EXHIBIT 5

PLANET BEACH FRANCHISING CORPORATION
UNIFORM FRANCHISE OFFERING CIRCULAR

FINANCIAL STATEMENTS

PLANET BEACH FRANCHISING CORPORATION

AUDITED FINANCIAL STATEMENTS

December 31, 2004/2003/2002

PLANET BEACH

FRANCHISING CORPORATION AND SUBSIDIARY

December 31, 2004

Audit of Consolidated Financial Statements

December 31, 2004 and 2003

CONTENTS

<u>Independent Auditors' Report</u>

To the Board of Directors
Planet Beach Franchising Corporation
and Subsidiary

We have audited the accompanying consolidated balance sheet of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2004, and the related consolidated statements of operations and retained earnings, comprehensive income, 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 consolidated financial statements based on our audit. The consolidated financial statements of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2003, were audited by other auditors whose report dated March 23, 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 consolidated financial statements are free of material misstatements. 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LEGIER & MATERNE, APAC

March 21, 2005
New Orleans, Louisiana

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(The accompanying notes are an integral part of these financial statements)

ASSETS

	December 31, 2004	December 31, 2003
CURRENT ASSETS		
Cash and Cash Equivalents	$ 377,225	$ 762,977
Trade Receivables		
Notes Receivable (Net of Allowance for Doubtful Accounts of $29,219 for 2004 and $-0- for 2003)	94,533	150,197
Accounts Receivable (Net of Allowance for Doubtful Accounts of $129,527 for 2004 and $25,000 for 2003)	849,171	935,676
Due from Employees	10,266	-
Inventory	494,711	215,019
Prepaid Expenses	29,868	3,546
Franchisee Fee Escrow Deposits	51,234	250,000
Other Assets	22,163	7,163
Investments, at Cost	75,479	-
Cash - Restricted	117,654	107,248
Deferred Tax Asset	51,480	-
Total Current Assets	2,173,784	2,431,826
PROPERTY, PLANT AND EQUIPMENT, NET	672,543	778,378
OTHER ASSETS		
Loan Acquisition Costs, Net	3,689	4,222
Salon Lease Deposits	269,142	269,142
Investments, at Cost	194,386	37,243
Notes Receivable	416,232	133,513
Total Other Assets	883,449	444,120
	$ 3,729,776	$ 3,654,324

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2004	December 31, 2003
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 77,895	$ 303,457
Current Maturities of Capital Leases	27,232	-
Line of Credit	190,000	70,000
Obligation to Private Placement Investors - Current Portion	249	26,131
Accounts Payable	1,378,604	923,769
Income Taxes Payable	204,526	162,534
Customers' Deposits	22,512	378,225
National Advertising Deposits	117,654	112,253
Accrued Liabilities	212,584	297,711
Total Current Liabilities	2,231,256	2,274,080
LONG-TERM DEBT		
Sub-Lessee Deposits	398,861	398,861
Deferred Taxes Payable	56,523	46,773
Notes Payable	479,790	432,757
Capital Leases	56,493	-
Total Long-Term Debt	991,667	878,391
Total Liabilities	3,222,923	3,152,471
STOCKHOLDERS' EQUITY		
Common Stock, $.001 Par Value, 15,000,000 Shares Authorized, 11,945,015 Shares Issued	11,945	11,945
Additional Paid-in Capital	122,795	122,795
Retained Earnings	532,651	518,603
Accumulated Other Comprehensive Income (Loss)	(4,038)	5,010
	663,353	658,353
Less: Cost of Treasury Stock (414,000 Shares)	(156,500)	(156,500)
Total Stockholders' Equity	506,853	501,853
	$ 3,729,776	$ 3,654,324

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(The accompanying notes are an integral part of these financial statements)

	For The Years Ended December 31,	
	2004	2003
OPERATING REVENUES		
Sales of Products	$ 12,229,152	$ 6,952,383
Initial Franchise Fees	2,637,358	3,206,053
Royalties	1,757,749	1,048,073
Area Developer Fees	438,770	341,264
Bed Lease Revenue	5,500	14,260
Transfer Fees	64,000	73,891
Project Management Fees	29,400	449,999
Total Operating Revenues	17,161,929	12,085,923
OPERATING EXPENSES		
Cost of Goods Sold	9,735,893	5,158,773
Operating Expenses	2,366,764	1,993,992
Salaries and Bonuses	3,398,479	2,633,631
Commissions	1,934,673	1,797,194
Total Operating Expenses	17,435,809	11,583,590
INCOME (LOSS) FROM OPERATIONS	(273,880)	502,333
OTHER INCOME (EXPENSE)		
Franchisor-Operated Salon Expense	-	(4,606)
Rent Expense, Net of Sub-lease Rental Income from Franchisees	(32,480)	(81,448)
Interest Income	4,425	1,760
Interest Expense	(19,460)	(34,504)
Other Income	341,239	211,905
Total Other Income	293,724	93,107
NET INCOME BEFORE PROVISION FOR INCOME TAXES	19,844	595,440
PROVISION FOR INCOME TAXES		
Current Income Tax Expense	47,526	162,534
Deferred Tax (Benefit) Expense	(41,730)	48,554
Total Provision for Income Taxes	5,796	211,088
NET INCOME	14,048	384,352
RETAINED EARNINGS - BEGINNING OF YEAR	518,603	134,251
RETAINED EARNINGS - END OF YEAR	$ 532,651	$ 518,603

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(The accompanying notes are an integral part of these financial statements)

	For The Years Ended December 31, 2004	2003
NET INCOME	$ 14,048	$ 384,352
OTHER COMPREHENSIVE GAIN (LOSS), NET OF TAX		
Foreign Currency Translation Adjustment, Net of Tax Expense (Benefit) of $(3,529) and $3,054 at December 31, 2004 and 2003, respectively	(9,048)	5,928
COMPREHENSIVE INCOME	$ 5,000	$ 390,280

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(The accompanying notes are an integral part of these financial statements)

	For The Years Ended December 31, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 14,048	384,352
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization Expense	161,794	127,542
Bad Debt Expense	183,597	185,838
Vendor Rebate Applied to Notes Payable	-	(122,978)
Area Developer Fees Financed	(281,712)	(77,017)
Sale of Salon Financed	(48,500)	-
Decrease (Increase) in Deferred Tax Asset	(51,480)	2,922
Increase in Accounts Receivable	(67,873)	(672,289)
(Increase) Decrease in Employee Receivables	(10,266)	437
Increase in Inventory	(279,692)	(140,671)
Increase in Prepaid Expenses	(8,138)	(639)
Increase in Accounts Payable	454,835	554,738
(Decrease) Increase in Customers' Deposits	(355,713)	377,225
Increase in Income Taxes Payable	41,992	162,534
Increase in Deferred Tax Liability	9,750	45,632
Decrease in Accrued Liabilities	(85,127)	(36,604)
Decrease (Increase) in Franchise Escrow Deposits	198,766	(250,000)
Increase in Other Assets	(15,000)	(1,464)
Net Cash (Used in) Provided by Operating Activities	(138,719)	539,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Acquisition of Property, Plant and Equipment	(60,885)	(297,645)
Proceeds from the Sale of Property, Plant and Equipment	71,000	-
Loan Disbursements for Franchisee Interim Financing Program	(123,752)	(10,632)
Proceeds from Sale of Investment in Salon	-	40,071
Increase in Restricted Cash	(10,406)	(29,641)
Increase in Salon Lease Deposits	-	(139,812)
Increase in Other Investments	(232,622)	(37,243)
Increase in Accumulated Other Comprehensive Income (Loss)	(9,048)	5,928
Proceeds Received from Notes Receivable	197,690	63,963
Net Cash Used in Investing Activities	(168,023)	(405,011)

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(The accompanying notes are an integral part of these financial statements)

	For The Years Ended December 31, 2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	172,727	150,075
Proceeds from Line of Credit, Net	120,000	70,000
Payments on Long-Term Debt	(351,256)	(54,060)
Payments on Obligation to Private Placement Investors	(25,882)	(25,882)
Increase in Sub-Lessee Deposits	-	223,147
Increase in National Advertising Deposits	5,401	26,399
Net Cash (Used in) Provided by Financing Activities	(79,010)	389,679
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(385,752)	524,226
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	762,977	238,751
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 377,225	$ 762,977
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Area Developer Fee Financed by Company	$ 281,712	$ 77,017
Reduction of Notes Payable through Application of Vendor Volume Rebate	$ -	$ 122,979
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid for Interest	$ 19,460	$ 34,504

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A

ORGANIZATION AND BASIS OF PRESENTATION

PLANET BEACH FRANCHISING CORPORATION (Company) was incorporated September 26, 1996, under the laws of the State of Louisiana. The Company is engaged in the business of selling tanning salon franchises throughout the United States and Canada. The Company also sells products and equipment to new and existing franchisees. Credit is regularly extended to franchisees.

During 2002, the Company established Planet Beach Real Estate, LLC (PBRE), in which the Company is the sole member. PBRE was established to facilitate leasing arrangements between property owners and franchisees. PBRE enters into leasing arrangements with property owners and subleases these locations to franchisees.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated.

USE OF ESTIMATES

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

REVENUE RECOGNITION

The Company has entered into franchise agreements that grant franchisees the right to operate individual Planet Beach Tanning salons in return for an initial franchise fee and ongoing development fees (royalties). In addition, the Company has entered into area developer agreements that grant the area developers the right to sell individual Planet Beach Tanning salons in designated territories.

Initial franchise fees and area development fees are recognized as revenue when the Company has substantially performed its obligations as described in the franchise agreement or area developer agreement. The Company accrues royalties based upon the specified royalty rate as per each franchisee's respective franchise agreement.

CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flows, cash and cash equivalents consist of cash in banks, including money market accounts, and certificates of deposit with original maturities of three months or less. Included in cash and cash equivalents at December 31, 2004 and 2003, is a certificate of deposit in the amount of $108,336 and $106,972, respectively, that has an original maturity of less than three months, but has been pledged to secure a note payable to a bank (See Note I).

NOTE B
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Notes receivable consists primarily of area developer fees financed by the Company. The notes have interest rates ranging from non-interest bearing to 9.00%, and mature through 2008.

INVENTORY

The Company's inventory is valued at the lower of cost, determined by first-in first-out method, or market.

PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed using straight-line methods for financial reporting purposes and accelerated methods for income tax purposes.

Maintenance and repairs are charged to expenses as incurred. Betterments and renewals are capitalized. When property, plant, and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation are relieved, any gain or loss is included in income.

The useful lives of property, plant, and equipment for purposes of computing depreciation are:

Buildings	39 Years
Building Improvements	7 – 15 Years
Tanning Beds	7 Years
Computer Equipment	3 – 5 Years
Furniture, Fixtures, and Equipment	3 – 7 Years
Software	5 Years

CASH - RESTRICTED

Restricted cash consists of funds received from franchisees for the Company's national advertising program. Funds received are restricted for expenditures associated with advertising efforts that are deemed to provide benefit to all franchisees within the Planet Beach system.

INCOME TAXES

Income tax expense includes federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax

purposes. These differences result principally from the accelerated recognition of depreciation for tax purposes compared to the amount for financial reporting purposes.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense incurred by the Company during 2004 and 2003 amounted to $228,943 and $132,154, respectively.

COMPREHENSIVE INCOME

Comprehensive income is the total of net income plus all other changes in net assets arising from nonowner sources, which are referred to as other comprehensive income. The Company has presented a separate statement of other comprehensive income. During 2004 and 2003, other comprehensive income consisted solely of a foreign currency translation adjustment.

NOTE C

CONCENTRATIONS

At December 31, 2004, the Company has deposits at a local bank in excess of federally insured limits.

NOTE D

INVESTMENTS

At December 31, 2004, the current portion of investments consisted of a certificate of deposit held by a local bank with a one-year term and the long-term portion of investments consisted of $157,143 in mutual funds held at a national brokerage firm and capitalization costs of $37,243 pertaining to an entity that the Company established through a joint venture with a vendor during 2003. These investments are stated at cost which approximates the estimated net realizable value.

NOTE E

FRANCHISE FEE ESCROW DEPOSITS

During 2004 and 2003, the Company entered into franchise agreements with franchisees located in Minnesota and California. Under the franchise laws of the respective states, the initial franchise fee is held in an escrow account until the franchise location is open for business. The Company has recognized the franchise fees associated with the sale of these franchises as revenue as it has substantially performed its obligations under the franchise agreement.

NOTE F

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31, 2004	December 31, 2003
Land	$ 60,000	$ 60,000
Building	240,435	311,435
Building Improvements	24,014	24,014
Tanning Beds	380,133	380,133
Computer Equipment	251,872	204,510
Furniture, Fixtures and Equipment	56,585	48,189
Software	304,439	233,771
	1,317,478	1,262,052
Less: Accumulated Depreciation and Amortization	(644,935)	(483,674)
Fixed Assets, Net	$ 672,543	$ 778,378

Depreciation and amortization expense associated with property, plant and equipment charged to operations during 2004 and 2003 totaled $161,261 and $127,009, respectively.

Substantially all of the Company's property, plant and equipment are pledged as collateral for various loans of the Company (See Note I).

NOTE G

DEBT ISSUANCE COSTS

Fees associated with the issuance of the note payable secured by the land and building, as mentioned in Note I, are being amortized on the straight-line method over the term of the note. Amortization expense charged to operations in 2004 and 2003 was $533 for each year.

NOTE H

LINE OF CREDIT

The Company has available a $1,000,000 line of credit through a local financial institution. The line of credit is used to facilitate short-term (90 days or less), interim working capital financing for franchisees while their permanent financing arrangements are being processed. The line of credit which matures October 2005, bears interest at bank prime plus 1.0% (6.75% and 5.50% at December 31, 2004 and 2003, respectively), and is secured by accounts receivable and inventory. At December 31, 2004 and 2003, the Company had outstanding borrowings of $190,000 and $70,000, respectively, related to this line of credit.

NOTE I

LONG-TERM DEBT

The following is a summary of the Company's long-term debt:

	December 31, 2004	December 31, 2003
Note Payable – Bank, payable in monthly installments OF $2,932 INCLUDING INTEREST OF 6.0%, THROUGH DECEMBER 2011, SECURED BY LAND AND BUILDING	$ 186,152	$ 207,807
Note Payable – Vendor, interest of 2.0% above Wall Street Journal prime rate payable monthly, secured by specific fixed assets of the Company (See Note L)	-	82,697
Note Payable – Bank, payable in monthly installments of $771 including interest of 5.8%, through December 2008, secured by equipment	32,977	40,075
Note Payable – Bank, payable on demand. Interest payable monthly at 2.70% of outstanding balance, secured by certificate of deposit	-	100,000
Note Payable – Bank, payable in monthly installments of $2,383, including interest of 3.88% through January 2010, secured by two certificates of deposit of the Company	126,114	-
Note Payable – Individual, non-interest bearing, payable in monthly installments of $2,208 through November 2012, secured by stock of Company	212,000	238,500
Notes Payable - Other	442	67,135
	557,685	736,214
Less: Current Portion	77,895	303,457
	$ 479,790	$ 432,757

NOTE I

LONG-TERM DEBT (Continued)

The following is a summary of principal maturities of long-term debt for each of the next five years and thereafter:

2005	$ 77,895
2006	82,253
2007	85,138
2008	88,104
2009	81,853

Interest expense charged to operations during 2004 and 2003 amounted to $19,460 and $34,504, respectively.

NOTE J

CAPITAL LEASE

During 2004, the Company purchased an accounting software package under a capital lease for $88,851. The software cost of $70,667 is included in property, plant and equipment and related training of $18,184 is included in prepaid expenses in the accompanying consolidated balance sheet at December 31, 2004. There was no amortization during 2004 as the software was placed in service effective January 1, 2005. Future minimum lease payments under the capital lease obligation for the years subsequent to December 31, 2004 are as follows:

2005	$ 33,448
2006	33,448
2007	27,874
Total Minimum Lease Payments	94,770
Less Amounts Representing Interest	11,045
Present Value of Future Minimum Capital Lease Payments	$ 83,725

NOTE K

PRIVATE PLACEMENT STOCK OFFERING

During 1999, the Company issued a private placement stock offering whereby the Company offered for sale up to 169,200 shares of its authorized but unissued common stock. The shares were issued in units of 9,400 shares each, at an offering price of $1.50 per share. Potential investors had to subscribe to a minimum of ½ unit, or 4,700 shares. Under the terms of the offering, the Company had to sell a minimum of 47,000 shares.

The Company sold the required minimum number of shares, which resulted in gross proceeds of $70,500. In connection with the private placement stock offering, the Company issued 39,273 shares of its common stock in exchange for the assets of Solarware, LLC. Solarware, LLC developed the salon management software utilized by the Company's franchisees. The value of the assets provided to the Company amounted to $58,910.

NOTE K

PRIVATE PLACEMENT STOCK OFFERING (Continued)

Management of the Company amended the offering prior to solicitation for subscriptions. The amendment provided that the Company would return to the investors their initial investment over a set period of time. Investors are to receive a quarterly return of investment based upon the amount of initial franchise fees collected quarterly. Investors will receive as a return of investment 5% of the initial franchise fees collected each quarter, with a maximum return annually of 20% of the initial investment. After the Company has fully repaid the initial investment, investors will be allowed to retain the shares of stock acquired.

The outstanding balance of Company's obligation to repay its investors in the private placement stock offering has been recognized as a current liability in the accompanying consolidated balance sheets.

NOTE L

COMMITMENTS

PRODUCT PURCHASE AGREEMENT

During 2002, the Company entered into a product purchase agreement (Purchase Agreement) with its primary vendor (Vendor) for tanning beds and supplies whereby the Company agreed to purchase exclusively from the Vendor all tanning equipment and all lamps, parts, accessories, lotions, skin and hair care products, cleaning equipment and other tanning related products used or sold in salons owned, operated, or franchised by the Company. In addition, the Company agreed to designate in existing and future franchise agreements the Vendor as the exclusive supplier of equipment and supplies to the Company. In exchange, the Company is eligible to participate in the Vendor's pricing program whereby the Company will receive a 7% volume rebate on lotions, accessories, and lamps for achieving a 30% increase in purchases from the Vendor each promotional year versus the prior promotional year provided total dollar volume for these items exceeds a minimum of $800,000 in purchases. In addition, the Company will receive a $100 per tanning bed volume rebate for all tanning beds purchased during the promotional year provided a minimum of 400 beds are purchased. Should the Company achieve their projected bed unit purchases, as presented to the Vendor, the per-unit rebate would be increased to $150 per tanning bed.

Under the terms of the Purchase Agreement, the Vendor applied the volume rebates earned by the Company during 2003 against the two notes (Notes) the Company has with the Vendor (see Note I). The rebates were to be applied on a quarterly basis first toward all accrued and unpaid interest and then to the outstanding principal balances of the Notes.

The Purchase Agreement terminates on the latter of October 1, 2008, or the third anniversary of the date on which the Notes are paid in full. During 2004, these notes were paid in full. Subsequent rebates were applied to outstanding invoices payable to the Vendor.

LETTER OF CREDIT

At December 31, 2004, the Company had an unused $30,000 letter of credit through a local bank guaranteeing payment for products purchased from a vendor. The letter of credit is secured by the Company's certificates of deposit.

NOTE L
COMMITMENTS (Continued)

OPERATING LEASES – EQUIPMENT

The Company leases certain office and warehouse equipment through operating leases expiring in various years through 2008.

Future minimum lease payments are as follows:

2005	$ 12,341
2006	9,872
2007	2,152
2008	1,076

Rent expense incurred by the Company for equipment leased under operating leases amounted to $38,351 and $18,010 for 2004 and 2003, respectively.

NOTE M
LEASES WITH FRANCHISEES

LOCATION LEASES

During 2002, the Company, through its subsidiary PBRE, entered into lease agreements for franchise locations under noncancelable operating leases and subleased these locations on terms similar to the primary operating lease to franchisees. Rental expense associated with these leases amounted to $1,300,412 and $1,068,584 for 2004 and 2003, respectively.

Minimum future lease payments to be made by the Company under the above leases are as follows:

2005	$ 1,648,104
2006	1,652,948
2007	1,559,504
2008	324,787
2009	22,050
Thereafter	99,225

Minimum future sublease payments to be received by the Company under the above subleases are as follows:

2005	$ 1,648,104
2006	1,618,189
2007	1,523,702
2008	287,911
2009	22,050
Thereafter	99,925

Rental income associated with these subleases amounted to $1,267,932 and $987,137 for 2004 and 2003, respectively.

NOTE N

CONTINGENCIES

At December 31, 2004 and 2003, the Company was party to various lawsuits filed by current and former franchisees. Outside counsel for the Company is not able to determine the probable outcome of these cases. The Company believes the suits are without merit and is vigorously defending its position.

NOTE O

STOCK OPTION PLAN

At December 31, 2004 and 2003, the Company has outstanding 387,333 options to purchase stock at an exercise price of $1.00 per share. Options were awarded to both initial franchisees into the Planet Beach system as well as to employees. Options granted to franchisees vested immediately upon receipt. Options granted to employees vest at a rate of 25% after one full year of employment. The remaining options vest at a rate of $1/36^{th}$ per month over the remaining 36 months. The options have a maximum term of ten years.

The Company accounts for the stock options under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and the related Interpretations. Accordingly, no stock-based employee compensation cost is reflected in net income. Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation*, the effect on the Company's net income would have been immaterial for both 2004 and 2003.

No options were granted, exercised or forfeited during 2004 and 2003. There were 211,258 options exercisable at both December 31, 2004 and 2003.

NOTE P

EMPLOYEE BENEFIT PLAN

The Company has a defined contribution employee benefit plan (Plan). The Plan is available to employees who have completed at least one-quarter of a year of service and are at least 18 years old. Expense incurred by the Company during 2004 and 2003 associated with the Plan totaled $15,678 and $11,869, respectively.

NOTE Q

INCOME TAXES

Temporary differences giving rise to the deferred tax assets and liability at December 31, 2004 and 2003 consisted primarily of the change in allowance for bad debts and the excess of depreciation for tax purposes over the amount for financial reporting purposes.

The Company's effective income tax rate for 2003 is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of the inclusion of state income taxes and expenses deductible for financial reporting purposes that are not deductible for tax purposes.

NOTE R
RELATED PARTY TRANSACTIONS

The majority stockholder of the Company also has interest in several salons, one of which does not pay royalties to the Company. The amount of royalties that would have been paid by this location during 2004 and 2003 amounted to $3,000 for each year.

At December 31, 2004 and 2003, the amount due to the Company from salons owned by or associated with the majority stockholder of the Company was $27,827 and $5,766, respectively. The balance is included in accounts receivable in the accompanying consolidated balance sheets.

PLANET BEACH

FRANCHISING CORPORATION AND SUBSIDIARY

December 31, 2003

Audit of Consolidated Financial Statements

December 31, 2003
and
December 31, 2002

CONTENTS

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ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Planet Beach Franchising Corporation
and Subsidiary

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2003 and 2002, and the related consolidated statements of operations and retained earnings, comprehensive income, 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 consolidated 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 consolidated financial statements are free of material misstatements. 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LaPorte, Sehrt, Romig & Hand
A Professional Accounting Corporation

March 23, 2004
Metairie, Louisiana

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2003	December 31, 2002
CURRENT ASSETS		
Cash and Cash Equivalents	$ 762,977	238,751
Trade Receivables		
Notes Receivable	150,197	95,362
Accounts Receivable (Net of Allowance for Doubtful Accounts of $25,000 for 2003 and $-0- for 2002)	935,676	426,436
Due from Employees	-	437
Inventory	215,019	74,348
Prepaid Expenses	3,546	2,907
Franchisee Fee Escrow Deposits	250,000	-
Other Assets	7,163	5,699
Deferred Tax Asset	-	2,922
Total Current Assets	2,324,578	846,862
PROPERTY, PLANT AND EQUIPMENT, NET	778,378	607,742
OTHER ASSETS		
Cash - Restricted	107,248	77,607
Loan Acquisition Costs, Net	4,222	4,755
Salon Lease Deposits	269,142	129,330
Investment in Salons	-	40,071
Other Investments, at Cost	37,243	-
Notes Receivable	133,513	187,452
Total Other Assets	551,368	439,215
Total Assets	$ 3,654,324	$ 1,893,819

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2003	December 31, 2002
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 303,457	$ 198,762
Line of Credit	70,000	-
Obligation to Private Placement Investors - Current Portion	26,131	25,882
Accounts Payable	923,769	369,031
Income Taxes Payable	162,534	-
Customers' Deposits	378,225	1,000
National Advertising Deposits	112,253	85,854
Accrued Liabilites	297,711	334,315
Total Current Liabilities	2,274,080	1,014,844
LONG-TERM DEBT		
Sub-Lessee Deposits	398,861	175,714
Deferred Taxes Payable	46,773	1,141
Notes Payable	432,757	564,416
Obligations to Private Placement Investors	-	26,131
Total Long-Term Debt	878,391	767,402
Total Liabilities	3,152,471	1,782,246
STOCKHOLDERS' EQUITY		
Common Stock, $.001 Par Value, 15,000,000 Shares Authorized, 11,945,015 Shares Issued	11,945	11,945
Additional Paid-in Capital	122,795	122,795
Retained Earnings	518,603	134,251
Accumulated Other Comprehensive Income (Loss)	5,010	(918)
	658,353	268,073
Less: Cost of Treasury Stock (414,000 Shares)	(156,500)	(156,500)
Total Stockholders' Equity	501,853	111,573
	$ 3,654,324	$ 1,893,819

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	For The Years Ended December 31, 2003	For The Years Ended December 31, 2002
OPERATING REVENUES		
Sales of Product	$ 6,952,383	$ 3,682,470
Initial Franchise Fees	3,206,053	1,833,144
Royalties	1,048,073	707,401
Area Developer Fees	341,264	340,809
Bed Lease Revenue	14,260	45,885
Transfer Fees	73,891	57,098
Project Management Fees	449,999	125,411
Total Operating Revenues	12,085,923	6,792,218
OPERATING EXPENSES		
Cost of Goods Sold	5,158,773	2,814,144
Operating Expenses	1,993,992	1,409,469
Salaries and Bonuses	2,633,631	1,704,853
Commissions	1,797,194	838,122
Total Operating Expenses	11,583,590	6,766,588
INCOME FROM OPERATIONS	502,333	25,630
OTHER INCOME (EXPENSE)		
Franchisor-Operated Salon Expense	(4,606)	(68,518)
Loss on Investment in Salons	-	(29,520)
Rent Expense, Net of Sub-lease Rental Income from Franchisees	(81,448)	(4,471)
Interest Income	1,760	18,585
Interest Expense	(34,504)	(38,060)
Other Income	211,905	152,588
Total Other Income	93,107	30,604
NET INCOME BEFORE PROVISION FOR INCOME TAXES	595,440	56,234
PROVISION FOR INCOME TAXES		
Current Income Tax Expense	162,534	-
Deferred Tax Expense	48,554	48,546
Total Provision for Income Taxes	211,088	48,546
NET INCOME	384,352	7,688
RETAINED EARNINGS - BEGINNING OF YEAR	134,251	126,563
RETAINED EARNINGS - END OF YEAR	$ 518,603	$ 134,251

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Years Ended December 31, 2003	2002
NET INCOME	$ 384,352	$ 7,688
OTHER COMPREHENSIVE GAIN (LOSS), NET OF TAX		
Foreign Currency Translation Adjustment, Net of Tax Expense (Benefit) of $3,054 and ($162) at December 31, 2003 and 2002, Respectively	5,928	(918)
COMPREHENSIVE INCOME	$ 390,280	$ 6,770

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 384,352	7,688
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Expense	127,542	110,158
Bad Debt Expense	185,838	114,522
Vendor Rebate Applied to Notes Payable	(122,978)	(6,791)
Area Developer Fees Financed	(77,017)	(212,772)
Loss on Investment in Salons	-	29,520
Loss on Disposal of Leasehold Improvements	-	6,158
Decrease (Increase) in Deferred Tax Asset	2,922	(2,922)
Increase in Accounts Receivable	(672,289)	(316,082)
Increase in Inventory	(140,671)	(29,446)
Increase in Prepaid Expenses	(639)	(2,907)
Increase in Accounts Payable	554,738	176,206
Increase in Customers' Deposits	377,225	1,000
Increase in Income Taxes Payable	162,534	-
Increase (Decrease) in Deferred Tax Liability	45,632	(1,359)
(Decrease) Increase in Accrued Liabilities	(36,604)	147,852
Increase in Franchise Escrow Deposits	(250,000)	-
(Increase) Decrease in Other Assets	(1,464)	342
Total Adjustments	154,769	13,479
Net Cash Provided by Operating Activities	539,121	21,167
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Acquisition of Property, Plant and Equipment	(297,645)	(134,935)
Loan Disbursements for Franchisee's Interim Financing Program	(10,632)	-
Proceeds from Sale of Investment in Salon	40,071	-
Decrease in Employee Receivables	437	795
Increase in Restricted Cash	(29,641)	(74,697)
Increase in Salon Lease Deposits	(139,812)	(129,330)
Increase in Other Investments	(37,243)	-
Increase in Accumulated Other Comprehensive Income (Loss)	5,928	(918)
Proceeds Received from Notes Receivable	63,963	38,971
Net Cash Used in Investing Activities	(404,574)	(300,114)

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For The Years Ended December 31, 2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	150,075	-
Proceeds from Line of Credit	70,000	-
Payments on Long-Term Debt	(54,060)	(153,224)
Payments on Obligation to Private Placement Investors	(25,882)	(25,882)
Increase in Sub-Lessee Deposits	223,147	175,714
Increase in National Advertising Deposits	26,399	85,854
Purchase of Treasury Stock	-	(6,500)
Net Cash Provided by Financing Activities	389,679	75,962
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	524,226	(202,985)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	238,751	441,736
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 762,977	$ 238,751
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Area Developer Fee Financed by Company	$ 77,017	$ 212,772
Loss on Investment in Salon	$ -	$ 29,520
Reduction of Notes Payable through Application of Vendor Volume Rebate	$ 122,979	$ 6,791
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid for Interest	$ 34,504	$ 38,060
Cash Paid for Income Taxes	$ -	$ 112,089

NOTE A
ORGANIZATION AND BASIS OF PRESENTATION

PLANET BEACH FRANCHISING CORPORATION (Company) was incorporated September 26, 1996, under the laws of the State of Louisiana. The Company is engaged in the business of selling tanning salon franchises throughout the United States and Canada. The Company also sells products and equipment to new and existing franchisees. Credit is regularly extended to franchisees.

During 2002, the Company established Planet Beach Real Estate, LLC (PBRE), in which the Company is the sole member. PBRE was established to facilitate leasing arrangements between property owners and franchisees. PBRE enters into leasing arrangements with property owners and subleases these locations to franchisees.

NOTE B
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated.

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.

REVENUE RECOGNITION

The Company has entered into franchise agreements that grant franchisees the right to operate individual Planet Beach Tanning salons in return for an initial franchise fee and ongoing development fees (royalties). In addition, the Company has entered into area developer agreements that grant the area developers the right to sell individual Planet Beach Tanning salons in designated territories.

Initial franchise fees and area development fees are recognized as revenue when the Company has substantially performed its obligations as described in the franchise agreement or area developer agreement. These obligations include the following:

- site selection assistance
- assistance in the design and construction of the salon
- advertising assistance
- initial orientation for the franchisee
- salon operations training

The Company accrues royalties based upon the specified royalty rate as per each franchisee's respective franchise agreement.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

For the purposes of the Statements of Cash Flows, Cash and Cash Equivalents consist of cash in banks, including money market accounts, and certificates of deposit with original maturities of three months or less. Included in Cash and Cash Equivalents at December 31, 2003, is a certificate of deposit in the amount of $106,972 that has an original maturity of less than three months, but has been pledged to secure a note payable to a bank (See Note I).

TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Notes receivable consists primarily of Area Developer Fees financed by the Company. The notes have interest rates ranging from 6.75% to 9.00%, and mature through 2008.

INVENTORY

The Company's inventory is valued at the lower of cost, determined by first-in first-out method, or market.

PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed using straight-line methods for financial reporting purposes and accelerated methods for income tax purposes.

Maintenance and repairs are charged to expenses as incurred. Betterments and renewals are capitalized. When property, plant, and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation are relieved, any gain or loss is included in income.

The useful lives of property, plant, and equipment for purposes of computing depreciation are:

Buildings	39 Years
Building Improvements	7 – 15 Years
Tanning Beds	7 Years
Computer Equipment	3 – 5 Years
Furniture, Fixtures, and Equipment	3 – 7 Years
Software	5 Years

NOTE B
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH - RESTRICTED

Restricted Cash consists of funds received from franchisees for the Company's national advertising program. Funds received are restricted for expenditures associated with advertising efforts that are deemed to provide benefit to all franchisees within the Planet Beach system.

OTHER INVESTMENTS

Other Investments consist of capitalization costs of an entity that the Company is establishing through a joint venture with a vendor. This investment is stated at cost which does not exceed the estimated net realizable value.

INCOME TAXES

Income tax expense includes federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. These differences result principally from the accelerated recognition of depreciation for tax purposes compared to the amount for financial reporting purposes.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense incurred by the Company during 2003 and 2002 amounted to $132,154 and $137,725, respectively.

COMPREHENSIVE INCOME

Comprehensive income is the total of net income plus all other changes in net assets arising from nonowner sources, which are referred to as other comprehensive income. The Company has presented a separate statement of other comprehensive income. During 2003 and 2002, other comprehensive income consisted solely of a foreign currency translation adjustment.

NOTE C
CONCENTRATIONS

At December 31, 2003, the Company has deposits at a local bank in excess of federally insured limits.

NOTE D
INVESTMENTS

At December 31, 2002, Investments consisted of a 40% ownership interest in a Planet Beach tanning salon. The Company's investment in this salon was carried at cost. During 2003, the Company sold its interest in the salon for its cost basis. As such, no gain or loss was recognized on the sale.

NOTE E

FRANCHISE FEE ESCROW DEPOSITS

During 2003, the Company entered into franchise agreements with franchisees located in Minnesota and California. Under the franchise laws of the respective states, the initial franchise fee is held in an escrow account until the franchise location is open for business. The Company has recognized the franchise fees associated with the sale of these franchises as revenue as it has substantially performed its obligations under the franchise agreement.

NOTE F

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31, 2003	December 31, 2002
Land	$ 60,000	$ 60,000
Building	311,435	240,000
Building Improvements	24,014	24,014
Tanning Beds	380,133	380,133
Computer Equipment	204,510	118,008
Furniture, Fixtures and Equipment	48,189	36,312
Software	233,771	105,940
	1,262,052	964,407
Less: Accumulated Depreciation and Amortization	(483,674)	(356,665)
Fixed Assets, Net	$ 778,378	$ 607,742

Depreciation and amortization expense associated with property, plant and equipment charged to operations during 2003 and 2002 totaled $127,009 and $109,625, respectively.

Substantially all of the Company's property, plant and equipment are pledged as collateral for various loans of the Company (See Note I).

NOTE G

DEBT ISSUANCE COSTS

Fees associated with the issuance of the note payable secured by the land and building, as mentioned in Note I, are being amortized on the straight-line method over the term of the note. Amortization expense charged to operations in 2003 and 2002 was $533, respectively.

NOTE H

LINE OF CREDIT

During 2003, the Company obtained a $1,000,000 line of credit through a financial institution. The line of credit is used to facilitate short-term (90 days or less), interim working capital financing for franchisees while their permanent financing arrangements are being processed. The line of credit bears interest at 5.50%, and is secured by accounts receivable and inventory. At December 31, 2003, the Company had drawn down $70,000 and had placed these funds in a demand deposit account with the financial institution which funded the line of credit.

NOTE I

LONG-TERM DEBT

The following is a summary of the Company's long-term debt:

	December 31,	
	2003	2002
Note Payable – Bank, payable in monthly installments OF $2,932 INCLUDING INTEREST OF 8.0%, THROUGH DECEMBER 2011, SECURED BY LAND AND BUILDING	$ 207,807	$ 224,133
Note Payable – Individual, payable in monthly installments of $661 including interest of 10.0%, through December 2004, with a balloon payment due December 2004, secured by land and building	43,890	46,933
Note Payable – Vendor, interest of 3.5% above Wall Street Journal prime rate payable monthly, secured by specific fixed assets of the Company (See Note K)	17,745	140,723
Note Payable – Vendor, interest of 2.0% above Wall Street Journal prime rate payable monthly, secured by specific fixed assets of the Company (See Note K)	82,697	82,697
Note Payable – Bank, payable in monthly installments of $771 including interest of 5.8%, through December 2008, secured by equipment	40,075	-
Note Payable – Bank, payable on demand. Interest payable monthly at 2.70% of outstanding balance, secured by certificate of deposit	100,000	-
Note Payable – Individual, non-interest bearing, payable in quarterly installments of $2,500, unsecured	5,500	-

NOTE I

LONG-TERM DEBT (Continued)

	December 31, 2003	2002
Note Payable – Individual, non-interest bearing, payable in monthly installments of $1,231 through March 2003, secured by specific fixed assets of the Company	-	3,692
Note Payable – Individual, non-interest bearing, payable in monthly installments of $2,208 through November 2012, secured by stock of Company	238,500	265,000
	736,214	763,178
Less: Current Portion	303,457	198,762
	$ 432,757	$ 564,416

The following is a summary of principal maturities of long-term debt for each of the next five years and thereafter:

2004	$ 303,457
2005	56,298
2006	58,120
2007	60,054
2008	62,106
Thereafter	196,179
	$ 736,214

Interest expense charged to operations during 2003 and 2002 amounted to $34,504 and $38,060, respectively.

NOTE J

PRIVATE PLACEMENT STOCK OFFERING

During 1999, the Company issued a private placement stock offering whereby the Company offered for sale up to 169,200 shares of its authorized but unissued common stock. The shares were issued in units of 9,400 shares each, at an offering price of $1.50 per share. Potential investors had to subscribe to a minimum of ½ unit, or 4,700 shares. Under the terms of the offering, the Company had to sell a minimum of 47,000 shares.

NOTE J
PRIVATE PLACEMENT STOCK OFFERING (Continued)

The Company sold the required minimum number of shares, which resulted in gross proceeds of $70,500. In connection with the private placement stock offering, the Company issued 39,273 shares of its common stock in exchange for the assets of Solarware, LLC. Solarware, LLC developed the salon management software utilized by the Company's franchisees. The value of the assets provided to the Company amounted to $58,910.

Management of the Company amended the offering prior to solicitation for subscriptions. The amendment provided that the Company would return to the investors their initial investment over a set period of time. Investors are to receive a quarterly return of investment based upon the amount of initial franchise fees collected quarterly. Investors will receive as a return of investment 5% of the initial franchise fees collected each quarter, with a maximum return annually of 20% of the initial investment. After the Company has fully repaid the initial investment, investors will be allowed to retain the shares of stock acquired.

The outstanding balance of Company's obligation to repay its investors in the private placement stock offering has been recognized as a liability on the Balance Sheets. Management anticipates obtaining sufficient franchise fees to pay the maximum repayment amount (20%) for 2004. As such, this amount has been recognized as a Current Liability.

NOTE K
COMMITMENTS

PRODUCT PURCHASE AGREEMENT

During 2002, the Company entered into a product purchase agreement (Purchase Agreement) with its primary vendor (Vendor) for tanning beds and supplies whereby the Company agreed to purchase exclusively from the Vendor all tanning equipment and all lamps, parts, accessories, lotions, skin and hair care products, cleaning equipment and other tanning related products used or sold in salons owned, operated, or franchised by the Company. In addition, the Company agreed to designate in existing and future franchise agreements the Vendor as the exclusive supplier of equipment and supplies to the Company. In exchange, the Company is eligible to participate in the Vendor's pricing program whereby the Company will receive a 7% volume rebate on lotions, accessories, and lamps for achieving a 30% increase in purchases from the Vendor each promotional year versus the prior promotional year provided total dollar volume for these items exceeds a minimum of $800,000 in purchases. In addition, the Company will receive a $100 per tanning bed volume rebate for all tanning beds purchased during the promotional year provided a minimum of 400 beds are purchased. Should the Company achieve their projected bed unit purchases, as presented to the Vendor, the per-unit rebate would be increased to $150 per tanning bed.

Under the terms of the Purchase Agreement, the Vendor will apply the volume rebates earned by the Company against the two notes (Notes) the Company has with the Vendor (see Note I). The rebates are to be applied on a quarterly basis first toward all accrued and unpaid interest and then to the outstanding principal balances of the Notes. The Company remains obligated on the Notes if the amount of volume rebates is not sufficient to repay the Notes.

NOTE K

COMMITMENTS (Continued)

PRODUCT PURCHASE AGREEMENT (Continued)

The Agreement terminates on the latter of October 1, 2008, or the third anniversary of the date on which the Notes are paid in full. Management anticipates that it will have product purchases sufficient to generate vendor rebates whereby the outstanding balances of the Notes will be paid off by December 31, 2004. As such, the entire outstanding balance associated with the Notes has been included in Current Maturities of Notes Payable as of December 31, 2003.

OPERATING LEASES – EQUIPMENT

The Company leases certain office and warehouse equipment through operating leases expiring in various years through 2008.

Future minimum lease payments are as follows:

2004	$ 14,267
2005	12,341
2006	9,872
2007	2,152
2008	1,076
	$ 39,708

Rent expense incurred by the Company for equipment leased under operating leases amounted to $18,010 for 2003 and $7,095 for 2002.

OPERATING LEASES – FACILITIES

During 2002, the Company leased office facilities under an operating lease that expired on December 31, 2002. The lease was not renewed. Rent expenses incurred by, the Company for lease office space amounted to $-0- for 2003 and $36,000 for 2002, respectively.

NOTE L

LEASES WITH FRANCHISEES

LOCATION LEASES

During 2002, the Company, through its subsidiary PBRE, entered into lease agreements for franchise locations under noncancelable operating leases and subleased these locations on terms similar to the primary operating lease to franchisees. Rental expense associated with these leases amounted to $1,068,584 for 2003 and $39,513 for 2002.

NOTE L
LEASES WITH FRANCHISEES (Continued)

LOCATION LEASES (Continued)

Minimum future lease payments to be made by the Company under the above leases are as follows:

2004	$ 1,614,841
2005	1,624,104
2006	1,628,948
2007	1,535,504
2008	310,787
Thereafter	175,277
	$ 6,889,461

Minimum future sublease payments to be received by the Company under the above subleases are as follows:

2004	$ 1,606,077
2005	1,614,358
2006	1,618,189
2007	1,523,702
2008	287,911
Thereafter	121,275
	$ 6,771,512

Rental income associated with these subleases amounted to $987,137 for 2003.

EQUIPMENT LEASES

The Company is the lessor of tanning beds under operating leases expiring in various years through 2004. The net book value of the tanning equipment held for lease at December 31, 2003, is $78,094.

Minimum future rentals to be received on non-cancelable leases as of December 31, 2003, amount to $19,420 for 2004.

NOTE M
CONTINGENCIES

At December 31, 2003, the Company is named as a defendant in two lawsuits filed by former franchisees. Outside counsel for the Company is not able to determine the probable outcome of these cases. The Company believes the suits are without merit and is vigorously defending its position.

NOTE N

STOCK OPTION PLAN

At December 31, 2003, the Company has outstanding 387,333 options to purchase stock at an exercise price of $1.00 per share. Options were awarded to both initial franchisees into the Planet Beach system as well as to employees. Options granted to franchisees vested immediately upon receipt. Options granted to employees vest at a rate of 25% after one full year of employment. The remaining options vest at a rate of 1/36th per month over the remaining 36 months. The options have a maximum term of ten years.

The Company accounts for the stock options under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and the related Interpretations. Accordingly, no stock-based employee compensation cost is reflected in net income. Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income would have been $359,602.

The following is a summary of the status of options during 2003:

	Number of Shares	Exercise Price
Outstanding at January 1, 2003	387,333	$1.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at December 31, 2003	387,333	$1.00
Options Exercisable at December 31, 2003	211,258	$1.00

NOTE O

EMPLOYEE BENEFIT PLAN

The Company has a defined contribution employee benefit plan (Plan). The Plan is available to employees who have completed at least one-quarter of a year of service and are at least 18 years old. Expense incurred by the Company during 2003 and 2002 associated with the Plan totaled $11,869 and $9,836, respectively.

NOTE P

INCOME TAXES

Temporary differences giving rise to the deferred tax liability at December 31, 2003 and 2002 consists primarily of the excess of depreciation for tax purposes over the amount for financial reporting purposes.

The Company's effective income tax rate is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of the inclusion of state income taxes and expenses deductible for financial reporting purposes that are not deductible for tax purposes.

NOTE P
INCOME TAXES (Continued)

Deferred tax expense for the year ended December 31, 2002, pertained to the reduction from December 31, 2001 to December 31, 2002 in the Company's deferred tax asset associated with its net operating loss carryforward.

NOTE Q
RELATED PARTY TRANSACTIONS

The majority stockholder of the Company also has interest in several salons, one of which does not pay royalties to the Company. The amount of royalties that would have been paid by this location during 2003 and 2002, amounted to $3,000, respectively.

At December 31, 2003 and 2002, the amount due to the Company from a salon owned by the majority stockholder of the Company was $5,766 and $19,939, respectively. The balance is included in Accounts Receivable in the Consolidated Balance Sheets.

PLANET BEACH

FRANCHISING CORPORATION AND SUBSIDIARY

December 31, 2002

Audit of Consolidated Financial Statements

December 31, 2002

CONTENTS

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&
Hand

To the Board of Directors
Planet Beach Franchising Corporation and Subsidiary

Independent Auditor's Report

We have audited the accompanying consolidated balance sheet of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2002, and the related consolidated statements of operations and retained earnings, comprehensive income, 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 misstatements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY** as of December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LaPorte, Sehrt, Romig & Hand
A Professional Accounting Corporation

February 28, 2003
Metairie, Louisiana

A Professional Accounting Corporation
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PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31, 2002

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 238,751
Trade Receivables	
Notes Receivable	95,362
Accounts Receivable	426,436
Due from Employees	437
Merchandise Inventory	74,348
Prepaid Expenses	2,907
Other Assets	5,699
Deferred Tax Asset	2,922
Total Current Assets	846,862
PROPERTY, PLANT AND EQUIPMENT, NET	607,742
OTHER ASSETS	
Cash - Restricted	77,607
Loan Acquisition Costs, Net	4,755
Salon Lease Deposits	129,330
Investment in Salons	40,071
Notes Receivable	187,452
Total Other Assets	439,215
Total Assets	$ 1,893,819

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Current Maturities of Notes Payable	$ 198,762
Obligation to Private Placement Investors - Current Portion	25,882
Accounts Payable	370,031
National Advertising Deposits	85,854
Accrued Liabilites	334,315
Total Current Liabilities	1,014,844
LONG-TERM DEBT	
Sub-Lessee Deposits	175,714
Deferred Taxes Payable	1,141
Notes Payable	564,416
Obligations to Private Placement Investors	26,131
Total Long-Term Debt	767,402
Total Liabilities	1,782,246
STOCKHOLDERS' EQUITY	
Common Stock, $.001 Par Value, 15,000,000 Shares Authorized, 11,945,015 Shares Issued and Outstanding	11,945
Additional Paid-in Capital	122,795
Retained Earnings	134,251
Accumulated Other Comprehensive Loss	(918)
Total Paid-in Capital and Retained Earnings	268,073
Less: Cost of Treasury Stock (414,000 Shares)	(156,500)
Total Stockholders' Equity	111,573
	$ 1,893,819

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
For The Year Ended December 31, 2002

OPERATING REVENUES	
Sales of Product	$ 3,682,470
Initial Franchise Fees	1,833,144
Royalties	707,401
Area Developer Fees	340,809
Bed Lease Revenue	45,885
Transfer Fees	57,098
Project Management Fees	125,411
Total Operating Revenues	6,792,218
OPERATING EXPENSES	
Cost of Goods Sold	2,814,144
Operating Expenses	1,409,469
Salaries and Bonuses	1,704,853
Commissions	838,122
Total Operating Expenses	6,766,588
INCOME FROM OPERATIONS	25,630
OTHER INCOME (EXPENSE)	
Franchisor-Operated Salon Expense	(68,518)
Loss on Investment in Salons	(29,520)
Rent Expense, Net of Sub-lease Rental Income from Franchisees	(4,471)
Interest Income	18,585
Interest Expense	(38,060)
Other Income	152,588
Total Other Income	30,604
NET INCOME BEFORE PROVISION FOR INCOME TAXES	56,234
PROVISION FOR INCOME TAXES	
Deferred Tax Expense	48,546
Total Provision for Income Taxes	48,546
NET INCOME	7,688

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended December 31, 2002

NET INCOME	$ 7,688
OTHER COMPREHENSIVE LOSS, NET OF TAX	
Foreign Currency Translation Adjustment, Net of Tax Benefit of $162	(918)
COMPREHENSIVE INCOME	$ 6,770

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 7,688
Adjustments to Reconcile Net Income to Net Cash	
Provided by Operating Activities:	
Depreciation and Amortization Expense	110,158
Bad Debt Expense	114,522
Vendor Rebate Applied to Notes Payable	(6,791)
Area Developer Fees Financed	(212,772)
Loss on Investment in Salons	29,520
Loss on Disposal of Leasehold Improvements	6,158
Increase in Deferred Tax Asset	(2,922)
Decrease in Deferred Tax Liability	(1,359)
Increase in Accounts Receivable	(316,082)
Increase in Inventory	(29,446)
Increase in Prepaid Expenses	(2,907)
Increase in Accounts Payable	177,206
Increase in Accrued Expenses	147,852
Decrease in Other Assets	342
Total Adjustments	13,479
Net Cash Provided by Operating Activities	21,167
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Paid for Acquisition of Property, Plant and Equipment	(134,935)
Decrease in Employee Receivables	795
Increase in Restricted Cash	(74,697)
Increase in Salon Lease Deposits	(129,330)
Increase in Accumulated Other Comprehensive Loss	(918)
Proceeds Received from Notes Receivable	38,971
Net Cash Used in Investing Activities	(300,114)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Notes Payable	(153,224)
Payments on Obligation to Private Placement Investors	(25,882)
Increase in Sub-Lessee Deposits	175,714

PLANET BEACH FRANCHISING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the Year Ended December 31, 2002

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Area Developer Fee Financed by Company	$ 212,772
Loss on Investment in Salon	$ 29,520
Reduction of Notes Payable through Application of Vendor Volume Rebate	$ 6,791
SUPPLEMENTAL CASH FLOW DISCLOSURES	
Cash Paid for Interest	$ 38,060
Cash Paid for Income Taxes	$ 112,089

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

NOTE A

ORGANIZATION AND BASIS OF PRESENTATION

PLANET BEACH FRANCHISING CORPORATION (the Company) was incorporated September 26, 1996 under the laws of the State of Louisiana. The Company is engaged in the business of selling tanning salon franchises throughout the United States and Canada. The Company also sells products and equipment to new and existing franchisees. Credit is regularly extended to franchisees.

During 2002, the Company established Planet Beach Real Estate, LLC (PBRE), in which the Company is the sole member. PBRE was established to facilitate leasing arrangements between property owners and franchisees. PBRE enters into leasing arrangements with property owners and subleases these locations to franchisees.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated.

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.

REVENUE RECOGNITION

The Company has entered into franchise agreements that grant franchisees the right to operate individual Planet Beach Tanning salons in return for an initial franchise fee and ongoing development fees (royalties). In addition, the Company has entered into area developer agreements that grant the area developers the right to sell individual Planet Beach Tanning salons in designated territories.

Initial franchise fees and area development fees are recognized as revenue when the Company has substantially performed its obligations as described in the franchise agreement or area developer agreement. These obligations include the following:

- site selection assistance
- assistance in the design and construction of the salon
- advertising assistance
- initial orientation for the franchisee
- salon operations training

The Company accrues royalties based upon the specified royalty rate as per each franchisee's respective franchise agreement.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENT OF CASH FLOWS

For the purposes of the Statement of Cash Flows, Cash and Cash Equivalents consist of cash in banks, including money market accounts.

TRADE RECEIVABLES

Trade receivables are carried at original invoice amount. The Company considers trade accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is considered necessary by management. If accounts become uncollectible, any such amount will be charged to operations when management makes the determination. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America. Recoveries of trade receivables previously written off are recorded when received.

Notes receivable consists primarily of Area Developer Fees financed by the Company. The notes have interest rates ranging from 6.75% to 9.00%, and mature through 2008.

MERCHANDISE INVENTORY

The Company's inventory is valued at the lower of cost, determined by first-in first-out method, or market.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation using straight-line methods with useful lives of three to 39 years.

Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. When items of property, plant, and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

RESTRICTED CASH

Restricted Cash consists of funds received from franchisees for the Company's national advertising program. Funds received are restricted for expenditures associated with advertising efforts that are deemed to provide benefit to all franchisees within the Planet Beach system.

INCOME TAXES

Income tax expense includes federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. These differences result principally from the accelerated recognition of depreciation for tax purposes over the amount for financial reporting purposes.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense incurred by the Company during 2002 amounted to $137,725.

NOTE B
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME

Comprehensive income is the total of net income plus all other changes in net assets arising from nonowner sources, which are referred to as other comprehensive income. The Company has presented a separate statement of other comprehensive income. During 2002, other comprehensive income consisted solely of a foreign currency translation adjustment.

NOTE C
CONCENTRATIONS

At December 31, 2002, the Company has deposits at a local bank in excess of federally insured limits.

NOTE D
INVESTMENTS

At December 31, 2002, Investments consist of ownership interest in a Planet Beach tanning salon in which the Company has a 40% ownership interest. The Company's investment in this salon is carried at cost. No adjustment has been made for the Company's proportionate share of undistributed earnings of the salon, as required by accounting principles generally accepted in the United States of America, as management considers the amounts to be immaterial to the financial statements of the Company taken as a whole.

NOTE E
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31, 2002:

Land	$ 60,000
Building	240,000
Building Improvements	24,014
Tanning Beds	380,133
Computer Equipment	118,008
Furniture, Fixtures and Equipment	36,312
Software	105,940
	964,407
Less: Accumulated Depreciation and Amortization	(356,665)
Fixed Assets, Net	$ 607,742

Depreciation and amortization expense associated with property, plant and equipment charged to operations during 2002 totaled $109,625.

Substantially all of the Company's property, plant and equipment are pledged as collateral for various loans of the Company (See Note G).

NOTE F

DEBT ISSUANCE COSTS

Fees associated with the issuance of the note payable secured by the land and building, as mentioned in Note G, are being amortized on the straight-line method over the term of the note. Amortization expense charged to operations in 2002 was $533.

NOTE G

NOTES PAYABLE

The Company's notes payable consist of the following at December 31, 2002:

Note Payable – Bank, payable in monthly installments of $2,932 including interest of 8.0%, through December 2011, secured by land and building	$ 224,133
Note Payable – Individual, payable in monthly installments of $661 including interest of 10.0%, through December 2004, with a balloon payment due December 2004, secured by land and building	46,933
Note Payable – Vendor, interest of 3.5% above Wall Street Journal prime rate payable monthly, secured by specific fixed assets of the Company (See Note H)	140,723
Note Payable – Vendor, interest of 2.0% above Wall Street Journal prime rate payable monthly, secured by specific fixed assets of the Company (See Note H)	82,697
Note Payable – Individual, non-interest bearing, payable in monthly installments of $1,231 through March 2003, secured by specific fixed assets of the Company	3,692
Note Payable – Individual, non-interest bearing, payable in monthly installments of $2,208 through November 2012, secured by investment in salons and stock of Company.	265,000
	763,178
Less: Current Portion	198,762
	$ 564,416

NOTE G
NOTES PAYABLE (Continued)

The following is a summary of principal maturities of notes payable during the next five years and thereafter:

2003	$ 198,762
2004	165,204
2005	47,290
2006	49,014
2007	50,884
Thereafter	252,024
	$ 763,178

Interest expense charged to operations during 2002 amounted to $38,060.

NOTE H
COMMITMENTS

PRODUCT PURCHASE AGREEMENT

During 2002, the Company entered into a product purchase agreement (the Purchase Agreement) with its primary vendor (the Vendor) for tanning beds and supplies whereby the Company agreed to purchase exclusively from the Vendor all tanning equipment and all lamps, parts, accessories, lotions, skin and hair care products, cleaning equipment and other tanning related products used or sold in salons owned, operated, or franchised by the Company. In addition, the Company agreed to designate in existing and future franchise agreements the Vendor as the exclusive supplier of equipment and supplies to the Company. In exchange, the Company is eligible to participate in the Vendor's pricing program whereby the Company will receive a 7% volume rebate on lotions, accessories, and lamps for achieving a 30% increase in purchases from the Vendor each promotional year versus the prior promotional year provided total dollar volume for these items exceeds a minimum of $800,000 in purchases. In addition, the Company will receive a $100 per tanning bed volume rebate for all tanning beds purchased during the promotional year provided a minimum of 400 beds are purchased. Should the Company achieve their projected bed unit purchases, as presented to the Vendor, the per-unit rebate would be increased to $150 per tanning bed.

Under the terms of the Purchase Agreement, the Vendor will apply the volume rebates earned by the Company against the two notes (the Notes) the Company has with the Vendor (see Note G). The rebates are to be applied on a quarterly basis first toward all accrued and unpaid interest and then to the outstanding principal balances of the Notes. The Company remains obligated on the Notes if the amount of volume rebates is not sufficient to repay the Notes.

The Agreement terminates on the latter of October 1, 2008 or the third anniversary of the date on which the Notes are paid in full. Management anticipates that it will have product purchases sufficient to generate vendor rebates whereby the outstanding balances of the Notes will be paid off by June 30, 2004. As such, two-thirds of the outstanding balance associated with the Notes has been included in Current Maturities of Notes Payable.

NOTE H

COMMITMENTS (Continued)

OPERATING LEASES – EQUIPMENT

The Company leases certain office equipment through operating leases expiring in various years through 2005.

Future minimum lease payments are as follows:

2003	$	3,036
2004		2,613
2005		1,767
	$	7,416

Rent expense incurred by the Company for equipment leased under operating leases amounted to $7,095 for 2002.

OPERATING LEASES – FACILITIES

During 2002, the Company leased office facilities under an operating lease that expired on December 31, 2002. The lease was not renewed. Rent expense incurred by the Company for lease office space amounted to $36,000 for 2002.

The Company is also the lessee of a salon location that expires in September 2007. This lease provides for minimum monthly rentals of $875 per month.

Future minimum lease payments are as follows:

2003	$	10,500
2004		10,500
2005		10,500
2006		10,500
2007		7,875
	$	49,875

NOTE I

LEASES WITH FRANCHISEES

LOCATION LEASES

During 2002, the Company, through its subsidiary PBRE, entered into lease agreements for franchise locations under noncancelable operating leases and subleased these locations on terms similar to the primary operating lease to franchisees. Rental expense associated with these leases amounted to $39,513 for 2002.

NOTE I

LEASES WITH FRANCHISEES (Continued)

LOCATION LEASES (Continued)

Minimum future lease payments to be made by the Company under the above leases are as follows:

2003	$ 797,639
2004	849,003
2005	850,160
2006	842,555
2007	740,081
Thereafter	60,356
	$ 4,139,794

Rental income associated with these subleases amounted to $35,042 for 2002.

Minimum future sublease payments to be received by the Company under the above subleases are as follows:

2003	$ 797,639
2004	849,003
2005	850,160
2006	842,555
2007	740,081
Thereafter	60,356
	$ 4,139,794

EQUIPMENT LEASES

The Company is the lessor of tanning beds under operating leases expiring in various years through 2004. The net book value of the tanning equipment held for lease at December 31, 2002 is $132,399.

Minimum future rentals to be received on non-cancelable leases as of December 31, 2002 for the remaining lease term and in the aggregate are:

2003	$ 27,240
2004	19,420

$ 46,660

NOTE J

CONTINGENCIES

At December 31, 2002, the Company is named as a defendant in two lawsuits filed by former franchisees. Outside counsel for the Company is not able to determine the probable outcome of these cases. The Company believes the suits are without merit and is vigorously defending its position.

NOTE K

PRIVATE PLACEMENT STOCK OFFERING

During 1999, the Company issued a private placement stock offering whereby the Company offered for sale up to 169,200 shares of its authorized but unissued common stock. The shares were issued in units of 9,400 shares each, at an offering price of $1.50 per share. Potential investors had to subscribe to a minimum of ½ unit, or 4,700 shares. Under the terms of the offering, the Company had to sell a minimum of 47,000 shares.

The Company sold the required minimum number of shares, which resulted in gross proceeds of $70,500. In connection with the private placement stock offering, the Company issued 39,273 shares of its common stock in exchange for the assets of Solarware, LLC. Solarware, LLC developed the salon management software utilized by the Company's franchisees. The value of the stock issued by the Company in exchange for the assets of Solarware, LLC amounted to $58,910.

Management of the Company amended the offering prior to solicitation for subscriptions. The amendment provided that the Company would return to the investors their initial investment over a set period of time. Investors are to receive a quarterly return of investment based upon the amount of initial franchise fees collected quarterly. Investors will receive as a return of investment 5% of the initial franchise fees collected each quarter, with a maximum return annually of 20% of the initial investment. After the Company has fully repaid the initial investment, investors will be allowed to retain the shares of stock acquired.

The outstanding balance of Company's obligation to repay its investors in the private placement stock offering has been recognized as a liability on the balance sheet. Management anticipates obtaining sufficient franchise fees to pay the maximum repayment amount (20%) for 2003. As such, this amount has been recognized as a Current Liability.

NOTE L

STOCK OPTION PLAN

At December 31, 2002, the Company has outstanding 387,333 options to purchase stock at an exercise price of $1.00 per share. Options were awarded to both initial franchisees into the Planet Beach system as well as to employees. Options granted to franchisees vested immediately upon receipt. Options granted to employees vest at a rate of 25% after one full year of employment. The remaining options vest at a rate of 1/36th per month over the remaining 36 months. The options have a maximum term of ten years.

NOTE L
STOCK OPTION PLAN (Continued)

The Company accounts for the stock options under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and the related Interpretations. Accordingly, no stock-based employee compensation cost is reflected in net income. Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income would have been $6,349.

The following is a summary of the status of options during 2002:

	Number of Shares	Exercise Price
Outstanding at January 1, 2002	159,233	$1.00
Granted	228,100	1.00
Exercised	-	1.00
Forfeited	-	1.00
Outstanding at December 31, 2002	387,333	$1.00
Options Exercisable at December 31, 2002	151,733	$1.00
Weighted-Average Fair Value of Options Granted During the Year	$ .63	

In accordance with SFAS No. 123, the Company calculated the minimum value of the options granted based on an expected option life of 10 years, a risk-free interest rate of 4.66%, and a fair value of its stock equivalent to the exercise price of $1.00 per share.

NOTE M
EMPLOYEE BENEFIT PLAN

During 2002, the Company established a defined contribution employee benefit plan (the Plan). The Plan is available to employees who have completed at least one-quarter of a year of service and are at least 18 years old. Expense incurred by the Company during 2002 associated with the Plan totaled $9,836.

NOTE N
INCOME TAXES

The Company has available at December 31, 2002, $15,380 of unused operating loss carryforward that may be applied against future taxable income and that expire in 2021. The deferred tax asset pertaining to the unused loss carryforward amounted to $2,922 at December 31, 2002.

NOTE N

INCOME TAXES (Continued)

Deferred tax expense consists of the reduction in the Company's deferred tax asset associated with its net operating loss carryforward. During 2002, the Company was able to offset its taxable income with its available net operating loss carryforward. The deferred tax asset associated with the remaining net operating loss carryforward was calculated using a combined federal and state tax rate of 19%, as compared to a combined federal and state tax rate of 38% when the deferred tax asset was initially recorded in 2001.

Temporary differences giving rise to the deferred tax liability consists primarily of the excess of depreciation for tax purposes over the amount for financial reporting purposes.

NOTE O

RELATED PARTY TRANSACTIONS

The majority stockholder of the Company also has interest in several salons, one of which does not pay royalties to the Company. The amount of royalties that would have been paid by this location during 2002 amounted to $3,000.

At December 31, 2002, the amount due to the Company from a salon owned by the majority stockholder of the Company was $19,939. This balance is included in Accounts Receivable in the Consolidated Balance Sheet.