003, the Company has recorded additional liabilities in the amount of \$383,411 in order to record the full liability of \$2,242,975 as per the summary judgement. This liability is included in Liabilities from Discontinued Operations in the accompanying consolidated balance sheet at December 31, 2003.

- (B) In March 2002, the Company advised authorities, market members and regulators and initiated an internal reconciliation investigation relating to a substantial amount of common shares of the Company improperly and fraudulently issued and possibly transferred, including possible improper releases of restrictions and transfers of restricted securities warrant negotiations or an exemption from registration, without the knowledge of the Company ("Curative Review Process"). The Curative Review Process is continuing. The Company filed a registration statement on Form S-8 for a 2002 Employee Stock Compensation Plan ("Registration Statement") effective August 2002 to register shares. In connection with the Curative Review Process, the Company subsequently placed stop transfer orders on all of the original certificates and derivatives of those certificates, advised market members and depositories of its actions and has been working with these parties and its transfer agent and other resources to ascertain which shares of Common Stock need to remain in commerce to recognize the interests of the transferee, which shares should be cancelled or returned to the Company and therefore removed from registration ("Removed Shares") and which shares are held by or were delivered to parties who were eligible to receive

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

an amendment to this Registration Statement as soon as practicable when the reconciliation in the Curative Review Process is complete to withdraw the Removed Shares from registration. In connection with this, the Company has had suit filed against them by a third party pending in the Circuit Court of Cook County, Illinois. The Company has responded to this matter and is actively cooperating in other investigations relating to the plaintiff and others. The Company expects additional litigation from the plaintiff and is intending to assert the indemnification and disgorgement rights under its agreements with the plaintiff. As stated above, more information on issues related to the collateral damage of the Company's association with certain financial advisors and organizations can be found on the Securities and Exchange Commission (SEC) website. Additional lawsuits may be filed by the Company against all parties involved in the fraud if any issues related to such fraud have an adverse effect on the Company. The Company has initiated a complaint against a third party in the Superior Court of California in the County of Los Angeles for breach of contract, fraud and deceit, intentional misrepresentation of facts, and rescission. The third party filed a general denial to the complaint, has asserted numerous affirmative defenses, and has filed a cross-complaint alleging breach of written contract, breach of the implied covenant of good faith and fair dealing, conversion, common counts, breach of fiduciary duties, fraud and deceit, negligent misrepresentation, imposition of constructive trust and/or resulting trust, intentional and tortuous inducement to breach and interference with contract and prospective economic advantage, and unfair trade practices. The Company has filed a general denial to the allegations. The parties are currently seeking a business settlement.

On March 31, 2003, the SEC filed a complaint for injunctive and other equitable relief, obtained a temporary restraining order and has frozen the assets of this third party. The SEC complaint specifically alleges that this third party and his associates forged stock issuance resolutions and entered into bogus consulting agreements in an effort to wrongfully convert the Company's S-8 shares. The SEC has alleged that this third party and his associates stole approximately 2,160 shares of the Company's stock valued at \$3,300,000.

- (C) A claim has been brought against the Company by a corporation for breach of contract. On January 30, 2004, this corporation was granted a summary judgement in the amount of \$203,064, which includes interest plus attorney's fees and costs incurred by the corporation. The Company's current attorney will file a motion to be relieved of the default as to this summary judgement. As of December 31, 2003, the Company has recorded additional liabilities in the amount of \$51,064 in order to record the full liability of \$203,064 as per the summary judgement. This liability is included in Liabilities from Discontinued Operations in the accompanying consolidated balance

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

case that are pending for binding arbitration in November 2004.

- (D) On November 11, 2003, the Company reached a settlement with a corporation as a result of a claim brought against the corporation by the Company on May 6, 2002 and a cross complaint filed by the corporation on June 14, 2002. As part of the terms and conditions of the settlement, the Company will pay to the corporation \$260,000 and 10% simple interest over one year. This will be accomplished by the issuance of 2 million shares of free trading stock 30 days after the execution of the agreement. The shares will be held in a trust account for the purpose of selling the stock and paying the corporation on a continuous basis. In the event the Company does not pay the corporation the total amount of the settlement on or before one year and 30 days from the execution date of the settlement agreement, the corporation will enforce a stipulated judgment in the amount of \$750,000 against the Company. The Company has recorded a liability of \$260,000 as of December 31, 2003 and this amount is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet as of December 31, 2003. As of December 31, 2003, the Company had not yet issued the corporation the 2 million shares as per the terms of the settlement. As of the report date, the Company has issued 21 million shares to the corporation valued at \$250,000. The fair value of the shares issued was based upon the market price of the Company's common stock on the date of grant.

Other than the litigation discussed in the above paragraphs, the Company is a party to a number of lawsuits and claims that the Company believes will ultimately have a favorable outcome and are not material in dollar amounts.

NOTE 12 GOING CONCERN

The Company's financial statements for the year ended December 31, 2003 have been prepared on a going concern basis which contemplated the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company has a net loss of \$8,035,776 and a negative cash flow from operations of \$248,707 for the year ended December 31, 2003, and a working capital deficiency of \$14,964,864 and a stockholders' deficiency of \$15,194,926 at December 31, 2003. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital, and implement its business plan. Management believes that actions presently taken to obtain additional funding provide the opportunity for the Company to continue as a going concern. The Company is also

23

actively seeking businesses to acquire.

NOTE 13 SUBSEQUENT EVENTS

During the period from January 1, 2004 through May 4, 2004, the Company has issued 74,036,000 common shares in the aggregate, to

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

eleven different consultants for consulting services to be provided over varying terms, which expire at various dates during the fiscal year 2005.

In March and May 2004, a total of 17,000,000 shares of common stock were issued to the Company's Securities and Exchange attorney as compensation for legal services rendered.

In April 2004, the Board of Directors authorized a 500 for 1 reverse stock split. All share and per share amounts in the accompanying consolidated financial statements and footnotes have been restated to give effect to such reverse stock split.

24

EXHIBIT LIST

- 2.11 Agreement and Plan of Reorganization (Incorporated by reference; Form 8-K filed on March 11, 2002)
- 3.1 Articles of Incorporation (Incorporated by reference; Form 8-K of MNS Eagle Equity Group I, Inc. filed on April 27, 2000)
- 3.2 Bylaws (Incorporated by reference; Form 8-K of MNS Eagle Equity Group I, Inc. filed on April 27, 2000)
- 3.3 Certificate of Designation for Series B Convertible Preferred Stock (Incorporated by reference; Form 8-K of MNS Eagle Equity Group I, Inc. filed on April 27, 2000)
- 10.1 Employment Agreement with Robert Blagman (Incorporated by reference; Form 10-KSB/A filed on April 30, 2001)
- 10.2 Employment Agreement with Leslie Blagman (Incorporated by reference; Form 10-KSB/A filed on April 30, 2001)
- 10.3 Equity Line of Credit Agreement dated July 12, 2001 with Gazelle Group LLP and DRH Investment Company LLP (Incorporated by reference; Form SB-2/A filed on November 1, 2001)
- 10.4 Registration Rights Agreement dated July 12, 2001 with Gazelle Group LLP and DRH Investment Company LLP (Incorporated by reference; Form SB-2/A filed on November 1, 2001)
- 10.5 Securities Purchase Agreement dated July 12, 2001 with certain named buyers (Incorporated by reference; Form SB-2/A filed on November 1, 2001)
- 10.6 Placement Agent Agreement dated July 12, 2001 with May Davis Group, Inc. (Incorporated by reference; Form SB-2/A filed on November 1, 2001)
- 10.7 Registration Rights Agreement dated July 12, 2001 with certain named persons (Incorporated by reference; Form SB-2/A filed on November 1, 2001)
- 10.8 2000 Employee Stock Compensation Plan (Incorporated by reference; Form S-8 for MNS Eagle Equity Group I, Inc. filed on September 11, 2000)
- 10.9 2001 Employee Stock Option Plan (Incorporated by reference; Form S-8 filed on August 27, 2001)
- 10.10 1-for-500 stock split and marketing rights agreement (Incorporated by

Edgar Filing: INNOVATION HOLDINGS - Form 10KSB/A

reference; Form 8-K filed on April 26, 2004)

- 21.1 List of Subsidiaries (Incorporated by reference, Form 10-KSB, as amended filed on April 15, 2002)
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 (filed herewith)
- 99.2 Certification of the chief executive officer pursuant to the securities exchange act of 1934, rules 13a-14 and 15d-14 as adopted pursuant to section 302 of the Sarbanes-Oxley act of 2002