



DaszkalBolton LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholder
Happy & Healthy Products, Inc.

We have audited the accompanying balance sheets of Happy & Healthy Products, Inc. as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' 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 of America. Those standards require that we plan and perform the audits 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.

The Company's financial statements were not prepared on a consolidated basis of accounting under the requirements of FIN 46R. Disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Happy & Healthy Products, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements for the year ended December 31, 2006 and 2005 taken as a whole. The accompanying schedule of general and administrative expenses on Page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of consolidated information under the requirements of FIN 46R, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Boca Raton, Florida
February 20, 2007

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HAPPY & HEALTHY PRODUCTS, INC.
BALANCE SHEETS
AS OF DECEMBER 31, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 517,480	\$ 464,771
Accounts receivable, net of allowances for doubtful accounts of \$43,500	180,722	151,666
Inventory, net	331,855	268,845
Prepaid expenses	-	8,491
Total current assets	<u>1,030,057</u>	<u>893,773</u>
Property and equipment, net	<u>6,280</u>	<u>12,562</u>
Other assets:		
Franchise development costs, net	4,175	6,659
Due from related party	-	7,500
Security deposits	<u>5,288</u>	<u>5,288</u>
Total other assets	<u>9,463</u>	<u>19,447</u>
Total assets	<u>\$ 1,045,800</u>	<u>\$ 925,782</u>
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 191,064</u>	<u>\$ 80,973</u>
Stockholder's equity:		
Common stock, \$5 par value; 1,000 shares authorized, 100 shares issued and outstanding	500	500
Additional paid-in capital	587,331	587,331
Retained earnings	<u>266,905</u>	<u>256,978</u>
Total stockholder's equity	<u>854,736</u>	<u>844,809</u>
Total liabilities and stockholder's equity	<u>\$ 1,045,800</u>	<u>\$ 925,782</u>

See accompanying notes to financial statements.

HAPPY & HEALTHY PRODUCTS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Net sales	\$ 4,005,716	\$ 3,758,048
Cost of sales	<u>2,754,026</u>	<u>2,641,079</u>
Gross profit	1,251,690	1,116,969
General and administrative expenses	<u>1,014,663</u>	<u>842,926</u>
Income from operations	<u>237,027</u>	<u>274,043</u>
Interest income	<u>17,233</u>	<u>7,603</u>
Net income	<u>\$ 254,260</u>	<u>\$ 281,646</u>

See accompanying notes to financial statements.

HAPPY & HEALTHY PRODUCTS, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, December 31, 2004	100	\$ 500	\$ 587,331	\$ 199,051	\$ 786,882
Net income	-	-	-	281,646	281,646
Stockholder distributions	-	-	-	(223,719)	(223,719)
Balance, December 31, 2005	100	\$ 500	\$ 587,331	\$ 256,978	\$ 844,809
Net income	-	-	-	254,260	254,260
Stockholder distributions	-	-	-	(244,333)	(244,333)
Balance, December 31, 2006	100	\$ 500	\$ 587,331	\$ 266,905	\$ 854,736

See accompanying notes to financial statements.

HAPPY & HEALTHY PRODUCTS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 254,260	\$ 281,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	2,484	2,484
Depreciation	6,282	6,282
Bad debt expense	35,978	17,144
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(65,034)	(30,885)
Inventory	(63,010)	(39,823)
Prepaid expenses and other assets	8,491	2,135
Increase in:		
Accounts payable and accrued expenses	110,091	19,391
Net cash provided by operating activities	<u>289,542</u>	<u>258,374</u>
Cash flows from investing activities:		
Repayment of related party advance	<u>7,500</u>	<u>42,500</u>
Net cash used in investing activities	<u>7,500</u>	<u>42,500</u>
Cash flows from financing activities:		
Stockholder distributions	<u>(244,333)</u>	<u>(223,719)</u>
Net cash used in financing activities	<u>(244,333)</u>	<u>(223,719)</u>
Net increase in cash	52,709	77,155
Cash, beginning of year	<u>464,771</u>	<u>387,616</u>
Cash, end of year	<u>\$ 517,480</u>	<u>\$ 464,771</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

NOTE 1 - NATURE OF BUSINESS

Happy & Healthy Products, Inc. (the "Company") was incorporated in the State of Florida on February 25, 1991 and began offering its products for sale in March of 1993. The Company began establishing franchises in August of 1993 and continues to develop franchise operations.

The Company owns the Fruitfull ® and Happy Indulgence® logos, designs, and product formulas and maintains an inventory of boxes and wrappers for the Fruitfull ® and Happy Indulgence® frozen fruit products as well as the cylinders to produce the Fruitfull ® wrappers and Happy Indulgence® boxes. One manufacturer currently manufactures the Company's Fruitfull ® frozen fruit products in accordance with contract specifications. The Company controls all Fruitfull ® and Happy Indulgence® products from production to shipping. The Company also owns the Be Happy and Healthy® Snacks and Breads logos and designs which are manufactured under a Private Label Contract.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents at December 31, 2006 and 2005.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market. Inventory is comprised of supplies, merchandise and equipment.

Property and Equipment

Property and equipment consists of leasehold improvements and is stated at cost and depreciated over the shorter of lease term on estimated useful lives of the assets (generally 5 to 7 years). Depreciation is calculated using accelerated methods for both financial and income tax reporting. When property and equipment is sold or otherwise removed from use, the asset and related accumulated depreciation accounts are reduced, and any gains or losses are included in operations.

Income Taxes

The Company's stockholder elected to have the corporation treated as an S Corporation for federal income tax purposes. Accordingly, the income or loss of the Company will be included in the stockholder's income tax returns. Therefore, no provision for federal or state income taxes has been made in financial statements of the Company.

Revenue Recognition

Revenue is recognized on the sales of fruit bars when they reach the customers' cold storage warehouses.

Revenue is recognized on the sales of franchises when the Company has performed the services stipulated in the respective franchise agreements. These stipulated services include the initial shipment of freezers and frozen fruit bars.

Franchise Development Costs

Franchise development costs are being amortized over a fifteen-year period. Franchise development costs are net of accumulated amortization of \$33,145 and \$30,661 at December 31, 2006 and 2005, respectively. The Company evaluates the realizability of its intangible assets upon an occurrence of an event which provides an indication that the unamortized cost may be impaired.

HAPPY & HEALTHY PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

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

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended December 31, 2006 and 2005 was \$68,417 and \$38,975, respectively.

Variable Interest Entities

In March 2005, the FASB issued FSP FIN46R-5 ("FSP FIN46R-5"), "Implicit Variable Interests under FASB Interpretation No. 46 (FIN 46)-revised December 2003, Consolidation of Variable Interest Entities". FSP FIN46R-5 requires a reporting enterprise to consider whether it holds an implicit variable interest in a variable interest entity (VIE) or potential VIE. The Company adopted the provisions of FSP FIN46R-5 on April 1, 2005, but was unable to consolidate certain VIEs in which the Company has determined to be its Primary Beneficiary. See Note 9.

NOTE 3 - INVENTORY

The Company's inventory is composed of the following as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Supplies	\$ 298,707	\$ 201,821
Merchandise	17,854	24,468
Equipment	<u>15,294</u>	<u>42,556</u>
Inventory, net	<u>\$ 331,855</u>	<u>\$ 268,845</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The Company's property and equipment is composed of the following as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Leasehold improvements	31,408	31,408
Less: accumulated depreciation	<u>(25,128)</u>	<u>(18,846)</u>
Property and equipment, net	<u>\$ 6,280</u>	<u>\$ 12,562</u>

Depreciation expense was \$6,282 for each of the years ended December 31, 2006 and 2005, respectively.

NOTE 5 – LEASE COMMITMENTS

The Company leases office equipment and an automobile under operating leases with terms of two to five years. The Company leases its office facilities under a three year non-cancelable agreement, which expires September 30, 2009. The base rent is subject to incremental increases of 5% per annum. The monthly rent is the current base rent of \$3,589 plus common-area maintenance and utilities.

Lease obligations for the remaining term of the lease is as follows:

<u>Years ending December 31,</u>	<u>Minimum Payment</u>
2007	\$ 54,584
2008	55,480
2009	42,537
2010	926
Thereafter	-
	<u>\$ 153,527</u>

Rent expense for the years ended December 31, 2006 and 2005 totaled \$44,073 and \$43,475, respectively.

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of trade receivables. The Company has established credit limits to minimize this risk and closely monitors the franchisees' purchasing of its Fruitfull® frozen fruit product line.

The Company maintains its operating cash accounts at various financial institutions. Balances in the accounts may, on occasion, exceed the federally insured limit of \$100,000 per institution. At December 31, 2006 and 2005, the Company's cash balance exceeded the insured limit by approximately \$300,122 and \$231,857, respectively.

NOTE 7 - PENSION PLANS

The Company has a simplified employee pension plan (SEP) covering substantially all employees. Participants of the plan can contribute up to 15% of their gross wages. The Company contributes approximately 2.9% of each participant's compensation. The pension expense for the years ended December 31, 2006 and 2005 was \$5,789 and \$11,422, respectively.

NOTE 8 – RELATED PARTY TRANSACTIONS

During 2000, the Company entered into a five year supply agreement with Ex Corde Enterprises LLC. The agreement is subject to two year unlimited renewals. Ex Corde Enterprises, LLC is 50% owned by the Company's sole stockholder and her husband. The Company's purchases under this contract for the years ended December 31, 2006 and 2005 were \$1,725,553 and \$1,540,979, respectively. In December 2004, the Company advanced \$50,000 to Ex Corde Enterprises LLC of which \$42,500 and \$7,500 was repaid during 2006 and 2007, respectively.

The sole stockholder's husband serves as a business consultant to the Company. Outside services expense was \$20,000 for the years ended December 31, 2006 and 2005.

NOTE 9 – TRANSACTIONS WITH VARIABLE INTEREST ENTITIES

Pursuant to a supply agreement described in Note 8, the Company purchases substantially all of the products manufactured from Ex Corde Enterprises, LLC, ("Ex Corde") a limited liability company. The sole stockholder of the Company beneficially owns a 50% interest in Ex Corde. Purchases from Ex Corde are based on production and operating costs. Purchases for the years ended December 31, 2006 and 2005 were approximately \$1.7 million and \$1.6 million, respectively. In addition, the Company has extended loans to Ex Corde.

Ex Corde leases its manufacturing facility under an operating lease agreement with Cypress Holding, LLC, ("Cypress") a limited liability company. The sole stockholder of the Company beneficially owns a 50% interest in Cypress. In addition, the sole stockholder of the Company has guaranteed the mortgage loan underlying the facility of Cypress.

Summary financial information as with respect to Ex Corde and Cypress as of and for the years ended December 31, 2006 and 2005 are as follows:

<u>(Unaudited)</u>	<u>2006</u>		<u>2005</u>	
	<u>Ex Corde</u>	<u>Cypress</u>	<u>Ex Corde</u>	<u>Cypress</u>
Balance sheet data:				
Current assets	\$ 134,711	\$ 2,176	\$ 135,026	\$ 18,205
Non-current assets	192,377	1,158,535	255,137	1,209,710
Current liabilities	251,597	5,200	190,187	5,200
Non-current liabilities	246,560	1,239,101	284,248	1,273,235
Income statement data:				
Net sales/rent	1,623,131	128,000	1,513,300	109,446
Gross profit	763,825	-	639,753	-
Net loss	\$ (86,797)	\$ (16,690)	\$ (98,404)	\$ (168,846)

HAPPY & HEALTHY PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – SEGMENT INFORMATION

The Company's reportable business segments are strategic business units that offer distinctive products that are marketed through different channels. The two reportable segments of the Company for the years ended December 31, 2006 and 2005 are fruit bars, freezers, snacks and merchandise and franchises.

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies. Management evaluates segment performance based on segment profit and loss. Information for reportable segments is as follows:

	<u>2006</u>	<u>2005</u>
<u>Fruit Bars, Freezers, Snacks and Merchandise:</u>		
Net sales	\$ 3,658,216	\$ 3,505,665
Cost of goods sold	<u>2,710,651</u>	<u>2,582,379</u>
Gross profit	<u>947,565</u>	<u>923,286</u>
<u>Franchise:</u>		
Sales	347,500	252,383
Cost of sales	<u>43,375</u>	<u>58,700</u>
Gross profit	<u>304,125</u>	<u>193,683</u>
<u>Total:</u>		
Net sales	4,005,716	3,758,048
Cost of sales and goods sold	<u>2,754,026</u>	<u>2,641,079</u>
Gross profit	<u>1,251,690</u>	<u>1,116,969</u>
Unallocated general and administrative expenses	<u>1,014,663</u>	<u>842,926</u>
Income from operations	<u>\$ 237,027</u>	<u>\$ 274,043</u>

HAPPY & HEALTHY PRODUCTS, INC.
GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Advertising	\$ 68,417	\$ 38,975
Amortization	2,485	2,484
Auto	14,895	20,190
Bad debt expense	35,978	17,114
Bank charges	41,596	34,057
Charitable donations	10,092	18,020
Commissions	85,156	31,916
Computer expense	21,591	14,271
Copier expense	10,623	7,723
Depreciation	6,282	6,282
Dues and subscriptions	6,333	5,123
Entertainment	5,248	1,633
Insurance	64,139	68,719
Legal and accounting	63,887	39,623
Licenses and taxes	4,694	4,566
Miscellaneous expenses	3,286	1,252
Office expense	10,112	18,983
Office supplies	9,446	6,997
Outside services	20,291	20,000
Payroll tax expense	32,093	28,761
Pension plan expense	5,789	11,422
Postage	4,195	4,176
Printing	7,652	1,774
Rent	44,073	43,475
Salaries	351,847	323,648
Storage expense	-	600
Symposium/convention expense	36,657	32,355
Telephone	14,005	13,599
Travel	25,604	20,033
Utilities	8,197	5,175
Total general and administrative expenses	<u>\$ 1,014,663</u>	<u>\$ 842,946</u>