

**EXHIBIT 1**  
**FINANCIAL STATEMENTS**

POWELL'S SWEET SHOPPE USA, LLC

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2005



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## INDEPENDENT AUDITOR'S REPORT

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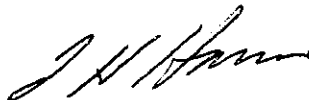
To the Member  
Powell's Sweet Shoppe USA, LLC  
Santa Rosa, California

We have audited the accompanying balance sheet of Powell's Sweet Shoppe USA, LLC, as of December 31, 2005, and the related statements of income, member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Powell's Sweet Shoppe USA, LLC as of December 31, 2005, and the results of its operations and their cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

As we discussed in Note 6 to the financial statements, the Company's beginning Member's Equity has been adjusted for an error in the capitalization of franchise fees in the prior year. According to Statement of Position 98-5, these costs should have been expensed as start up costs.



Rohnert Park, California  
August 24, 2006

POWELL'S SWEET SHOPPE USA, LLC

BALANCE SHEET

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$	34,590
Due from others		1,693
Property and equipment, net		<u>26,985</u>
Total assets	\$	<u>63,268</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Accounts payable	\$	13,695
Refundable deposits		<u>30,000</u>
Total liabilities		43,695
Member's equity		<u>19,573</u>
Total liabilities & member's equity	\$	<u>63,268</u>

See Independent Auditor's Report and  
Notes to Financial Statements.



POWELL'S SWEET SHOPPE USA, LLC  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2005

NET SALES	\$	0
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		<u>14,834</u>
INCOME (LOSS) FROM OPERATIONS		(14,834)
PROVISION FOR INCOME TAXES		<u>(800)</u>
NET INCOME (LOSS)		<u><u>(15,634)</u></u>

See Independent Auditor's Report and  
Notes to Financial Statements.



POWELL'S SWEET SHOPPE USA, LLC

MEMBER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

MEMBER'S EQUITY, JANUARY 1, 2005, as previously reported	\$ 36,764
ADJUSTMENTS FOR OVERSTATEMENT OF CAPITALIZED ASSETS	<u>(37,700)</u>
MEMBER'S EQUITY JANUARY 1, 2005, as restated	(936)
NET INCOME (LOSS)	(15,634)
CONTRIBUTIONS	<u>36,143</u>
MEMBER'S EQUITY DECEMBER 31, 2005	<u>\$ 19,573</u>

See Independent Auditor's Report and  
Notes to Financial Statements.



POWELL'S SWEET SHOPPE USA, LLC  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS PROVIDED BY (USED FOR) OPERATIONS

Net income (loss)	\$ (15,634)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Due from other	(1,693)
Accrued expenses	(936)
Refundable deposits	<u>30,000</u>
NET CASH USED FOR OPERATIONS	11,737

CASH FLOWS PROVIDED BY (USED FOR)  
INVESTING ACTIVITIES

Acquisition of fixed assets	<u>(13,290)</u>
NET CASH USED FOR INVESTING ACTIVITIES	(13,290)

See Independent Auditor's Report and  
Notes to Financial Statements.





POWELL'S SWEET SHOPPE USA, LLC  
STATEMENT OF CASH FLOWS - continued  
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS PROVIDED BY (USED FOR)  
FINANCING ACTIVITIES

CONTRIBUTIONS BY OWNERS	\$ <u>36,143</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>36,143</u>
NET INCREASE (DECREASE) CASH	34,590
CASH, JANUARY 1	<u>0</u>
CASH, DECEMBER 31	\$ <u><u>34,590</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash paid during the year for:

Interest	\$ <u>0</u>
Income taxes	\$ <u><u>800</u></u>

See Independent Auditor's Report and  
Notes to Financial Statements.



POWELL'S SWEET SHOPPE USA, LLC

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Powell's Sweet Shoppe USA, LLC is a California limited liability company (LLC) that was formed December 28, 2004. The business purpose of Powell's LLC is to operate and sell franchises for the operation of a retail candy store, which all are to be known as Powell's Sweet Shoppe. The first Powell's Sweet Shoppe was established in 2003 in Windsor, California, and became so popular it led owner Michael Powell to start franchising the Powell name to locations across the nation.

Powell LLC (franchisor) offers potential investors (franchisees) a retail candy store and specialty gifts business that sells pre-packaged and bulk candy, counter confections, assorted gelatos, bottled non-alcoholic carbonated beverages, candy themed gifts, and other specialty items. Powell's Sweet Shoppe USA, LLC offers franchisees a franchise agreement for the development and operation of a single store at a specified location. They currently do not offer area development franchises, but may someday.

The Company is governed by its operating agreement ("the Agreement") dated January 31, 2005, retroactive to December 28, 2004. Michael Powell is the sole member of the LLC.

Subsequent to the initial capital contributions, the Agreement was executed and includes a provision whereby the members have no further obligation to contribute additional amounts of capital to the Company without the unanimous vote of all members. In addition, the liability of the sole member of the Company is limited to the member's total capital contributions.

Cash and cash equivalents

For purposes 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 maintains its cash balances in one financial institution located in Windsor, California. The accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided for in the amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives of five to thirty-nine years. The straight line method of depreciation is used for financial reporting purposes, while accelerated methods are used for income tax purposes.

Minor renewal or replacements, maintenance and repairs are expensed. Major replacements and improvements are capitalized. Upon the sale, retirement, or abandonment of fixed assets, the cost and accumulated depreciation of such assets are removed from the accounts of the Company and any resulting gain or loss is reflected in the statement of income and member's equity.

See Independent Auditor's Report



POWELL'S SWEET SHOPPE USA, LLC  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income taxes

The Company is treated as a disregarded entity for federal tax purposes. Consequently, federal income taxes are not payable by, or provided for, the Company. The member is taxed individually on the Company's earnings. The Company's net income or loss is allocated to the member in accordance with the regulations of the company. In California a limited liability company pays a minimum of \$800 state tax annually. There is also an additional fee that can apply depending on gross receipts of the Company; the fee can range from \$4,900 to \$11,790, and there is no fee for gross receipts under \$250,000.

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.

NOTE 2. RESTRICTED CASH

For the impound account, there is a restriction on how much can be withdrawn due to franchise compliance arrangement with the State of California. The initial deposit from a potential franchisee is deposited into the impound account, which is held until the franchise agreement is signed. The amount restricted within the impound account as of December 31, 2005, is \$30,000.

NOTE 3. DUE FROM OTHERS

The Due from Others amount consists of purchases made on behalf of specific franchise locations. These amounts include purchases of candy memorabilia, various supplies, and other store promotional items. All amounts are to be subsequently reimbursed to the LLC at cost.

For 2005, the due from others amount totaled \$1,693

See Independent Auditor's Report



POWELL'S SWEET SHOPPE USA, LLC  
NOTES TO FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4. PROPERTY AND EQUIPMENT

At December 31, 2005, property and equipment consisted of the following:

Computer Equipment	\$ <u>26,985</u>
Total property and equipments	26,985
Less accumulated depreciation	\$ <u>0</u>
Total property and equipment, net	\$ <u>26,985</u>

Depreciation Expense for the year ended December 31, 2005, is \$0, because assets purchased in 2005 were not put into service until the early months of 2006.

NOTE 5. REFUNDABLE DEPOSITS

Refundable deposit amounts represent fees collected to reserve a defined market area for a limited period of time (usually 60-90 days). Deposits are in the sum of \$15,000, and are placed into an impound account. This amount is fully refundable until the franchise agreement is executed.

NOTE 6. PRIOR PERIOD ADJUSTMENTS

Member's Equity at the beginning of 2005 has been adjusted for an error in capitalization of franchise fees in the prior year. According to Statement of Position 98-5 these costs should have been expensed as start-up costs. The correction has no effect on the results of the current year's activities, however, the cumulative effect decreases beginning member's equity for 2005 by \$37,700. Had the error not occurred, net income for 2004 would have been decreased by \$37,700.

See Independent Auditor's Report



SUPPLEMENTAL FINANCIAL INFORMATION



POWELL'S SWEET SHOPPE USA, LLC  
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005

SELLING, GENERAL AND ADMINISTRATIVE  
EXPENSES

Accounting	\$	860
Advertising		1,109
Bank charges		65
Design costs		2,253
Franchise promotion		5,432
Legal		3,006
Licenses, permits, & fees		675
Office supplies		146
Printing & reproduction		588
Website design		<u>700</u>
	\$	<u>14,834</u>

See Independent Auditor's Report.



**UNAUDITED BALANCE SHEET AND INCOME STATEMENT  
AS OF AUGUST 31, 2006**

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.

# POWELL'S SWEET SHOPPE USA, LLC

## Balance Sheet

August 2006

### ASSETS

Current Assets:

Summit Impound Account	\$120,000.00
Cash in Summit State Bank	86,104.32
Software	7,049.55
Inventory	28,490.40

TOTAL Current Assets

\$241,644.27

Fixed Assets:

Computer Equipment	19,935.00
Signs	2,500.00
Accumulated Depreciation	(19,935.00)

TOTAL Fixed Assets

2,500.00

Other Assets:

Start Up Costs	44,451.74
Accumulated Amort.	(2,223.00)

TOTAL Other Assets

42,228.74

TOTAL ASSETS

\$286,373.01

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# POWELL'S SWEET SHOPPE USA, LLC

## Balance Sheet

August 2006

### LIABILITIES

#### Current Liabilities:

Sign Deposit	\$2,250.00
Deferred Revenue-Impound Acct.	60,000.00
Refundable Deposit-Impound Acct.	60,000.00
Gift Cards	10,388.08

#### TOTAL Current Liabilities

\$132,638.08

#### Long-Term Liabilities:

Note Payable--Michael Powell	60,000.00
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#### TOTAL Long-Term Liabilities

60,000.00

#### TOTAL LIABILITIES

192,638.08

### EQUITY

Equity-Michael Powell	124,144.46
Retained Earnings	(32,277.66)
Year-to-Date Earnings	1,868.13

#### TOTAL EQUITY

93,734.93

#### TOTAL LIABILITIES & EQUITY

\$286,373.01

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**POWELL'S SWEET SHOPPE USA, LLC**  
**Income Statement**

	1 Month Ended August 31, 2006		8 Months Ended August 31, 2006	
<b>Income</b>				
<b>Earned Income</b>	\$0.00	0.0%	\$8,250.00	6.5%
<b>Franchise Fees-Healdsburg</b>	0.00	0.0%	12,924.32	10.2%
<b>Down payment -Boulder</b>	0.00	0.0%	30,000.00	23.6%
<b>Down Payment-Los Gatos</b>	0.00	0.0%	30,000.00	23.6%
<b>Down Payment-Boise</b>	0.00	0.0%	30,000.00	23.6%
<b>Franchise Fees-Los gatos</b>	0.00	0.0%	1,543.84	1.2%
<b>Franchise Fees</b>	14,559.47	100.0%	14,559.47	11.4%
<b>TOTAL Income</b>	14,559.47	100.0%	127,277.63	100.0%
<b>***** NET INCOME</b>	14,559.47	100.0%	127,277.63	100.0%
<b>Cost of Goods Sold</b>				
<b>Inventory Adjustment</b>	0.00	0.0%	(4,334.66)	-3.4%
<b>TOTAL Cost of Goods Sold</b>	0.00	0.0%	(4,334.66)	-3.4%
<b>***** GROSS PROFIT</b>	14,559.47	100.0%	131,612.29	103.4%

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**POWELL'S SWEET SHOPPE USA, LLC**  
**Income Statement**

	1 Month Ended		8 Months Ended	
	August 31, 2006		August 31, 2006	
<b>Expenses</b>				
Advertising	0.00	0.0%	637.05	0.5%
Accounting	192.50	1.3%	2,242.50	1.8%
Bank Charges	0.00	0.0%	15.00	0.0%
Freight	0.00	0.0%	18.45	0.0%
Franchise Fees/Franchise O.S.LLC				
	0.00	0.0%	3,251.78	2.6%
Insurance-Life	109.80	0.8%	713.70	0.6%
Legal	10,000.00	68.7%	10,000.00	7.9%
Licenses/Fees	400.00	2.7%	2,900.00	2.3%
Meals	0.00	0.0%	43.80	0.0%
Office Supplies	1,695.36	11.6%	2,167.80	1.7%
Outside Services	905.17	6.2%	13,680.57	10.7%
Royalties	1,619.99	11.1%	8,759.63	6.9%
Rent	2,000.00	13.7%	2,000.00	1.6%
Franchise Set-Up & Training	3,550.00	24.4%	54,604.90	42.9%
Sales Retainer	6,000.00	41.2%	6,000.00	4.7%
Sales Commission-Boulder	0.00	0.0%	6,000.00	4.7%
Sales Commission-Boise	0.00	0.0%	6,000.00	4.7%
Support Services	8,000.00	54.9%	8,000.00	6.3%
Travel	122.06	0.8%	1,446.98	1.1%
Web Design	0.00	0.0%	1,262.00	1.0%
<b>TOTAL Expenses</b>	<b>34,594.88</b>	<b>237.6%</b>	<b>129,744.16</b>	<b>101.9%</b>
<b>***** OPERATING PROFIT</b>	<b>(20,035.41)</b>	<b>-137.6%</b>	<b>1,868.13</b>	<b>1.5%</b>
<b>***** PROFIT BEFORE TAXES</b>	<b>(20,035.41)</b>	<b>-137.6%</b>	<b>1,868.13</b>	<b>1.5%</b>
<b>***** NET PROFIT</b>	<b>(\$20,035.41)</b>	<b>-137.6%</b>	<b>\$1,868.13</b>	<b>1.5%</b>

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