

EXHIBIT C

*Contours* **Express**®  
The Better Idea in Women's Gyms!™

**Financial  
Statements**

CONTOURS EXPRESS, LLC  
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# **Contours Express, LLC**

Accountants' Report and Financial Statements

December 31, 2005



# Contours Express, LLC

December 31, 2005

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## Independent Accountants' Report

Board of Directors  
Contours Express, LLC  
Nicholasville, Kentucky

We have audited the accompanying balance sheet of Contours Express, LLC as of December 31, 2005, and the related statements of income, members' equity and cash flows for the period from inception (June 3, 2005) to December 31, 2005. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Contours Express, LLC as of December 31, 2005, and the results of its operations and its cash flows for the period from inception (June 3, 2005) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the Company changed its method of accounting for a business combination by retroactively restating its balance sheet at inception.

*BKD, LLP*

February 22, 2006

# Contours Express, LLC

## Balance Sheet

December 31, 2005

### Assets

#### Current Assets

Cash and cash equivalents	\$ 396,468
Accounts receivable	33,099
Inventories	13,901
Prepaid expenses and other assets	<u>87,364</u>

Total current assets 530,832

Property and Equipment, net of accumulated depreciation of \$852 28,623

#### Other Assets

Trademarks	3,237,987
Other intangible assets, net	1,254,711
Goodwill	<u>6,756,533</u>

11,249,231

\$ 11,808,686

### Liabilities and Members' Equity

#### Current Liabilities

Accounts payable	\$ 48,059
Accrued expenses	32,860
Deferred revenue	<u>126,173</u>

Total current liabilities 207,092

#### Members' Equity

11,601,594

\$ 11,808,686

**Contours Express, LLC**  
**Statement of Income**  
**For the period from inception (June 3, 2005) to December 31, 2005**

<b>Revenues</b>	
Franchise Fees, Equipment & Nutritional Supplement Sales	\$ 1,151,044
Royalty Fees and Other	<u>702,094</u>
	<u>1,853,138</u>
<b>Costs &amp; Expenses</b>	
Direct operating expenses	518,092
Selling, general and administrative expenses	969,530
Depreciation and amortization	51,621
Other	<u>52,313</u>
	<u>1,654,556</u>
<b>Net Income</b>	<u>\$ 198,582</u>

**Contours Express, LLC**  
**Statement of Members' Equity**  
**For the period from inception (June 3, 2005) to December 31, 2005**

<b>Contribution of Members' Equity</b>	\$ 11,403,012
Net income	<u>198,582</u>
<b>End of Period Members' Equity</b>	<u>\$ 11,601,594</u>

**Contours Express, LLC**  
**Statement of Cash Flows**  
**For the period from inception (June 3, 2005) to December 31, 2005**

<b>Operating Activities</b>	
Net income	\$ 198,582
Items not requiring cash	
Depreciation and amortization	51,621
Changes in	
Accounts receivable	(33,099)
Inventories	(13,901)
Prepaid expenses and other assets	(87,364)
Accounts payable and accrued expenses	80,919
Deferred revenue	<u>126,173</u>
Net cash provided by operating activities	<u>322,931</u>
<b>Investing Activities</b>	
Net cash used in purchase of property and equipment	<u>(26,463)</u>
<b>Financing Activities</b>	
Net cash provided by capital contributions	<u>100,000</u>
<b>Increase in Cash and Cash Equivalents</b>	<u>\$ 396,468</u>
<b>Supplemental Cash Flows Information</b>	
Members equity from contribution of assets	
Property and equipment	\$ 3,012
Intangibles	4,543,467
Goodwill	<u>6,756,533</u>
	<u>\$ 11,303,012</u>



**Contours Express, LLC**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Contours Express, LLC is a Delaware limited liability company (the Company). Revenues are predominantly earned from granting franchises in the United States and providing services to franchisees. These franchises consist of the opportunity to open and operate a fitness and weight loss studio at a prescribed location under the Contours Express trademark and system of operating procedures. The Company does not operate any corporate owned locations. Through common ownership the Company is affiliated with Contours Express International, LLC (International), which earns revenue from granting franchises outside the United States. Under a licensing agreement, the Company has granted International, without cost, the irrevocable and perpetual right to use the Company's trademark outside the United States.

***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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2005 cash equivalents consisted primarily of money market accounts.

***Inventory Pricing***

Inventories consist primarily of exercise equipment held for sale. Inventories are stated at the lower of cost or market and are determined using the first-in, first-out (FIFO) method.

***Property and Equipment***

Property and equipment are stated at cost and are depreciated over the estimated useful life of each asset using the straight line method.

***Goodwill***

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

**Contours Express, LLC**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**

**Income Taxes**

The Company's members have elected to have the Company's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these statements.

**Revenue Recognition**

Franchise sales are recognized as income when all material services or conditions relating to the sale have been substantially performed by the Company. Revenue from the sale of the equipment and nutritional supplements is recognized as products are delivered to franchisees. Royalties are billed monthly at a flat fee based on the underlying franchise agreement and are recognized as billed. Revenues received in advance from customers for unshipped orders of equipment and nutritional supplements are deferred.

**Note 2: Acquired Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2005 were:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Amortized intangible assets		
Franchise agreements	\$ 782,425	\$ 30,428
Other	<u>523,055</u>	<u>20,341</u>
	<u>\$ 1,305,480</u>	<u>\$ 50,769</u>
Unamortized intangible assets		
Trademarks	<u>\$ 3,237,987</u>	

Amortization expense for the period ended December 31, 2005, was \$50,769. Estimated amortization expense for each of the following five years is \$87,000 per year. Trademarks are tested annual for impairment.

There were no changes in the carrying amount of goodwill or Trademarks for the period ended December 31, 2005.

**Contours Express, LLC**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**

**Note 3: Related Party Operating Leases**

The Company rents its headquarters under a noncancellable operating lease with a Company owned by a related party of a member. The lease expires in 2010. Lease payments for the period were \$52,500. The Company subleases a portion of its headquarters to International an entity with common ownership. The sublease expires in 2010. Sublease payments for the period were \$7,000.

Future minimum lease payments at December 31, 2005, were:

2006	\$ 90,000
2007	90,000
2008	90,000
2009	90,000
2010	<u>37,500</u>
	<u>\$ 397,500</u>

Minimum future rentals receivable under non cancelable operating sub-leases at December 31, 2005 were \$53,000.

**Note 4: Profit-Sharing Plan**

The Company has a 401(k) profit-sharing plan covering substantially all employees. The Company's contributions to the plan are determined annually by the Board of Directors. Contributions to the plan were \$8,494 for the period ended December 31, 2005.

**Note 5: Business Acquisitions**

On June 3, 2005 the Company's predecessor, Contours Express, Inc, contributed substantially all of its assets to the Company. Concurrently, the predecessor sold 65% of its ownership to PGCE, Inc., an unrelated investor, for \$11,300,000. The acquisition by PGCE, Inc has been accounted for as a purchase. As a result of the substantial change in ownership of the Company, push down accounting has been applied and a new basis of accounting has been established for the Company. The allocation of PGCE, Inc.'s purchase price has been made based upon a third-party appraisal at the date of acquisition. These financial statements cover the period from June 3, 2005, inception, to December 31, 2005.

**Contours Express, LLC**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**

Following is a condensed balance sheet on the day of acquisition:

Intangible Assets	4,543,467
Goodwill	6,756,533
Property and Equipment	<u>3,012</u>
Total Assets	<u>\$ 11,303,012</u>
Members' Equity	<u>\$ 11,303,012</u>

The company previously issued financial statements as of June 3, 2005, the date of inception. These June 3, 2005 financial statements recorded additional intangibles and members' equity of approximately \$6,000,000 related to the continued ownership interest of Contours Express, Inc. The financial statements for the period from inception, June 3, 2005 to December 31, 2005 have been adjusted to account for the continuing minority ownership interest of Contours Express, Inc. on an historical cost basis.



## Acknowledgement of Independent Accountants

We agree to the inclusion in this Uniform Franchise Offering Circular of our report, dated February 22, 2006, on our audit of the financial statements of Contours Express, LLC. as of and for the year ended December, 31 2005.

*BKD, LLP*

BKD, LLP

Cincinnati, Ohio  
March 27, 2006

**CONTOURS EXPRESS**

**EXHIBIT C – UNAUDITED QUARTERLY FINANCIAL STATEMENTS**

**MARYLAND**

The attached Financial Statements have been prepared without an audit. Prospective franchisees should be advised that no Independent Certified Public Accountant has audited these figures or expressed an opinion with regard to their content or form.

**Contours Express, LLC**  
**Balance Sheet**  
**As of February 28, 2006**

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$	412,391.65
Accounts Receivable		10,777.66
Inventories		16,285.82
Prepaid Expenses and Other Assets		<u>8,371.91</u>

Total current assets

447,827.04

**Property and Equipment, Net of Accumulated Depreciation of \$ 1,766.48**

44,104.10

**Other Assets**

Trademarks		3,237,987.00
Other Intangible Assets, Net		1,240,205.60
Goodwill		<u>6,756,532.70</u>

11,234,725.30

\$ 11,726,656.44

**Liabilities and Members' Equity**

**Current Liabilities**

Accounts Payable	\$	17,141.81
Accrued Expenses		103,454.48
Deferred Revenue		<u>145,517.00</u>

Total Current Liabilities

266,113.29

**Members' Equity**

11,460,543.15

\$ 11,726,656.44

**Contours Express, LLC**  
**Statement of Income**  
**For the period January 1, to February 28, 2006**

<b>Revenues</b>	
Franchise Fees, Equipment & Nutritional Supplement Sales	\$ 380,606.00
Royalty Fees and Other	<u>204,198.78</u>
	<u>584,804.78</u>
<b>Costs &amp; Expenses</b>	
Direct Operating Expenses	170,732.69
Selling, General and Administrative Expenses	531,335.74
Depreciation and Amortization	15,803.05
Other	<u>7,983.69</u>
	<u>725,855.17</u>
<b>Net Income</b>	<u><u>\$ (141,050.39)</u></u>