

FINANCIAL STATEMENTS



Board of Directors  
Candy Bouquet International, Inc.  
Little Rock, Arkansas

INDEPENDENT AUDITORS' REPORT

Candy Bouquet International, Inc.

(An Arkansas Corporation)

Little Rock, Arkansas

as of December 31, 2005, 2004, and 2003, and for the years then ended:

- Exhibit A - Balance Sheets
- B - Statements of Income and Retained Earnings
- C - Statements of Cash Flows
- D - Notes to Financial Statements

We have audited the accompanying balance sheets of Candy Bouquet International, Inc. as of December 31, 2005, 2004, and 2003, and the related statements of income and retained earnings 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 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.



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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Candy Bouquet International, Inc. as of December 31, 2005, 2004, and 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.

Respectfully submitted,

*Pickering, Ramey,*

*Burchfield & Scribner*

CERTIFIED PUBLIC ACCOUNTANTS

Little Rock, Arkansas  
February 8, 2006

Exhibit "A"

Candy Bouquet International, Inc.

Balance Sheets

December 31, 2005, 2004, and 2003

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>				
Cash and cash equivalents		852,574	449,453	146,015
Accounts receivable		160,900	176,308	198,116
Inventories		698,002	755,395	938,734
Prepaid expenses		151,001	115,401	101,247
Deferred income taxes		334,319		
<b>Total Current Assets</b>		<u>2,196,796</u>	<u>1,496,557</u>	<u>1,384,112</u>
<b>Non-Current Assets</b>				
Security deposits		2,946	2,946	4,446
<b>Property, Plant, and Equipment</b>				
Leasehold improvements		77,727	77,727	77,727
Automobiles		194,203	172,159	141,652
Furniture and office equipment		514,213	516,677	569,618
		786,143	766,563	788,997
Less accumulated depreciation		(577,638)	(505,522)	(479,065)
<b>Total Property, Plant, and Equipment</b>		<u>208,505</u>	<u>261,041</u>	<u>309,932</u>
<b>Total Assets</b>		<u>2,408,247</u>	<u>1,760,544</u>	<u>1,698,490</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>				
<b>Current Liabilities</b>				
Payroll taxes payable		8,235	5,842	5,615
Accounts payable		165,667	81,490	101,882
Accrued employee benefits		46,670	38,689	39,799
Customer deposits		19,950	15,400	17,341
Accrued officer bonus		575,056	98,500	
Accrued employee bonuses		22,326		
Notes payable		25,055	24,143	23,280
Deferred income taxes		86,065	24,958	47,078
<b>Total Current Liabilities</b>		<u>949,024</u>	<u>289,022</u>	<u>234,995</u>
<b>Long-Term Liabilities</b>				
Notes payable		41,014	66,069	90,212
Deferred income taxes		42,220	48,583	40,383
<b>Total Long-Term Liabilities</b>		<u>83,234</u>	<u>114,652</u>	<u>130,595</u>
<b>Stockholder's Equity</b>				
Common stock, \$100 par value per share:				
Authorized - 100 shares				
Issued - 3 shares		300	300	300
Retained earnings		1,375,689	1,356,570	1,332,600
<b>Total Stockholder's Equity</b>		<u>1,375,989</u>	<u>1,356,870</u>	<u>1,332,900</u>
<b>Total Liabilities and Stockholder's Equity</b>		<u>2,408,247</u>	<u>1,760,544</u>	<u>1,698,490</u>

See accompanying notes.

Exhibit "B"

Candy Bouquet International, Inc.

Statements of Income and Retained Earnings

For the Years Ended December 31, 2005, 2004, and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Revenues</b>			
Franchise fees - initial	2,413,619	1,561,191	1,436,954
- continuing	823,472	745,102	737,761
Sales	<u>2,571,132</u>	<u>2,061,140</u>	<u>2,064,655</u>
<b>Total Revenues</b>	<b>5,808,223</b>	<b>4,367,433</b>	<b>4,239,370</b>
<b>Cost of Sales</b>	<b><u>(1,833,479)</u></b>	<b><u>(1,502,093)</u></b>	<b><u>(1,452,590)</u></b>
<b>Gross Profit</b>	<b>3,974,744</b>	<b>2,865,340</b>	<b>2,786,780</b>
<b>Operating Expenses</b>			
Advertising	298,794	225,431	225,735
Bad debts	70,806	63,869	62,508
Auto and travel	60,227	64,364	74,592
Retirement plan expense	33,163	24,441	23,464
Labor and commissions - officer	1,165,484	390,395	281,596
- other	945,666	811,421	783,270
Management and director fees	48,000	84,000	96,000
Depreciation	116,679	116,669	108,012
Taxes and licenses	144,960	107,426	97,734
Office expense	155,834	145,074	182,668
Maintenance and repairs	53,295	45,884	46,739
Legal and professional	66,141	28,878	44,808
Rent	35,600	41,600	55,200
Insurance	67,482	70,495	76,024
Utilities and telephone	91,042	92,213	87,296
Miscellaneous	37,667	26,359	30,212
<b>Total Operating Expenses</b>	<b><u>3,390,840</u></b>	<b><u>2,338,519</u></b>	<b><u>2,275,858</u></b>
<b>Net Operating Income</b>	<b>583,904</b>	<b>526,821</b>	<b>510,922</b>
<b>Other Income (Expense)</b>			
Interest income	22,750	12,601	10,310
Loss on disposal of assets			(9,206)
Interest expense	<u>(3,204)</u>	<u>(4,053)</u>	<u>(5,580)</u>
<b>Income before Income Taxes</b>	<b>603,450</b>	<b>535,369</b>	<b>506,446</b>
<b>Provision for Income Taxes</b>	<b><u>229,331</u></b>	<b><u>216,399</u></b>	<b><u>192,940</u></b>
<b>Net Income</b>	<b>374,119</b>	<b>318,970</b>	<b>313,506</b>
<b>Retained Earnings - Beginning of Year</b>	<b>1,356,570</b>	<b>1,332,600</b>	<b>1,314,094</b>
<b>Less: Dividends Paid</b>	<b><u>(355,000)</u></b>	<b><u>(295,000)</u></b>	<b><u>(295,000)</u></b>
<b>Retained Earnings - End of Year</b>	<b><u>1,375,689</u></b>	<b><u>1,356,570</u></b>	<b><u>1,332,600</u></b>

See accompanying notes.

Exhibit "C"

Candy Bouquet International, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2005, 2004, and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>			
Net income	374,119	318,970	313,506
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	116,679	116,669	108,012
Deferred income taxes	(279,575)	(13,920)	38,436
Loss on disposal of assets			9,206
Changes in operating assets and liabilities:			
Accounts receivable	15,408	21,808	197,350
Security deposits		1,500	
Inventories	57,393	183,339	(234,799)
Prepaid expenses	(35,600)	(14,154)	(23,026)
Payroll taxes payable	2,393	227	673
Accounts payable	84,177	(20,392)	1,182
Accrued employee benefits	7,981	(1,110)	8,039
Customer deposits	4,550	(1,941)	(4,269)
Accrued officer bonus	476,556	98,500	
Accrued employee bonuses	22,326		
<b>Net Cash Provided by Operating Activities</b>	<b>846,407</b>	<b>689,496</b>	<b>414,310</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds of automobile and equipment notes			123,993
Debt reduction	(24,143)	(23,280)	(69,511)
Dividends paid	(355,000)	(295,000)	(295,000)
<b>Net Cash Used by Financing Activities</b>	<b>(379,143)</b>	<b>(318,280)</b>	<b>(240,518)</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds of automobile disposals			59,500
Additions to leasehold improvements			(12,325)
Additions to automobiles	(22,043)	(38,884)	(125,474)
Additions to furniture and office equipment	(42,100)	(28,894)	(165,708)
<b>Net Cash Used by Investing Activities</b>	<b>(64,143)</b>	<b>(67,778)</b>	<b>(244,007)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>403,121</b>	<b>303,438</b>	<b>(70,215)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>449,453</b>	<b>146,015</b>	<b>216,230</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>852,574</b>	<b>449,453</b>	<b>146,015</b>

(continued)

Exhibit "C"  
(continued)

Candy Bouquet International, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2005, 2004, and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash Paid During the Year For:			
Interest	<u>3,204</u>	<u>4,053</u>	<u>5,580</u>
Income Taxes	<u>288,400</u>	<u>117,825</u>	<u>237,631</u>

See accompanying notes.

**Exhibit "D"**

**Candy Bouquet International, Inc.**

**Notes to Financial Statements**

**December 31, 2005, 2004, and 2003**

**Note 1 - Summary of Significant Accounting Policies**

**Nature of Operations** - The Company is primarily engaged in the sale of franchise agreements for the operation of Candy Bouquet stores and in the wholesale of merchandise to franchised operators in the U.S. and foreign markets. Wholesale operations currently represent approximately 44% of total revenue and 37% of net income.

**Basis of Accounting** - The Company maintains its books and records on an accrual basis of accounting.

**Revenue Recognition** - Revenue from wholesale operations is recognized when merchandise has been shipped to the customer and includes shipping and handling cost. Revenue from franchise operations is generally recognized when substantially all significant Company services have been provided, except that revenue is recognized when collected in situations where revenue is collectible over an extended period of time and collection is not reasonably certain.

**Cost of Sales** - Cost of sales consist of merchandise cost measured on a first-in, first-out basis, including inbound freight and handling costs.

**Estimates** - Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Advertising Costs** - Major advertising costs are capitalized and amortized over the period during which future benefits are expected to be received.

**Compensated Absences** - The Company records expected liabilities for employee vacations, sick days, and personal time using current salary rates.

**Bad Debts** - The Company maintains an allowance for doubtful accounts using past experience and management estimates. Accounts are charged to the allowance account at the time further collection efforts are deemed futile.

Exhibit "D"

(continued)

**Candy Bouquet International, Inc.**

**Notes to Financial Statements**

**December 31, 2005, 2004, and 2003**

**Note 1 - Summary of Significant Accounting Policies (Cont.)**

**Comparative Information** - Certain reclassifications and changes in terminology may have been made in the previous years' statements to conform them to the 2005 presentation. In the interest of simplicity, some of the information in these Notes to Financial Statements is not presented in comparative format with both of the preceding years. Readers of these financial statements are encouraged to consult the previous years' statements if more detail is desired.

**Cash and Cash Equivalents** - For purposes of the Statement of Cash Flows, the Company considers cash and cash equivalents to be all highly liquid securities with an original maturity of three months or less.

**Concentrations and Credit Risks** - The Company grants credit to its foreign and domestic customers (franchisees) in the ordinary course of business and according to terms prevalent in the industry.

The Company maintains its cash accounts at institutions insured by the FDIC up to \$100,000 per bank. At December 31, 2005, the Company had approximately \$656,000 in deposits which exceeded this level of protection.

**Inventories** - Inventories consist of merchandise for resale and are stated at the lower of cost (first-in, first-out) or market.

**Depreciation** - Fixed assets are recorded at cost and depreciation is provided by use of straight-line methods over estimated useful lives.

**Income Taxes** - Deferred income taxes are provided on temporary differences between financial statement and taxable income.

The Company files a consolidated tax return with its parent corporation. Income taxes provided in these financial statements are computed on a separate return basis. Income taxes due currently are netted with amounts owed to or due from its parent Company under Accounts Receivable - Related Entities.

Exhibit "D"

(continued)

Candy Bouquet International, Inc.

Notes to Financial Statements

December 31, 2005, 2004, and 2003

Note 2 - Receivables

Accounts receivable presented in the Current Assets section of Exhibit "A" is composed of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accounts Receivable - Trade	207,901	200,058	251,547
Less: Allowance for Doubtful Accounts	(47,001)	(35,287)	(54,525)
Receivable from Related Entities		11,537	1,094
<u>Total</u>	<u>160,900</u>	<u>176,308</u>	<u>198,116</u>

Receivable from related entities reflects the net amount of unrepaid advances to and from the Company's sole stockholder and any related parties as defined by generally accepted accounting principles and FAS-57.

An aging of accounts receivable - trade at December 31, 2005 is as follows:

Current	69,235
1 - 30 Days	33,518
31 - 60 Days	22,378
61 - 90 Days	11,851
Over 90 Days	70,919
	<u>207,901</u>

Note 3 - Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	<u>Cost</u>	<u>Estimated Life</u>	<u>Current Provision</u>	<u>Accumulated Depreciation</u>
Leasehold Improvements	77,727	3 Yrs.	5,761	77,140
Automobiles	194,203	5 Yrs.	34,483	71,801
Furniture and Office Equipment	514,213	3 Yrs.	76,435	428,697
	<u>786,143</u>		<u>116,679</u>	<u>577,638</u>

**Exhibit "D"**

(continued)

**Candy Bouquet International, Inc.**

**Notes to Financial Statements**

**December 31, 2005, 2004, and 2003**

**Note 4 - Notes Payable**

Notes payable consist of the following:

	<u>Current Portion</u>	<u>Total</u>
GMAC, payable \$731 monthly, no interest, secured by vehicle	8,772	45,601
Datamax Corp., payable \$1,541 monthly, including 6% interest, secured by office equipment	<u>16,283</u>	<u>20,468</u>
	<u>25,055</u>	<u>66,069</u>

Future maturities of this debt are as follows:

2006	25,055
2007	26,023
2008	<u>14,991</u>
	<u>66,069</u>

**Note 5 - Franchising Revenue**

The Company sold 246 new franchises in 2005; 179 in 2004; and, 156 in 2003. Franchise stores in operation at the end of the year were 811 in 2005; 676 in 2004; and, 642 in 2003.

Exhibit "D"

(continued)

Candy Bouquet International, Inc.

Notes to Financial Statements

December 31, 2005, 2004, and 2003

Note 6 - Income Taxes

The following is a reconciliation of the Company's income before income taxes for financial accounting purposes to its federal taxable income:

Income before Provision for Income Taxes	603,450
Expense Disallowances	9,968
Accrual/Cash Differences	711,519
Accelerated Depreciation	24,015
State Income Taxes	(85,246)
<u>Federal Taxable Income</u>	<u>1,263,706</u>

Temporary differences giving rise to deferred tax liability are the use of the cash basis of accounting for tax purposes versus use of the accrual method for financial reporting purposes and the use of accelerated depreciation for tax purposes.

Deferred tax assets and liabilities are as follows:

	<u>Current</u>	<u>Long-Term</u>
Deferred Tax Assets:		
Cash/Accrual Differences	334,319	
Deferred Tax Liabilities:		
Cash/Accrual Differences	(86,065)	
Depreciation		42,220
<u>Net Current Asset</u>	<u>248,254</u>	
<u>Net Long-Term Liability</u>		<u>42,220</u>

The Company expects to make quarterly estimated tax payments during 2006 of approximately \$125,000 per quarter.

Note 7 - Retirement Plan

The Company maintains a 401(k) retirement plan under which it contributes 3% of eligible employee compensation. Amounts of such retirement contributions included in "accrued employee benefits" on the accompanying Balance Sheet were \$33,162 in 2005, \$24,212 in 2004, and \$23,297 in 2003.

**Exhibit "D"**

(continued)

**Candy Bouquet International, Inc.**

**Notes to Financial Statements**

**December 31, 2005, 2004, and 2003**

**Note 8 - Related Party Transactions**

Management and director fees (\$48,000 in 2005; \$84,000 in 2004; and, \$96,000 in 2003) have been paid to related parties as defined by generally accepted accounting principles.

The Company leases its office and warehouse facilities from its parent holding Company on a month-to-month basis. Rentals paid to the parent Company were \$35,600 in 2005; \$41,600 in 2004; and, \$55,200 in 2003.

**Note 9 - Dividends**

At December 31, 2005 the Board of Directors declared and paid a dividend of \$355,000 to the Company's parent corporation.

**Note 10 - Possible Future Decline in Initial Franchise Fee Revenue**

The Company has experienced substantial growth since its inception. The number of franchises sold reflects a strong demand for the Company's product and the benefits obtained by franchise owners. The Company expects this favorable situation to continue; however, franchise sales do reach a saturation point, and, accordingly, revenue from franchise sales may decline in the future.

**Exhibit "D"**

(continued)

**Candy Bouquet International, Inc.**

**Notes to Financial Statements**

**December 31, 2005, 2004, and 2003**

**Note 8 - Related Party Transactions**

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