Financial Statements

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

Year Ended December 31, 2005 and
From January 28, 2004 (Date of Inception) to December 31, 2004

and

Independent Auditors' Report

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Hellam | Varon
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Stockholders
Garlic Jim's Franchise International, Inc.

We have audited the accompanying balance sheets of Garlic Jim's Franchise International, Inc. as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the year ended December 31, 2005 and the period from January 28, 2004 (date of inception) to December 31, 2004. 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 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 Garlic Jim's Franchise International, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the year and initial period then ended in conformity with accounting principles generally accepted in the United States of America.

Hellam Varon & Co Inc PS

March 17, 2006

Hellam, Varon & Co. Inc. P.S. *Certified Public Accountants* 1750 112th Avenue NE, Suite E200 Bellevue, WA 98004 Tel. 425.453.9192 Fax 425.453.2755 CPA

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

BALANCE SHEETS

December 31, 2005 and 2004

ASSETS

	2005	2004
Current assets:		
Cash and cash equivalents	$ 15,474	$ 100
Restricted cash	-	95,072
Accounts receivable	30,041	-
Note receivable	53,012	-
Employee advances	17,500	-
Prepaid expenses	200,163	130,000
Prepaid income taxes	3,467	-
Deferred tax benefit	26,700	18,300
Total current assets	346,357	243,472
Property and equipment:		
Office furniture and equipment	1,164	1,164
Capitalized leases	37,789	3,722
	38,953	4,886
Less accumulated depreciation	4,929	568
	34,024	4,318
Other assets:		
Deposits	1,460	-
Trademarks, net of amortization of $507 in 2005 and $292 in 2004	4,013	5,058
Advances to related parties	731,182	148,981
Deferred tax benefit	178,000	54,000
	914,655	208,039
	$ 1,295,036	$ 455,829

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	2005	2004
Current liabilities:		
Current portion of long-term debt	$ 12,000	$ -
Current obligation under capital leases	6,195	1,743
Accounts payable, trade	68,251	374
Accrued liabilities	109,279	92,053
Payroll and related taxes	6,080	-
National and local co-op advertising	46,659	-
Due to related party	40,319	-
Unearned franchise and sub-franchise fee revenue	390,000	260,000
Income taxes payable	1,279	9,157
Total current liabilities	680,062	363,327
Unearned royalty stream income	331,500	150,000
Unearned management fee income	175,500	-
Obligation under capital leases	25,563	1,053
Long-term debt, less current portion	288,000	-
	820,563	151,053
Stockholders' equity (deficit):		
Common stock - authorized 100,000 shares of $0.001 par value (87,000 shares are Class A voting and 13,000 shares are Class B nonvoting)	97	95
Additional paid-in capital	81,999	28,626
Accumulated deficit	(287,685)	(87,272)
Total stockholders' equity (deficit)	(205,589)	(58,551)
	$ 1,295,036	$ 455,829

The accompanying notes are an integral part of these financial statements.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

STATEMENTS OF OPERATIONS

Year Ended December 31, 2005 and
Period From January 28, 2004 (Date of Inception) to December 31, 2004

	2005	2004
Revenues:		
Franchise royalties	$ 147,316	$ -
Franchise fees	220,000	-
Royalty stream and management fees	38,000	-
	405,316	-
General and administrative expenses	743,356	160,487
Operating loss	(338,040)	(160,487)
Other income (expense):		
Interest income	11,064	72
Forfeiture of sub-franchise fee deposit	-	10,000
Other fees	1,000	-
	12,064	10,072
Loss before income taxes	(325,976)	(150,415)
Provision for income taxes	125,563	63,143
Net loss	$ (200,413)	$ (87,272)

The accompanying notes are an integral part of these financial statements.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Year Ended December 31, 2005 and Period From January 28, 2004 (Date of Inception) to December 31, 2004

	Common stock				
	Number of shares**	Par value	Additional paid-in capital	Retained earnings	Total
Issuance of Class A voting stock shares	87,000	$ 87	$ 14,113	$ -	$ 14,200
Issuance of Class B nonvoting stock shares	8,000	8	14,992		15,000
Stock issuance costs			(479)		(479)
Net loss				(87,272)	(87,272)
Balance, December 31, 2004	95,000	95	28,626	(87,272)	(58,551)
Correction related to new Articles of Incorporation			(125)		(125)
Issuance of Class B nonvoting stock shares	2,000	2	53,498		53,500
Net loss				(200,413)	(200,413)
Balance, December 31, 2005	97,000	$ 97	$ 81,999	$ (287,685)	$ (205,589)

***Number of shares has been adjusted to reflect Amended Articles of Incorporation filed in 2005.*

The accompanying notes are an integral part of these financial statements.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2005 and
Period From January 28, 2004 (Date of Inception) to December 31, 2004

	2005	2004
Cash flows from operating activities:		
Net loss	$ (200,413)	$ (87,272)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,678	860
Loss on trademark abandonment	1,052	-
Deferred income taxes	(132,400)	(72,300)
Noncash commission expense	35,000	-
(Increase) decrease in assets:		
Accounts receivable	(30,041)	-
Prepaid expenses and deposits	(75,090)	(130,000)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	137,842	92,427
Unearned franchise fee revenue	130,000	260,000
Unearned royalty stream and management fee	357,000	150,000
Income taxes payable	(7,878)	9,157
Net cash provided by operating activities	219,750	222,872
Cash flows from investing activities:		
Transfers of restricted cash	95,072	(95,072)
Advances to related parties	(582,201)	(148,981)
Note receivable issued	(53,012)	-
Registration of trademarks	(325)	(5,350)
Acquisition of property and equipment	-	(1,164)
Net cash used in investing activities	(540,466)	(250,567)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(5,104)	(926)
Borrowings from related party	40,319	-
Advances from loans payable	300,000	-
Issuance of common stock, net of costs of $479 in 2004	875	28,721
Net cash provided by financing activities	336,090	27,795
Net increase in cash and cash equivalents	15,374	100
Cash and cash equivalents at beginning of period	100	-
Cash and cash equivalents at end of year	$ 15,474	$ 100

The accompanying notes are an integral part of these financial statements.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS (Continued)

Year Ended December 31, 2005 and
Period From January 28, 2004 (Date of Inception) to December 31, 2004

	2005	2004
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 10,158	$ 1,865
Income taxes	$ 18,411	$ -
Supplemental schedule of noncash investing and financing activities:		
Acquisition of capitalized leases:		
Cost of equipment	$ 34,066	$ 3,722
Lease obligation	(34,066)	(3,722)
Cash paid	$ -	$ -
Employee stock grant:		
Issuance of common stock	$ 17,500	$ -
Advance to employee	(17,500)	-
Cash received	$ -	$ -
Contractor stock grant:		
Issuance of common stock	$ 35,000	$ -
Commission expense charged	(35,000)	-
Cash received	$ -	$ -

The accompanying notes are an integral part of these financial statements.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity and Development Stage Operations
Garlic Jim's Franchise International, Inc. (Company) is a Washington corporation which began operations on January 28, 2004. The company franchises "Garlic Jim's Famous Gourmet Pizza" stores currently in five states. Revenues are principally derived from initial franchise fees, franchise royalties, and sales of royalty streams and management contracts. The Company changed its name from Garlic Jim's Franchise Corp. in 2005. Previous statements of this entity recorded operations as 'development stage operations' because planned principal activities had not commenced as of December 31, 2004. The Company had sold 48 franchises (29 in 2005) and has received payments to secure seven territories as of December 31, 2005. There were 19 open stores as of December 31, 2005.

Revenue Recognition
Franchise fees are recognized when a franchised restaurant begins operations, at which time the Company has performed their obligations related to such fees. Fees received pursuant to development agreements which grant the right to develop franchised restaurants in future periods in specific geographic areas are deferred and recognized on a pro rata basis as the franchised restaurants subject to the development agreements begin operations. Continuing franchise royalties are based on a defined percentage of franchise restaurants' sales and are recognized when earned.

Use of Estimates in the Preparation of Financial Statements
The Company's financial statements are prepared in conformity with generally accepted accounting principles, which require management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable
Substantially all accounts receivable are due from franchisees for purchases of printing and promotional items and for royalties from December sales. Credit is extended based on an evaluation of the franchisee's financial condition and, generally, collateral is not required. A reserve for uncollectible accounts is established as deemed necessary based upon overall accounts receivable aging levels and a specific review of accounts for franchisees with known financial difficulties.

Depreciation
Equipment is stated at cost. Maintenance and repair costs are charged to expense as incurred. Gains and losses on disposition of equipment are reflected in income. Depreciation is computed on the straight-line method for financial accounting purposes, based on the estimated useful lives of the assets. Depreciation expense included in the statements of operations was $4,360 in 2005 and $568 in 2004.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets
Intangible assets consisting of trademarks of specialty pizza names and slogans are amortized using the straight-line method over fifteen years. The recoverability of intangible assets is periodically reviewed to determine whether adjustments are needed to carrying values. Amortization expense included in the statements of operations was $318 in 2005 and $292 in 2004. Amortization expense is estimated to be $301 in each of the next five years.

Deferred Costs
The Company defers the incremental direct costs associated with selling franchises and development agreements. These deferred costs, included in prepaid expenses on the balance sheet, are amortized in proportion to revenue recognized. Total costs deferred were $195,000 in 2005 and $130,000 in 2004.

Income Taxes
Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), and deferred revenues and costs. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income.

Advertising
The Company expenses its advertising costs related to the promotion of the franchise sales as they are incurred and the first time the advertising takes place. Marketing expense included in the statements of operations was $905 in 2005 and $1,390 in 2004.

The Company receives contributions to the national advertising and local market cooperative advertising funds ("Co-op Funds"). Contributions by company owned and franchised restaurants to the Co-op Funds are based on an established percentage of monthly restaurant revenues. The Co-op Funds are responsible for developing and conducting advertising activities in a specific market, including the placement of electronic and print materials.

Reclassifications
Certain prior year data has been reclassified to conform to the 2005 presentation. These reclassifications do not change net income or stockholders' deficit.

NOTE B – RESTRICTED CASH

	2005	2004
Washington State Franchise Impound Funds	$ -	$ 95,072

This account was opened to act as a special escrow account for the initial franchises sold in Washington State. The Company is to maintain these funds until the franchise store has opened and the Company has substantially performed all of the material services or conditions relating to the franchise agreement. If the Company has not complied with the franchise agreement, the Department of Financial Institutions shall have the right to request that the funds be distributed to the franchisee as restitution.

In June 2005, the Washington State Department of Financial Institutions lifted the requirement for the Impound Account. Franchise fees collected after this date were no longer required to be deposited into the restricted account.

NOTE C – NOTE RECEIVABLE

A Franchisee has borrowed funds from the Company used in the construction and development of their restaurant. An initial payment of $18,000 is due in March 2006, and $5,000 monthly payments thereafter including interest at 12.0%. The note is secured by the fixtures, equipment, and signage of the restaurant and the ownership interest in the franchisee, and is due August 2006. The carrying amount of the loan approximates market value. Interest income recorded on the franchisee loan was $498 in 2005.

NOTE D – ROYALTY STREAM AGREEMENTS

The Company has entered into two royalty stream income agreements in 2004. Each participant purchased from the Company, for $75,000 each, the right to receive the greater of five percent annual rate of return, or one half of one percent of the gross sales (less sales tax) from all franchise stores in designated territories, currently in Western Washington and Arizona. The term of the agreements shall begin upon mutual execution of the agreements, and continue for ten years.

During 2005, the Company entered into two California royalty stream income agreements. Each participant purchased from the Company, for $100,000 each, the right to receive the greater of prime (as published in the Wall Street Journal) plus 2%, or one twentieth of one percent of the royalty sales from all stores within the territory, and $500 for every initial franchise agreement signed during the award quarter. The term of the agreement shall begin upon mutual execution of the agreements, and continue for fifteen years.

Revenue from the royalty stream agreements is recognized based upon the number of Franchise stores that opened in the designated territories during the year. Royalty expense included in the statements of operations on the royalty stream agreements was $22,871 in 2005 and $4,063 in 2004.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
December 31, 2005 and 2004

NOTE E – MANAGEMENT AGREEMENT

The Company entered into an agreement where the Company will receive certain management services in the Oregon territory. The Company received \$195,000 upon execution of this agreement, and the Company agrees to pay the Management Company 2.0% or 2.5% of the monthly store royalty sales for every store in the territory dependent upon the franchisees royalty payments to the Company. In addition the Company agrees to pay the Management Company a \$5,000 training fee upon completion of the franchisees training. The term of this agreement is for ten years, and has three five-year option periods to extend the management agreement for \$300,000 for the first extension, \$400,000 for the second extension, and \$500,000 for the third extension with agreed upon payment terms.

The Company entered into a second agreement where the Company will receive certain management services in the California territory. The Company shall receive \$150,000 for the initial term of this agreement payable in twenty \$7,500 payments beginning after the first franchise opens in the territory. The Company agrees to pay the Management Company 2.25% of the monthly store royalty sales for every store in the territory. In addition the Company agrees to pay the Management Company a \$5,000 training fee upon completion of the franchisees training. The term of the agreement is for thirteen years beginning December 15, 2005, and has two five-year option periods to extend the management agreement for \$200,000 for the first extension, and \$250,000 for the second extension with agreed upon payment terms.

Revenue from the management agreement is recognized based upon the number of Franchise stores that opened in the territory during the year. Royalty and management training fee expense included in the statements of operations on the management agreement were \$15,003 and \$5,000 respectively in 2005.

NOTE F – SUB-FRANCHISE AGREEMENT

In 2003, before operations commenced, the Company entered into a sub-franchise agreement whereby the Sub-Franchisor has the exclusive right for the sale and development of Garlic Jim's franchises within the state of Arizona, and the greater Las Vegas area. The Company agrees to pay the Sub-Franchisor 50% of the monthly store royalty sales from franchised stores. In addition the Company agrees to pay the Sub-Franchisor a \$5,000 training fee upon completion of the franchisees training, and a \$5,000 commission upon the sale of a Unit Franchise Agreement. The Company further agreed to pay royalties on the company owned stores equal to 2.25% of the monthly Arizona franchise store royalty sales. The term of this agreement is for twenty years and will expire in December 2023.

Revenue from the sub-franchise agreement is recognized based upon the number of Franchise stores that opened in the territory during the year. Royalty fee expense included in the statements of operations was \$8,744 in 2005.

NOTE G – LONG-TERM DEBT

Long-term debt at December 31 consists of the following:	2005	2004
LOANS PAYABLE		
Three unsecured loans payable; each requires $1,000 quarterly principal payments for the first 20 quarters, and $2,000 quarterly principal payments for the remaining 40 quarters. The loans bear interest based on the greater of (a) the prime lending rate plus 2%, or (b) one twentieth of one percent of the royalty sales from all stores within the California territory and $500 for every initial franchise agreement signed during the quarter. The loans are due December 2020.	$ 300,000	$ -
Less: current portion of long-term debt	(12,000)	-
TOTAL LONG-TERM DEBT	$ 288,000	$ -

Long-term debt principal payments due over the next five consecutive years are as follows:

2006	$ 12,000
2007	12,000
2008	12,000
2009	12,000
2010	12,000
	$ 60,000

Interest expense on long-term debt included in the statement of operations was $13,500 in 2005 and $-0- in 2004.

NOTE H - LEASE COMMITMENTS

On June 1, 2004, the Company sub-leased their office for a term of one year from Garlic Jim's Famous Gourmet Pizza, Inc. with a monthly base rent of $899. In July 2005, the Company moved and signed a new sub-lease agreement for a term of 66 months from Garlic Jim's Famous Gourmet Pizza, Inc. with monthly base rents of $650. The lease provides that the lessee is responsible for their share of property maintenance costs, real property taxes, and taxes and insurance on personal property. The lease has an option to extend the term of the lease for three years at increased rental payments.

Rental expense included in the statement of operations from operating leases is $10,095 in 2005 and $6,296 in 2004.

GARLIC JIM'S FRANCHISE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
December 31, 2005 and 2004

NOTE H - LEASE COMMITMENTS (CONTINUED)

The Company leases equipment under leases that are classified as capital lease obligations on the balance sheet. At December 31, the capitalized cost of the leased equipment was $37,789 in 2005 and $3,722 in 2004 and accumulated depreciation was $4,618 and $467 respectively. Depreciation expense included in the statement of operations on the capitalized equipment was $4,151 in 2005 and $467 in 2004.

CAPITAL LEASE OBLIGATIONS		
Puget Sound Leasing lease payable $730 monthly including interest at 10.51%, secured by certain furniture and computer equipment, due June 2010	$ 31,305	$ -
Dell Financial Services lease payable $93 monthly including interest at 18.77%, secured by computer equipment, due June 2006	453	1,451
Dell Financial Services lease payable $91 monthly including interest at 18.77%, secured by computer equipment	-	1,345
	$ 31,758	$ 2,796

At December 31, 2005 the future minimum lease payments under capital and operating leases are as follows:

	Capital Leases	Operating Leases
2006	$ 9,319	$ 7,800
2007	8,761	7,800
2008	8,761	7,800
2009	8,761	7,800
2010	4,379	7,800
Total minimum payments	39,981	$ 39,000
Less amount representing interest	(8,223)	
Present value of minimum lease payments	$ 31,758	

NOTE I - FEDERAL INCOME TAXES

Components of provision for federal income taxes are as follows:	2005	2004
Current tax (expense)		
Federal	$ (5,144)	$ (7,811)
State	(1,693)	(1,346)
Deferred tax benefit (expense)		
Federal	117,000	67,000
State	15,400	5,300
INCOME TAX BENEFIT (EXPENSE)	$ 125,563	$ 63,143

Provision for current federal tax expense differs from expected income tax expense, computed at current U.S. Corporation income tax rates, primarily due to the tax effect of expenses not deductible for federal income tax purposes.

The components of the deferred tax assets (liabilities) are as follows:	2005	2004
Current deferred tax items:		
Deferred franchise fee income	$ 65,000	$ 37,000
Deferred costs	(40,000)	(20,000)
Net deferred state income taxes	1,700	1,300
	$ 26,700	$ 18,300
Long-term deferred tax items:		
Depreciation and amortization	$ (12,000)	$ (1,800)
Organizational costs	2,000	2,400
Deferred revenue stream income	113,000	49,400
Deferred management fee agreement	60,000	-
Deferred sub-franchise fee income	3,000	-
Net deferred state income taxes	12,000	4,000
	$ 178,000	$ 54,000

An effective tax rate of 34% is used to estimate deferred federal taxes based on management's expectation of future taxable income. An additional deferral is made for various state income taxes based on each state's allocation ratio and tax rate.

Garlic Jim's Franchise International Inc. has not recorded a valuation allowance for the deferred tax assets as they feel that it is more likely than not that they will be ultimately realized.

NOTE J – COMMITMENTS

The Company is obligated under a consulting services agreement between Garlic Jim's Franchise International, Inc. and Summit Management Group, LLC. Summit Management Group, LLC (Summit) has been contracted with the Company to provide certain franchise business opportunity sales and real estate franchised-store development consulting services ("Franchise Development Activities"). The term of the agreement began on April 1, 2004 and will terminate on December 31, 2008 unless otherwise agreed upon by the Company. The Company is obligated to pay Summit a monthly consulting fee and sales commissions. The monthly consulting fee is $5,000 through December 31, 2006, and $3,000 per month through December 31, 2008. The Company shall pay commissions on the sale of the *First Franchise Agreement to a Franchisee* of $7,500 for each initial individual franchise agreement sold to a franchisee where the franchise fee is $15,000. The Company shall pay commissions on the sale of the *Subsequent Franchise Agreements to a Franchisee* of $5,000 for each subsequent individual franchise agreement sold to an existing franchisee where the franchise fee is $10,000. The Company shall pay commissions of $5,000 for each franchise agreement sold in the state of California. The first half of the commission will be paid upon execution of the Franchise agreement and the second half upon the opening of the Franchisee's store. The Company is also obligated to pay Summit for the management of local brokers and site leasing process $2,000 per executed lease in the California market.

In the event that Summit brokers the sale of *Sub-Franchisor Rights*, the Company is obligated to pay Summit agreed upon commissions and royalty streams in selected territories.

The agreement has certain franchise sales quotas for Summit and if they are met the Company becomes obligated to pay a share of royalties from the franchise store operations as set-forth in the schedule below for an "initial term" of ten years. Also, upon completion of the services rendered under this agreement and meeting the franchise sales quotas, the Company shall grant to Summit ownership in Garlic Jim's Franchise International, Inc. as set-forth in the schedule below.

Summit Management Group, LLC Ownership Grants and Royalty Increments

Franchise Sales	25	50	100	120
Ownership Grant (Aggregate)	1%	2%	3%	4%

Store Royalty Group	For each store up to and including 200 store count	For store 201 and each store thereafter
Share of Royalties	0.50%	0.35%

During 2005, Summit earned the right to an Ownership Grant equivalent to one percent of the authorized shares of the Company. Compensation recognized in the statement of operations related to the Ownership Grant was $35,000.

NOTE J – COMMITMENTS (CONTINUED)

Included in the statement of operations as of December 31, 2005 and 2004, related to this agreement, are consulting fees of $60,000 and $45,000, and royalties of $15,003 and $-0-, respectively. As of December 31, 2005 and 2004 sales commissions of $141,250 and $43,750 had been paid to Summit, respectively.

NOTE K – RELATED PARTY TRANSACTIONS

The Company advanced monies to a related entity under common ownership and control, which provides commissary and marketing services to the franchised stores. The unsecured amount due from the related entity as of December 31 was $567,913 in 2005 and $148,981 in 2004. Interest is payable annually at 3.0%, the amount due from the related party will be payable in 2007. Interest income included in the receivable balance and statements of operations was $8,891 in 2005. Subsequent to the balance sheet date the Company has advanced an additional $160,000. The Company has paid this entity $12,941 in 2005 for marketing services.

The Company advanced monies to related entities, the Arizona Commissary and a corporate owned store, which are both under common ownership and control. The unsecured amounts due from the related entities as of December 31, 2005 were $163,268. Interest is payable annually at 3.0%, the amount due from the related parties will be payable in 2007. Interest income included in the receivable balance and statements of operations was $118 in 2005. Subsequent to the balance sheet date the Company advanced an additional $30,000 to the Arizona Commissary.

The Company loans funds to variable interest entities (VIEs) which are related through common ownership. Certain VIEs are required to be consolidated by the primary beneficiary of the VIE. These relationships were evaluated under the guidance of FASB Interpretation 46 (R), "Consolidation of Variable Interest Entities" (FIN 46) and determined that the entities do not require consolidation in the Company's financial statements. The amount at risk with these entities is $731,182 at December 31, 2005.

The Company entered into a loan agreement with a related party to three of the Company's shareholders. The unsecured amount due to the related party was $40,319 as of December 31, 2005. An initial payment of $18,000 is due in March 2006, and $5,000 monthly payments thereafter including interest at 10.0%. The loan is due August 2006. Interest expense included in the loan balance and statements of operations was $319.

As described in Note D, the Company entered into a royalty stream income agreement with a related party of one of the Company's shareholders. As of December 31, 2005 and 2004, the Company had recognized $13,500 and $-0- in income related to this agreement, and incurred royalty/interest expense of $10,982 and $1,875 respectively.

NOTE K – RELATED PARTY TRANSACTIONS (CONTINUED)

As described in Note G, the Company was advanced monies from two corporate shareholders in the amount of $200,000. As of December 31, 2005, interest expense related to these loans included in the statements of operations was $9,500. Accrued liabilities includes $4,000 of interest at December 31, 2005.

The Company entered into a consulting agreement with a marketing agency which is owned by one of the shareholders. The marketing company has been contracted to provide certain advertising consulting services related to the National and Local advertising campaign. Consulting fees paid to the marketing agency in 2005 were $7,000.

The Company entered into an agreement with one of the shareholders for the sale and development of franchises in the Arizona territory. The Company agreed to pay royalties on the company owned stores equal to 2.25% of the monthly Arizona franchise store royalty sales. Royalty expense included in the statements of operations as of December 31, 2005 was $8,744.

As described in Note H, the Company sub-leases office space from a related entity under common ownership and control. Rent expense included in the statements of operations was $10,095.

NOTE L - COMMON STOCK

The Company issued 87,000 of the Class A – Voting Shares of its common stock in 2004, and they issued 2,000 shares and 8,000 shares of the Class B – Non-Voting Shares of its common stock in 2005 and 2004, respectively. The remaining 3,000 shares of authorized stock are currently reserved for Summit (Note J) upon attainment of certain sales quotas.

The stockholders are party to an agreement that provides restrictions on the transfer of common stock in certain situations. The agreement also gives the Company the right of first refusal to acquire such shares and the other stockholders have the right of second refusal.

NOTE M – SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Company entered into a twenty-five year agreement for the sale and development of franchises in the Pennsylvania and New Jersey "Franchised Area" for $500,000. The Company received $100,000 upon execution of the agreement, and the Company agrees to pay the Sub-Franchisor certain royalty, commission and training fees.