EXHIBIT A

FINANCIAL STATEMENTS

FATBURGER NORTH AMERICA, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended June 26, 2005 and June 27, 2004

NEW

FATBURGER NORTH AMERICA, INC.

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UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholder
Fatburger North America, Inc.

We have audited the accompanying balance sheet of Fatburger North America, Inc. (a wholly owned subsidiary of Fatburger Corporation) as of June 26, 2005 and the related statements of income, shareholder's equity, 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. The financial statements of Fatburger North America, Inc. as of June 27, 2004, were audited by other auditors whose report dated August 20, 2004 expressed an unqualified opinion on those statements.

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 2005 financial statements referred to above present fairly, in all material respects, the financial position of Fatburger North America, Inc. as of June 26, 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.

UHY LLP

Los Angeles, California
August 26, 2005

FATBURGER NORTH AMERICA, INC.
BALANCE SHEETS

	June 26, 2005	June 27, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 732,029	$ 787,774
Accounts receivable, net of allowance of $16,353 and $58,199 as of 2005 and 2004	130,775	99,537
Prepaid expenses	6,019	-
Due from affiliates	1,467,053	500,100
Deferred income taxes	1,868,398	1,694,940
Total current assets	4,204,274	3,082,351
Trademarks	2,134,800	2,134,800
Franchise rights, net of accumulated amortization	784,613	912,713
Goodwill	529,400	529,400
Other assets	53,971	9,603
	$7,707,058	$6,668,867
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Deferred franchise fees	$4,370,583	$3,925,702
Accounts payable and accrued expenses	396,064	777,686
Income taxes payable to parent	1,969,399	1,492,209
Total current liabilities	6,736,046	6,195,597
Deferred income taxes	301,306	353,533
Shareholder's equity		
Common stock, $.01 par value, 1,000 shares authorized, issued and outstanding	10	10
Retained earnings	669,696	119,727
	669,706	119,737
	$7,707,058	$6,668,867

See notes to financial statements.

FATBURGER NORTH AMERICA, INC.
STATEMENTS OF INCOME

	Years ended June 26, 2005	Years ended June 27, 2004
Revenues		
Royalties	$1,415,864	$1,035,914
Sale of franchises	376,536	195,000
Management fees	14,641	-
	1,807,041	1,230,914
Expenses		
General and administrative	872,819	1,022,374
Depreciation and amortization	132,748	133,805
	1,005,567	1,156,179
Income before income tax expense	801,474	74,735
Income tax expense	251,505	27,189
Net income	$ 549,969	$ 47,546

See notes to financial statements.

FATBURGER NORTH AMERICA, INC.
STATEMENTS OF SHAREHOLDER'S EQUITY
Years ended June 26, 2005 and June 27, 2004

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at June 29, 2003	1,000	$ 10	$ 72,181	$ 72,191
Net income	-	-	47,546	47,546
Balance at June 27, 2004	1,000	10	119,727	119,737
Net income	-	-	549,969	549,969
Balance at June 26, 2005	1,000	$ 10	$669,696	$669,706

See notes to financial statements.

FATBURGER NORTH AMERICA, INC.
STATEMENTS OF CASH FLOWS

	Years ended June 26, 2005	Years ended June 27, 2004
Operating activities		
Net income	$ 549,969	$ 47,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132,748	133,805
Deferred income taxes	(225,685)	(1,014,827)
Changes in operating assets and liabilities:		
Accounts receivable	(31,238)	48,110
Prepaid expenses	(6,019)	-
Other assets	(49,016)	-
Accounts payable and accrued expenses	(381,622)	284,827
Income taxes payable to parent	477,190	1,042,016
Deferred franchise fees	444,881	2,175,702
Net cash provided by operating activities	911,208	2,717,179
Investing activities		
Fixed asset additions	-	(4,058)
Net cash used in investing activities	-	(4,058)
Financing activities		
Net change in due from affiliates	(966,953)	(2,397,179)
Net cash used in financing activities	(966,953)	(2,397,179)
Net increase (decrease) in cash and cash equivalents	(55,745)	315,942
Cash and cash equivalents at beginning of period	787,774	471,832
Cash and cash equivalents at end of period	$ 732,029	$ 787,774

See notes to financial statements.

FATBURGER NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

June 26, 2005 and June 27, 2004

NOTE 1. – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Fatburger North America, Inc. (the Company), a Delaware corporation, was formed on March 28, 1990, and is a wholly owned subsidiary of Fatburger Corporation, which in turn is wholly owned by Fatburger Holdings, Inc. (Parent).

The Company franchises and licenses the right to use the Fatburger name, operating procedures and method of merchandising to franchisees. Upon signing a franchise agreement, the Company is committed to providing training, some supervision and assistance, and access to Operations Manuals. As needed, the Company will also provide advice and written materials concerning techniques of managing and operating the restaurant. The franchises are operated under the name "Fatburger." Each franchise agreement term is typically for 15 years with two additional 10-year options available. Additionally, the Company conducts a national advertising campaign to enhance the corporate name and image, which is funded through advertising revenues received from its franchises and locations owned by an affiliate and subsidiaries of the Parent.

As of June 26, 2005, there were 43 operating franchise restaurant locations operated by third parties in California, Arizona, Washington, Colorado, Florida, New York, New Jersey, Louisiana, Georgia, Pennsylvania and British Columbia (the franchisees).

The Company's fiscal year-end is the last Sunday in June. The years ended June 26, 2005 and June 27, 2004 included 52 weeks.

Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of royalty and advertising fees from franchisees reduced by reserves for the estimated amount deemed uncollectible due to bad debts.

Compensated Absences

Employees of the Company earn vested rights to compensation for unused vacation time. Accordingly, the Company accrues the amount of vacation compensation that employees have earned but not yet taken at the end of each fiscal year.

NOTE 1. – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company's customer base consists of franchisees located primarily in California, Arizona, Washington, Colorado, Florida, New York, New Jersey, Louisiana, Georgia, Pennsylvania and British Columbia. Management reviews each of its customer's financial conditions prior to signing a franchise agreement and believes that it has adequately provided for any exposure to potential credit losses.

The Company maintains cash deposits in financial institutions located in California. The balances are insured by the Federal Deposits Insurance Corporation (FDIC) up to $100,000. From to time, balances may exceed amounts insured by FDIC. The Company has not experienced any losses in such accounts and believes it is not exposed to a significant credit risk on cash.

Goodwill and Other Intangible Assets

The Company was acquired in August 2001. Goodwill and other intangible assets are accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually, or more frequently if indicators arise. Intangible assets that are not deemed to have indefinite lives will be amortized over their estimated useful lives.

Trademarks represent the estimated value of the Fatburger name and logo. Goodwill and trademarks on the Company's balance sheets are not subject to amortization. These assets are reviewed for impairment on an annual basis. No impairment has been identified during the years ended June 26, 2005 or June 27, 2004.

Certain franchise rights which represent the fair value of franchise agreements existing at the time of purchase were assigned to the Company. Amortization of these franchise rights is provided using the straight-line method over an estimated remaining useful life of 10 years. Amortization expense of $128,100 was recorded for the years ended June 26, 2005 and June 27, 2004, and accumulated amortization amounted to $496,387 and $368,287 as of June 26, 2005 and June 27, 2004, respectively.

NOTE 1. – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Franchise fee revenue from sales of individual franchises is recognized upon completion of training and the actual opening of a location. Typically, franchise fees are $40,000 per location and are collected 50% upon signing a deposit agreement and 50% at the signing of a lease and related franchise agreement. The initial 50% deposit is non-refundable upon acceptance of the franchise application. These deposits are included as deferred franchise fees until the store opens. As of June 26, 2005, and June 27, 2004, deferred franchise fees approximated $4,371,000 and $3,926,000, respectively.

During the year ended June 26, 2005, thirteen franchise locations were opened. Three of these new franchise locations were opened in Arizona; two each in California and Louisiana; and one each in New Jersey, Colorado, Washington, Georgia, New York, and British Columbia. During the year ended June 27, 2004, six locations were opened. Two of these new franchise locations were opened in Florida, and one each in California, Washington, Colorado and Pennsylvania.

During the year ended June 26, 2005, three locations were closed. Two of these locations were closed in California, and one in Florida.

In addition to franchise fee revenue, the Company collects a royalty of 6% of net sales from its franchisees which commenced operations after 2003. The Company collects 5% of net sales from its franchisees which commenced operations in 2003 or earlier. Royalties are recognized as revenue as the related sales are made by the franchisees.

In April 2005, the Company stopped recognizing franchise royalties from three troubled locations in California, all owned by the same franchisee.

Advertising

The Company generally collects advertising funds equal to 2% of net sales from franchisees located in the greater Los Angeles area, and 0.4% of net sales from franchisees located outside of the greater Los Angeles area. The Company also receives, from time to time, contributions from vendors that are to be used for advertising.

NOTE 1. – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Advertising (Continued)

Additionally, the Company collects advertising funds either of 2% or 0.4%, depending on location as described above, from 26 locations owned and operated by subsidiaries of its Parent. Since advertising funds collected are required to be spent for specific advertising purposes, no revenue or expense is recorded for advertising funds. Accrued advertising of approximately $116,000 and $481,000 at June 26, 2005 and June 27, 2004, respectively, represents advertising funds collected which have not yet been spent on advertising activities.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of the assets and liabilities. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

NOTE 2. – INCOME TAXES

The Company files consolidated federal and combined California state tax returns with its parent, Fatburger Holdings, Inc. For financial statement purposes, the Company has recorded a tax provision which was calculated as if the Company filed its tax returns on a stand-alone basis. The taxes payable to the Parent amounted to $1,969,399 and $1,492,209 as of June 26, 2005 and June 27, 2004, respectively.

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for calculating taxes payable on a stand-alone basis. Significant components of the Company's net deferred tax asset (liability) are as follows:

FATBURGER NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

June 26, 2005 and June 27, 2004

NOTE 2. – INCOME TAXES (CONTINUED)

	June 26, 2005	June 27, 2004
Deferred tax asset:		
Deferred franchise fees	$1,740,803	$1,563,607
Allowances	6,605	23,272
Accruals	6,925	33,680
State tax accrual	114,065	74,381
Deferred tax asset	1,868,398	1,694,940
Deferred tax liability:		
Franchise rights	(300,542)	(351,565)
Other	(764)	(1,968)
Deferred tax liability	(301,306)	(353,533)
Net deferred tax asset	$1,567,092	$1,341,407

Significant components of tax expense are as follows:

	Year ended June 26, 2005	Year ended June 27, 2004
Current:		
Federal	$ 386,375	$ 826,074
State	119,530	215,942
	505,905	1,042,016
Deferred:		
Federal	(223,112)	(876,970)
State	(31,288)	(137,857)
	(254,400)	(1,014,827)
	$ 251,505	$ 27,189

The provision for income taxes for the year ended June 26, 2005 includes an adjustment for over accruals from prior years.

NOTE 3. - RELATED PARTY TRANSACTIONS

The amounts due from affiliates at June 26, 2005 and June 27, 2004 represent net advances between the Company and its Parent.

From time to time, the Parent provides the Company with training and other operational personnel to assist with training franchisees and assisting franchisees with opening restaurants. The Company reimburses the Parent for the compensation and expenses of such personnel, at amounts equal to the Parent's cost.

The Parent provides indirect administrative functions, including executive administration and bookkeeping at no charge to the Company.

NOTE 4. - COMMITMENTS AND CONTINGENCIES

In August 2004, the Company guaranteed an operating lease for a franchised Fatburger restaurant in Rancho Cucamonga, California. The initial lease period expires in July 2015, and the remaining lease payments are approximately $934,000 as of June 26, 2005.

In August 2004, the Company guaranteed an operating lease for a franchised Fatburger restaurant in Palmdale, California. The initial lease period expires in December 2014, and the remaining minimum lease payments are approximately $617,000. In addition, the lease requires contingent rental payments of the excess of 6% of gross sales over the minimum rental payments.

The Company has guaranteed an operating lease for a Fatburger restaurant in Las Vegas, Nevada. The initial lease period expires August 31, 2007. The remaining lease payments are approximately $147,000 as of June 26, 2005. This lease was assumed by an affiliate of the Company who remits rent payments directly to the landlord. The lease requires minimum lease payments of $5,665 monthly, increasing 15% every five years, and provides for contingent rental payments of the excess of 6% of gross sales over the minimum rental payments.

AUDITED FINANCIAL STATEMENTS

Fatburger North America, Inc.

Years ended June 27, 2004 and June 29, 2003

with Report of Independent Auditors

Fatburger North America, Inc.

Audited Financial Statements

Years ended June 27, 2004 and June 29, 2003

Contents

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors and Shareholder
Fatburger North America, Inc.

We have audited the accompanying balance sheets of Fatburger North America, Inc. as of June 27, 2004, and June 29, 2003, and the related statements of income, shareholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fatburger North America, Inc. at June 27, 2004, and June 29, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

August 20, 2004

Fatburger North America, Inc.

Balance Sheets

	June 27 2004	June 29 2003
Assets		
Current assets:		
Cash and cash equivalents	**$ 787,774**	$ 471,832
Accounts receivable, net of allowance of $58,199 and $107,888 as of 2004 and 2003, respectively	**99,537**	147,647
Due from affiliates	**500,100**	–
Deferred income taxes	**1,694,940**	731,909
Total current assets	**3,082,351**	1,351,388
Trademarks	**2,134,800**	2,134,800
Franchise rights, net of accumulated amortization of $368,287 and $240,188 as of 2004 and 2003, respectively	**912,713**	1,040,813
Goodwill	**529,400**	529,400
Other assets	**9,603**	11,250
Total assets	**$ 6,668,867**	$ 5,067,651
Liabilities and shareholder's equity		
Current liabilities:		
Deferred franchise fees	**$ 3,925,702**	$ 1,750,000
Accounts payable and accrued expenses	**777,686**	492,859
Income taxes payable to parent	**1,492,209**	450,193
Total current liabilities	**6,195,597**	2,693,052
Due to affiliates	–	1,897,079
Deferred income taxes	**353,533**	405,329
Commitments		
Shareholder's equity:		
Common stock, $.01 par value, 1,000 shares authorized, issued and outstanding	**10**	10
Retained earnings	**119,727**	72,181
Total shareholder's equity	**119,737**	72,191
Total liabilities and shareholder's equity	**$ 6,668,867**	$ 5,067,651

See accompanying notes.

Fatburger North America, Inc.

Statements of Income

	Year ended June 27 2004	Year ended June 29 2003
Revenues:		
Royalties	**$ 1,035,914**	$ 822,788
Sale of franchises	**195,000**	60,000
Renewal fees	**–**	44,000
	1,230,914	926,788
Expenses:		
General and administrative	**1,022,374**	724,102
Depreciation and amortization	**133,805**	132,767
	1,156,179	856,869
Income before income tax expense	**74,735**	69,919
Income tax expense	**27,189**	27,940
Net income	**$ 47,546**	$ 41,979

See accompanying notes.

Fatburger North America, Inc.

Statements of Shareholder's Equity

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total Shareholder's Equity
Balance at June 30, 2002	1,000	$ 10	$ 30,202	$ 30,212
Net income	–	–	41,979	41,979
Balance at June 29, 2003	1,000	10	72,181	72,191
Net income	–	–	**47,546**	**47,546**
Balance at June 27, 2004	**1,000**	**$ 10**	**$ 119,727**	**$ 119,737**

See accompanying notes .

Fatburger North America, Inc.

Statements of Cash Flows

	Year ended June 27 2004	Year ended June 29 2003
Operating activities		
Net income	$ **47,546**	$ 41,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**133,805**	132,767
Deferred income taxes	**(1,014,827)**	(422,095)
Changes in operating assets and liabilities:		
Accounts receivable	**48,110**	56,171
Other assets	**–**	170
Accounts payable and accrued expenses	**284,827**	316,681
Income taxes payable to parent	**1,042,016**	81,908
Deferred franchise fees	**2,175,702**	840,000
Net cash provided by operating activities	**2,717,179**	1,047,581
Investing activities		
Fixed asset additions	**(4,058)**	–
Cash used in investing activities	**(4,058)**	–
Financing activities		
Net change in due from affiliates	**(2,397,179)**	(785,696)
Net cash used in financing activities	**(2,397,179)**	(785,696)
Net increase in cash and cash equivalents	**315,942**	261,885
Cash and cash equivalents at beginning of period	**471,832**	209,947
Cash and cash equivalents at end of period	$ **787,774**	$ 471,832

See accompanying notes.

Fatburger North America, Inc.

Notes to Financial Statements

June 27, 2004

1. Summary of Significant Accounting Policies

Business

Fatburger North America, Inc. (the Company), a Delaware corporation, was formed on March 28, 1990, and is a wholly owned subsidiary of Fatburger Corporation, which in turn is wholly owned by Fatburger Holdings, Inc. (FB Holdings or Parent). During the year ended June 27, 2004, Fog Cutter Capital Group, Inc. acquired a 71% voting interest in the Parent. No adjustments related to this transaction were reflected in these financial statements.

The Company franchises and licenses the right to use the Fatburger name, operating procedures and method of merchandising. Upon signing a franchise agreement, the Company is committed to providing training, some supervision and assistance, and access to Operations Manuals. As needed, the Company will also provide advice and written materials concerning techniques of managing and operating the restaurant. The franchises are operated under the name "Fatburger." Each franchise agreement term is typically for 15 years with two additional 10-year options available. Additionally, the Company conducts a national advertising campaign to enhance the corporate name and image, which is funded through advertising monies received from its franchises and locations owned by an affiliate and subsidiaries of the Parent.

As of June 27, 2004, there were 33 operating franchise restaurant locations operated by third parties in California, Arizona, Washington, Colorado, Florida and Pennsylvania (the franchisees).

Change in Year-End

The Company's fiscal year-end is the last Sunday in June. The years ended June 27, 2004, and June 29, 2003, included 52 weeks.

Risks and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates.

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company's customer base consists of franchisees located primarily in California, Arizona, Washington, Colorado, Florida and Pennsylvania. Management reviews each of its customer's financial conditions prior to signing a franchise agreement and believes that it has adequately provided for any exposure to potential credit losses.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Goodwill and Other Intangible Assets

The Company accounts for its goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually, or more frequently if indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives.

Trademarks represent the value of the Fatburger name and logo. Goodwill and trademarks on the Company's balance sheets are not subject to amortization. These assets are reviewed for impairment on an annual basis. No impairments have been identified during the years ended June 27, 2004 or June 29, 2003.

Certain franchise rights which represent the fair value of franchise agreements existing at the time of purchase were assigned to the Company. Amortization of these franchise rights is provided using the straight-line method over the estimated useful life of 10 years. Amortization expenses of $131,100 and $128,100 were recorded for the years ended June 27, 2004, and June 29, 2003, respectively.

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Franchise fee revenue from sales of individual franchises is recognized upon completion of training and the opening of a location. Typically, franchise fees are $40,000 per location and are collected 50% up-front upon signing a deposit agreement and 50% at the signing of a lease and related franchise agreement. The initial 50% deposit is nonrefundable upon acceptance of the franchise application. These deposits are included as deferred franchise fees until the store opens. As of June 27, 2004, and June 29, 2003, deferred franchise fees are $3,925,702 and $1,750,000, respectively.

During the year ended June 27, 2004, six locations were opened. Two of these new franchise locations were opened in Florida, and one each in California, Washington, Colorado and Pennsylvania. During the year ended June 29, 2003, two locations were opened in California.

In addition to franchise fee revenue, the Company collects a royalty of 6% of net sales from its franchisees which commenced operations after fiscal 2003. The Company collects 5% of net sales from its franchisees which commenced operations in fiscal 2003 or earlier. Royalties are recognized as revenue as the related sales are made by the franchisees.

There is also one location owned by an affiliate of the Parent which is not operated under a franchise agreement and, therefore, no royalties are collected from this location.

Advertising

The Company generally collects advertising funds equal to 2% of net sales from franchisees located in the greater Los Angeles area, and 0.4% of net sales from franchisees located outside of the greater Los Angeles area. The Company also receives, from time to time, contributions from vendors that are to be used for advertising. Additionally, the Company collects advertising funds either of 2% or 0.4%, depending on location as described above, from 25 locations owned and operated by subsidiaries of its Parent. Since advertising funds collected are required to be spent for specific advertising purposes, no revenue or expense is recorded for advertising funds. Accrued advertising of approximately $481,000 and $398,000 at June 27, 2004, and June 29, 2003, respectively, represents advertising funds collected which have not yet been spent on advertising activities.

1. Summary of Significant Accounting Policies (continued)

Advertising (continued)

In prior years' financial statements, the Company recorded revenue and expense associated with the advertising fees and presented the amounts in the statements of income. As the revenue and expense amounts were the same, the impact on net income was $0. In the current year, the Company modified the way it accounts for the advertising fees collected from franchisees. All advertising fees collected and advertising costs incurred are recorded through the balance sheet only. The prior year amounts for advertising fee revenue and advertising expense of $867,290 have been removed from the prior year amounts presented in these financial statements in order to present comparable statements of income.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that the fair value of an initial liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when the entity commits to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material effect on the Company's consolidated financial position, results of operations or cash flow.

1. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements (continued)

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is generally effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of "underlying" to conform it to the language used in FASB Interpretation No. 45, "Guarantor Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and amends certain other existing pronouncements.

In November 21, 2002, the EITF reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," which requires that cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. These rules are applied to new arrangements, including modifications of existing arrangements, entered into after December 31, 2002. The adoption did not have a material effect on the Company's consolidated financial results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (Interpretation 46)," an interpretation of ARB No. 51. Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities. Interpretation No. 46 applies immediately to variable interest entities created after December 31, 2003, and to variable interest entities in which the Company obtains an interest after that date. It applies in the first year or interim period beginning after December 15, 2004. Based upon initial review of this interpretation, as amended, the Company does not believe it has any variable interest entities to which Interpretation No. 46 would apply.

2. Income Taxes

The Company files consolidated federal and combined California state tax returns with its parent, Fatburger Holdings, Inc. For financial statement purposes, the Company has recorded a tax provision which was calculated as if the Company filed its tax returns on a stand-alone basis. The taxes payable to the Parent amounted to $1,492,209 and $450,193 as of June 27, 2004, and June 29, 2003, respectively. The effective tax rate differs from the statutory tax rate mainly due to state taxes and expenses that are not deductible for tax purposes.

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for calculating taxes payable on a stand-alone basis. Significant components of the Company's net deferred tax asset (liability) are as follows:

	June 27 2004	**June 29 2003**
Deferred tax asset:		
Deferred franchise fees	**$ 1,563,607**	$ 697,025
Allowances	**23,272**	33,923
Accruals	**33,680**	–
State tax accrual	**74,381**	–
Deferred tax asset	**1,694,940**	730,948
Deferred tax liability:		
Franchise rights	**(351,565)**	(402,166)
Other	**(1,968)**	(2,202)
Deferred tax liability	**(353,533)**	(404,368)
Net deferred tax asset	**$ 1,341,407**	$ 326,580

2. Income Taxes (continued)

Significant components of tax expense are as follows:

	Year ended June 27 2004	Year ended June 29 2003
Current:		
Federal	**$ 826,074**	$ 350,112
State	**215,942**	99,923
	1,042,016	450,035
Deferred:		
Federal	**(876,970)**	(328,491)
State	**(137,857)**	(93,604)
	(1,014,827)	(422,095)
	$ 27,189	$ 27,940

3. Related Party Transactions

The amounts due from affiliates at June 27, 2004, represent franchise fees collected by the Parent on behalf of the Company offset by net advances between the Company and its Parent.

The amounts due to affiliates at June 29, 2003, represent the allocation of the purchase price to the Company from the Parent, offset by advances made by the Company to the Parent and affiliates and certain of its subsidiaries.

Rent expense for the use of the corporate office is allocated from the Parent and was approximately $2,000 and $15,000 for the years ended June 27, 2004, and June 29, 2003, respectively. In addition to the office space, the Parent provides additional indirect administrative costs, including executive administration and bookkeeping at no charge to the Company.

4. Commitments and Contingencies

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of

4. Commitments and Contingencies (continued)

guarantees. For certain guarantees issued after December 31, 2002, FIN 45 requires a guarantor to recognize, upon issuance of a guarantee, a liability for the fair value of the obligations it assumes under the guarantee. Guarantees issued prior to January 1, 2003, are not subject to liability recognition, but are subject to expanded disclosure requirements. FIN 45 was adopted by the Company and did not have a material impact on the consolidated financial statements.

The Company has guaranteed an operating lease for a Fatburger restaurant in Las Vegas, Nevada. The initial lease period expires August 31, 2007. The remaining lease payments are approximately $215,000 as of June 27, 2004. This lease was assumed by an affiliate of the Company who remits rent payments directly to the landlord. The lease requires minimum lease payments of $5,665 monthly, increasing 15% every five years, and provides for contingent rental payments of the excess of 6% of gross sales over the minimum rental payments.