

EXHIBIT 5

FINANCIAL STATEMENTS



BLYTHE, WHITE & ASSOCIATES

CPAs • Business & Financial Advisors

2660 West Park Drive
Paducah, Kentucky 42001
Phone 270.415.9945 • Fax 270.415.9946
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AUDITOR'S CONSENT

As independent public accountants, we hereby consent to the use of our report (audited financial statements as of December 31, 2005) dated February 22, 2006, included in and made part of the franchise application and to include it in the UFOC of Dippin' Dots Franchising, Inc. filed with the appropriate state authorities in the states requiring registration of the offer of franchises.

Molly W. Blythe, CPA
Blythe, White & Associates, PLLC
Paducah, Kentucky
February 22, 2006

DIPPIN' DOTS FRANCHISING, INC.

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Dippin' Dots Franchising, Inc.
Paducah, Kentucky

We have audited the accompanying balance sheets of Dippin' Dots Franchising, Inc. (an S corporation) as of December 31, 2005 and 2004, and the related statements of income, changes in stockholder's 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 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 Dippin' Dots Franchising, Inc. as of December 31, 2005 and 2004, 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.

Blythe, White & Associates

February 22, 2006

DIPPIN' DOTS FRANCHISING, INC.
 BALANCE SHEETS
 December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash on hand	\$ 10,842	\$ 10,263
Cash in bank	145,097	312,269
Certificate of deposit	118,161	116,183
Accounts receivable, trade	139,970	89,855
Miscellaneous receivable, related party	179,250	194,991
Inventory	10,133	6,429
Prepaid expense	<u>46,517</u>	<u>27,407</u>
TOTAL CURRENT ASSETS	649,970	757,397
PROPERTY AND EQUIPMENT, NET	290,508	163,572
OTHER ASSETS	<u>8,376</u>	<u>11,245</u>
	<u>\$ 948,854</u>	<u>\$ 932,214</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 53,752	\$ 25,944
Accounts payable, related party	48,242	45,200
Accrued liabilities	179,618	112,299
Unearned revenue	<u>0</u>	<u>91,800</u>
TOTAL CURRENT LIABILITIES	281,612	275,243
STOCKHOLDER'S EQUITY		
Common stock, 1,000 shares authorized		
100 shares issued and outstanding	1,000	1,000
Additional paid-in-capital	199,000	199,000
Retained earnings	<u>467,242</u>	<u>456,971</u>
	<u>667,242</u>	<u>656,971</u>
	<u>\$ 948,854</u>	<u>\$ 932,214</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 INCOME STATEMENTS
 For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Royalties	\$ 1,729,125	\$ 1,900,019
Franchise and transfer fees	774,575	607,379
Retail sales	<u>345,329</u>	<u>221,874</u>
	2,849,029	2,729,272
 OPERATING EXPENSES		
Retail sales expenses	311,570	195,633
Wages	1,132,429	1,174,633
Employee benefits	160,050	144,999
Contract labor	26,000	40,500
Insurance	41,352	26,384
Travel	176,752	156,482
Marketing	182,148	193,103
Printing and supplies	60,565	44,053
Professional fees	62,707	92,845
Taxes and licenses	29,784	13,085
Depreciation	66,475	46,790
Repairs and maintenance	5,674	5,084
Rents	185,631	101,529
Leases	3,175	3,647
Dues and subscriptions	6,620	2,619
Utilities	14,734	10,510
Design and development	50	13,861
Regional meeting expense	1,715	4,425
Administrative	<u>19,894</u>	<u>27,283</u>
	<u>2,487,325</u>	<u>2,297,465</u>
 INCOME FROM OPERATIONS	 361,704	 431,807
 OTHER INCOME (EXPENSE)		
Interest income	3,423	1,582
Interest expense	(216)	(647)
Gain (loss) on sale of assets	(27,307)	0
Corporate state tax	(7,512)	0
Miscellaneous	<u>(880)</u>	<u>(386)</u>
	<u>(32,492)</u>	<u>549</u>
 NET INCOME	 <u>\$ 329,212</u>	 <u>\$ 432,356</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
 For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
COMMON STOCK		
1,000 shares authorized, 100 shares issued	\$ 1,000	\$ 1,000
ADDITIONAL PAID-IN CAPITAL	<u>\$ 199,000</u>	<u>\$ 199,000</u>
RETAINED EARNINGS		
Balance at beginning of year	\$ 456,971	\$ 143,479
Net income for the year	329,212	432,356
Distributions	<u>(318,941)</u>	<u>(118,864)</u>
Balance at end of year	<u>\$ 467,242</u>	<u>\$ 456,971</u>
TOTAL STOCKHOLDER'S EQUITY	<u>\$ 667,242</u>	<u>\$ 656,971</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 329,212	\$ 432,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	66,475	46,790
Loss on disposal of assets	27,307	0
(Increase) decrease in:		
Accounts receivable, trade	(50,114)	(30,436)
Miscellaneous receivable	0	1,068
Miscellaneous receivables, related party	15,741	(173,232)
Prepaid expenses	(19,110)	(15,940)
Inventory	(3,704)	(1,722)
Other asset	2,869	6,338
Other current asset	(1,978)	(1,093)
Increase (decrease) in:		
Accounts payable	27,810	(10,507)
Accrued liabilities	67,317	25,511
Unearned revenue	(91,800)	91,800
Accounts payable, related party	<u>3,043</u>	<u>(35,715)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>373,068</u>	<u>335,218</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(220,720)</u>	<u>(37,796)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(220,720)</u>	<u>(37,796)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholder	<u>(318,941)</u>	<u>(118,864)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(318,941)</u>	<u>(118,864)</u>
Net increase (decrease) in cash and equivalents	(166,593)	178,558
Cash and equivalents at beginning of year	<u>322,532</u>	<u>143,974</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 155,939</u>	<u>\$ 322,532</u>
SUPPLEMENTAL DISCLOSURE		
Interest expense	<u>\$ 216</u>	<u>\$ 647</u>
Non-cash purchases, related party	<u>\$ 19,389</u>	<u>\$ 0</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dippin' Dots Franchising, inc. (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Entity

Dippin' Dots Franchising, Inc. was incorporated March 30, 1999 in the Commonwealth of Kentucky. The Company is in the business of franchising a system for the sale of novelty ice cream, yogurt and flavored ice with trademarks licensed by the Company.

The Company also operates one retail outlet store on a permanent basis. Other retail outlets that become available for resale are operated on a temporary basis until sold.

Accounting Method

The Company maintains its books and these financial statements are presented on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments purchased with maturities of three months or less.

Inventory

Inventory is stated at lower of cost or market, with cost determined by the first-in, first-out method.

Depreciation

The Company's equipment and leasehold improvements are depreciated using the straight-line method, with estimated useful lives of 10 years for leasehold improvements, and 5 to 7 years for equipment.

Income Tax Status

The Company, with the consent of its shareholder, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements. Certain states, however, require assessment at the corporate level.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2005 and 2004

Advertising

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the years ended December 31, 2005 and 2004 was \$182,148 and \$193,103 respectively.

NOTE B – RELATED PARTY TRANSACTIONS

The Company participated in related party transactions with Dippin' Dots, Inc. The Company shareholder is the majority shareholder of Dippin' Dots, Inc. Dippin' Dots, Inc. has granted to the Company an exclusive license, with the right to sublicense, to use trademarks, trade names, service marks, logos, designs and other intellectual property.

During the years ended December 31, 2005 and 2004, the Company purchased inventory, equipment and paid certain expenses to Dippin' Dots, Inc. totaling \$215,430 and \$275,670, respectively. These expenses included wage and benefit reimbursement, management fees and retail sales expenses. At December 31, 2005 and 2004 Dippin' Dots, Inc. owed the Company \$126,986 and \$149,876.

The Company provides accounting services for three related purposes:

- 1) The Company maintains a separate checking account for gift certificates purchased and redeemed at Franchise stores. The amount held at December 31, 2005 and 2004 was \$21,060 and \$18,223, respectively.
- 2) The Company also provides accounting services for Dippin' Dots Franchising Council, a separate entity managed by the Company's franchisees. In 2005 and 2004, the Company paid \$13,245 and \$15,100 for the Council's expenses. At December 31, 2005 and 2004, the Company held \$23,155 and \$19,400 in Council dues to be used for future Council expenses.
- 3) The Company administers Dippin' Dots Franchising, Inc. Advertising Fund. It collects revenues and pays expenses for the fund and is totally reimbursed for all expenditures. At December 31, 2005 and 2004, the Fund owed the Company \$47,494 and \$37,907, respectively. This fund is maintained in a separate cash account and is not an asset of the Company.

The Company entered into an office lease agreement on December 23, 2004 with a company owned one hundred percent by the shareholder. The term of this lease is sixty months commencing on May 1, 2005 and expiring April 30, 2010. The rent for the premises is \$368,580, payable in equal monthly installments of \$6,143.

NOTE C – CERTIFICATE OF DEPOSIT

The Company held a certificate of deposit at December 31, 2005 and 2004; the balance was \$118,161 and \$116,183, respectively. This certificate will mature on June 17, 2006 and bears a 2.9% variable interest rate, with penalties for early withdrawal. Any penalty for early withdrawal would not have a material effect on the financial statements.

NOTE D – REVOLVING LINE OF CREDIT

The Company has a \$100,000 revolving line of credit, of which all was unused at December 31, 2005. The credit line is secured by accounts receivable.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2005 and 2004

NOTE E - PROPERTY AND EQUIPMENT

The following amounts comprise the balance of property and equipment at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Office equipment	\$ 155,729	\$ 80,339
Store equipment and furnishings	77,350	45,804
Leasehold improvements	145,720	90,558
Vehicles	<u>78,759</u>	<u>65,659</u>
	457,558	280,360
Less accumulated depreciation	<u>(167,050)</u>	<u>(116,788)</u>
	<u>\$ 290,508</u>	<u>\$ 163,572</u>

NOTE F - LEASING COMMITMENTS

The Company leases retail and office space and equipment. The lease maturities vary with the latest maturing in 2010.

Future minimum lease payments under long-term non-cancelable operating leases at December 31, 2005 are as follows:

Year Ended <u>December 31,</u>	
2006	\$ 204,311
2007	\$ 149,526
2008	\$ 125,612
2009	\$ 99,337
2010	\$ 26,096

Retail outlet space also provides for sales percentage rents in addition to minimum rent amounts.

NOTE G - CONCENTRATION OF CREDIT RISK

The Company has concentrated its credit risk for cash by maintaining deposits in a bank which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

NOTE H - 401(k) PROFIT SHARING PLAN

The Company has a defined contribution plan covering substantially all employees. Eligibility is based on twelve months of service with 1,000 hours worked and attainment of age 21. The Plan permits employees to set aside money on a pre-tax basis. Profit sharing and matching contributions are at the discretion of the Company. The Company matched 6% for employees whose deferral was 10% or more with the remaining employees receiving 65% of their salary deferral up to 6%. Matching contributions for 2005 and 2004 totaled \$44,120 and \$34,260 respectively.



BLYTHE & ASSOCIATES

Certified Public Accountants and Consultants

AUDITOR'S CONSENT

As independent public accountants, we hereby consent to the use of our report (audited financial statements as of December 31, 2004) dated February 11, 2005, included in and made part of the franchise application and to include it in the UFOC of Dippin' Dots Franchising, Inc. filed with the appropriate state authorities in the states requiring registration of the offer of franchises.

Molly W. Blythe, CPA
Blythe & Associates, PSC
Paducah, Kentucky
February 11, 2005

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A Professional Service Corporation

DIPPIN' DOTS FRANCHISING, INC.

FINANCIAL STATEMENTS

**For the Years Ended
December 31, 2004 & 2003**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Dippin' Dots Franchising, Inc.
Paducah, Kentucky

We have audited the accompanying balance sheets of Dippin' Dots Franchising, Inc. (an S corporation) as of December 31, 2004 and 2003, and the related statements of income, changes in stockholder's 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 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 Dippin' Dots Franchising, Inc. as of December 31, 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.

Blythe & Associates

February 11, 2005

DIPPIN' DOTS FRANCHISING, INC.
BALANCE SHEETS
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash on hand	\$ 10,263	\$ 7,080
Cash in bank	312,269	136,894
Certificate of deposit	116,183	115,090
Accounts receivable, trade	89,855	59,419
Miscellaneous receivable	441	1,509
Miscellaneous receivable, related party	194,550	21,318
Inventory	6,429	4,707
Prepaid expense	<u>27,407</u>	<u>11,467</u>
TOTAL CURRENT ASSETS	757,397	357,484
PROPERTY AND EQUIPMENT, NET	163,572	172,567
OTHER ASSETS	<u>11,245</u>	<u>17,583</u>
	<u>\$ 932,214</u>	<u>\$ 547,634</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 25,944	\$ 36,449
Accounts payable, related party	45,200	80,915
Accrued liabilities	112,299	86,791
Unearned revenue	<u>91,800</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	275,243	204,155
STOCKHOLDER'S EQUITY		
Common stock, 1,000 shares authorized		
100 shares issued and outstanding	1,000	1,000
Additional paid-in-capital	199,000	199,000
Retained earnings	<u>456,971</u>	<u>143,479</u>
	<u>656,971</u>	<u>343,479</u>
	<u>\$ 932,214</u>	<u>\$ 547,634</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 INCOME STATEMENTS
 For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
REVENUES		
Royalties	\$ 1,900,019	\$ 1,122,192
Franchise and transfer fees	607,379	396,050
Retail sales	221,874	223,720
Management service income	<u>0</u>	<u>255,693</u>
	2,729,272	1,997,655
 OPERATING EXPENSES		
Retail sales expenses	195,633	185,314
Wages	1,174,633	1,015,074
Management fees	0	29,224
Employee benefits	144,999	119,551
Contract labor	40,500	32,750
Insurance	26,384	31,630
Travel	156,482	103,602
Marketing	193,103	112,638
Printing and supplies	44,053	28,919
Professional fees	92,845	88,909
Taxes and licenses	13,085	10,598
Depreciation	46,790	31,652
Repairs and maintenance	5,084	7,446
Rents	101,529	84,391
Leases	3,647	3,647
Dues and subscriptions	2,619	3,000
Utilities	10,510	4,869
Design and development	13,861	0
Regional meeting expense	4,425	0
Administrative	<u>27,283</u>	<u>2,116</u>
	<u>2,297,465</u>	<u>1,895,330</u>
 INCOME FROM OPERATIONS	 431,807	 102,325
 OTHER INCOME (EXPENSE)		
Interest income	1,582	1,966
Interest expense	(647)	(170)
Miscellaneous	<u>(386)</u>	<u>(11)</u>
	549	1,785
 NET INCOME	 <u>\$ 432,356</u>	 <u>\$ 104,110</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
 For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
COMMON STOCK		
1,000 shares authorized, 100 shares issued	\$ <u>1,000</u>	\$ <u>1,000</u>
ADDITIONAL PAID-IN CAPITAL	\$ <u>199,000</u>	\$ <u>199,000</u>
RETAINED EARNINGS		
Balance at beginning of year	\$ 143,479	\$ 139,369
Net income for the year	432,356	104,110
Distributions	<u>(118,864)</u>	<u>(100,000)</u>
Balance at end of year	\$ <u>456,971</u>	\$ <u>143,479</u>
TOTAL STOCKHOLDER'S EQUITY	\$ <u>656,971</u>	\$ <u>343,479</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 432,356	\$ 104,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46,790	31,653
(Increase) decrease in:		
Accounts receivable, trade	(30,436)	(40,956)
Miscellaneous receivable	1,068	(1,509)
Miscellaneous receivables, related party	(173,232)	19,227
Prepaid expenses	(15,940)	(2,644)
Inventory	(1,722)	(810)
Other asset	6,338	0
Other current asset	(1,093)	(1,505)
Increase (decrease) in:		
Accounts payable	(10,507)	16,303
Accrued liabilities	25,511	44,202
Unearned revenue	91,800	0
Accounts payable, related party	<u>(35,715)</u>	<u>(103,028)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	335,218	65,043
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(37,796)	(116,519)
Return of deposit	<u>0</u>	<u>3,000</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(37,796)</u>	<u>(113,519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholder	<u>(118,864)</u>	<u>0</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(118,864)</u>	<u>0</u>
Net increase (decrease) in cash and equivalents	178,558	(48,476)
Cash and equivalents at beginning of year	<u>143,974</u>	<u>192,450</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 322,532</u>	<u>\$ 143,974</u>
SUPPLEMENTAL DISCLOSURE		
Interest expense	<u>\$ 647</u>	<u>\$ 170</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dippin' Dots Franchising, Inc. (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Entity

Dippin' Dots Franchising, Inc. was incorporated March 30, 1999 in the Commonwealth of Kentucky. The Company is in the business of franchising a system for the sale of novelty ice cream, yogurt and flavored ice with trademarks licensed by the Company.

The Company also operates one retail outlet store on a permanent basis. Other retail outlets that become available for resale are operated on a temporary basis until sold.

Accounting Method

The Company maintains its books and these financial statements are presented on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments purchased with maturities of three months or less.

Inventory

Inventory is stated at lower of cost or market, with cost determined by the first-in, first-out method.

Depreciation

The Company's equipment and leasehold improvements are depreciated using the straight-line method, with estimated useful lives of 10 years for leasehold improvements, and 5 to 7 years for equipment.

Income Tax Status

The Company, with the consent of its shareholder, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004 and 2003

Advertising

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the years ended December 31, 2004 and 2003 was \$193,103 and \$112,638 respectively.

NOTE B – RELATED PARTY TRANSACTIONS

The Company participated in related party transactions with Dippin' Dots, Inc. The Company shareholder is the majority shareholder of Dippin' Dots, Inc. Dippin' Dots, Inc. has granted to the Company an exclusive license, with the right to sublicense, to use trademarks, trade names, service marks, logos, designs and other intellectual property.

During the years ended December 31, 2004 and 2003, the Company purchased inventory, equipment and paid certain expenses to Dippin' Dots, Inc. totaling \$275,670 and \$199,194, respectively. These expenses included wage and benefit reimbursement, management fees and retail sales expenses. At December 31, 2004 Dippin' Dots, Inc. owed the Company \$149,876 and at December 31, 2003 the Company owed Dippin' Dots, Inc. \$57,635.

The Company provides accounting services for three related purposes:

- 1) The Company maintains a separate checking account for gift certificates purchased and redeemed at Franchise stores. The amount held at December 31, 2004 and 2003 was \$18,223 and \$16,423, respectively.
- 2) The Company also provides accounting services for Dippin' Dots Franchising Council, a separate entity managed by the Company's franchisees. In 2004 and 2003, the Company paid \$15,100 and \$13,134 for the Council's expenses. At December 31, 2004 and 2003, the Company held \$19,400 and \$18,893 in Council dues to be used for future Council expenses.
- 3) The Company administers Dippin' Dots Franchising, Inc. Advertising Fund. It collects revenues and pays expenses for the fund and is totally reimbursed for all expenditures. At December 31, 2004 and 2003, the Fund owed the Company \$37,907 and \$33,394, respectively. This fund is maintained in a separate cash account and is not an asset of the Company.

The Company entered into an office lease agreement on December 23, 2004 with a company owned twenty percent by the shareholder. The term of this lease is sixty months commencing on May 1, 2005 and expiring April 30, 2010. The rent for the premises is \$327,600, payable in equal monthly installments of \$5,460.

During 2004 and 2003, \$8,417 and \$5,791 were paid in consulting fees to a company owned by the spouse of the Company's manager.

NOTE C – CERTIFICATE OF DEPOSIT

The Company held a certificate of deposit at December 31, 2004 and 2003; the balance was \$116,183 and \$115,090, respectively. This certificate will mature on June 17, 2005 and bears a 1.35% variable interest rate, with penalties for early withdrawal. Any penalty for early withdrawal would not have a material effect on the financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004 and 2003

NOTE D – PROPERTY AND EQUIPMENT

The following amounts comprise the balance of property and equipment at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Office equipment	\$ 80,339	\$ 69,100
Store equipment and furnishings	45,804	35,973
Leasehold improvements	90,558	88,143
Vehicles	63,659	49,349
	<u>280,360</u>	<u>242,565</u>
Less accumulated depreciation	(116,788)	(69,998)
	<u>\$ 163,572</u>	<u>\$ 172,567</u>

NOTE E – LEASING COMMITMENTS

The Company leases retail and office space and equipment. The lease maturities vary with the latest maturing in 2010.

Future minimum lease payments under long-term non-cancelable operating leases at December 31, 2004 are as follows:

December 31,

2005	\$ 226,203
2006	\$ 158,623
2007	\$ 144,930
2008	\$ 123,270
2009	\$ 93,388
2010	\$ 21,840

Retail outlet space also provides for sales percentage rents in addition to minimum rent amounts.

NOTE F – CONCENTRATION OF CREDIT RISK

The Company has concentrated its credit risk for cash by maintaining deposits in a bank which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

NOTE G – 401(k) PROFIT SHARING PLAN

The Company has a defined contribution plan covering substantially all employees. Eligibility is based on twelve months of service with 1,000 hours worked and attainment of age 21. The Plan permits employees to set aside money on a pre-tax basis. Profit sharing and matching contributions are at the discretion of the Company. The Company matched 6% for employees whose deferral was 10% or more with the remaining employees receiving 65% of their salary deferral up to 6%. Matching contributions for 2004 and 2003 totaled \$34,260 and \$27,337, respectively.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004 and 2003

NOTE H - REVOLVING LINE OF CREDIT

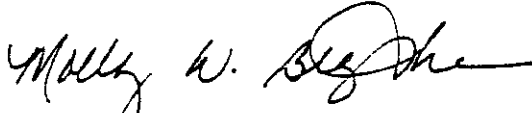
The Company has a \$100,000 revolving line of credit, of which all was unused at December 31, 2004. The credit line is secured by accounts receivable.

NOTE I - FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

AUDITOR'S CONSENT

As independent public accountants, we hereby consent to the use of our report (audited financial statements as of December 31, 2003) dated February 17, 2004, included in and made part of the franchise application and to include it in the UFOC of Dippin' Dots Franchising, Inc. filed with the appropriate state authorities in the states requiring registration of the offer of franchises.



Molly W. Blythe, CPA
Blythe & Associates, PSC
Paducah, Kentucky
February 18, 2004

DIPPIN' DOTS FRANCHISING, INC.

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2003 and 2002

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BLYTHE & ASSOCIATES

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Dippin' Dots Franchising, Inc.
Paducah, Kentucky

We have audited the accompanying balance sheets of Dippin' Dots Franchising, Inc. (an S corporation) as of December 31, 2003 and 2002, and the related statements of income, changes in stockholder's 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 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 Dippin' Dots Franchising, Inc. as of December 31, 2003 and 2002, 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.

Blythe & Associates

February 17, 2004

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Paducah, Kentucky 42001
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E-mail: blythe@cpablythe.com

A Professional Service Corporation

DIPPIN' DOTS FRANCHISING, INC.
 BALANCE SHEETS
 December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash on hand	\$ 7,080	\$ 2,191
Cash in bank	136,894	190,260
Certificate of deposit	115,090	113,585
Accounts receivable, trade	1,510	0
Accounts receivable, related party	80,736	58,259
Due from stockholder	0	100,000
Inventory	4,707	3,897
Prepaid expense	<u>11,467</u>	<u>8,824</u>
TOTAL CURRENT ASSETS	357,484	477,016
PROPERTY AND EQUIPMENT, NET	172,567	88,448
OTHER ASSETS		
Deposit	0	3,000
Goodwill	<u>17,583</u>	<u>17,583</u>
	<u>17,583</u>	<u>20,583</u>
	<u>\$ 547,634</u>	<u>\$ 586,047</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 36,449	\$ 20,146
Accounts payable, related party	80,915	183,942
Accrued liabilities	<u>86,791</u>	<u>42,590</u>
TOTAL CURRENT LIABILITIES	204,155	246,678
STOCKHOLDER'S EQUITY		
Common stock, 1,000 shares authorized		
100 shares issued and outstanding	1,000	1,000
Additional paid-in-capital	199,000	199,000
Retained earnings	<u>143,479</u>	<u>139,369</u>
	<u>343,479</u>	<u>339,369</u>
	<u>\$ 547,634</u>	<u>\$ 586,047</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 INCOME STATEMENTS
 For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
REVENUES		
Royalties	\$ 1,122,192	\$ 1,004,749
Franchise and transfer fees	396,050	463,150
Retail sales	223,720	191,487
Management service income	<u>255,693</u>	<u>109,003</u>
	1,997,655	1,768,389
 OPERATING EXPENSES		
Retail sales expenses	185,514	176,543
Wages	1,015,074	700,187
Management fees	29,224	31,820
Management service	0	88,777
Employee benefits	119,551	77,394
Contract labor	32,750	81,500
Insurance	31,630	34,225
Travel	103,602	70,680
Marketing	112,638	129,274
Printing and supplies	28,919	27,128
Professional fees	88,909	92,457
Taxes and licenses	10,598	4,681
Depreciation	31,652	22,567
Repairs and maintenance	7,446	1,597
Rents	84,391	68,243
Leases	3,647	5,873
Dues and subscriptions	3,000	659
Utilities	4,869	5,847
Administrative	<u>2,116</u>	<u>10,958</u>
	<u>1,895,330</u>	<u>1,630,390</u>
	 INCOME FROM OPERATIONS	 137,999
 OTHER INCOME (EXPENSE)		
Interest income	1,966	5,328
Interest expense	(170)	0
Gain (loss) on sale of assets	0	(912)
Miscellaneous	<u>(11)</u>	<u>(10,127)</u>
	<u>1,785</u>	<u>(5,711)</u>
	 NET INCOME	 \$ 132,288
	<u>\$ 104,110</u>	<u>\$ 132,288</u>

See auditor's report and notes to financial statements.

DIPPEN DOTS FRANCHISING, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
 For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
COMMON STOCK		
1,000 shares authorized, 100 shares issued	\$ <u>1,000</u>	\$ <u>1,000</u>
ADDITIONAL PAID-IN CAPITAL	\$ <u>199,000</u>	\$ <u>199,000</u>
RETAINED EARNINGS		
Balance at beginning of year	\$ 139,369	\$ 307,081
Net income for the year	104,110	132,288
Distributions	<u>(100,000)</u>	<u>(300,000)</u>
Balance at end of year	\$ <u>143,479</u>	\$ <u>139,369</u>
TOTAL STOCKHOLDER'S EQUITY	\$ <u>343,479</u>	\$ <u>339,369</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 104,110	\$ 132,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	51,652	28,067
Gain (loss) on disposal of assets	0	912
(Increase) decrease in:		
Accounts receivable	(1,509)	2,032
Accounts receivable, related party	(21,729)	(17,767)
Prepaid expenses	(2,644)	(8,327)
Inventory	(810)	(811)
Royalty receivable	0	(18,463)
Other current asset	(1,505)	(2,232)
Increase (decrease) in:		
Accounts payable	16,303	14,363
Accrued liabilities	44,202	(20,992)
Accounts payable, related party	<u>(103,028)</u>	<u>89,730</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	65,042	198,800
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(116,519)	(30,607)
Loans made	0	(100,000)
Return of deposit	3,000	0
Proceeds from the sale of property and equipment	<u>0</u>	<u>350</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(113,519)</u>	<u>(130,257)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholder	<u>0</u>	<u>(300,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>0</u>	<u>(300,000)</u>
Net increase (decrease) in cash and equivalents	(48,477)	(231,457)
Cash and equivalents at beginning of year	<u>192,451</u>	<u>423,908</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 143,974</u>	<u>\$ 192,451</u>

See auditor's report and notes to financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dippin' Dots Franchising, Inc. (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Entity

Dippin' Dots Franchising, Inc. was incorporated March 30, 1999 in the Commonwealth of Kentucky. The Company is in the business of franchising a system for the sale of novelty ice cream, yogurt and flavored ice with trademarks licensed by the Company.

The Company also operates one retail outlet store on a permanent basis. Other retail outlets that become available for resale are operated on a temporary basis until sold.

Accounting Method

The Company maintains its books and these financial statements are presented on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments purchased with maturities of three months or less.

Inventory

Inventory is stated at lower of cost or market, with cost determined by the first-in, first-out method. Inventory on hand at retail locations for the years ended December 31, 2003 and 2002 was \$4,707 and \$3,897, respectively.

Depreciation

The Company's equipment and leasehold improvements are depreciated using the straight-line method, with estimated useful lives of 10 years for leasehold improvements, and 5 to 7 years for equipment.

Income Tax Status

The Company, with the consent of its shareholder, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

Goodwill

Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Prior to the adoption of SFAS No. 142 on January 1, 2002, the Company amortized goodwill over estimated useful life. Subsequent to the adoption of SFAS No. 142, the Company no longer amortizes goodwill.

Advertising

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the years ended December 31, 2003 and 2002 was \$112,638 and \$129,274, respectively.

NOTE B - RELATED PARTY TRANSACTIONS

The Company participated in related party transactions with Dippin' Dots, Inc. The Company shareholder is the majority shareholder of Dippin' Dots, Inc. Dippin' Dots, Inc. has granted to the Company an exclusive license, with the right to sublicense, to use trademarks, trade names, service marks, logos, designs and other intellectual property.

During the years ended December 31, 2003 and 2002, the Company purchased inventory, equipment and paid certain expenses to Dippin' Dots, Inc. totaling \$199,194 and \$142,747, respectively. These expenses included wage and benefit reimbursement, management fees and retail sales expenses. At December 31, 2003, the Company owed Dippin' Dots, Inc. \$45,599.

The Company provides accounting services for three related purposes. The Company maintains a separate checking account for gift certificates purchased and redeemed at Franchise stores. The amount held at December 31, 2003 and 2002 was \$16,423 and \$10,139, respectively.

The Company also provides accounting services for Dippin' Dots Franchising Council, a separate entity managed by the Company's franchisees. In 2003 and 2002, the Company paid \$13,134 and \$5,975 for the Council's expenses. At December 31, 2003, the Company held \$18,893 in Council dues to be used for future Council expenses.

The Company administers Dippin' Dots Franchising, Inc. Advertising Fund. It collects revenues and pays expenses for the fund and is totally reimbursed for all expenditures. At December 31, 2003 and 2002, the Fund owed the Company \$33,354 and \$39,796, respectively.

During 2003, \$5,791 was paid in consulting fees to a company owned by the spouse of the Company's manager.

NOTE C - CERTIFICATE OF DEPOSIT

The Company held a certificate of deposit at December 31, 2003 and 2002, the balance was \$115,090 and \$113,585, respectively. This certificate will mature on June 17, 2004 and bears a .85% variable interest rate, with penalties for early withdrawal. Any penalty for early withdrawal would not have a material effect on the financial statements.

DIPPIN' DOTS FRANCHISING, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2003 AND 2002

NOTE D - PROPERTY AND EQUIPMENT

The following amounts comprise the balance of property and equipment at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Office equipment	\$ 69,100	\$ 42,091
Store equipment and furnishings	35,973	35,973
Leasehold improvements	88,143	41,982
Vehicles	49,349	10,080
	<u>242,565</u>	<u>130,126</u>
Less accumulated depreciation	(69,998)	(41,678)
	<u>\$ 172,567</u>	<u>\$ 88,448</u>

The company had idle assets at December 31, 2003 with a net book value of \$7,750.

NOTE E - LEASING COMMITMENTS

The Company leases retail and office space and equipment. The lease maturities vary with the latest maturing in 2007. Rental expense under operating leases totaled \$92,708 and \$68,243 for the years ended December 31, 2003 and 2002.

Future minimum lease payments under long-term non-cancelable operating leases at December 31, 2003 are as follows:

<u>Year Ended</u> <u>December 31,</u>	
2004	\$ 105,248
2005	\$ 89,656
2006	\$ 44,302
2007	\$ 28,143

Retail outlet space also provides for sales percentage rents in addition to minimum rent amounts.

NOTE F - CONCENTRATION OF CREDIT RISK

The Company maintains its cash balance in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2003, the Company's uninsured cash balance totaled \$150,865.

NOTE G - 401(k) PROFIT SHARING PLAN

The Company has a defined contribution plan covering substantially all employees. Eligibility is based on twelve months of service with 1,000 hours worked and attainment of age 21. The Plan permits employees to set aside money on a pre-tax basis. Profit sharing and matching contributions are at the discretion of the Company. In 2003, the Company matched 6% for employees whose deferral was 10% or more with the remaining employees receiving 65% of their salary deferral up to 6%. Matching contributions for 2003 and 2002 totaled \$27,337 and \$21,105, respectively.

DIPPIN' DOTS FRANCHISING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE H - REVOLVING LINE OF CREDIT

The Company has a \$100,000 revolving line of credit, of which all was unused at December 31, 2003. The credit line is secured by accounts receivable.

NOTE I - SUPPLEMENTAL DISCLOSURES REGARDING CASH FLOWS

During the year ended December 31, 2003 the Company paid interest of \$170.

The Company had the following non-cash investing and financing activities which impacted the financial statements as of December 31, 2003:

During 2003, the Company sold equipment to Dippin' Dots, Inc. for \$748. This was financed through a receivable.

In December 2002, the Company loaned its shareholder \$100,000 through an unsecured note payable. In 2003, the shareholder applied a \$100,000 Company dividend toward the note payable.