

EXHIBIT J

FINANCIAL STATEMENTS

ECONO LUBE N' TUNE, INC.

Financial Statements
and
Independent Auditors' Report

July 31, 2005

MEW

ECONO LUBE 'N TUNE, INC.

CONTENTS

	<u>Page</u>
Independent Auditors' Report _____	3
Balance Sheet _____	4 - 5
Statement of Income _____	6
Statement of Stockholders' Deficit _____	7
Statement of Cash Flows _____	8 - 9
Notes to Financial Statements _____	10-25
Independent Auditors' Report on Additional Information _____	26
Supporting Schedules _____	27



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

We have audited the accompanying balance sheet of **Econo Lube N' Tune, Inc.** as of July 31, 2005 and the related statements of income, stockholders' deficit and cash flows for the year 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 Econo Lube N' Tune, Inc. at July 31, 2005, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Although the Company is in compliance with all requirements of the bankruptcy court, and is current with payments, the negative working capital and stockholders' deficit raise substantial doubt about the ability of the Company to continue as a going concern (as discussed in Note 1). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

October 26, 2005
Newport Beach, California

ECONO LUBE N' TUNE, INC.

Balance Sheet

July 31, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ 399,571
Accounts receivable, net of allowance for doubtful accounts of \$397,977	1,203,113
Current portion of notes receivable, net of allowance for doubtful accounts of \$345,516	497,342
Inventories	16,361
Prepaid advertising	945,738
Prepaid expenses and other current assets	<u>54,500</u>

Total current assets 3,116,625

Notes receivable, net of current portion, and net of allowance for doubtful accounts of \$161,575	708,262
Deferred rent receivable	1,517,328
Property and equipment, net of accumulated depreciation and amortization	4,554,432
Other assets	<u>324,456</u>

Total assets \$ 10,221,103

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
 Balance Sheet (continued)
 July 31, 2005

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

—Accounts payable and accrued expenses	\$ 1,282,640
Advance rental payments	1,116,481
Current portion of liabilities subject to compromise	960,000
Current portion of mortgages payable and long-term debt	1,533,867
Current portion of capital leases	<u>62,502</u>

Total current liabilities 4,955,490

Deposits payable	1,303,575
Deferred compensation	1,104,256
Mortgages payable and long-term debt, net of current portion	5,021,175
Capital leases, net of current portion	209,649
Deferred gain on sale/leasebacks	<u>9,837</u>

Total long-term liabilities not subject to compromise 7,648,492

Liabilities subject to compromise, net of current portion 5,626,916

Total liabilities 18,230,898

Stockholders' deficit:

Common stock, no par value:	
Authorized shares - 1,000,000	
Issued and outstanding shares - 244,037	2,618,553
Accumulated deficit	<u>(10,628,348)</u>

Total stockholders' deficit (8,009,795)

Total liabilities and stockholders' deficit \$ 10,221,103

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Income
For the Year Ended July 31, 2005

Revenues:	
Sales	\$ 5,925,400
Rental income	12,986,284
Royalty income	4,428,813
Training, transfer and other fees	394,500
Revenues from reacquired franchises	1,006,226
Interest income	181,857
Advertising income	393,221
Service fees	181,861
Gain on sale of assets	564,668
Other income	<u>53,706</u>
Total revenues	<u>26,116,536</u>
Costs and expenses:	
Cost of sales	5,594,950
Rent expense	11,778,030
Costs associated with reacquired franchises	1,220,324
Selling, general and administrative	5,585,711
Interest expense	<u>617,253</u>
Total costs and expenses	<u>24,796,268</u>
Income before other expenses and income tax expense	1,320,268
Other income:	
Lease cancellations	379,600
Reorganization	<u>47,098</u>
Income before income tax expense	1,746,966
Income tax expense	<u>(33,292)</u>
Net income	<u>\$ 1,713,674</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Stockholders' Deficit
For the Year Ended July 31, 2005

	<u>Common stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balances, July 31, 2004,	244,037	\$ 2,618,553	\$ (12,342,022)	\$ (9,723,469)
Net income	-	-	<u>1,713,674</u>	<u>1,713,674</u>
Balances, July 31, 2005	<u>244,037</u>	<u>\$ 2,618,553</u>	<u>\$ (10,628,348)</u>	<u>\$ (8,009,795)</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Cash Flows
For the Year Ended July 31, 2005

Cash flows from operating activities:

Net income	\$ 1,713,674
Items not requiring cash:	
Depreciation and amortization	405,517
Increase in provision for doubtful accounts	197,247
Amortization of deferred gain on sale/leasebacks	(43,914)
Gain on sale of property and equipment	<u>(564,668)</u>
 Subtotal	 1,707,856
Decrease (increase) in:	
Accounts receivable	(44,161)
Inventories	177,045
Prepays and other current assets	188,640
Prepaid advertising	(646,098)
Deferred rents	(311,865)
Other assets	418,147
Increase (decrease) in:	
Accounts payable and accrued expenses	(185,810)
Security deposits payable	21,357
Advance rental payments	21,831
Income taxes payable	(100,000)
Deferred compensation	<u>347,072</u>
 Total from operating activities	 <u>1,594,014</u>

Cash flows from investing activities:

Acquisition of property and equipment	(185,646)
Proceeds from sale of property and equipment	899,578
Notes receivable	<u>206,095</u>
 Total from investing activities	 <u>\$ 920,027</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Cash Flows
For the Year Ended July 31, 2005

Cash flows from financing activities:

Decrease in mortgages payable and long-term debt	\$ (1,044,160)
Principal payments on capital leases	(226,197)
Decrease in liabilities subject to compromise	<u>(1,154,631)</u>

Total from financing activities (2,424,988)

Net increase in cash and cash equivalents 89,053

Cash, beginning of year 310,518

Cash, end of year \$ 399,571

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest expense \$ 617,253

Income taxes \$ -

Professional fees paid for services rendered in
connection with the Chapter 11 proceedings \$ 62,566

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of business

Econo Lube N' Tune, Inc. (the Company) is engaged in the business of operating specialty automotive service centers, selling franchises and leasing equipment to franchised service centers. As of July 31, 2005, the Company had 198 stores in operation: 18 Company-operated, 179 franchises and one independently operated. During the year, the Company opened one store, reopened one store, closed two stores, repurchased 51 stores owned by franchisees, and resold 48 franchises. The Company is also lessor and lessee of certain real property in connection with certain franchised and Company owned locations.

Basis of presentation

The accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company had a working capital deficiency of \$1,838,835 and a stockholders' deficit of \$8,009,795. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

As a result of the Company's decision to file for protection under Chapter 11 of the United States Bankruptcy Code on November 8, 1999, and due to circumstances relating to this event, realization of assets and satisfaction of liabilities are subject to uncertainty. The Company's ability to continue as a going concern is contingent upon, among other things, its ability to achieve satisfactory levels of profitability and cash flow from operations, to obtain adequate financing to meet future obligations, and to continue its compliance with the debt service requirements provided for in the Chapter 11 Plan of Reorganization.

Cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company, from time to time, maintains cash balances that exceed the federal deposit insurance coverage limits. The Company performs periodic reviews of the relative credit rating of its banks to lower its risk. Included in cash is approximately \$130,000 which is restricted.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of automotive products such as oil, oil and air filters, spark plugs, and brake parts. Inventories are stated at the lower of cost or market. Cost is determined by the first-in first-out method.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from 5 to 32 years, on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Sales revenue

Sales revenue is recognized at the time services are performed.

Franchise fee revenue

The Company typically has fulfilled its obligations under the franchise sales agreement prior to the opening of the franchised store. Revenue associated with the sale of a franchise is recognized upon substantial performance by the Company of all material conditions relating to the fees.

Franchise agreements

The Company grants the right to operate stores under the Econo Lube N' Tune name to certain individuals and companies through franchise agreements. Under the terms of the agreements, licensees remit fees (either at a fixed amount or based on a percentage, as defined) as follows: a weekly operating service fee, royalties of approximately 5% of the licensee's weekly sales, and a marketing fee of up to 6% of sales, less certain excluded items, as defined. The Company also provides assistance based upon the terms of the related franchise agreement.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income amortization

Gains on sale/leasebacks of real property are amortized to income using the effective interest method. Amounts are amortized over the lives of the respective leases, which generally range from 10 to 20 years.

Deferred loan costs

Deferred loan costs result from certain fees paid in conjunction with obtaining long-term debt or mortgages. These costs are being amortized over the lives of the associated loans.

Income taxes

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, long-lived assets are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, Reporting Comprehensive Income, which established standards for the reporting and displaying of comprehensive income and its components. For the year ended July 31, 2005, there was no material difference between the Company's net income and comprehensive income.

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION

On November 8, 1999, the Company (the Debtor) filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Central District of California. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-Possession. These claims are reflected in the July 31, 2005, balance sheet as "liabilities subject to compromise." Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property, plant, and equipment.

The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

The Company (as Debtor-in-Possession) submitted the Debtor's Third Amended Chapter 11 Plan of Reorganization (the Plan) to the Court and its creditors. The Plan was confirmed on January 3, 2001 with an effective date of April 3, 2001. The Plan provides the following:

Debt secured by personal property

The debt of approximately \$17,413 as of July 31, 2005, secured by personal property owned by the Company, will be paid in monthly installments of approximately \$4,776, which commenced on January 15, 2001 and continue through December 15, 2005, with average interest approximating 11%.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION
(CONTINUED)

Priority unsecured claims

Terminated employees who earned benefits will be paid in full.

Unsecured claims

The holders of approximately \$6,587,000 as of July 31, 2005 (as reduced by approximately \$233,000 as discussed below) of trade and other miscellaneous claims will be paid in quarterly installments as follows: 24 quarterly minimum payments, which commenced on July 15, 2001 and continue through April 15, 2007, and 24 quarterly excess cash payments, which commenced on July 15, 2001 and continue through April 15, 2007. This combination of payments is intended to insure that the unsecured creditors will receive a minimum payment of not less than 38% of their allowed claims, and the opportunity to receive 100% of their claims.

Early payoff rights

If the unsecured creditors receive payments from the Debtor (whether from quarterly minimum payments or quarterly excess cash payments) equal to 70% of the allowed unsecured claims total, on or before May 15, 2006, such claims shall be deemed paid in full under the Plan. The 70% requires written consent.

Based upon the court approved repayment plan, the Company is obligated to make aggregate minimum payments to unsecured creditors of \$5,000,000, payable in quarterly installments of \$240,000 through April of 2007. The balance is paid to claimants on a pro-rata basis.

In August of 2005, the Company successfully negotiated the settlement and payment in full of a certain claim of approximately \$423,000 for \$190,000. This claim was paid in full in September of 2005.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION
(CONTINUED)

The remaining future minimum commitments under the repayment plan approximate the following:

Year ending July 31:	
2006	\$ 960,000
2007	<u>760,000</u>
	<u>\$ 1,720,000</u>

Effective on August 4, 2005, a final decree was ordered and, as such, the Chapter 11 estate has been fully revested in the Reorganized Debtor whereupon a discharged occurred and the case was deemed closed.

3. ACQUISITION OF FRANCHISE LOCATIONS

In the normal course of business, the Company may reacquire certain franchise locations. For the year ended July 31, 2005, the Company reacquired 51 franchised locations incurring costs of approximately \$1,220,000 consisting of write-offs of uncollectible accounts and notes receivable. The Company sold a total of 48 reacquired locations for approximately \$821,000.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

4. NOTES RECEIVABLE

Notes receivable consist of the following at July 31, 2005:

Installment notes receivable, from franchisees, due in aggregate monthly installments of approximately \$34,000, including interest ranging from 6% to 12%, through various dates through 2015.	\$ 1,355,358
Unsecured notes receivable from related parties, due upon demand with no accruing interest. See Note 10.	<u>357,337</u>
	1,712,695
Less allowance for doubtful accounts	<u>(507,091)</u>
	1,205,604
Less current portion	<u>(497,342)</u>
	<u>\$ 708,262</u>

Certain installment notes receivable have payment terms calling for interest-only payments during the first year, with payments fully amortizing the principal balance generally due from the second through fifteenth years. The majority of these notes are collateralized by the franchise operation purchased by the franchisee.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31, 2005:

Land	\$ 2,066,603
Buildings	3,258,160
Leasehold improvements	2,003,253
Equipment	<u>7,426,339</u>
	14,754,355
Less accumulated depreciation and amortization	<u>(10,199,923)</u>
	<u>\$ 4,554,432</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

5. PROPERTY AND EQUIPMENT (CONTINUED)

Included in property and equipment at July 31, 2005 are assets capitalized under the terms of capital leases with costs of \$935,064 and accumulated depreciation of \$813,154.

6. OTHER ASSETS

Other assets consist of the following at July 31, 2005:

Security and other deposits	\$ 311,642
Deferred loan costs	<u>12,814</u>
	<u>\$ 324,456</u>

7. INCOME TAXES

The provision for income taxes consists of the following:

Federal	\$ 749,676
State	<u>56,616</u>
	806,292
Benefit of net operating loss carry forwards	<u>(773,000)</u>
Income tax expense	<u>\$ 33,292</u>

Temporary differences which give rise to deferred taxes consist primarily of differences in bases of property, depreciation, capitalized leases, accrued liabilities, net operating losses, and the allowance for doubtful accounts. A valuation allowance has been provided to fully reserve deferred tax assets in excess of deferred tax liabilities.

The Company utilized approximately \$2,146,000 of federal net operating loss carryforwards to offset 2005 taxable income. At July 31, 2005, the Company had federal net operating loss carryforwards of approximately \$14,012,000, expiring through 2022. In addition, the Company had net operating loss carryforwards for California and certain other states of approximately \$8,212,000 expiring generally through 2007 (the use of these operating losses is limited to each respective states allocated taxable income).

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

7. INCOME TAXES (CONTINUED)

Under the provisions of Financial Accounting Standards No. 109, the Company has made a valuation adjustment of \$6,116,000 as of July 31, 2005 to its deferred income tax assets.

Deferred income taxes approximate the following:

Assets:	
Allowance for bad debts	\$ 394,000
Net operating loss carryforwards	5,914,000
Nondeductible liabilities	<u>480,000</u>
Subtotal	6,788,000
Valuation allowance	<u>(6,116,000)</u>
Total assets	<u>\$ 672,000</u>
 Liabilities:	
Depreciation	\$ 660,000
Capitalized lease depreciation	<u>12,000</u>
Total liabilities	<u>\$ 672,000</u>

8. MORTGAGES PAYABLE AND LONG-TERM DEBT

Mortgages payable and long-term debt consist of the following at July 31, 2005:

Mortgages payable, collateralized by first trust deeds on property, due in aggregate monthly payments of approximately \$38,000, including interest ranging from 6% to 8.75%, through various dates to 2011	\$ 1,137,687
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

8. MORTGAGES PAYABLE AND LONG-TERM DEBT (CONTINUED)

<p>Note payable, due in monthly payments of \$8,750 of interest only, at 6% through January of 2006, at which time monthly payments of interest only increase to \$12,500 through December of 2007. Additional interest payments of \$80,000 and \$60,000 are due through December of 2005. Commencing in January of 2008, twelve equal payments of \$215,188 are due, to fully amortize the loan through December of 2008.</p>	<p>\$ - 2,500,000</p>
<p>Note payable, due in monthly payments of \$5,851 of interest only, at 7% through November of 2005, at which time monthly payments of interest only increase to \$8,359 through December 2007. An additional interest payment of \$43,467 is due in December of 2005. Commencing in January of 2008, 12 equal payments of \$123,993 are due to fully amortize the loan through December of 2008.</p>	<p>1,455,570</p>
<p>Notes payable, due in aggregate monthly payments of approximately \$8,000 including interest at an average rate of 9.7%, through various dates to 2007</p>	<p>63,927</p>
<p>Unsecured demand notes payable to officers, stockholders and other related parties. See Note 10.</p>	<p>1,397,858</p>
	<p><u>6,555,042</u></p>
<p>Less current portion</p>	<p><u>(1,533,867)</u></p>
	<p><u>\$ 5,021,175</u></p>

Maturities of mortgages payable and long-term debt approximate the following:

Year ending July 31:	
2006	\$ 1,533,867
2007	501,842
2008	2,458,879
2009	1,828,164
2010	166,327
Thereafter	65,963
	<p><u>\$ 6,555,042</u></p>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9. LEASES

The Company is a party to numerous leases, as described below:

As lessee:

The Company conducts its operations on certain leased premises under agreements classified as operating leases and has entered into operating lease agreements on predominately all locations whereby the Company received the right to occupy or sublet the premises. The initial terms of these leases, including options, range from 5 to 30 years. Rental expense on these leases was approximately \$11,778,000 for the year ended July 31, 2005 (for both store and non-store locations). The Company accounts for rent expense on a straight-line basis over the term of the lease. These agreements generally contain clauses under which the basic monthly rental is adjusted periodically for the greater of cost-of-living increases or an agreed-upon percentage. The Company is required to pay certain other expenses related to the premises, such as property taxes, which are generally passed through to the sublessees.

The Company also conducts its operations on certain leased premises which have resulted from sale/leaseback transactions. These leases and their related subleases are classified as either capital or operating, based on the terms of the agreements. The terms of the master leases, including options, range from 10 to 30 years.

The Company also leases certain equipment under noncancelable operating leases. The leases expire at various dates through fiscal 2006.

As lessor:

The Company owns or leases numerous locations which are leased or subleased to franchisees. Substantially all of the subleases are classified as operating leases. The terms of these leases and subleases, including options, range from 5 to 30 years. Rental income applicable to the real estate operating leases was approximately \$12,986,000 for the year ended July 31, 2005.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9. LEASES (CONTINUED)

Capital leases:

The Company has also entered into 20-year capital lease arrangements for certain equipment. These arrangements have been classified as sales-type leases and are payable in total monthly installments of \$10,200 with interest rates ranging from 11% to 15.63%.

Future minimum commitments due by the Company under capital leasing arrangements as lessee are as follows:

Year ending July 31:			
2006		\$	92,970
2007			92,970
2008			92,970
2009			59,247
			338,157
Future minimum commitments			338,157
Less interest			(66,006)
			272,151
Present value of future minimum commitments			272,151
Less current portion of capital lease obligations			(62,502)
			\$ 209,649

Approximate future minimum commitments under operating leasing arrangements are as follows:

	As Lessee		As Lessor	
	Real Estate Leases	Equipment Leases	Real Estate Leases	Equipment Leases
Year ending July 31:				
2006	\$ 11,207,000	\$ 49,000	\$ 12,996,000	\$ 22,000
2007	10,259,000	10,000	12,555,000	22,000
2008	9,000,000	6,000	11,424,000	13,000
2009	7,255,000	5,000	9,922,000	13,000
2010	5,493,000	1,000	8,236,000	8,000
Thereafter	15,293,000	3,000	22,237,000	42,000
	\$ 58,507,000	\$ 74,000	\$ 77,370,000	\$ 120,000

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

10. RELATED-PARTY TRANSACTIONS

Notes payable

At July 31, 2005, the Company has outstanding amounts due to related parties with interest rates ranging from zero to 12% as follows:

Demand notes payable	\$ 1,397,858
Deferred compensation	1,044,602
Liabilities subject to compromise	<u>487,113</u>
	<u>\$ 2,929,573</u>

Contractual interest expense in connection with these notes was approximately \$104,400 for the year ended July 31, 2005. However, these financial statements reflect no interest expense on these unsecured claims as interest does not accrue (per bankruptcy accounting rules) when the entity is insolvent.

Certain mortgages payable and long-term debt discussed in note 8 are guaranteed by certain officers and stockholders of the Company.

A certain stockholder received approximately \$78,000 during the year ended July 31, 2005 in connection with guaranteeing certain debt of the Company.

Accounts and notes receivable

As of July 31, 2005, the Company has a note receivable from a related party for \$357,337.

Rent

The Company rents its present office facility from partnerships in which certain officers and stockholders of the Company are partners. This lease expires in July of 2012 and is paid in monthly payments of \$17,900. During the first five months of fiscal year 2005, the company rented a warehouse from related parties. The rent approximated \$12,760 a month. This lease was cancelled as of December 31, 2004. Rent expense to related parties totaled \$279,000 for the year ended July 31, 2005.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

10. RELATED-PARTY TRANSACTIONS (CONTINUED)

The Company leases certain locations from Econo Lube N' Tune, LLC ("Econo, LLC"), an entity in which certain stockholders of the Company, and their relatives, are owners. These leases expire through 2019 and are payable in aggregate monthly payments of approximately \$56,000. Total rental expense paid to Econo, LLC was approximately \$669,000 for the year ended July 31, 2005.

Special opportunity franchises

During the years ended July 31, 2002 and 2003, the Company sold certain service center locations to related parties as Special Opportunity Franchises. Based upon the terms of these agreements, the Company operated the stores and recorded the related profits and losses. In addition, the Company paid the related parties a concession fee of approximately \$1,000 per month per store. The related party then paid the Company approximately \$500 per month to pay down related notes payable connected to the purchase. The related parties paid \$10,000 per store as a deposit on inventory.

In addition, when a location was sold to the related parties, a franchise fee of \$49,500 was recorded as income, which decreased the related notes payable.

During the year ended July 31, 2005, the related parties sold all of these Special Opportunity Franchises.

11. COMMITMENTS AND CONTINGENCIES

Bureau of Automotive Repair

In July of 1999, the Company entered into a Final Judgement representing a settlement by and between the Company and the State of California resulting from an action that was filed in July of 1998 by the California Department of Consumer Affairs Bureau of Automotive Repair. The aggregate restitution of \$900,000 has been fully paid as of July 31, 2005.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Plan of reorganization .

The Plan of Reorganization approved by the Court provides for quarterly minimum payments to the unsecured creditors with an aggregate total of \$5,000,000 and the Company is obligated to make minimum payments as defined in the Plan.

Legal issues

The Company is a party to certain legal actions arising in the ordinary course of its business as well as certain actions resulting from the bankruptcy. In the opinion of management, the ultimate outcome of these matters will not have a materially adverse effect on the financial position or results of operations of the Company. Also, see Note 1 for a discussion of the Company's basis of presentation of the accompanying financial statements.

Lease cancellation

A related party (Econo Lube 'N Tune Realty, LLC - the lessor) waived the collection of rents due it by the Company (the lessee) for 11 real property leases and 4 equipment leases in the aggregate amount of \$1,021,177 through July 31, 2002, of which \$680,784 relates to the Company's fiscal year ended July 31, 2002. The lessor did file a claim for such rents, however, it was questionable whether it was filed timely. As of July 31, 2003, the bankruptcy court did not allow a claim to be filed and, as such, the Company and the lessor have reached a settlement agreement with the lender for approximately \$3,267,000. Based upon the terms of the agreement, if the Company pays \$2,500,000, then the aggregate amount will be deemed paid in full. If, however, the Company does not comply with the agreement, then the full \$3,267,000 becomes due and payable under the terms of the agreement. As of July 31, 2004, the Company recorded a note payable of \$2,500,000 relating to this settlement and is making payments in accordance with the agreement.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

12. EMPLOYEE STOCK OWNERSHIP PLAN

Annual contributions to the Company's ESOP are determined by the officers, but may not exceed 15% of the total compensation of all participants. The Company did not make any contributions in the current year.

Pursuant to the terms of the ESOP, the Company may repurchase stock from terminated employees. During the year ended July 31, 2005, the Company did not repurchase any shares.

13. ADVERTISING COSTS

The Company provides direct response advertising. These costs are expensed the first time the advertising takes place. For the year ended July 31, 2005, the Company incurred approximately \$465,000 in net advertising costs. As of July 31, 2005, the Company has capitalized advertising costs of approximately \$61,000 relating to fiscal year ending July 31, 2005.

14. SUBSEQUENT EVENTS

The Company is in negotiations with a third party in connection with the possible sale of 100% of the outstanding common stock of the Company.

In September of 2005, the Company paid \$190,000 in connection with the negotiated settlement of a certain claim.



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Econo Lube N' Tune, Inc.'s management. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole. The basic financial statements have been prepared assuming the Company will continue as a going concern; our report on page 3 includes an explanatory paragraph which indicates that there are matters that raise substantial doubt about its ability to continue as a going concern, even though the Company is in compliance with all requirements of the bankruptcy court.

Haynie & Company

October 26, 2005
Newport Beach, California

ECONO LUBE N' TUNE, INC.
Supporting Schedules
For the Year Ended July 31, 2005

Schedule of cost of sales:

Cost of goods sold	\$ 2,146,813
Customer refunds	178,778
Waste removal	4,717
Payroll	2,030,629
Overhead allocation	<u>1,234,013</u>
	<u>\$ 5,594,950</u>

Schedule of selling, general and administrative expenses:

Depreciation and amortization	405,517
Salaries	2,338,798
Advertising	602,629
Office expense	186,178
Insurance	458,579
Repairs and maintenance	314,923
Utilities	351,296
Supplies	128,042
Travel	268,478
Taxes and licenses	184,671
Legal and professional	442,850
Payroll taxes and other	546,341
Commitment and loan fees	78,000
Credit card discounts	99,067
Laundry and uniform	52,044
Returned checks	43,061
Cash over/short	121,951
Bank service charges	32,836
Loan amortization expense	10,658
Freight	134,534
Miscellaneous	<u>19,271</u>
Subtotal	6,819,724
Allocation to cost of sales	<u>(1,234,013)</u>
	<u>\$ 5,585,711</u>

See auditor's report on additional information.

ECONO LUBE N' TUNE, INC.

Financial Statements
and
Independent Auditors' Report

July 31, 2004.

ECONO LUBE 'N TUNE, INC.

CONTENTS

	<u>Page</u>
Independent Auditors' Report _____	3
Balance Sheet _____	4 - 5
Statement of Income _____	6
Statement of Stockholders' Deficit _____	7
Statement of Cash Flows _____	8 - 9
Notes to Financial Statements _____	10-26
Independent Auditors' Report on Additional Information _____	27
Supporting Schedules _____	28



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

We have audited the accompanying balance sheet of **Econo Lube N' Tune, Inc.** as of July 31, 2004 and the related statements of income, stockholders' deficit and cash flows for the year 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 Econo Lube N' Tune, Inc. at July 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Although the Company is in compliance with all requirements of the bankruptcy court, and is current with payments, the negative working capital and stockholders' deficit raise substantial doubt about the ability of the Company to continue as a going concern (as discussed in Note 1). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

October 20, 2004
Newport Beach, California

Haynie & Company

ECONO LUBE N' TUNE, INC.

Balance Sheet

July 31, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 310,518
Accounts receivable, net of allowance for doubtful accounts of \$397,977	1,158,953
Current portion of notes receivable, net of allowance for doubtful accounts of \$71,442	601,994
Inventories	193,406
Prepaid advertising	299,640
Prepaid expenses and other current assets	<u>243,140</u>

Total current assets 2,807,651

Notes receivable, net of current portion, and net of allowance of doubtful accounts of \$238,402	1,006,952
Deferred rent receivable	1,205,463
Property and equipment, net of accumulated depreciation and amortization	5,109,212
Other assets	<u>742,602</u>

Total assets \$ 10,871,880

See notes to financial statements.

ECONO LUBE N' TUNE, INC.

Balance Sheet (continued)

July 31, 2004

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable and accrued expenses	\$ 1,468,449
Advance rental payments	1,094,650
Income taxes payable	100,000
Current portion of liabilities subject to compromise	960,000
Current portion of mortgages payable and long-term debt	2,332,931
Current portion of capital leases	65,407

Total current liabilities 6,021,437

Deposits payable	1,282,218
Deferred compensation	757,184
Mortgages payable and long-term debt, net of current portion	5,266,271
Capital leases, net of current portion	432,941
Deferred gain on sale/leasebacks	53,751

Total long-term liabilities not subject to compromise 7,792,365

Liabilities subject to compromise, net of current portion 6,781,547

Total liabilities 20,595,349

Stockholders' deficit:

Common stock, no par value:	
Authorized shares - 1,000,000	
Issued and outstanding shares - 244,037	2,618,553
Accumulated deficit	<u>(12,342,022)</u>

Total stockholders' deficit (9,723,469)

Total liabilities and stockholders' deficit \$ 10,871,880

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Income
For the Year Ended July 31, 2004

Revenues:	
Sales	\$ 5,959,642
Rental income	12,812,021
Royalty income	4,395,691
Training, transfer and other fees	421,750
Revenues from reacquired franchises	667,757
Interest income	193,347
Advertising income	375,071
Service fees	175,016
Gain on sale of assets	229,554
Other income	<u>136,388</u>
Total revenues	<u>25,366,237</u>
Costs and expenses:	
Cost of sales	4,481,182
Costs associated with reacquired franchises	328,071
Selling, general and administrative	17,639,116
Interest expense	<u>666,325</u>
Total costs and expenses	<u>23,114,694</u>
Income before income tax expense	2,251,543
Income tax expense	<u>(100,000)</u>
Net income	<u>\$ 2,151,543</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Stockholders' Deficit
For the Year Ended July 31, 2004

	<u>Common stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balances, July 31, 2003,	244,037	\$ 2,618,553	\$ (14,493,565)	\$ (11,875,012)
Net income	-	-	2,151,543	2,151,543
Balances, July 31, 2004	<u>244,037</u>	<u>\$ 2,618,553</u>	<u>\$ (12,342,022)</u>	<u>\$ (9,723,469)</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Cash Flows
For the Year Ended July 31, 2004

Cash flows from operating activities:

Net income	\$ 2,151,543
Items not requiring cash:	
Depreciation and amortization	767,533
Decrease in provision for doubtful accounts	(721,184)
Amortization of deferred gain on sale/leasebacks	(50,111)
Gain on sale of property and equipment	<u>(229,554)</u>
Subtotal	1,918,227
Decrease (increase) in:	
Accounts receivable	(140,443)
Inventories	29,990
Prepays and other current assets	(25,948)
Prepaid advertising	(299,640)
Deferred rents	(199,973)
Other assets	113,733
Increase (decrease) in:	
Accounts payable and accrued expenses	(273,617)
Security deposits payable	10,376
Advance rental payments	24,996
Income taxes payable	100,000
Advertising payable	(119,209)
Deferred compensation	<u>303,666</u>
Total from operating activities	<u>1,442,158</u>

Cash flows from investing activities:

Acquisition of property and equipment	(308,635)
Proceeds from sale of property and equipment	743,361
Notes receivable	<u>830,354</u>
Total from investing activities	<u>1,265,080</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Cash Flows
For the Year Ended July 31, 2004

Cash flows from financing activities:

Decrease in in mortgages payable and long-term debt	\$ (1,910,001)
Principal payments on capital leases	(93,571)
Decrease in liabilities subject to compromise	<u>(869,507)</u>
Total from financing activities	<u>(2,873,079)</u>
Net increase in cash and cash equivalents	(165,841)
Cash, beginning of year	<u>476,359</u>
Cash, end of year	<u>\$ 310,518</u>

Supplemental disclosure of cash flow information:

Cash paid during the years for:

Interest expense	<u>\$ 666,325</u>
Income taxes	<u>\$</u>
Professional fees paid for services rendered in connection with the Chapter 11 proceedings	<u>\$ 185,475</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of business

Econo Lube N' Tune, Inc. (the Company) is engaged in the business of operating specialty automotive service centers, selling franchises, and distributing products and leasing equipment to franchised service centers. As of July 31, 2004, the Company had 198 stores in operation: 15 Company-operated and 182 franchises and one independently operated. During the year, the Company opened one store, reopened two stores, closed two stores, repurchased 39 stores owned by franchisees, resold 43 franchises and sold one tenant store.

Basis of presentation

The accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company had a working capital deficiency of \$3,265,337, and a stockholders' deficit of \$9,723,469. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

As a result of the Company's decision to file for protection under Chapter 11 of the United States Bankruptcy Code on November 8, 1999, and due to circumstances relating to this event, realization of assets and satisfaction of liabilities are subject to uncertainty. The Company's ability to continue as a going concern is contingent upon, among other things, its ability to achieve satisfactory levels of profitability and cash flow from operations, to obtain adequate financing to meet future obligations, and to continue its compliance with the debt service requirements provided for in the Chapter 11 Plan of Reorganization.

Cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company, from time to time, maintains cash balances that exceed the federal deposit insurance coverage limits. The Company performs periodic reviews of the relative credit rating of its banks to lower its risk.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of automotive products such as oil, oil and air filters, spark plugs, and brake parts. Inventories are stated at the lower of cost or market. Cost is determined by the first-in first-out method.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from 5 to 32 years, on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Sales revenue

Sales revenue is recognized at the time services are performed.

Franchise fee revenue

The Company typically has fulfilled its obligations under the franchise sales agreement prior to the opening of the franchised store. Revenue associated with the sale of a franchise is recognized upon substantial performance by the Company of all material conditions relating to the fees.

Franchise agreements

The Company grants the right to operate stores under the Econo Lube N' Tune name to certain individuals and companies through franchise agreements. Under the terms of the agreements, licensees remit a weekly operating service fee, royalties of approximately 5% of the licensee's weekly sales, and a marketing fee of up to 6% of sales, less certain excluded items, as defined. The Company also provides assistance based upon the terms of the related franchise agreement.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income amortization

Gains on sale/leasebacks of real property are amortized to income using the effective interest method. Amounts are amortized over the lives of the respective leases, which generally range from 10 to 20 years.

Deferred loan costs

Deferred loan costs result from certain fees paid in conjunction with obtaining long-term debt or mortgages. These costs are being amortized over the lives of the associated loans.

Income taxes

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. In accordance with SFAS No. 121, long-lived assets are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, Reporting Comprehensive Income, which established standards for the reporting and displaying of comprehensive income and its components. For the year ended July 31, 2004, there was no material difference between the Company's net income and comprehensive income.

2 PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION

On November 8, 1999, the Company (the Debtor) filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Central District of California. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-Possession. These claims are reflected in the July 31, 2004, balance sheet as "liabilities subject to compromise." Additional claims (liabilities subject to compromise) may arise subsequent to the filing dates resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens of the Debtor's property, plant, and equipment.

The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

The Company (as Debtor-in-Possession) submitted the Debtor's Third Amended Chapter 11 Plan of Reorganization (the Plan) to the Court and its creditors. The Plan was confirmed on January 3, 2001 with an effective date of April 3, 2001. The Plan provides the following:

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

**2 PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN
OF REORGANIZATION (CONTINUED)**

Property tax claims secured by real estate

Property taxes of approximately \$2,400 as of July 31, 2004, are payable in quarterly installments which commenced on January 15, 2001, and continue through October 15, 2004, with interest at 7.0% per annum.

Debt secured by personal property

The debt of approximately \$1,012,800 as of July 31, 2004 secured by personal property owned by the Company will be paid in monthly installments of approximately \$88,000, which commenced on January 15, 2001 and continue through December 15, 2005, with interest at prime plus 2.75%. A balloon payment of approximately \$930,000 is due in December of 2004. However, the Company can extend the term and this balloon payment by either six or twelve months provided an additional principal payment of \$100,000 or \$250,000, respectively, is made prior to December of 2004. The minimum monthly payment will be reduced subsequent to any balloon payment.

Priority unsecured claims

Terminated employees who earned benefits will be paid in full.

Unsecured tax claims entitled to priority

Sales taxes total approximately \$4,700 as of July 31, 2004. The amounts due are payable in quarterly installments which commenced on January 15, 2001, and continue through October 15, 2004, with interest at 7.5% per annum.

Unsecured claims

The holders of approximately \$7,741,500 as of July 31, 2004 of trade and other miscellaneous claims will be paid in quarterly installments as follows: 24 quarterly minimum payments, which commenced on July 15, 2001 and continue through April 15, 2007, and 24 quarterly excess cash payments, which commenced on July 15, 2001 and continue through April 15, 2007. This combination of payments is intended to insure that the unsecured creditors will receive a minimum payment of not less than 38% of their allowed claims, and the opportunity to receive 100% of their claims.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

2 PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION (CONTINUED)

Early payoff rights

If the unsecured creditors receive payments from the Debtor (whether from quarterly minimum payments or quarterly excess cash payments) equal to 65% of the allowed unsecured claims total, but in no event less than \$5,000,000, on or before May 15, 2005, such claims shall be deemed paid in full under the Plan. If the claimants receive payments from the Debtor (in any combination) equal to 70% of the allowed unsecured claims total, on or before May 15, 2006, such claims shall be deemed paid in full under the Plan. The 65% payoff right is absolute, and does not require any written consent, whereas the 70% level indicated above does.

As of July 31, 2004, liabilities subject to compromise consist of unsecured claims totaling approximately \$7,741,500.

Based upon the court approved repayment plan, the Company is obligated to make aggregate minimum payments to unsecured creditors of \$5,000,000, payable in quarterly installments beginning in July of 2001 through April of 2007 ranging from \$100,000 to \$280,000. Any amounts which are still in dispute with the claimants at the time the payments are due are paid to a separate trust account held by the Company until such time the amounts are settled. The balance is paid to claimants on a pro-rata basis.

The remaining future minimum commitments under the repayment plan approximate the following:

Year ending July 31:

2005	\$ 960,000
2006	960,000
2007	<u>760,000</u>
	<u>\$ 2,680,000</u>

In connection with the filing for bankruptcy, the Company is required to make quarterly payments of \$10,000 to the Department of Justice through April of 2007 or until such time as the Company is dismissed under the Plan of Reorganization.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

3 ACQUISITION OF FRANCHISE LOCATIONS

In the normal course of business, the Company may reacquire certain franchise locations. For the year ended July 31, 2004, the Company reacquired 39 franchised locations incurring costs of approximately \$328,000 consisting of write-offs of uncollectible accounts and notes receivable. The Company sold a total of 43 reacquired locations for approximately \$668,000.

4 NOTES RECEIVABLE

Notes receivable consist of the following at July 31, 2004:

Installment notes receivable, from franchisees, due in aggregate monthly installments of approximately \$60,000, including interest ranging from 6% to 12%, through various dates through 2016	\$ 1,306,980
Unsecured notes receivable from related parties, due upon demand or in aggregate monthly installments of approximately \$3,100, including interest ranging from 6% to 10%. See Note 10,	<u>611,810</u>
	1,918,790
Less allowance for doubtful accounts	<u>(309,844)</u>
	1,608,946
Less current portion	<u>(601,994)</u>
	<u>\$ 1,006,952</u>

Certain installment notes receivable have payment terms calling for interest-only payments during the first year, with payments fully amortizing the principal balance generally due from the second through fifteenth years. The majority of these notes are collateralized by the franchise operation purchased by the franchisee.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31, 2004:

Land	\$ 2,233,808
Buildings	3,516,768
Leasehold improvements	2,067,967
Equipment	<u>8,851,790</u>
	16,670,333
Less accumulated depreciation and amortization	<u>(11,561,121)</u>
	<u>\$ 5,109,212</u>

6 OTHER ASSETS

Other assets consist of the following at July 31, 2004:

Security and other deposits	\$ 719,130
Deferred loan costs	<u>23,472</u>
	<u>\$ 742,602</u>

7 INCOME TAXES

The provision for income taxes consists of the following:

Federal	\$ 364,000
State	<u>61,000</u>
	425,000
Benefit of net operating loss carry forwards	<u>(325,000)</u>
Income tax expense	<u>\$ 100,000</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

7 INCOME TAXES (CONTINUED)

Temporary differences which give rise to deferred taxes consist primarily of differences in bases of property, depreciation, capitalized leases, accrued liabilities, net operating losses, and the allowance for doubtful accounts. A valuation allowance has been provided to fully reserve deferred tax assets in excess of deferred tax liabilities.

The Company utilized approximately \$1,784,000 of federal net operating loss carryforwards to offset 2004 taxable income. At July 31, 2004, the Company had federal net operating loss carryforwards of approximately \$13,071,000, expiring through 2021. In addition, the Company had net operating loss carryforwards for California and certain other states of approximately \$9,052,000 expiring generally through 2006.

Under the provisions of Financial Accounting Standards No. 109, the Company has made a valuation adjustment of \$6,739,000 as of July 31, 2004 to its deferred income tax assets.

Deferred income taxes approximate the following:

Assets:

Allowance for bad debts	\$ 296,000
Net operating loss carryforwards	5,410,000
Nondeductible liabilities	<u>1,503,000</u>
Subtotal	7,209,000
Valuation allowance	<u>(6,739,000)</u>
Total assets	<u>\$ 470,000</u>

Liabilities:

Depreciation	\$ 433,000
Capitalized lease depreciation	<u>37,000</u>
Total liabilities	<u>\$ 470,000</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

8 MORTGAGES PAYABLE AND LONG-TERM DEBT

Mortgages payable and long-term debt consist of the following at July 31, 2004:

Mortgages payable, collateralized by trust deeds on property, due in aggregate monthly payments of approximately \$41,000, including interest from 6% to 11.5%, through various dates to 2011	\$ 1,563,737
Note payable, due in monthly payments of \$8,750 of interest only, at 6% through January of 2006, at which time monthly payments of interest only increase to \$12,500 through December of 2007. Additional interest payments of \$80,000 and \$60,000 are due through December of 2005. Commencing in January of 2008, twelve equal payments of \$215,188 are due, to fully amortize the loan through December of 2008.	2,570,000
Note payable, due in monthly payments of \$5,851 of interest only, at 7% through November of 2005, at which time monthly payments of interest only increase to \$8,359 through December 2007. Additional interest payments of \$58,514 and \$43,467 are due in September of 2004 and December of 2005 respectively. Commencing in January of 2008, twelve equal payments of \$123,993 are due, to fully amortize the loan through December of 2008.	1,478,139
Note payable to a bank, due in monthly installments of \$83,441, including interest at the bank's prime rate, plus 2.75%, commencing in January of 2001 through December of 2004, subject to certain extensions provided additional principal payments are made, based on the terms of the note.	938,826
Notes payable, due in aggregate monthly payments of approximately \$38,500 including interest at an average rate of 8.79%, through various dates to 2006	406,397
Unsecured demand notes payable to officers, stockholders and other related parties. See Note 10.	642,103
	7,599,202
Less current portion	(2,332,931)
	\$ 5,266,271

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

8 MORTGAGES PAYABLE AND LONG-TERM DEBT (CONTINUED)

Maturities of mortgages payable and long-term debt approximate the following:

Year ending July 31:	
2005	\$ 2,332,931
2006	439,702
2007	350,600
2008	2,411,715
2009	1,828,163
Thereafter	<u>236,091</u>
	<u>\$ 7,599,202</u>

9 LEASES

The Company is a party to numerous leases, as described below:

As lessee:

The Company conducts its operations on certain leased premises under agreements classified as operating leases and has entered into operating lease agreements on several locations whereby the Company received the right to occupy or sublet the premises. The initial terms of these leases, including options, range from 10 to 30 years. Rental expense on these leases was approximately \$11,482,000 for the year ended July 31, 2004. The Company accounts for rent expense on a straight-line basis over the term of the lease. These agreements generally contain clauses under which the basic monthly rental is adjusted periodically for the greater of cost-of-living increases or an agreed-upon percentage. The Company is required to pay certain other expenses related to the premises, such as property taxes, which are generally passed through to the sublessees.

The Company also conducts its operations on certain leased premises which have resulted from sale/leaseback transactions. These leases and their related subleases are classified as either capital or operating, based on the terms of the agreements. The terms of the master leases, including options, range from 10 to 30 years.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9 LEASES (CONTINUED)

The Company also leases certain equipment under noncancelable operating leases. The leases expire at various dates through fiscal 2006.

Included in property and equipment at July 31, 2004 is capitalized leased property, as follows:

Buildings and equipment	\$ 935,064
Less accumulated depreciation	<u>(778,364)</u>
	<u>\$ 156,700</u>

As lessor:

The Company owns or leases numerous locations which are leased or subleased to franchisees (including 5 locations leased to related parties). Substantially all of the subleases are classified as operating leases. The terms of these leases and subleases, including options, range from 10 to 30 years. Rental income applicable to the real estate operating leases was approximately \$12,775,000 for the year ended July 31, 2004.

The Company has also entered into capital lease arrangements with franchisees for certain equipment. These arrangements have been classified as sales-type leases. The typical lease period is approximately five years.

Future minimum commitments due by the Company under capital leasing arrangements as lessee are as follows:

Year ending July 31:

2005	\$ 111,508
2006	105,557
2007	105,557
2008	105,557
2009	71,835
Thereafter	<u>206,854</u>
Future minimum commitments	706,868
Less interest	<u>(208,520)</u>
Present value of future minimum commitments	498,348
Less current portion of capital lease obligations	<u>(65,407)</u>
	<u>\$ 432,941</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9 LEASES (CONTINUED)

Approximate future minimum commitments under operating leasing arrangements are as follows:

	<u>As Lessee</u>		<u>As Lessor</u>	
	<u>Real Estate Leases</u>	<u>Equipment Leases</u>	<u>Real Estate Leases</u>	<u>Equipment Leases</u>
Year ending July 31:				
2005	\$ 11,054,300	\$ 86,700	\$ 12,603,900	\$ 26,200
2006	9,868,700	63,900	11,470,000	21,700
2007	8,808,700	21,100	10,781,900	20,800
2008	7,487,800	6,000	9,411,700	13,200
2009	5,801,800	4,800	7,810,100	7,800
Thereafter	18,942,600	4,500	22,359,700	49,400
	<u>\$ 61,963,900</u>	<u>\$ 187,000</u>	<u>\$ 74,437,300</u>	<u>\$ 139,100</u>

10 RELATED-PARTY TRANSACTIONS

Notes payable

At July 31, 2004, the Company has outstanding notes payable aggregating \$1,199,242 to various stockholders, officers and related parties, of which, \$557,139 is included in liabilities subject to compromise. These notes bear interest at rates ranging from prime plus 2.75% to 14% and are due on demand. Contractual interest expense in connection with these notes was approximately \$143,665 the year ending July 31, 2004. However, these financial statements reflect no interest expense on these unsecured claims as interest does not accrue (per bankruptcy accounting rules) when the entity is insolvent.

Certain mortgages payable and long-term debt discussed in note 8 are guaranteed by certain officers and stockholders of the Company.

A certain stockholder received approximately \$78,000 during the year ended July 31, 2004 in connection with guaranteeing certain debt of the Company.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

10 RELATED-PARTY TRANSACTIONS (CONTINUED)

Accounts and notes receivable

As of July 31, 2004, the Company has accounts receivable from various related parties and stockholders of approximately \$14,921. In addition, the Company has notes receivable from various related parties aggregating approximately \$611,810 as of July 31, 2004.

Rent

The Company rents its present office facilities and a warehouse from partnerships in which certain officers and stockholders of the Company are partners. These leases expire in July of 2012 and January of 2007, respectively, and are due in aggregate monthly payments of \$31,000. Total rental expense paid to the related-party partnerships was approximately \$ 368,400 for the year ended July 31, 2004.

The Company leases certain locations from Econo Lube N' Tune, LLC (Econo, LLC), an entity in which certain stockholders of the Company, and their relatives, are owners. These leases expire through 2019 and are payable in aggregate monthly payments of approximately \$57,000. Total rental expense paid to Econo, LLC was approximately \$684,000 for the year ended July 31, 2004.

Special opportunity franchises

During the year ended July 31, 2002, the Company sold eight service center locations to related parties as Special Opportunity Franchises. During the year ended July 31, 2003, these related parties purchased an additional 11 locations and exchanged 9 locations. During the year ended July 31, 2004, these related parties sold 8 locations. As such, as of July 31, 2004, the related parties owned a total of 2 locations as Special Opportunity Franchises. Based upon the terms of the agreement, the Company operates the stores and records the related profits and losses. In addition, the Company pays the related parties a concession fee of approximately \$1,000 per month per store. The related party then pays the Company approximately \$500 per month to pay down the related notes in connection with the purchase. The related parties paid \$10,000 per store as a deposit on inventory and, as such, \$30,000 is payable as of July 31, 2004 and is included in deposits payable.

In addition, when a location is sold to the related parties, a franchise fee of \$49,500 is recorded as income and decreases the related note payable. When a location is exchanged, franchise fee revenue is reduced and the related note payable is increased.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

11 COMMITMENTS AND CONTINGENCIES

Bureau of Automotive Repair

On July 22, 1999, the Company entered into a Final Judgement representing a settlement by and between the Company and the State of California resulting from an action that was filed on July 13, 1998, by the California Department of Consumer Affairs - Bureau of Automotive Repair accusing the Company of various violations including, but not limited to: overselling and overcharging for services, false and misleading advertising, departure from accepted trade standards, and recommending services that were not required.

Pursuant to the terms of the Final Judgement, the automotive repair dealer licenses for each of the 18 California corporate stores were revoked. All of these stores have been franchised and are currently operating. Additionally, the Company was required to make payments for restitution, reimbursement of investigative costs, and penalties totaling approximately \$900,000 payable under the terms of two notes for \$250,000 and \$650,000. The \$250,000 note is non-interest bearing and payable in monthly installments of \$5,000, which commenced on October 15, 1999, and was repaid in full during the year ended July 31, 2004. The \$650,000 note bears interest at 5% and is payable in monthly installments of \$5,000, which commenced on October 15, 1999, and continue through November 15, 2005. As of July 31, 2004, the remaining balance on this note was \$167,683.

No action was taken against the Company's franchisees.

Plan of reorganization

The Plan of Reorganization approved by the Court provides for quarterly minimum payments to the unsecured creditors with an aggregate total of \$5,000,000 and the Company is obligated to make minimum payments as defined in the Plan.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal issues

The Company is a party to certain legal actions arising in the ordinary course of its business as well as certain actions resulting from the bankruptcy. In the opinion of management, the ultimate outcome of these matters will not have a materially adverse effect on the financial position or results of operations of the Company. Also, see Note 1 for a discussion of the Company's basis of presentation of the accompanying financial statements.

Lease cancellation

A related party (Econo Lube 'N Tune Realty, LLC - the lessor) waived the collection of rents due it by the Company (the lessee) for 11 real property leases and 4 equipment leases in the aggregate amount of \$1,021,177 through July 31, 2002, of which \$680,784 relates to the Company's fiscal year ended July 31, 2002. The lessor did file a claim for such rents, however, it was questionable whether it was filed timely. As of July 31, 2003, the bankruptcy court did not allow a claim to be filed and, as such, the Company and the lessor have reached a settlement agreement with the lender for approximately \$3,267,000. Based upon the terms of the agreement, if the Company pays \$2,500,000, then the aggregate amount will be deemed paid in full. If, however, the Company does not comply with the agreement, then the full \$3,267,000 becomes due and payable under the terms of the agreement. As of July 31, 2004, the Company has recorded a note payable of \$2,570,000 relating to this settlement.

12 EMPLOYEE STOCK OWNERSHIP PLAN

Annual contributions to the Company's ESOP are determined by the officers, but may not exceed 15% of the total compensation of all participants. The Company did not make any contributions in the current year.

Pursuant to the terms of the ESOP, the Company may repurchase stock from terminated employees. During the year ended July 31, 2004, the Company did not repurchase any shares.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

13 ADVERTISING COSTS

The Company provides direct response advertising. These costs are expensed the first time the advertising takes place. For the year ended July 31, 2004 the Company incurred approximately \$443,000 in net advertising costs. As of July 31, 2004, the Company has capitalized advertising costs of approximately \$195,000 relating to fiscal year ending July 31, 2005.



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Econo Lube N' Tune, Inc.'s management. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole. The basic financial statements have been prepared assuming the Company will continue as a going concern; our report on page 3 includes an explanatory paragraph which indicates that there are matters that raise substantial doubt about its ability to continue as a going concern, even though the Company is in compliance with all requirements of the bankruptcy court.

Haynie & Company

October 20, 2004
Newport Beach, California

ECONO LUBE N' TUNE, INC.
 Supporting Schedules
 For the Year Ended July 31, 2004

Schedule of cost of sales:

Cost of goods sold	\$ 1,559,010
Customer refunds	126,915
Waste removal	1,137
Payroll	1,737,961
Overhead allocation	<u>1,056,159</u>
	<u>\$ 4,481,182</u>

Schedule of selling, general and administrative expenses:

Rent	\$ 11,627,545
Depreciation and amortization	767,533
Salaries	2,331,565
Advertising	583,731
Office expense	224,302
Insurance	438,618
Repairs and maintenance	279,051
Utilities	302,970
Supplies	101,120
Travel	253,941
Taxes and licenses	212,187
Legal and professional	459,614
Payroll taxes and other	490,222
Commitment and loan fees	78,000
Credit card discounts	85,021
Laundry and uniform	44,675
Returned checks	32,169
Cash over/short	114,347
Bank service charges	40,373
Loan amortization expense	11,935
Freight	167,975
Miscellaneous	<u>48,381</u>
Subtotal	18,695,275
Allocation to cost of sales	<u>(1,056,159)</u>
	<u>\$ 17,639,116</u>

See auditor's report on additional information.

ECONO LUBE N' TUNE, INC.

**Financial Statements
and
Independent Auditors' Report**

July 31, 2003

ECONO LUBE N' TUNE, INC.
July 31, 2003

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Balance Sheet	2-3
Statement of Operations	4
Statement of Stockholders' Deficit	5
Statement of Cash Flows	6-7
Notes to Financial Statements	8-24
Independent Auditors' Report on Additional Information	26
Supporting Schedules	27



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

We have audited the accompanying balance sheet of **Econo Lube N' Tune, Inc.** as of July 31, 2003 and the related statements of operations, stockholders' deficit and cash flows for the year 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 Econo Lube N' Tune, Inc. at July 31, 2003, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Although the Company is in compliance with all requirements of the bankruptcy court, and is current with payments, the loss from operations, negative working capital and stockholders' deficit raise substantial doubt about the ability of the Company to continue as a going concern (as discussed in Note 1). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

October 23, 2003
Newport Beach, California

Haynie + Company

ECONO LUBE N' TUNE, INC.
Balance Sheet
July 31, 2003

ASSETS

Current assets:

Cash and cash equivalents	\$ 476,359
Accounts receivable, net of allowance for doubtful accounts of \$355,120	1,061,367
Current portion of notes receivable, net of allowance for doubtful accounts of \$416,668	318,587
Inventories	223,396
Prepaid expenses and other current assets	<u>217,192</u>

Total current assets 2,296,901

Notes receivable, net of current portion, and net of allowance of doubtful accounts of \$418,815	1,356,672
Deferred rent receivable	1,005,490
Property and equipment, net of accumulated depreciation and amortization	6,081,917
Other assets	<u>856,335</u>

Total assets \$ 11,597,315

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
 Balance Sheet (continued)
 July 31, 2003

LIABILITIES AND STOCKHOLDERS' DEFICIT

Liabilities not subject to compromise:

Current liabilities:

Accounts payable and accrued expenses	\$ 1,742,065
Advance rental payments	1,069,654
Advertising payable	119,209
Current portion of liabilities subject to compromise	840,000
Current portion of mortgages payable and long-term debt	2,368,121
Current portion of capital leases	<u>93,571</u>

Total current liabilities 6,232,620

Deposits payable	1,271,842
Deferred compensation	453,518
Mortgages payable and long-term debt, net of current portion	7,141,082
Capital leases, net of current portion	498,348
Deferred gain on sale/leasebacks	<u>103,862</u>

Total liabilities not subject to compromise 9,468,652

Liabilities subject to compromise, net of current portion 7,771,054

Total liabilities 23,472,326

Stockholders' deficit:

Common stock, no par value:	
Authorized shares - 1,000,000	
Issued and outstanding shares - 244,037	2,618,553
Accumulated deficit	<u>(14,493,564)</u>

Total stockholders' deficit (11,875,011)

Total liabilities and stockholders' deficit \$ 11,597,315

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Operations
For the Year Ended July 31, 2003

Revenues:	
Sales	\$ 7,525,913
Rental income	12,189,638
Royalty income	4,097,840
Training, transfer and other fees	350,400
Revenues from reacquired franchises	1,046,305
Interest income	327,637
Advertising income	336,203
Service fees	150,012
Gain on sale of assets	<u>436,390</u>
Total revenues	<u>26,460,338</u>
Costs and expenses:	
Cost of sales	6,415,002
Costs associated with reacquired franchises	737,856
Selling, general and administrative	17,905,641
Interest expense (contractual interest is \$23,092)	638,457
Loss on closing of company stores	25,358
Other expense	<u>151,066</u>
Total costs and expenses	<u>25,873,380</u>
Income before other expenses and income tax expense	586,958
Other expenses:	
Lease cancellations	(3,412,378)
Reorganization	<u>(798,829)</u>
Loss before income tax expense	(3,624,249)
Income tax expense	<u>(800)</u>
Net loss	<u>\$ (3,625,049)</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Stockholders' Deficit
For the Year Ended July 31, 2003

	<u>Common stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balances, July 31, 2002, as restated	244,037	\$ 2,618,553	\$(10,868,515)	\$ (8,249,962)
Net loss	-	-	(3,625,049)	(3,625,049)
Balances, July 31, 2003	<u>244,037</u>	<u>\$ 2,618,553</u>	<u>\$(14,493,564)</u>	<u>\$(11,875,011)</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Statement of Cash Flows
For the Year Ended July 31, 2003

Cash flows from financing activities:	
Increase in mortgages payable and long-term debt	\$ 3,616,958
Decrease in liabilities subject to compromise	(2,976,996)
Payments on capital leases	<u>(122,157)</u>
Total from financing activities	<u>517,805</u>
Net increase in cash and cash equivalents	60,717
Cash, beginning of year	<u>415,642</u>
Cash, end of year	<u>\$ 476,359</u>
Supplemental disclosure of cash flow information:	
Cash paid during the years for:	
Interest expense	<u>\$ 490,829</u>
Income taxes	<u>\$ 800</u>
Professional fees paid for services rendered in connection with the Chapter 11 proceedings	<u>\$ 145,816</u>
Decrease in liabilities subject to compromise in connection with reclassification of liabilities	<u>\$ 2,008,414</u>

See notes to financial statements.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of business

Econo Lube N' Tune, Inc. (the Company) is engaged in the business of operating specialty automotive service centers, selling franchises, and distributing products and leasing equipment to franchised service centers. As of July 31, 2003, the Company had 197 stores in operation: 18 Company-operated and 179 franchise-operated. During the year, the Company closed 5 stores, repurchased 40 stores owned by franchisees, and resold 41 franchisees.

Basis of presentation

The accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company incurred a loss of \$3,625,049 (before reorganization) for the year ended July 31, 2003, and as of that date had a working capital deficiency of \$3,935,719, and a stockholders' deficit of \$11,875,011. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

As a result of the Company's decision to file for protection under Chapter 11 of the United States Bankruptcy Code on November 8, 1999, and due to circumstances relating to this event, realization of assets and satisfaction of liabilities are subject to uncertainty. The Company's ability to continue as a going concern is contingent upon, among other things, its ability to achieve satisfactory levels of profitability and cash flow from operations, to obtain adequate financing to meet future obligations, and to continue its compliance with the debt service requirements provided for in the Chapter 11 Plan of Reorganization.

Cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company, from time to time, maintains cash balances that exceed the federal deposit insurance coverage limits. The Company performs periodic reviews of the relative credit rating of its banks to lower its risk.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of automotive products such as oil, oil and air filters, spark plugs, and brake parts. Inventories are stated at the lower of cost or market. Cost is determined by the first-in first-out method.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from 5 to 32 years, on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Sales revenue

Sales revenue is recognized at the time services are performed.

Franchise fee revenue

The Company typically has fulfilled its obligations under the franchise sales agreement prior to the opening of the franchised store. Revenue associated with the sale of a franchise is recognized upon substantial performance by the Company of all material conditions relating to the fees.

Franchise agreements

The Company grants the right to operate stores under the Econo Lube N' Tune name to certain individuals and companies through franchise agreements. Under the terms of the agreements, licensees remit a weekly operating service fee, royalties of approximately 5% of the licensee's weekly sales, and a marketing fee of up to 6% of sales, less certain excluded items, as defined. The agreements require the Company to provide a continuous managerial and operating-assistance program, including availability of a field representative.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income amortization

Gains on sale/leasebacks of real property are amortized to income using the effective interest method. Amounts are amortized over the lives of the respective leases, which generally range from 10 to 20 years.

Deferred loan costs

Deferred loan costs result from certain fees paid in conjunction with obtaining long-term debt or mortgages. These costs are being amortized over the lives of the associated loans.

Income taxes

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. In accordance with SFAS No. 121, long-lived assets are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, *Reporting Comprehensive Income*, which established standards for the reporting and displaying of comprehensive income and its components. For the year ended July 31, 2003, there was no material difference between the Company's net income and comprehensive income.

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION

On November 8, 1999, the Company (the Debtor) filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Central District of California. Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-Possession. These claims are reflected in the July 31, 2003, balance sheet as "liabilities subject to compromise." Additional claims (liabilities subject to compromise) may arise subsequent to the filing dates resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens of the Debtor's property, plant, and equipment.

The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

The Company (as Debtor-in-Possession) submitted the Debtor's Third Amended Chapter 11 Plan of Reorganization (the Plan) to the Court and its creditors. The Plan was confirmed on January 3, 2001 with an effective date of April 3, 2001. The Plan provides the following:

Property tax claims secured by real estate

Property taxes of approximately \$12,400 as of July 31, 2003, are payable in quarterly installments which commenced on January 15, 2001, and continue through October 15, 2004, with interest at 7.0% per annum.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION
(CONTINUED)

Debt secured by personal property

The debt of approximately \$1,963,300 as of July 31, 2003 secured by personal property owned by the Company will be paid in monthly instalments of approximately \$88,000, which commenced on January 15, 2001 and continue through December 15, 2005, with interest at prime plus 2.75%. A balloon payment of approximately \$930,000 is due in December of 2004. However, the Company can extend the term and this balloon payment by either six or twelve months provided an additional principal payment of \$100,000 or \$250,000, respectively, is made prior to December of 2004. The minimum monthly payment will be reduced subsequent to any balloon payment.

Priority unsecured claims

Terminated employees who earned benefits will be paid in full.

Unsecured tax claims entitled to priority

Sales taxes total approximately \$29,400 as of July 31, 2003. The amounts due are payable in quarterly installments which commenced on January 15, 2001, and continue through October 15, 2004, with interest at 7.5% per annum.

Unsecured claims

The holders of approximately \$8,611,000 as of July 31, 2003 of trade and other miscellaneous claims will be paid in quarterly installments as follows: 24 quarterly minimum payments, which commenced on July 15, 2001 and continue through April 15, 2007, and 24 quarterly excess cash payments, which commenced on July 15, 2001 and continue through April 15, 2007. This combination of payments is intended to insure that the unsecured creditors will receive a minimum payment of not less than 38% of their allowed claims, and the opportunity to receive 100% of their claims.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

2. PETITION FOR RELIEF UNDER CHAPTER 11 AND PLAN OF REORGANIZATION
(CONTINUED)

Early payoff rights

If the unsecured creditors receive payments from the Debtor (whether from quarterly minimum payments or quarterly excess cash payments) equal to 50% of the allowed unsecured claims total, but in no event less than \$5,000,000, on or before May 15, 2004, such claims shall be deemed paid in full under the Plan. If the claimants receive payments from the Debtor (in any combination) equal to 65% of the allowed unsecured claims total, on or before May 15, 2005, such claims shall be deemed paid in full under the Plan. If the claimants receive payments from the Debtor (in any combination) equal to 70% of the allowed unsecured claims total, on or before May 15, 2006, such claims shall be deemed paid in full under the Plan. The 50% and 65% payoff rights are absolute, and do not require any written consent, whereas the 70% level indicated above does.

As of July 31, 2003, liabilities subject to compromise consist of the following:

Property tax claims on real estate	\$ 12,428
Debt secured by personal property	1,963,310
Priority unsecured claims	3,305
Unsecured tax claims entitled to priority	<u>29,371</u>
Subtotal	2,008,414
Unsecured claims	<u>8,611,054</u>
	10,619,468
Less reclassification to long-term debt	(2,008,414)
Less current portion of liabilities subject to compromise	<u>(840,000)</u>
	<u>\$ 7,771,054</u>

Based upon the court approved repayment plan, the Company is obligated to make aggregate minimum payments to unsecured creditors of \$5,000,000, payable in quarterly installments beginning in July of 2001 through April of 2007 ranging from \$100,000 to \$280,000. Any amounts which are still in dispute with the claimants at the time the payments are due are paid to a separate trust account held by the Company until such time the amounts are settled. The balance is paid to claimants on a pro-rata basis. The remaining future minimum commitments under this repayment plan approximate the following:

Year ending July 31:	
2004	\$ 840,000
2005	960,000
2006	960,000
2007	<u>760,000</u>
	<u>\$ 3,520,000</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

3. ACQUISITION OF FRANCHISE LOCATIONS

In the normal course of business, the Company may reacquire certain franchise locations. For the year ended July 31, 2003, the Company reacquired 40 franchised locations incurring costs of approximately \$738,000 consisting of write-offs of uncollectible accounts and notes receivable. The Company sold a total of 41 reacquired locations for approximately \$1,046,000.

4. NOTES RECEIVABLE

Notes receivable consist of the following at July 31, 2003:

Installment notes receivable, from franchisees, due in aggregate monthly installments of approximately \$46,000, including interest ranging from 6% to 12%, through various dates through 2016	\$ 2,098,355
Unsecured notes receivable from related parties, due in aggregate monthly installments of approximately \$1,000, including interest at an average rate of 6%	412,387
Less allowance for doubtful accounts	<u>(835,483)</u>
	1,675,259
Less current portion	<u>(318,587)</u>
	<u>\$ 1,356,672</u>

Certain installment notes receivable have payment terms calling for interest-only payments during the first year, with payments fully amortizing the principal balance generally due from the second through fifteenth years. The majority of these notes are collateralized by the franchise operation purchased by the franchisee.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31, 2003:

Land	\$ 2,444,024
Buildings	4,045,815
Leasehold improvements	2,092,671
Equipment	<u>8,498,867</u>
	17,081,377
Less accumulated depreciation and amortization	<u>(10,999,460)</u>
	<u>\$ 6,081,917</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

6. OTHER ASSETS

Other assets consist of the following at July 31, 2003:

Security and other deposits	\$	820,928
Deferred loan costs		<u>35,407</u>
	\$	<u>856,335</u>

7. INCOME TAXES

The provision for income taxes consists of the following:

Federal	\$	-
State		<u>800</u>
		800
Benefit of net operating loss carry forwards		<u>-</u>
Income tax expense	\$	<u>800</u>

Temporary differences which give rise to deferred taxes consist primarily of differences in bases of property, depreciation, capitalized leases, accrued liabilities, net operating losses, and the allowance for doubtful accounts. A valuation allowance has been provided to fully reserve deferred tax assets in excess of deferred tax liabilities.

At July 31, 2003, the Company had federal net operating loss carryforwards of approximately \$17,600,000, expiring through 2021. In addition, the Company had net operating loss carryforwards for California and certain other states of approximately \$10,400,000 expiring generally through 2006.

Under the provisions of Financial Accounting Standards No. 109, the Company has made a valuation adjustment of \$4,287,000 as of July 31, 2003 to its deferred income tax assets.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

7. INCOME TAXES (CONTINUED)

Deferred income taxes approximate the following:

Assets:	
Allowance for bad debts	\$ 498,000
Net operating loss carryforwards	4,076,000
Nondeductible liabilities	190,000
Subtotal	4,764,000
Valuation allowance	(4,287,000)
Total assets	\$ 477,000
 Liabilities:	
Depreciation	\$ 154,000
Capitalized lease depreciation	323,000
Total liabilities	\$ 477,000

8. MORTGAGES PAYABLE AND LONG-TERM DEBT

Mortgages payable and long-term debt consist of the following at July 31, 2003:

Mortgages payable, collateralized by trust deeds on property, due in aggregate monthly payments of approximately \$47,000, including interest from 6.5% to 11.5%, through various dates to 2017	\$ 2,205,324
Note payable, due in monthly interest only payments of \$8,750 through January of 2006 (interest accrues at 6%), at which time monthly interest only payments of \$12,500 are due through December of 2007 (NOTE: additional interest payments of \$57,500, \$80,000 and \$60,000 are due through December of 2005). Commencing in January of 2008, twelve equal payments of \$208,333 are due to fully amortize the loan through December of 2008	2,500,000
Note payable, due in monthly interest only payments of \$5,851 through November of 2005 (interest accrues at 7%), at which time monthly interest only payments of \$8,359 are due through December of 2007 (NOTE: additional interest payments are due in September of 2004 of \$58,514 and in November of 2005 of \$43,467). Commencing in January of 2008, twelve equal payments of \$123,993 are due to fully amortize the loan through December 2008	1,448,046

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

8. MORTGAGES PAYABLE AND LONG-TERM DEBT (CONTINUED)

Note payable to a bank, due in monthly installments of \$83,441, including interest at the banks reference rate plus 2.75%, commencing in January of 2001 through December of 2004, subject to certain extensions provided additional principal payments are made (based on the terms of the note)	\$ 1,844,612
Notes payable, due in aggregate monthly payments of approximately \$46,000, including interest at an average rate of 4%, through various dates to 2006	968,599
Unsecured demand notes payable to officers, stockholders and other related parties (note 10)	<u>542,622</u>
Total	<u>\$ 9,509,203</u>

Certain loans are guaranteed by certain officers and stockholders of the Company.

Maturities of mortgages payable and long-term debt approximate the following:

Year ending July 31:	
2004	\$ 2,368,122
2005	1,723,100
2006	446,978
2007	291,256
2008	3,512,680
Thereafter	<u>1,167,067</u>
	<u>\$ 9,509,203</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9. LEASES

The Company is a party to numerous leases, as described below:

As lessee:

The Company conducts its operations on certain leased premises under agreements classified as operating leases (Note 11) and has entered into operating lease agreements on several locations whereby the Company received the right to occupy or sublet the premises. The initial terms of these leases, including options, range from 10 to 30 years. Rental expense on these leases was approximately \$11,318,000 for the year ended July 31, 2003. The Company accounts for rent expense on a straight-line basis over the term of the lease. These agreements generally contain clauses under which the basic monthly rental is adjusted periodically for the greater of cost-of-living increases or an agreed-upon percentage. The Company is required to pay certain other expenses related to the premises, such as property taxes, which are generally passed through to the sublessees.

During the year ended July 31, 2000, the Company renegotiated or rejected certain of the lease agreements. Based upon the amended terms, the minimum rental increases throughout the remaining lease term were reduced or eliminated and, as such, the related deferred rents were reduced or fully amortized. The deferred rents in connection with unchanged leases were amortized over the remaining lease terms. Accordingly, the Company recognized an aggregate net gain of \$4,255,284 during the year ended July 31, 2000.

By the Company closing certain locations during the year ended July 31, 2000, and terminating the related lease agreements, an estimated liability of \$2,500,000 (subject to compromise) was recognized in connection with the rents associated with the remaining term of these leases. As of July 31, 2003, the Company has settled these liabilities.

The Company also conducts its operations on certain leased premises which have resulted from sale/leaseback transactions. These leases and their related subleases are classified as either capital or operating, based on the terms of the agreements. The terms of the master leases, including options, range from 10 to 30 years.

The Company also leases certain equipment under noncancelable operating leases. The leases expire at various dates through fiscal 2006.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9. LEASES (CONTINUED)

Included in property and equipment at July 31, 2003 is capitalized leased property, as follows:

Buildings and equipment	\$ 935,064
Less accumulated depreciation	<u>(734,822)</u>
	<u>\$ 200,242</u>

As lessor:

The Company owns or leases numerous locations which are leased or subleased to franchisees (including 10 locations leased to related parties). Substantially all of the subleases are classified as operating leases. The terms of these leases and subleases, including options, range from 10 to 30 years. Rental income applicable to the real estate operating leases was approximately \$12,121,000 for the year ended July 31, 2003.

The Company has also entered into capital lease arrangements with franchisees for certain equipment. These arrangements have been classified as sales-type leases. The typical lease period is approximately five years.

Future minimum commitments due by the Company under capital leasing arrangements as lessee are as follows:

Year ending July 31:	
2004	\$ 157,466
2005	111,509
2006	105,557
2007	105,557
2008	105,557
Thereafter	<u>597,360</u>
Future minimum commitments	1,183,006
Less interest	<u>(591,087)</u>
Present value of future minimum commitments	591,919
Less current portion of capital lease obligations	<u>(93,571)</u>
	<u>\$ 498,348</u>

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

9. LEASES (CONTINUED)

Approximate future minimum commitments under operating leasing arrangements are as follows:

	<u>As Lessee</u>		<u>As Lessor</u>	
	<u>Real Estate Leases</u>	<u>Equipment Leases</u>	<u>Real Estate Leases</u>	<u>Equipment Leases</u>
Year ending July 31:				
2004	\$ 11,128,000	\$ 88,000	\$ 11,685,000	\$ 27,000
2005	9,900,000	71,000	10,901,000	86,000
2006	8,612,000	59,000	9,797,000	216,000
2007	7,366,000	16,000	9,033,000	22,000
2008	6,012,000	-	8,313,000	22,000
Thereafter	<u>22,026,000</u>	<u>-</u>	<u>24,088,000</u>	<u>63,000</u>
	<u>\$ 65,044,000</u>	<u>\$ 234,000</u>	<u>\$ 73,817,000</u>	<u>\$ 436,000</u>

10. RELATED-PARTY TRANSACTIONS

Notes payable

At July 31, 2003, the Company has outstanding notes payable aggregating \$1,160,595 to various stockholders, officers and related parties, of which, \$617,973 is included in liabilities subject to compromise. These notes bear interest at rates ranging from prime plus 2.75% to 14% and are due on demand. Contractual interest expense in connection with these notes was approximately \$50,000 for the year ending July 31, 2003. However, these financial statements reflect no interest expense on these unsecured claims as interest does not accrue (per bankruptcy accounting rules) when the entity is insolvent.

Accounts and notes receivable

As of July 31, 2003, the Company has accounts receivable from various related parties and stockholders of approximately \$22,090. In addition, the Company has notes receivable from various related parties aggregating approximately \$412,396 as of July 31, 2003.

Rent

The Company rents its present office facilities and a warehouse from partnerships in which certain officers and stockholders of the Company are partners. These leases expire in July of 2012 and January of 2007, respectively, and are due in aggregate monthly payments of \$31,000. Total rental expense paid to the related-party partnerships was approximately \$ 371,000 for the year ended July 31, 2003.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

10. RELATED-PARTY TRANSACTIONS (CONTINUED)

The Company leases certain locations from Econo Lube N' Tune, LLC (Econo, LLC), an entity in which certain stockholders of the Company, and their relatives, are owners. These leases expire through 2019 and are payable in aggregate monthly payments of \$52,000. Total rental expense paid to Econo, LLC was approximately \$624,000 for the year ended July 31, 2003.

Special opportunity franchises

During the year ended July 31, 2002, the Company sold eight service center locations to related parties as Special Opportunity Franchises. During the year ended July 31, 2003, these related parties purchased an additional 11 locations and exchanged 9 locations. As such, as of July 31, 2003, the related parties own a total of 10 locations as Special Opportunity Franchises. Based upon the terms of the agreement, the Company operates the stores and records the related profits and losses. In addition, the Company pays the related parties a concession fee of approximately \$1,000 per month per store. The related party then pays the Company approximately \$500 per month to pay down the related notes in connection with the purchase. The related parties paid \$10,000 per store as a deposit on inventory and, as such, \$100,000 is payable as of July 31, 2003 and is included in deposits payable. In addition, when a location is sold to the related parties, a franchise fee of \$49,500 is recorded as income and decreases the related note payable. When a location is exchanged, franchise fee revenue is reduced and the related note payable is increased. During the year ended July 31, 2003, net franchise fee revenues relating to these Special Opportunity Franchises was \$99,000.

Stores operated by related parties

As of July 31, 2002, a certain related party (which also owns certain of the Special Opportunity Franchises discussed above) owned and operated one location. During the year ended July 31, 2003, this related party sold this location, purchased and resold seven locations, and purchased and retained one location.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

11. COMMITMENTS AND CONTINGENCIES

Bureau of Automotive Repair

On July 22, 1999, the Company entered into a Final Judgement representing a settlement by and between the Company and the State of California resulting from an action that was filed on July 13, 1998 by the California Department of Consumer Affairs - Bureau of Automotive Repair accusing the Company of various violations including, but not limited to: overselling and overcharging for services, false and misleading advertising, departure from accepted trade standards, and recommending services that were not required.

Pursuant to the terms of the Final Judgement, the automotive repair dealer licenses for each of the 18 California corporate stores were revoked. All of these stores have been franchised and are currently operating. Additionally, the Company was required to make payments for restitution, reimbursement of investigative costs, and penalties totaling approximately \$900,000 payable under the terms of two notes for \$250,000 and \$650,000. The \$250,000 note is non-interest bearing and payable in monthly installments of \$5,000, which commenced on October 15, 1999, and continuing until paid in full. The \$650,000 note bears interest at 5% and is payable in monthly installments of \$5,000, which commenced on October 15, 1999, and continue through November 15, 2005. As of July 31, 2003, the remaining balances for these notes were \$20,000 and \$393,146, respectively.

No action was taken against the Company's franchisees.

Plan of reorganization

The Plan of Reorganization approved by the Court provides for quarterly minimum payments to the unsecured creditors with an aggregate total of \$5,000,000. However, in the event the total unsecured claims exceed \$10,000,000, the Company will be obligated to make minimum payments (through the quarterly minimum payments in addition to the quarterly excess cash payments) of greater than \$5,000,000 as defined in the Plan.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal issues

The Company is a party to a number of legal actions arising in the ordinary course of its business, including certain actions relating to the Environmental Protection Agency, as well as certain actions resulting from the bankruptcy. Exposure to loss in excess of the accrued liability does exist; however, in the opinion of management, the ultimate outcome of these matters will not have a materially adverse effect on the financial position or results of operations of the Company. Also, see Note 1 for a discussion of the Company's basis of presentation of the accompanying financial statements.

Lease cancellation

A related party (Econo Lube 'N Tune Realty, LLC - the lessor) waived the collection of rents due it by the Company (the lessee) for 11 real property leases and 4 equipment leases in the aggregate amount of \$1,021,177 through July 31, 2002, of which \$680,784 relates to the Company's fiscal year ended July 31, 2002. The lessor did file a claim for such rents, however, it was questionable whether it was filed timely. As of July 31, 2003, the bankruptcy court did not allow a claim to be filed and, as such, the Company and the lessor have reached a tentative settlement agreement with the lender for approximately \$3,267,000. Although the agreement has not been executed, it has been agreed to in principle. Based upon the terms of the agreement, if the Company pays \$2,500,000, then the aggregate amount will be deemed paid in full. If, however, the Company does not comply with the agreement, then the full \$3,267,000 becomes due and payable under the terms of the agreement. As of July 31, 2003, the Company has recorded a note payable of \$2,500,000 relating to this settlement.

ECONO LUBE N' TUNE, INC.
Notes to Financial Statements

12. EMPLOYEE STOCK OWNERSHIP PLAN

Annual contributions to the Company's ESOP are determined by the officers, but may not exceed 15% of the total compensation of all participants. The Company did not make any contributions in the current year.

Pursuant to the terms of the ESOP, the Company may repurchase stock from terminated employees. During the year ended July 31, 2003, the Company did not repurchase any shares.

13. ADVERTISING COSTS

The Company provides direct response advertising. These costs are expensed the first time the advertising takes place. For the period ended July 31, 2003 the Company incurred approximately \$494,000 in net advertising costs. As of July 31, 2003, the Company has capitalized advertising costs of approximately \$175,000 relating to fiscal year ending July 31, 2004.

14. LEASE CANCELLATION EXPENSES

During the year ended July 31, 2003 the Company entered into settlement agreement in connection with certain leases. In addition, the Company has also agreed in principle with the terms of another settlement agreement in connection with lease cancellations more fully discussed in Note 11. Additional lease cancellation expense relating to these two agreements approximates \$3,412,000 for the year ended July 31, 2003.

15. PRIOR PERIOD ADJUSTMENT

In January of 2001, the Company and certain employees and stockholders entered into deferred compensation agreements. Based upon the terms of the agreements, the deferred compensation accrues annually and compounds interest at 10% on a monthly basis (with the exception of a certain stockholder which is a one-time deferral and accrues no interest). As such, the accumulated deficit at July 31, 2002 has been restated by \$315,062 as follows:

Accumulated deficit as of July 31, 2002, as previously reported	\$(10,553,453)
Deferred compensation	(298,621)
Deferred interest	<u>(16,441)</u>
Accumulated deficit as of July 31, 2002, as restated	<u>\$(10,868,515)</u>

ADDITIONAL INFORMATION



Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Stockholders
Econo Lube N' Tune, Inc.
Newport Beach, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Econo Lube N' Tune, Inc.'s management. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole. The basic financial statements have been prepared assuming the Company will continue as a going concern; our report on page 1 includes an explanatory paragraph which indicates that there are matters that raise substantial doubt about its ability to continue as a going concern, even though the Company is in compliance with all requirements of the bankruptcy court.

Haynie + Company

October 23, 2003
Newport Beach, California

ECONO LUBE N' TUNE, INC.
 Supporting Schedules
 For the Year Ended July 31, 2003

Schedule of cost of sales:

Cost of goods sold	\$ 2,495,532
Customer refunds	172,234
Waste removal	17,556
Payroll	2,319,886
Overhead allocation	<u>1,409,794</u>
	<u>\$ 6,415,002</u>

Schedule of selling, general and administrative expenses:

Rent	\$ 11,615,816
Depreciation and amortization	978,881
Salaries	2,249,005
Advertising	615,985
Office expense	285,909
Insurance	330,124
Repairs and maintenance	299,877
Utilities	382,788
Supplies	140,880
Travel and entertainment	200,954
Taxes and licenses	383,525
Legal and professional	597,568
Payroll taxes and other	538,232
Commitment and loan fees	78,000
Credit card discounts	83,696
Laundry and uniform	72,152
Returned checks	42,684
Cash over/short	133,183
Bank service charges	58,890
Loan amortization expense	9,791
Freight	159,976
Miscellaneous	<u>57,519</u>
Subtotal	19,315,435
Allocation to cost of sales	<u>(1,409,794)</u>
	<u>\$ 17,905,641</u>

See notes to financial statements.