

# **FINANCIAL STATEMENTS OF CHARO CHICKEN SYSTEMS, INC.**

## **EXHIBIT B**

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Financial Statements  
March 10, 2006

**FORTHCOMING 2005 AUDITED FINANCIAL  
STATEMENTS  
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CHAR O CHICKEN SYSTEMS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

**CHAR O CHICKEN SYSTEMS, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**John R. Bates**  
**Certified Public Accountant**

Member of the California  
Society of Certified Public Accountants

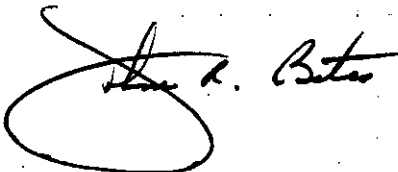
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Board of Directors  
Char O Chicken Systems, Inc.  
Seal Beach, California 90740

I have audited the accompanying balance sheet of Char O Chicken Systems, Inc. as of December 31, 2004, and the related statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of Char O Chicken Systems, Inc. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



John R. Bates  
Certified Public Accountant  
Orange, California  
February 10, 2005

CHAR O CHICKEN SYSTEMS, INC.  
BALANCE SHEET  
For The Years Ended

December 31, 2004

December 31, 2003

December 31, 2002

**Assets**

**Current Assets**

Cash	\$62,229	\$42,911	\$37,430
Accounts Receivable	27,265	10,950	7,075
Loan Receivable-Other	1,500	0	0
Prepaid Expenses	<u>3,738</u>	<u>0</u>	<u>2,921</u>
Total Current Assets	<u>94,732</u>	<u>53,861</u>	<u>47,426</u>

**Property and Equipment**

Equipment	3,783	3,783	3,783
Accumulated Depreciation	<u>(3,169)</u>	<u>(2,924)</u>	<u>(2,094)</u>
Net Property	<u>614</u>	<u>859</u>	<u>1,689</u>

Total Assets	<u>\$95,346</u>	<u>\$54,720</u>	<u>\$49,115</u>
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**Liabilities and Shareholders' Equity**

**Current Liabilities**

Accounts Payable	\$ 1,666	\$ 3,817	\$ 314
Accrued Liabilities	48,967	243	203
Payroll Taxes Payable	1,564	1,307	913
Accrued Salaries Payable	<u>1,149</u>	<u>3,341</u>	<u>2,734</u>
Total Current Liabilities	53,346	8,708	4,164

**Commitment (Note 4)**

**Shareholders' Equity**

Common Stock, authorized 100,000 shares, issued and outstanding 10,000 shares	42,000	42,000	42,000
Retained Earnings	4,012	2,951	18,824
Net Income (Loss) (Page 3)	( 2,495)	24,277	22,058
Distribution to Shareholders	<u>( 1,517)</u>	<u>(23,216)</u>	<u>(37,931)</u>
Total Shareholders' Equity	<u>42,000</u>	<u>46,012</u>	<u>44,951</u>
Total Liabilities and Equity	<u>\$95,346</u>	<u>\$54,720</u>	<u>\$49,115</u>

**CHAR O CHICKEN SYSTEMS, INC.**  
**STATEMENT OF INCOME**  
For The Years Ended

	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
<b>Income</b>			
<b>Revenues</b>			
Administration	\$ 28,600	\$ 24,000	\$ 31,283
Franchise Fees	233,500	155,000	0
Royalties	<u>323,595</u>	<u>213,846</u>	<u>224,598</u>
Total Revenues	<u>585,695</u>	<u>392,846</u>	<u>255,881</u>
<b>Expenses</b>			
<b>Operating Expenses</b>			
Accounting	1,049	7,885	3,645
Advertising	37,112	16,592	5,754
Alarm Services	385	455	420
Auto	0	0	114
Bank Charges	353	148	116
Business Taxes and Licenses	101	129	30
Communications	0	0	0
Computers Expense	0	3,788	2,370
Copier Rental Service	2,210	2,104	1,932
Depreciation	245	520	1,158
Donations	842	0	0
Dues and Subscriptions	0	575	434
Employee Benefits	707	0	526
Franchise Expenses	100,159	83,632	29,980
Insurance-Health	23,445	19,692	18,845
Legal Fee	17,087	7,256	7,463
Mail Box Rental	162	144	144
Maintenance and Repair	1,273	411	715
Meeting Expense	5,569	2,585	0
Mileage Reimbursements	23,078	14,797	13,916
Office Expense	2,299	499	3,139
Office Insurance	570	563	582
Payroll Processing Fees	1,384	1,185	1,347
Payroll Taxes	11,514	5,704	7,176
Postage	1,695	1,139	1,576
Professional Services	41,095	0	0
Promotion	633	7,971	0
Property Taxes	22	26	29
Recruitment Costs	0	0	218
Rent	38,618	39,410	39,857
Design Consulting	124,122	66,517	0
Salaries and Wages	133,281	69,503	81,475
Storage	595	480	638
Supplies	5,996	6,422	617
Telephone	11,164	7,801	9,607
Training	106	0	0
Uniforms	<u>1,319</u>	<u>636</u>	<u>0</u>
Total Operating Expenses	<u>588,190</u>	<u>368,569</u>	<u>233,823</u>
<b>Net Income (Loss)</b>	<u>\$ (2,495)</u>	<u>\$ 24,277</u>	<u>\$ 22,058</u>

See Independent Auditor's Report and Notes To The Financial Statements

**CHAR O CHICKEN SYSTEMS, INC.**  
**STATEMENT OF STOCKHOLDERS' EQUITY**  
For The Years Ended

	<u>Shares</u>	<u>Amount</u>	<u>Retained Earnings</u>
<b>Balance December 31, 2001</b>	10,000	\$42,000	\$18,824
Net Income			22,058
Shareholder Distributions			(37,931)
<b>Balance December 31, 2002</b>	10,000	\$42,000	\$ 2,951
Net Income			24,277
Shareholder Distributions			(23,216)
<b>Balance December 31, 2003</b>	10,000	\$42,000	\$ 4,012
Net Income			(2,495)
Shareholder Distributions			(1,517)
<b>Balance December 31, 2004</b>	10,000	\$42,000	\$ 0
	<u>          </u>	<u>          </u>	<u>          </u>



CHAR O CHICKEN SYSTEMS, INC.  
STATEMENT OF CASH FLOWS  
For The Years Ended

	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
<b>Cash Flows From Operating Activities</b>			
Net Income	\$( 2,495)	\$ 24,277	\$22,058
Adjustment To Reconcile Net Income			
To Net Cash Provided By Operating Activities			
Depreciation	245	830	1,158
Increase (Decrease) in Accounts Receivable	(16,315)	(3,875)	(5,075)
Decrease (Increase) in Prepaid Expenses	( 3,738)	2,921	(2,921)
Increase (Decrease) in Accounts Payable	( 2,151)	3,503	(3,232)
Increase (Decrease) in Accrued Liabilities	<u>46,789</u>	<u>1,041</u>	<u>(3,002)</u>
Net Cash Provided By Operating Activities	<u>22,335</u>	<u>28,697</u>	<u>8,986</u>
<b>Cash Flows From Investing Activities</b>			
Net Cash Used By Investing Activities	<u>0</u>	<u>0</u>	<u>0</u>
<b>Cash Flows From Financing Activities</b>			
Loan To Shareholders	( 1,500)	0	0
Distribution to Shareholder	<u>( 1,517)</u>	<u>(23,216)</u>	<u>(37,931)</u>
Net Cash Used By Financing Activities	<u>( 3,017)</u>	<u>(23,216)</u>	<u>(37,931)</u>
Net Increase (Decrease)	19,318	5,481	(28,945)
Cash, Beginning Of Year	<u>42,911</u>	<u>37,430</u>	<u>66,375</u>
Cash, End Of Year	<u>\$62,229</u>	<u>\$ 42,911</u>	<u>\$37,430</u>

See Independent Auditor's Report and Notes To The Financial Statements

**CHAR O CHICKEN SYSTEMS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Operations**

Char O Chicken Systems, Inc. (The Company) was incorporated in the State of California on June 20, 1997. The Company is a franchiser of fast food restaurants.

**B. Method of Accounting**

Assets, liabilities, revenues, and expenses are recognized on the accrual method of accounting for financial statement presentation.

**C. Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**D. Income Taxes**

The Company, with consent of its shareholders, has elected under the Internal Revenue Code to be an S Corporation effective July 17, 1997 (inception). Earnings and losses will flow to the personal income tax returns of the stockholders and taxed depending on their personal tax considerations. Accordingly, the Company will not incur federal income tax obligations and future financial statements will include a provision for any state income taxes, when applicable.

**E. Property, Equipment and Depreciation**

Property and equipment are stated at cost. Depreciation is being computed using the straight-line and declining-balance methods over their estimated useful lives ranging from 3 to 31.5 years. Depreciation expense for December 31, 2004, 2003 and 2002 was \$245, \$520 and \$1,158, respectively.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those amounts.

**2. CONCENTRATIONS**

**A. Credit Risk**

The Company maintains its cash in bank deposit accounts of high credit quality financial institutions. All accounts carry FDIC insurance and have not exceeded insurable limits.

**B. Economic Dependency**

A material part of the Company's business is dependent upon the fast-food industry. Its earnings are primarily generated from the payment of royalties and from the initial franchise fees paid by franchisees. A loss of activity in this industry would have a materially adverse effect on the Company.

CHAR O CHICKEN SYSTEMS, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**3. LEASE COMMITMENTS**

The Company leases office space under a non-cancelable operating lease. The total square footage is 2125 sq. ft. The lease term is for 5 years, beginning on May 1, 2000. The minimum lease payments required under the lease are as follows:

2000	\$2868.75	May 1, 2000 to April 30, 2001
2001	\$2975.00	May 1, 2001 to April 30, 2002
2002	\$3081.25	May 1, 2002 to April 30, 2003
2003	\$3187.50	May 1, 2003 to April 30, 2004
2004	\$3293.75	May 1, 2004 to April 30, 2005

At the conclusion of the lease term, the Company intends to renew for one year terms. The minimum lease payments should be approximately \$3410.

**4. STOCK OWNERSHIP**

On January 1, 2002, the Company entered into an employment agreement with Mr. Ray Perry (President and CEO). This agreement calls for Perry to receive shares of stock of the Corporation to be issued as follows:

12.5% of the issued and outstanding shares on January 1, 2003  
12.5% of the issued and outstanding shares on January 1, 2004

25.0%

Issuance of this stock is in lieu of salary for two years. Perry will earn additional increments of stock upon meeting various operating benchmarks. The total number of shares issued to Perry will not exceed 51% of the issued and outstanding shares of the Company.