

## **EXHIBIT A**

### **AUDITED FINANCIAL STATEMENTS**

Audited financial statements of *Barnie's Coffee & Tea Company, Inc.* as of and for the 12-month periods ended September 30, 2006, September 24, 2005, September 25, 2004, and September 27, 2003 together with accompanying Independent Certified Public Accountants' Report. Also included in this Exhibit are an unaudited consolidated Balance Sheet and an unaudited Statement of Operations for *Barnie's Coffee & Tea Company, Inc.* for the five month period ended February 28, 2007.



**Barnie's Coffee & Tea Company, Inc.**

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**Consolidated Financial Statements**  
Years Ended September 30, 2006  
and September 24, 2005

# Barnie's Coffee & Tea Company, Inc.

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## **Independent Auditors' Report**

To the Stockholders  
Barnie's Coffee & Tea Company, Inc.

We have audited the accompanying consolidated balance sheets of Barnie's Coffee & Tea Company, Inc. and Subsidiary as of September 30, 2006 and September 24, 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Barnie's Coffee & Tea Company, Inc. and Subsidiary at September 30, 2006 and September 24, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Cross, Fernandez & Riley, LLP*  
Certified Public Accountants

January 25, 2007

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Balance Sheets

	September 30, 2006	September 24, 2005
<b>Assets (Note 3)</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 779,551	\$ 428,089
Accounts receivable, less allowance for doubtful accounts of \$112,000 and \$67,000	658,760	530,904
Other receivables	423,138	-
Note receivable – current, less allowance of \$30,259 and \$0	-	35,547
Inventories (Notes 1 and 3)	1,537,439	3,718,533
Other current assets	86,194	58,743
Assets held for sale (Note 9)	2,018,437	-
<b>Total current assets</b>	<b>5,503,519</b>	<b>4,771,816</b>
<b>Property and equipment, net (Notes 2, and 3)</b>	<b>696,467</b>	<b>3,663,474</b>
<b>Other:</b>		
Goodwill (Note 9)	-	652,537
Other assets	38,561	43,753
Note receivable – long-term, less allowance of \$5,208 and \$0	-	36,460
	<b>\$ 6,238,547</b>	<b>\$ 9,168,040</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Bank overdraft	\$ 630,977	\$ 579,006
Accounts payable	1,204,447	1,774,789
Accrued expenses	681,669	1,028,912
Deferred revenue	397,053	357,185
Notes payable – related party (Note 4)	1,100,000	-
Current maturities of long-term debt (Note 3)	-	635,061
<b>Total current liabilities</b>	<b>4,014,146</b>	<b>4,374,953</b>
<b>Long-term liabilities:</b>		
Deferred rent	52,802	478,511
<b>Total liabilities</b>	<b>4,066,948</b>	<b>4,853,464</b>
<b>Commitments and contingencies (Note 5)</b>	<b>-</b>	<b>-</b>
<b>Stockholders' equity:</b>		
Common stock, \$1.00 par value; 400,000 shares authorized, 330,099 shares issued and outstanding	330,099	330,099
Additional paid-in capital	34,314,175	34,314,175
Accumulated deficit	(32,472,675)	(30,329,698)
<b>Total stockholders' equity</b>	<b>2,171,599</b>	<b>4,314,576</b>
	<b>\$ 6,238,547</b>	<b>\$ 9,168,040</b>

See accompanying notes to consolidated financial statements.

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Operations

<i>Year ended</i>	<i>September 30, 2006</i>	<i>September 24, 2005</i>
<b>Net sales:</b>		
Company operated retail	\$ 8,614,398	\$ 9,210,719
Franchise and licensing	2,797,251	2,578,344
Other	179,793	473,297
<b>Total net sales</b>	<b>11,591,442</b>	<b>12,262,360</b>
<b>Cost of sales</b>	<b>5,482,965</b>	<b>5,748,462</b>
<b>Gross profit</b>	<b>6,108,477</b>	<b>6,513,898</b>
<b>Selling, general and administrative expenses</b>	<b>8,369,729</b>	<b>9,250,032</b>
<b>Loss from operations</b>	<b>(2,261,252)</b>	<b>(2,736,134)</b>
<b>Other income (expense):</b>		
Interest expense, net	(19,392)	(60,619)
Gain on sale of property and equipment	—	7,600
Loss on abandonment of property and equipment	(19,575)	(24,209)
<b>Total other expense</b>	<b>(38,967)</b>	<b>(77,228)</b>
<b>Loss from continuing operations</b>	<b>(2,300,219)</b>	<b>(2,813,362)</b>
<b>Income from discontinued operations (Note 9)</b>	<b>157,242</b>	<b>910,770</b>
<b>Net loss</b>	<b>\$ (2,142,977)</b>	<b>\$ (1,902,592)</b>

*See accompanying notes to consolidated financial statements.*

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Stockholders' Equity

	<i>Common Stock</i>		<i>Additional Paid-in Capital</i>	<i>Accumulated Deficit</i>	<i>Total</i>
	<i>Shares</i>	<i>Amount</i>			
<b>Balance, September 25, 2004, as restated</b>	9,997	\$ 9,997	\$ 32,232,965	\$ (28,427,106)	\$ 3,815,856
Issuance of common stock	166,667	166,667	333,333	–	500,000
Issuance of common stock to settle notes payable – related parties	153,435	153,435	1,747,877	–	1,901,312
Net loss	–	–	–	(1,902,592)	(1,902,592)
<b>Balance, September 24, 2005</b>	<b>330,099</b>	<b>330,099</b>	<b>34,314,175</b>	<b>(30,329,698)</b>	<b>4,314,576</b>
Net loss	–	–	–	(2,142,977)	(2,142,977)
<b>Balance, September 30, 2006</b>	<b>330,099</b>	<b>\$ 330,099</b>	<b>\$ 34,314,175</b>	<b>\$ (32,472,675)</b>	<b>\$ 2,171,599</b>

*See accompanying notes to consolidated financial statements.*

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Cash Flows

<i>Year ended</i>	<i>September 30, 2006</i>	<i>September 24, 2005</i>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,142,977)	\$ (1,902,592)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Increase in allowance for doubtful accounts and note receivable	80,970	67,000
Depreciation and amortization	573,873	559,827
Provision for impairment on property and equipment	-	93,528
Loss on abandonment of property and equipment	19,575	24,209
Gain on sale of property and equipment	-	(7,600)
Deferred revenue	39,868	44,827
Deferred rent	(7,835)	(3,548)
Discontinued operations	1,472,296	1,169,451
Cash provided by (used for):		
Accounts receivable	(173,359)	95,383
Other receivables	(423,138)	-
Inventories	1,285,641	(535,257)
Other current assets	(27,451)	(29,133)
Bank overdraft	51,971	348,159
Accounts payable	(570,342)	(140,273)
Accrued expenses	(347,243)	240,694
<b>Net cash provided by (used for) operating activities</b>	<b>(168,151)</b>	<b>24,675</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(96,487)	-
Proceeds from disposal of property and equipment	-	11,353
Collections on notes receivable	36,540	29,360
Decrease in other assets	5,192	41,294
Cash provided by (used for) discontinued operations	109,429	(165,888)
<b>Net cash provided by (used for) investing activities</b>	<b>54,674</b>	<b>(83,881)</b>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(635,061)	(600,554)
Proceeds from notes payable – related party	1,100,000	-
Issuance of common stock	-	500,000
<b>Net cash provided by (used for) financing activities</b>	<b>464,939</b>	<b>(100,554)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>351,462</b>	<b>(159,760)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>428,089</b>	<b>587,849</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 779,551</b>	<b>\$ 428,089</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 23,152	\$ 54,229
<b>Noncash investing and financing activities:</b>		
Issuance of common stock to settle notes payable – related parties	-	1,901,312

See accompanying notes to consolidated financial statements.



# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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<b>Nature of Operations</b>	<p>Barnie's Coffee &amp; Tea Company, Inc. ("Barnie's") was founded in 1980 and incorporated in the State of Florida in 1981. Barnie's and its wholly-owned subsidiary (collectively the "Company") are primarily engaged in retail sales of specialty coffees, teas and related items. In addition, the Company enters into franchise agreements from which it earns royalty revenues.</p> <p>During fiscal year 2006, the Company closed many of its company-owned stores in anticipation of their impending sale to another entity in October 2007 (see Note 9).</p> <p>As of September 30, 2006, the Company had seven company-owned stores and 41 franchised stores. As of September 24, 2005, the Company had 61 company-owned stores and 44 franchised stores. The stores are located primarily within the southeastern United States with certain franchised stores located internationally.</p>
<b>Principles of Consolidation</b>	<p>The consolidated financial statements include the accounts of Barnie's Coffee &amp; Tea Company, Inc. and its wholly-owned subsidiary, Barnie's Coffee.Com, Inc. All significant intercompany balances and transactions are eliminated in consolidation.</p>
<b>Fiscal Year</b>	<p>The Company's fiscal year is the 52-53 week period ending on the Saturday closest to September 30. The fiscal year ended September 30, 2006 included 53 weeks, and the fiscal year ended September 24, 2005 included 52 weeks.</p>
<b>Cash and Cash Equivalents</b>	<p>The Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.</p>
<b>Accounts Receivable</b>	<p>Accounts receivable are customer obligations due under normal trade terms. The Company evaluates the collectibility of its accounts receivable on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, it records a specific allowance to reduce the</p>

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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amounts recorded to what it believes will be collected. The Company may also record an additional reserve which is determined based on historical experience and its assessment of the general financial conditions affecting its customer base. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

### **Other Receivables**

Other receivables consist of amounts due to the Company for rent payments made on behalf of the entity that purchased 54 of the Company's stores (see Note 9) and assumed the related leases on the stores purchased prior to September 30, 2006. This amount was collected by the Company in October 2006.

### **Inventories**

Inventories are valued at the lower of cost or market. Cost is determined using the weighted-average method, which approximates the first-in, first-out (FIFO) method.

### **Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life. For leases with renewal options, the Company generally uses the renewal periods to determine the lease life if failure to exercise a renewal option would impose an economic penalty to the Company and management determines that renewal is reasonably assured.

Included in "selling, general and administrative expenses" in the consolidated statements of operations for the year ended September 24, 2005 are losses from the write-downs to fair value of impaired property and equipment of \$312,553, which relate to leasehold improvements and furniture, fixtures and equipment of poorly performing company-owned stores where the Company has concluded that the book value of these assets was significantly higher than their expected future cash flows and that an impairment had occurred. This impairment write-down was made in accordance with Statement of Financial Accounting Standards No. 144,

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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“Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”). SFAS No. 144 requires impairment losses to be recorded on long-lived assets used in operations when impairment indicators are present and the assets’ fair value is less than the carrying value. There were no such impairment write-downs during the year ended September 30, 2006.

### **Goodwill**

Goodwill represents the excess of cost over the fair value of net assets acquired from the purchase of stores in prior years that were operating as franchises. Management evaluates the recoverability of goodwill annually, or more frequently if events or changes in circumstances, such as decline in sales, earnings or cash flows or material adverse changes in the business climate indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are determined using an undiscounted cash flow methodology. No impairment losses were recorded in fiscal years 2006 or 2005.

### **Long-Lived Assets**

When facts and circumstances indicate that the carrying values of long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying values of the assets to projected undiscounted future cash flows in addition to other quantitative and qualitative analyses. Upon indication that the carrying values of such assets may not be recoverable, the Company recognizes an impairment loss by a charge against current operations. Property and equipment assets are grouped at the lowest level for which there are identifiable cash flows when assessing impairment, primarily the individual store level.

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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- Deferred Rent** Certain of the Company's operating leases contain predetermined fixed increases of the base rental rate during the lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.
- Franchise Operations** The Company grants franchises to private operators in exchange for an initial franchise fee and receives royalties based on a percentage of weekly sales. The initial franchise fee is recorded as income when the store commences operations. Royalties are recognized as income on the accrual basis and are included in franchising and licensing sales in the accompanying consolidated statements of operations. Royalties totaled approximately \$587,000 and \$489,000 for the years ended September 30, 2006 and September 24, 2005, respectively. Costs associated with franchise operations are charged to operations as incurred. In addition, the Company receives revenue in the form of rebates from sales made by approved vendors to franchisees. For the years ended September 30, 2006 and September 24, 2005, the Company received approximately \$92,000 and \$91,000, respectively, in vendor rebates relating to sales made to franchisees.
- Revenue Recognition** In most instances, retail store revenues are recognized when payment is tendered at the point of sale. Revenues from gift certificates are recognized upon redemption. Until the redemption of the gift certificates, outstanding balances on such certificates are included in deferred revenue on the accompanying consolidated balance sheets. All revenues are recognized net of any discounts.
- Advertising Expenses** The Company expenses all advertising costs as they are incurred. Total advertising costs for the years ended September 30, 2006 and September 24, 2005, respectively, were approximately \$672,000 and \$724,000.

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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### **Shipping and Handling Costs**

The Company accounts for shipping and handling costs related to the acquisition of goods from its vendors and to the shipment of goods to customers as cost of sales.

### **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between carrying amounts of existing assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### **Use of Estimates**

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

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

### 1. Inventories

Inventories are summarized as follows:

	<i>September 30,</i> <b>2006</b>	<i>September 24,</i> <b>2005</b>
Appliances and hard goods	\$ 104,711	\$ 675,247
Branded coffee	316,894	928,015
Supplies	716,746	774,066
Bulk coffee	56,175	261,444
Other	342,913	1,079,761
	<b>\$ 1,537,439</b>	<b>\$ 3,718,533</b>

### 2. Property and Equipment

Property and equipment, net is summarized as follows:

	<i>Estimated Useful Lives</i>	<i>September 30,</i> <b>2006</b>	<i>September 24,</i> <b>2005</b>
Furniture, fixtures and equipment	5-10 yrs.	\$ 2,007,819	\$ 7,924,320
Leasehold improvements	5-10 yrs.	976,722	9,117,584
Computer software equipment	2-5 yrs.	3,150,288	3,929,907
		<b>6,134,829</b>	20,971,811
Less: Accumulated depreciation and amortization		<b>(5,438,362)</b>	<b>(17,308,337)</b>
		<b>\$ 696,467</b>	<b>\$ 3,663,474</b>

### 3. Long-Term Debt

In September 2003, the Company entered into a \$1,800,000 term note payable to a bank. The note bore interest at 5.5% and was secured by substantially all of the Company's assets. Principal and interest payments of \$54,352 were due monthly through September 2006, at which time the note was paid in full.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

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4. **Notes Payable – Related Party** At September 30, 2006, notes payable – related party represent unsecured notes payable to a certain stockholder of the Company. The notes bear interest at 8% and were repaid in full in October 2006.

In October 2004, the Company issued 153,435 shares of common stock in full payment of \$1,901,312 of unsecured stockholder notes payable.

5. **Commitments and Contingencies** Purchase Commitment

The Company is obligated under a contract with its former stockholder to purchase 1.1 million pounds of coffee each year until October 2006 at varying prices as defined in the contract. The cost associated with the commitment to purchase coffee cannot be reasonably determined due to the future fluctuations in the market price of coffee. The Company believes, based upon its existing relationship with its supplier, the risk of nondelivery on the purchase commitment is low.

### Operating Leases

The Company leases retail stores, warehouse space and office space under operating leases expiring at various dates through 2021. Most of the lease agreements contain renewal options and rent escalation clauses. Certain leases provide for contingent rentals as described below.

Future minimum lease payments, due under operating leases having initial or remaining noncancelable lease terms in excess of one year, are approximately as follows:

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

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<i>Fiscal year</i>	
2007	\$ 898,000
2008	670,000
2009	612,000
2010	584,000
2011	487,000
Thereafter	703,000
	<hr/>
	\$ 3,954,000

The Company has guaranteed certain leases on franchised stores, aggregating approximately \$4,280,000 through 2015.

Rent expense for the years ended September 30, 2006 and September 24, 2005, including contingent rentals of approximately \$75,000 and \$68,000, was approximately \$3,247,000 and \$3,766,000, respectively. Contingent rentals are based on store sales in excess of a specified amount.

### Litigation

The Company is involved in lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would not have a material adverse effect on the financial position or results of operations of the Company.



# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

### 6. Income Taxes

The components of the Company's net deferred tax assets are as follows:

	<i>September 30,</i> <b>2006</b>	<i>September 24,</i> <b>2005</b>
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	<b>\$ 6,138,000</b>	\$ 5,475,000
Accruals	<b>73,000</b>	255,000
Inventory	<b>64,000</b>	160,000
Property, equipment and other assets	<b>1,438,000</b>	1,150,000
Reserves	<b>72,000</b>	25,000
Other	<b>102,000</b>	125,000
	<b>7,887,000</b>	7,190,000
Valuation allowance	<b>(7,887,000)</b>	(7,190,000)
Net deferred tax assets	<b>\$ -</b>	\$ -

The Company's valuation allowance increased by approximately \$697,000 and \$569,000 during the years ended September 30, 2006 and September 24, 2005, respectively. The Company has recorded a valuation allowance to state its deferred tax assets at estimated net realizable value due to uncertainty related to realization of these assets through future taxable income.

The Company had net operating loss carryforwards (NOLs) of approximately \$15,537,000 available at September 30, 2006 that expire at various dates through 2026. However, the use of these NOLs will be limited under the provisions of Section 382 of the Internal Revenue Code, as amended.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

**7. Defined  
Contribution  
Plan**

Effective October 1, 1992, the Company established a defined contribution plan to encourage employees to develop a regular and systematic savings program through payroll deductions and to reward long-term employees through matching employer contributions. The plan is qualified under Internal Revenue Code Section 401(a).

Employees are eligible to participate after completing 12 months and 1,000 hours of service and attaining age 21. Employees, individually, may contribute up to 15 percent of their annual compensation, not to exceed statutory amounts. The Company may make discretionary matching contributions to the plan in an amount equal to 50% of the employees' contribution. The Company made matching contributions to the plan during the years ended September 30, 2006 and September 24, 2005 of approximately \$73,000 and \$71,000, respectively.

**8. Significant  
Concentrations**

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Purchases

The Company purchases the majority of its coffee from its former stockholder. Purchases from the former stockholder were approximately \$3,676,000 and \$3,370,000 during the fiscal years 2006 and 2005.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

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### 9. Sale of Company-Owned Stores

During fiscal 2006, the Company entered into negotiations to sell 54 of its company-owned stores. In October 2006, the Company closed on the sale of these stores for \$15,000,000 in cash. As part of the sales agreement, the buyer assumed the store leases for all 54 stores prior to September 30, 2006. Total costs incurred by the Company related to the sale of these stores was approximately \$10,000, which consisted primarily of legal fees. These costs have not been paid as of September 30, 2006. The Company also incurred a loss of \$328,778 on the abandonment of property and equipment that was removed from these stores during fiscal 2006 in order to prepare the locations for sale. This loss is included in income from discontinued operations in the accompanying consolidated statement of operations for the year ended September 30, 2006. No additional costs relating to the sale of these stores is expected to be incurred.

Sales for the stores that were sold, which are reported in discontinued operations, were \$24,814,391 and \$27,043,410, respectively, for the years ended September 30, 2006 and September 24, 2005. The net income for these stores, reported in discontinued operations, was \$157,242 and \$910,770, respectively, for the years ended September 30, 2006 and September 24, 2005. Prior year financial statements for fiscal 2005 have been restated to present the operations of these stores as discontinued operations.

In accordance with generally accepted accounting principles, the assets of the stores to be sold have been aggregated and presented on the consolidated balance sheet at September 30, 2006 as assets held for sale. These assets include \$1,365,900 of leasehold improvements and \$652,537 of goodwill.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

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- 10. Subsequent Event**      Subsequent to the sale of its company-owned stores (see Note 9), management of the Company determined that it would be beneficial to restructure the corporate ownership of the Company. Accordingly, the Company's assets and liabilities were transferred to a newly incorporated entity. The new entity, with the consent of its stockholders, has elected to be taxed under the provisions of Subchapter S of the Federal Internal Revenue Code wherein income is taxable to the stockholders and not to the entity.

**Barnie's Coffee & Tea Company, Inc.**

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**Consolidated Financial Statements**  
Years Ended September 25, 2004  
and September 27, 2003

# Barnie's Coffee & Tea Company, Inc.

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GALLOGLY, FERNANDEZ & RILEY, LLP

*Accountants & Consultants*

## Independent Auditors' Report

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnie's Coffee & Tea Company, Inc. and Subsidiary at September 25, 2004 and September 27, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Certified Public Accountants

January 11, 2005

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Balance Sheets

	September 25, 2004	September 27, 2003
<b>Assets (Note 3)</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 587,849	\$ 785,681
Accounts receivable	693,287	309,541
Note receivable – current	34,659	–
Inventories (Note 1)	3,104,002	3,212,569
Other current assets	29,610	504,617
<b>Total current assets</b>	<b>4,449,407</b>	<b>4,812,408</b>
<b>Property and equipment, net (Notes 2 and 3)</b>	<b>5,581,682</b>	<b>7,296,343</b>
<b>Other:</b>		
Goodwill	652,537	652,537
Other assets	85,047	68,007
Note receivable – long-term	66,708	–
	<b>\$ 10,835,381</b>	<b>\$ 12,829,295</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Bank overdraft	\$ 230,847	\$ –
Accounts payable	1,915,062	1,931,937
Accrued expenses	788,218	767,975
Deferred revenue	312,358	226,318
Notes payable – related parties (Note 4)	1,901,312	500,000
Current maturities of long-term debt (Note 3)	601,290	569,012
<b>Total current liabilities</b>	<b>5,749,087</b>	<b>3,995,242</b>
<b>Long-term liabilities:</b>		
Notes payable – related parties (Note 4)	–	1,000,000
Long-term debt, less current maturities (Note 3)	634,325	1,230,988
Deferred rent	497,716	535,073
<b>Total liabilities</b>	<b>6,881,128</b>	<b>6,761,303</b>
<b>Commitments and contingencies (Note 5)</b>	<b>–</b>	<b>–</b>
<b>Stockholders' equity:</b>		
Common stock, \$1.00 par value; 200,000 shares authorized, 9,997 shares issued and outstanding	9,997	9,997
Additional paid-in capital	32,232,965	32,232,965
Accumulated deficit	(28,288,709)	(26,174,970)
<b>Total stockholders' equity</b>	<b>3,954,253</b>	<b>6,067,992</b>
	<b>\$ 10,835,381</b>	<b>\$ 12,829,295</b>

See accompanying notes to consolidated financial statements.



# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Operations

<i>Year ended</i>	<i>September 25, 2004</i>	<i>September 27, 2003</i>
<b>Net sales</b>	<b>\$ 37,742,888</b>	<b>\$ 36,211,668</b>
<b>Cost of sales</b>	<b>14,915,422</b>	<b>13,401,774</b>
Gross profit	22,827,466	22,809,894
<b>Selling, general and administrative expenses</b>	<b>24,751,331</b>	<b>24,025,790</b>
Loss from operations	(1,923,865)	(1,215,896)
<b>Other income (expense):</b>		
Interest expense, net	(180,784)	(47,471)
Gain on sale of property and equipment	17,896	—
Loss on abandonment of property and equipment	(26,986)	(413,970)
Total other expense	(189,874)	(461,441)
<b>Net loss</b>	<b>\$ (2,113,739)</b>	<b>\$ (1,677,337)</b>

*See accompanying notes to consolidated financial statements.*

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Stockholders' Equity

	<u>Common Stock</u>		<i>Additional</i>	<i>Accumulated</i>	
	<i>Shares</i>	<i>Amount</i>	<i>Paid-in</i>	<i>Deficit</i>	<i>Total</i>
			<i>Capital</i>		
<b>Balance , September 28, 2002</b>	9,997	\$ 9,997	\$32,232,965	\$(24,497,633)	\$ 7,745,329
Net loss	-	-	-	(1,677,337)	(1,677,337)
<b>Balance, September 27, 2003</b>	9,997	9,997	32,232,965	(26,174,970)	6,067,992
Net loss	-	-	-	(2,113,739)	(2,113,739)
<b>Balance, September 25, 2004</b>	9,997	\$ 9,997	\$32,232,965	\$(28,288,709)	\$ 3,954,253

*See accompanying notes to consolidated financial statements.*

# Barnie's Coffee & Tea Company, Inc.

## Consolidated Statements of Cash Flows

<i>Year ended</i>	<i>September 25, 2004</i>	<i>September 27, 2003</i>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,113,739)	\$ (1,677,337)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,765,013	1,493,564
Provision for impairment on goodwill and property and equipment	477,887	821,797
Loss on abandonment of property and equipment	26,986	413,970
Gain on sale of property and equipment	(17,896)	-
Deferred revenue	86,040	55,241
Deferred rent	(37,357)	(12,838)
Cash provided by (used for):		
Accounts receivable	(383,746)	31,950
Inventories	108,567	(889,981)
Other current assets	475,007	(39,981)
Bank overdraft	230,847	-
Accounts payable	(16,875)	234,807
Accrued expenses	20,243	(218,997)
<b>Net cash provided by operating activities</b>	<b>620,977</b>	<b>212,195</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(726,368)	(3,009,117)
Proceeds from disposal of property and equipment	64,039	-
Collections on notes receivable	23,633	-
(Increase) decrease in other assets	(17,040)	9,210
<b>Net cash used for investing activities</b>	<b>(655,736)</b>	<b>(2,999,907)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	-	1,800,000
Payments on long-term debt	(564,385)	-
Proceeds from notes payable – related parties	901,312	1,500,000
Payment on notes payable – related parties	(500,000)	-
<b>Net cash (used for) provided by financing activities</b>	<b>(163,073)</b>	<b>3,300,000</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(197,832)</b>	<b>512,288</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>785,681</b>	<b>273,393</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 587,849</b>	<b>\$ 785,681</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 125,089	\$ 47,471
<b>Noncash investing activities:</b>		
Sale of property and equipment for note receivable	125,000	-

See accompanying notes to consolidated financial statements.

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

<b>Nature of Operations</b>	<p>Barnie's Coffee &amp; Tea Company, Inc. ("Barnie's") was founded in 1980 and incorporated in the State of Florida in 1981. Barnie's and its wholly-owned subsidiary (collectively the "Company") are primarily engaged in retail sales of specialty coffees, teas and related items. In addition, the Company enters into franchise agreements from which it earns royalty revenues.</p> <p>As of September 25, 2004, the Company has 64 company-owned stores in eight states and 20 franchised stores in seven states and one franchised store in Kuwait. As of September 27, 2003, the Company had 76 company-owned stores in 11 states and 20 franchised stores in seven states. The stores are located primarily in the southeastern United States.</p>
<b>Principles of Consolidation</b>	<p>The consolidated financial statements include the accounts of Barnie's Coffee &amp; Tea Company, Inc. and its wholly-owned subsidiary, Barnie's Coffee.Com, Inc. All significant intercompany balances and transactions are eliminated in consolidation.</p>
<b>Fiscal Year</b>	<p>The Company's fiscal year is the 52-53 week period ending on the Saturday closest to September 30.</p>
<b>Cash and Cash Equivalents</b>	<p>The Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.</p>
<b>Accounts Receivable</b>	<p>Accounts receivable are customer obligations due under normal trade terms. The Company evaluates the collectibility of its accounts receivable on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, it records a specific allowance to reduce the amounts recorded to what it believes will be collected. The Company may also record an additional reserve which is determined based on historical experience and its assessment of the general financial conditions affecting its customer base. After all attempts to collect a receivable have failed, the receivable is written</p>

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

off against the allowance. As of September 25, 2004 and September 27, 2003, there was no allowance for doubtful accounts receivable recorded.

### **Inventories**

Inventories are valued at the lower of cost or market. Cost is determined using the weighted-average method, which approximates the first-in, first-out (FIFO) method.

### **Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Included in "selling, general and administrative expenses" in the consolidated statements of operations for the years ended September 25, 2004 and September 27, 2003 are losses from the write-downs to fair value of impaired property and equipment of \$477,887 and \$791,580, respectively, which relate to leasehold improvements and furniture, fixtures and equipment of poorly performing company-owned stores where the Company has concluded that the book value of these assets was significantly higher than their expected future cash flows and that an impairment had occurred. This impairment write-down was made in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 requires impairment losses to be recorded on long-lived assets used in operations when impairment indicators are present and the assets' fair value is less than the carrying value.

### **Goodwill**

Goodwill represents the excess of cost over the fair value of net assets acquired from the purchase of stores in prior years that were operating as franchises. Management evaluates the recoverability of goodwill annually, or more frequently if events or changes in circumstances, such as decline in sales, earnings or cash flows or material adverse changes in the business climate indicate that the carrying value of an asset might be impaired. Goodwill is

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are determined using an undiscounted cash flow methodology. Impairment losses of \$30,217 were recorded in the fiscal year September 27, 2003 and are included in "selling, general and administrative expenses" in the consolidated statements of operations.

### **Deferred Rent**

Certain of the Company's operating leases contain predetermined fixed increases of the base rental rate during the initial lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheet.

### **Franchise Operations**

The Company grants franchises to private operators in exchange for an initial franchise fee and receives royalties based on a percentage of weekly sales. The initial franchise fee is recorded as income when the store commences operations. One franchise was sold and no franchises were purchased during the year ended September 25, 2004. No franchises were sold or purchased during the year ended September 27, 2003. Royalties are recognized as income on the accrual basis and are included in net sales in the accompanying consolidated statements of operations. Royalties totaled approximately \$418,000 and \$385,000 for the years ended September 25, 2004 and September 27, 2003, respectively. Costs associated with franchise operations are charged to operations as incurred. In addition, the Company receives revenue in the form of rebates from sales made by approved vendors to franchisees. For the years ended September 25, 2004 and September 27, 2003, the Company received approximately \$38,000 and \$47,000, respectively, in vendor rebates relating to sales made to franchisees.

# Barnie's Coffee & Tea Company, Inc.

## Summary of Significant Accounting Policies

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- Revenue Recognition** In most instances, retail store revenues are recognized when payment is tendered at the point of sale. Revenues from gift certificates are recognized upon redemption. Until the redemption of the gift certificates, outstanding balances on such certificates are included in deferred revenue on the accompanying consolidated balance sheet. All revenues are recognized net of any discounts.
- Advertising Expenses** The Company expenses all advertising costs as they are incurred. Total advertising costs for the years ended September 25, 2004 and September 27, 2003, respectively, were approximately \$546,000 and \$815,000.
- Income Taxes** The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between carrying amounts of existing assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
- Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

### 1. Inventories

Inventories are summarized as follows:

	<i>September 25,</i> <b>2004</b>	<i>September 27,</i> <b>2003</b>
Appliances and hard goods	\$ 450,785	\$ 532,009
Branded coffee	856,785	1,091,509
Supplies	707,611	831,562
Bulk coffee	387,320	230,687
Other	701,501	526,802
	<b>\$ 3,104,002</b>	<b>\$ 3,212,569</b>

### 2. Property and Equipment

Property and equipment, net is summarized as follows:

	<i>Estimated Useful Lives</i>	<i>September 25,</i> <b>2004</b>	<i>September 27,</i> <b>2003</b>
Furniture, fixtures and equipment	5-10 yrs.	\$ 8,221,377	\$ 7,841,472
Leasehold improvements	5-10 yrs.	9,377,117	9,545,099
Computer software equipment	2-5 yrs.	3,919,618	2,201,690
Vehicles	5 yrs.	39,108	39,108
Computer software and equipment not in service	-	-	1,865,428
		<b>21,557,220</b>	<b>21,492,797</b>
Less: Accumulated depreciation and amortization		<b>(15,975,538)</b>	<b>(14,196,454)</b>
		<b>\$ 5,581,682</b>	<b>\$ 7,296,343</b>



# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

- 3. Long-Term Debt** In September 2003, the Company entered into a \$1,800,000 term note payable to a bank. The note bears interest at 5.5%. Principal and interest payments of \$54,352 are due monthly through September 2006. The note is secured by all of the accounts, inventory and equipment of the Company and is guaranteed by certain stockholders of the Company.

Maturities of this debt over future years are as follows: 2005 – \$601,290; 2006 – \$634,325.

- 4. Notes Payable – Related Parties** Notes payable – related parties represent unsecured notes payable to certain stockholders of the Company. The notes bear interest at 6%. In October 2004, the Company issued 153,435 shares of common stock in exchange for the \$1,901,312 of stockholder notes payable plus \$94,602 of accrued interest on these notes.

- 5. Commitments and Contingencies** Purchase Commitments

The Company is obligated under a contract with its former stockholder to purchase 1.1 million pounds of coffee each year until October 2006 at varying prices as defined in the contract. The cost associated with the commitment to purchase coffee cannot be reasonably determined due to the future fluctuations in the market price of coffee.

### Operating Leases

The Company leases retail stores, warehouse space and office space under operating leases expiring through 2014. Most of the lease agreements contain renewal options and rent escalation clauses. Certain leases provide for contingent rentals as described below.

Future minimum lease payments, due under operating leases having initial or remaining noncancelable lease terms in excess of one year, are approximately as follows:

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

<i>Fiscal year</i>	
2005	\$ 3,821,000
2006	3,303,000
2007	2,662,000
2008	2,035,000
2009	1,692,000
Thereafter	3,442,000
	<u>\$16,955,000</u>

The Company has guaranteed certain leases on franchised stores, aggregating approximately \$2,655,000 through 2013.

Rent expense for the years ended September 25, 2004 and September 27, 2003, including contingent rentals of approximately \$15,000 and \$60,000, was approximately \$3,798,000 and \$3,863,000. Contingent rentals are based on store sales in excess of a specified amount.

### Litigation

The Company is involved in lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would not have a material effect on the financial position or results of operations of the Company.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

### 6. Income Taxes

The components of the Company's net deferred tax assets are as follows:

	<i>September 25,</i> 2004	<i>September 27,</i> 2003
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 5,338,000	\$ 4,555,000
Accruals	264,000	241,000
Inventory	92,000	121,000
Property, equipment and other assets	789,000	871,000
Other	138,000	154,000
<b>Gross deferred tax assets</b>	<b>6,621,000</b>	<b>5,942,000</b>
<b>Valuation allowance</b>	<b>(6,621,000)</b>	<b>(5,942,000)</b>
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

The Company's valuation allowance increased by approximately \$679,000 and \$4,703,000 during the years ended September 25, 2004 and September 27, 2003, respectively. The Company has recorded a valuation allowance to state its deferred tax assets at estimated net realizable value due to uncertainty related to realization of these assets through future taxable income.

The Company had net operating loss carryforwards (NOLs) of approximately \$13,515,000 available at September 25, 2004 that expire at various dates through 2024. However, the use of these NOLs will be limited under the provisions of Section 382 of the Internal Revenue Code, as amended.

# Barnie's Coffee & Tea Company, Inc.

## Notes to Consolidated Financial Statements

**7. Defined Contribution Plan**

Effective October 1, 1992, the Company established a defined contribution plan to encourage employees to develop a regular and systematic savings program through payroll deductions and to reward long-term employees through matching employer contributions. The plan is qualified under Internal Revenue Code Section 401(a).

Employees are eligible to participate after completing 12 months and 1,000 hours of service and attaining age 21. Employees, individually, may contribute up to 15 percent of their annual compensation, not to exceed statutory amounts. The Company may make discretionary matching contributions to the plan in an amount equal to 50% of the employees' contribution. The Company made matching contributions to the plan during the years ended September 25, 2004 and September 27, 2003 of approximately \$46,000 and \$35,000.

**8. Significant Concentrations**

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Purchases

The Company purchases the majority of its coffee from its former stockholder. Purchases from the former stockholder were approximately \$3,500,000 and \$3,700,000 during the fiscal years 2004 and 2003.

## Unaudited Financial Statements

Included in this Exhibit A to the 2007 BARNIE'S COFFEE & TEA COMPANY® Offering Circular are the following unaudited financial statements of Bernie's Coffee & Tea Company, Inc.: (a) Consolidated Balance Sheet and Statement of Operations for Bernie's Coffee & Tea Company, Inc. for the five month period ended February 28, 2007.

THE FIGURES FOR THE FIVE-MONTH PERIOD CONTAINED IN THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. THEREFORE, NO INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.

The unaudited Consolidated Balance Sheet for the five month period ended February 28, 2007 shows cash and cash equivalents of \$11,196,556, much of which is the result of the real estate transfer described in Item 20 of this Offering Circular. In March 2006, this figure decreased by approximately \$3.3 million as a result of distributions to shareholders. It is expected that, in April 2007, this figure will decrease by an additional \$5 million, as a result of further distributions to shareholders.

## BARNIE'S COFFEE &amp; TEA COMPANY, INC.

CONSOLIDATED BALANCE SHEET  
FEBRUARY 24, 2007

(Unaudited)

## ASSETS

## CURRENT ASSETS

Cash and cash equivalents	\$11,196,556
Account receivable	1,499,646
Inventories, net	323,480
Prepaid expenses	<u>85,262</u>

TOTAL CURRENT ASSETS 13,104,944

PROPERTY AND EQUIPMENT, net 532,503

## OTHER ASSETS

Goodwill	
Other assets	<u>1,569,643</u>

TOTAL ASSETS \$15,207,090

## LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES

Accounts payable	\$ 287,972
Accrued payroll	3,435
Accrued expenses	(32,491)
Deferred revenue	
Notes Payable to Related Parties	
Current Maturities – Long Term Debt	<u>0</u>

TOTAL CURRENT LIABILITIES 323,877

DEFERRED RENT  
LONG-TERM DEBT

## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS' EQUITY

Common stock, \$1.00 par value, 400,000 shares authorized, 330,099 shares issued and outstanding	330,099
Additional paid-in capital	34,314,176
Accumulated deficit	<u>(19,761,062)</u>

TOTAL STOCKHOLDERS' EQUITY 14,883,213

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$15,207,090

**BARNIE'S COFFEE & TEA COMPANY, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE FIVE MONTHS ENDED FEBRUARY 28, 2007**

(Unaudited)

Net Sales	\$ 3,908,565
Cost of Sales	<u>1,788,726</u>
GROSS PROFIT	2,119,839
Selling, general and administrative expenses	<u>3,218,061</u>
INCOME FROM OPERATIONS	(1,098,222)
OTHER INCOME (EXPENSE):	
Interest Expense	2,956
Interest Income	220,028
Other Income	218,033
Gain/(loss) from disposal of assets	<u>13,703,736</u>
TOTAL OTHER INCOME (EXPENSE):	<u>14,138,841</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	13,040,619
INCOME TAXES	330,106
NET INCOME	<u>\$ 12,710,513</u>