

EXHIBIT C
AUDITED FINANCIALS

Consolidated Financial Report

Smoothie King Systems, Inc.
and Subsidiaries

December 31, 2005 and 2004

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Smoothie King Systems, Inc. and Subsidiaries

December 31, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders' of
Smoothie King Systems, Inc.
Covington, Louisiana

We have audited the accompanying consolidated balance sheets of Smoothie King Systems, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Smoothie King Systems, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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February 15, 2006

CONSOLIDATED BALANCE SHEETS**Smoothie King Systems, Inc. and Subsidiaries**

December 31, 2005 and 2004

	2005	2004
<u>ASSETS</u>		
Current		
Cash and cash equivalents	\$ 1,326,755	\$ 820,985
Receivables:		
Trade, net of allowance for doubtful accounts of \$100,000 in 2005 and \$55,000 in 2004	526,747	450,212
Other	415,694	154,194
Notes receivable, current portion	23,125	52,332
Income taxes receivable	-	41,500
Due from stockholder	8,319	8,319
Inventories	22,111	24,897
Prepaid expenses	91,607	88,462
Deferred income taxes	517,000	356,000
	<hr/>	<hr/>
Total current assets	2,931,358	1,996,901
	<hr/>	<hr/>
Property and equipment, net	601,222	451,476
	<hr/>	<hr/>
Other		
Notes receivable, less current portion	173,262	-
Other assets	14,791	14,791
	<hr/>	<hr/>
Total other assets	188,053	14,791
	<hr/>	<hr/>
Total assets	<u>\$ 3,720,633</u>	<u>\$ 2,463,168</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS**Smoothie King Systems, Inc. and Subsidiaries**

December 31, 2005 and 2004

	2005	2004
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable	\$ 220,628	\$ 86,199
Accrued expenses	180,141	180,165
Notes payable, current portion	75,040	79,310
Deferred franchise revenue	1,420,650	988,050
Income taxes payable	290,000	177,525
	<hr/>	<hr/>
Total current liabilities	2,186,459	1,511,249
Long term liabilities		
Notes payable, less current portion	112,889	43,275
Deferred income taxes	59,000	54,000
	<hr/>	<hr/>
Total liabilities	2,358,348	1,608,524
Stockholders' equity		
Voting common stock, no par value, 3,000,000 shares authorized, 7,274 shares issued and outstanding	7,274	7,274
Non-voting common stock, no par value, 3,000,000 shares authorized, 3,442 shares issued and 3,000 shares outstanding at December 31, 2005 and 2004	13,000	13,000
Additional paid in capital	554,992	554,992
Retained earnings	1,048,914	541,273
Treasury stock, 442 shares, at cost, at December 31, 2005 and 2004	(261,895)	(261,895)
	<hr/>	<hr/>
Total stockholders' equity	1,362,285	854,644
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 3,720,633	\$ 2,463,168

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME**Smoothie King Systems, Inc. and Subsidiaries**

For the years ended December 31, 2005 and 2004

	2005	2004
Revenues		
Franchise, development and transfer fees	\$ 1,509,098	\$ 1,547,243
Product sales	382,063	418,303
Management fees	-	7,500
Royalty fees	<u>5,088,095</u>	<u>4,266,063</u>
 Total revenues	 <u>6,979,256</u>	 <u>6,239,109</u>
 Cost of revenues		
Cost of product sales	125,157	156,958
General and administrative	6,129,469	5,498,507
Depreciation and amortization	<u>157,172</u>	<u>155,161</u>
 Total cost of revenues	 <u>6,411,798</u>	 <u>5,810,626</u>
 Income from operations	 <u>567,458</u>	 <u>428,483</u>
 Other income (expenses)		
Interest expense	(5,474)	(11,274)
Interest income	33,614	6,126
Bad debt recovery	54,996	43,161
Other income, net	<u>141,047</u>	<u>98,934</u>
 Total other income	 <u>224,183</u>	 <u>136,947</u>
 Income before income taxes	 791,641	 565,430
 Income taxes	 <u>(284,000)</u>	 <u>(216,000)</u>
 Net income	 <u>\$ 507,641</u>	 <u>\$ 349,430</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Smoothie King Systems, Inc. and Subsidiaries

For the years ended December 31, 2005 and 2004

	Common Stock		Additional Paid In Capital	Retained Earnings (Accumulated Deficit)	Less Cost of Treasury Stock	Total
	Voting	Non-Voting				
	\$	\$	\$	\$	\$	\$
Balances, December 31, 2003	\$ 7,274	\$ 13,000	\$ 554,992	\$ 191,843	\$ (261,895)	\$ 505,214
Issuance of 44.2 shares of non-voting common stock at \$22.62 per share	-	-	-	-	-	-
Purchase of 44.2 shares of non-voting common stock at \$602.52 per share	-	-	-	-	-	-
Net income	-	-	-	349,430	-	349,430
Balances, December 31, 2004	\$ 7,274	\$ 13,000	\$ 554,992	\$ 541,273	\$ (261,895)	\$ 854,644
Issuance of 44.2 shares of non-voting common stock at \$22.62 per share	-	-	-	-	-	-
Net income	-	-	-	507,641	-	507,641
Balances, December 31, 2005	\$ 7,274	\$ 13,000	\$ 554,992	\$ 1,048,914	\$ (261,895)	\$ 1,362,285

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS**Smoothie King Systems, Inc. and Subsidiaries**

For the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Net income	\$ 507,641	\$ 349,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157,172	155,161
Deferred income tax expense (benefit)	(156,000)	(10,000)
Changes in operating assets and liabilities:		
Receivables	(338,035)	(106,154)
Income taxes receivable	41,500	-
Inventories	2,786	10,518
Prepaid expenses	(3,145)	(36,390)
Accounts payable	134,429	(251,744)
Accrued expenses	(24)	19,840
Deferred franchise revenue	432,600	180,250
Other assets	-	(8,776)
Income taxes payable	112,475	177,525
Net cash provided by operating activities	<u>891,399</u>	<u>479,660</u>
Cash flows from investing activities		
Issuances of notes receivable	(200,000)	-
Collections on notes receivable	55,945	27,101
Purchases of property and equipment	(190,643)	(74,245)
Collections of advances to affiliates	-	25,250
Net cash used in investing activities	<u>(334,698)</u>	<u>(21,894)</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable	25,000	-
Principal payments on notes payable	(75,931)	(37,144)
Net cash used in financing activities	<u>(50,931)</u>	<u>(37,144)</u>
Net change in cash and cash equivalents	505,770	420,622
Cash and cash equivalents		
Beginning of year	820,985	400,363
End of year	<u>\$1,326,755</u>	<u>\$ 820,985</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 5,474	\$ 11,274
Income taxes, net	<u>\$ 273,000</u>	<u>\$ 48,475</u>
Non-cash investing and financing activity:		
Purchases of fixed assets through notes payable	<u>\$ 116,275</u>	<u>\$ 76,377</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Smoothie King Systems, Inc. and Subsidiaries**

December 31, 2005

Note 1 - NATURE OF BUSINESS AND ORGANIZATION

Smoothie King Systems, Inc. and Subsidiaries (the "Company") has three wholly-owned subsidiaries: Smoothie King Franchises, Inc., Smoothie King Company, Inc., and Smoothie King Dallas, Inc. Smoothie King Franchises, Inc. offers and sells franchises and area development rights throughout the United States and Korea for the operation of nutritional lifestyle centers specializing in the preparation and sales of nutritional drinks and products. Smoothie King Company, Inc., operates one company-owned nutritional lifestyle center. Smoothie King Dallas, Inc. is dormant. At December 31, 2005 and 2004, the Company's system included 403 and 369 nutritional lifestyle centers with one location owned and operated by the Company.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company and its three wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

b. Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

c. Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Inventories

Inventories consist of frozen fruit, health food mixes, vitamins, and paper products for the Company owned store and are valued at the lower of cost, on a first-in, first-out basis, or market.

e. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the various classes of depreciable assets. Leasehold improvements are amortized based on the straight-line method over the shorter of the estimated useful lives of the improvements or the lease term. Expenditures of \$500 or greater for renewals and betterment are capitalized. Expenditures for maintenance, repairs, and minor renewals are charged against earnings as incurred.

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

f. Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs were \$97,378 in 2005 and \$77,981 in 2004.

g. Trademark

Trademark costs recorded prior to December 30, 2001, were being amortized on a straight-line basis over 15 years. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 issued in June 2001, these trademark costs are not amortized after December 30, 2001, and the Company will evaluate this intangible on an annual basis for potential impairment. Trademark costs are included in other assets in the accompanying consolidated balance sheets.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

i. Franchise, Development, Transfer, and Royalty Fees

The Company sells franchise agreements whereby the franchisees pay an initial franchise fee upon execution of the franchise agreement. The Company incurs various costs in providing services to the franchisees including establishing the franchise agreement, monitoring acceptable franchise sites, approving franchise site lease agreements, organizing floor plans, training staff and other services. The Company expenses these costs as incurred. The Company recognizes approximately 30% of the franchise fee as revenue at the time a franchise agreement is executed with the remainder recognized at the time the franchise is opened, at which time substantially all of the Company's obligations to the franchisee are met.

Under the franchise agreements, the Company generally receives a 5% to 6% royalty fee based on the franchisees' total gross sales.

The Company offers area development agreements to franchisees to develop several nutritional lifestyle centers in a specific geographical area. Development fees are collected upon execution of a development agreement and are not refundable to the franchisee. Upon execution of the agreement, the Company has no additional obligation to the franchisee. Development fees are considered earned upon execution of the development agreement.

The Company charges a transfer fee when an existing nutritional lifestyles center is transferred to a new franchisee. The transfer fee is usually 30% to 75% of the initial franchise fee depending on the location and other variables. The transfer fee is earned upon execution of the transfer agreement because there are no further obligations to the new franchisee.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Stock Compensation

The Company accounts for stock options in accordance with the provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. The Company did not have a formal employee stock option plan in place at December 31, 2005 or 2004.

k. Use of Estimates

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

Note 3 - PROVISION FOR COLLECTION LOSS

Trade receivables are reported at their estimated net realizable value. Collection losses have historically been significant, and management concluded that, based on its review of material balances outstanding, a valuation allowance was needed for balances due from entities that are experiencing financial difficulties. At December 31, 2005 and 2004, the allowance was \$100,000 and \$55,000, respectively.

Note 4 - NOTES RECEIVABLE

The Company issued notes receivable to two franchisees in 2005 as follows:

Note receivable from franchisee due December 2010, uncollateralized, due in monthly installments of \$2,076 including interest at 5.0%	\$ 110,000
Note receivable from franchisee due July 2010, uncollateralized, due in monthly installments of \$2,222 including interest at 6.75%	<u>86,387</u>
	196,387
Less current portion	<u>23,125</u>
	<u>\$ 173,262</u>

Annual scheduled maturities of notes receivable for the five years following December 31, 2005 are as follows:

2006	23,125
2007	35,610
2008	44,766
2009	47,482
2010	40,108

Note 5 - PROPERTY AND EQUIPMENT

The major classifications and estimated useful lives of property and equipment are summarized below:

	<u>Useful Life</u>	<u>2005</u>	<u>2004</u>
Equipment	5-7 years	\$ 697,288	\$ 568,673
Furniture and fixtures	5-7 years	124,935	88,195
Leasehold improvements	5 years	125,949	100,661
Automobiles	5 years	<u>270,063</u>	<u>153,788</u>
		1,218,235	911,317
Accumulated depreciation and amortization		<u>(617,013)</u>	<u>(459,841)</u>
Property and equipment, net		<u>\$ 601,222</u>	<u>\$ 451,476</u>

Note 5 - PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense was \$157,172 and \$155,161 for 2005 and 2004, respectively.

Note 6 - LEASES

The Company leases office, store, and warehouse space pursuant to lease agreements which are classified as operating leases. Rent expense was \$198,898 and \$204,334 for 2005 and 2004, respectively.

As of December 31, 2005, future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year are as follows:

2006	\$ 53,795
2007	40,645
2008	41,658
2009	42,673
2010	43,687
Thereafter	40,898

The lease on the Company owned lifestyle center provides for a percentage rent of 5% of sales in excess of an escalating annual sales amount, in addition to the \$3,127 per month fixed minimum rent included above. There were no percentage rents incurred in 2005 or 2004.

Note 7 - NOTES PAYABLE AND LINES-OF-CREDIT

Notes payable consisted of the following at December 31:

	2005	2004
Note payable to a bank due October 17, 2010, collateralized by an automobile, due in monthly installments of \$2,303 including interest at 6.9%	\$ 112,998	\$ -
Note payable to Chrysler due May 29, 2009 collateralized by an automobile, due in monthly installments of \$750 including interest at 5.3%	28,084	35,458
Note payable to a bank due April 29, 2006, collateralized by an automobile, due in monthly installments of \$2,095 including interest at 5.5%	12,592	32,257
Note payable to a bank due July 7, 2006, collateralized by an automobile, due in monthly installments of \$998 including interest at 6.5%	8,894	17,970
Other notes payable	<u>25,361</u>	<u>36,900</u>
	187,929	122,585
Less current portion	<u>75,040</u>	<u>79,310</u>
	<u>\$ 112,889</u>	<u>\$ 43,275</u>

Annual scheduled maturities of notes payable for the five years following December 31, 2005 are as follows:

2006	75,040
2007	30,062
2008	32,058
2009	28,825
2010	21,944

At December 31, 2005 and 2004, the Company was a party to a line-of-credit agreement with a commercial bank which provided for borrowings up to \$500,000, with interest at New York prime. The interest rate at December 31, 2005 and 2004 was 7.5% and 5.5%, respectively. The \$500,000 line matures October 25, 2006.

Note 7 - NOTES PAYABLE AND LINES-OF-CREDIT (Continued)

Additionally, in 2005, the Company entered into a line-of-credit agreement with a commercial bank which provided for borrowings up to \$75,000, with interest at New York prime. The interest rate at December 31, 2005 was 7.5%. The \$75,000 line matures May 24, 2006.

At December 31, 2005 and 2004, the Company had no outstanding indebtedness under the line-of-credit agreements. Substantially all of the Company assets, as well as the personal guarantees of certain stockholders, secure the lines-of-credit.

Note 8 - INCOME TAXES

Income tax expense related to continuing operations consisted of the following at December 31, 2005:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 440,000	\$ (156,000)	\$ 284,000
State	-	-	-
Totals	<u>\$ 440,000</u>	<u>\$ (156,000)</u>	<u>\$ 284,000</u>

Income tax expense related to continuing operations consisted of the following at December 31, 2004:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 226,000	\$ (10,000)	\$ 216,000
State	-	-	-
Totals	<u>\$ 226,000</u>	<u>\$ (10,000)</u>	<u>\$ 216,000</u>

Note 8 -INCOME TAXES (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2005 were as follows:

	<u>Assets</u>	
	<u>Current</u>	<u>Non-Current</u>
Net operating losses	\$ -	\$ 374,000
Deferred franchise revenue	540,000	-
Accrued stock based compensation	-	38,000
Allowance for doubtful accounts	38,000	-
Tax depreciation and amortization in excess of book amounts	<u>-</u>	<u>(97,000)</u>
	578,000	315,000
Less valuation allowance	<u>(61,000)</u>	<u>(374,000)</u>
Net deferred tax assets (liabilities)	<u>\$517,000</u>	<u>\$ (59,000)</u>

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2004 were as follows:

	<u>Assets</u>	
	<u>Current</u>	<u>Non-Current</u>
Net operating losses	\$ -	\$ 375,000
Deferred franchise revenue	375,000	-
Accrued stock based compensation	-	38,000
Allowance for doubtful accounts	21,000	-
Tax depreciation and amortization in excess of book amounts	<u>-</u>	<u>(92,000)</u>
	396,000	321,000
Less valuation allowance	<u>(40,000)</u>	<u>(375,000)</u>
Net deferred tax assets (liabilities)	<u>\$356,000</u>	<u>\$ (54,000)</u>

Note 8 - INCOME TAXES (Continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2005 and 2004, net operating loss carryforwards of approximately \$9,343,000 and \$9,368,000, respectively, are available for state income tax purposes. The Company has no Federal loss carryforwards. These loss carryforwards will enable the Company to offset future state taxable income and thereby eliminate related state income taxes. These net operating loss carryforwards will expire, if not used, in various years beginning in the year 2012.

Based upon projections for future state taxable income over the periods in which the temporary differences are deductible, management believes that it is unlikely that the Company will realize all of the benefits of the net operating loss attributable to the State of Louisiana. As a result, a valuation allowance in the amount of \$435,000 and \$415,000 was recorded as of December 31, 2005 and 2004. This amount represents that portion of the deferred tax asset generated as a result of the carryover of net operating losses which is not expected to benefit future years. The valuation allowance increased by \$20,000 from the prior year amount.

Note 9 - PROFIT-SHARING PLAN

The Company has a profit-sharing plan ("the Plan"). Employees are eligible to participate in the Plan on the first of the month immediately following the date on which they complete one year of service with the Company. Contributions are discretionary under the Plan and are determined by the Company's management. The Company accrued contributions of approximately \$53,000 and \$79,000 in 2005 and 2004, respectively.

Note 10 - ADVERTISING FUND

Under the terms of the franchise agreement, all Smoothie King franchisees can be required to contribute up to 2% of weekly gross sales to the Advertising Fund. For fiscal 2005 and 2004, franchisees were required to submit 1% of their gross sales to the Advertising Fund.

The Company, as franchisor, administers the Advertising Fund. The funds collected are used for advertising, marketing, public relations, and the purchase of promotional supplies and other related services and expenses. The records of the Advertising Fund are maintained on the accrual method of accounting. Amounts related to this fund are not included in the accompanying consolidated financial statements.

Note 10 - ADVERTISING FUND (Continued)

At December 31, 2005 and 2004, the Advertising Fund owed the Company \$172,846 and \$116,416 for Advertising Fund expenses paid by the Company. This amount is reflected in other receivables in the accompanying consolidated balance sheets. During 2005 and 2004, the Company did not charge the Advertising Fund any administrative fees.

Note 11 - RELATED PARTY TRANSACTIONS

The Company recognized royalty fees from franchises owned by relatives of certain stockholders of \$62,760 and \$53,847 for 2005 and 2004, respectively. Of this amount, \$7,243 and \$14,878 was due from related parties as of December 31, 2005 and 2004, respectively.

The Company also has agreements with certain related parties who operate nutritional lifestyle centers that are licensed to use the Smoothie King trademark and sell smoothies and related products whereby the related parties are not required to pay royalty fees. Had the related parties been subject to royalty fees required by the standard franchise agreement, the Company would have earned additional royalty fees of \$97,880 and \$116,905 in 2005 and 2004, respectively.

The Company subleases office and storage space on a month-to-month basis, which is leased by an officer of the Company, pursuant to a lease agreement classified as an operating lease. Rent expense under this lease was \$13,800 each year for 2005 and 2004.

Employees of Smoothie King Franchises, Inc. are able to receive smoothies free of charge from the Company-owned location and one nutritional lifestyle center owned by a stockholder. Such nutritional lifestyle centers then bill Smoothie King Franchises, Inc. for an amount equal to approximately 50% of the retail price of the item given. During the year, amounts paid by the Company to the Company-owned center and the center owned by a stockholder for such purchases totaled \$9,994 and \$30,501 for 2005 and 2004, respectively.

The Company has an amount receivable from another company owned by one of the principals of the Company in the amount of \$233,203 and \$41,559 at December 31, 2005 and 2004, respectively. This amount is included in accounts receivable – other in the accompanying consolidated balance sheets.

Note 12 - STOCK OPTIONS AND AWARDS

During 1998, the Company executed stock option agreements which granted two employees options to purchase a total of 994 shares of the Company's non-voting common stock for a combined price of \$11,000. These options, earned by the employees in prior years, had a fair value of approximately \$360,000. Related compensation expense of approximately \$350,000 was recorded in prior years as general and administrative expense.

Of the options for 442 shares owned by a former employee, options for 88.4 shares were exercised during 2000, options for 221 shares were exercised during 2001, options for 88.4 shares were exercised during 2002 and options for 44.2 shares were exercised in 2003. The remaining options for 552 shares are held by a current employee and expire in July 2008.

During 2000, the Company executed a stock option agreement whereby an employee was granted an option to purchase 224 shares of the Company's non-voting common stock at the fair market value of \$220 a share. The employee is 100% vested. This agreement expires on May 2, 2008. No compensation expense related to this agreement was required to be recorded. The Company is obligated to redeem the stock at its fair market value less a discount for a minority interest that shall not exceed 30%.

If the above stock options are exercised, the Company is obligated to redeem the stock upon demand. The weighted average exercise price as of December 31, 2005 was \$1.81.

Note 13 - COMMITMENTS AND CONTINGENCIES

The Company is involved in routine litigation incidental to its business; however, there are no material pending legal proceedings that would require disclosure or accrual in these financial statements. Accordingly, no amounts are disclosed or accrued in these financial statements with respect to these matters.

At December 31, 2005 and 2004, cash in bank accounts exceeded the federally insured limits by approximately \$1,229,827 and \$655,000, respectively.

Consolidated Financial Report

Smoothie King Systems, Inc.
and Subsidiaries

December 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders' of
Smoothie King Systems, Inc.
Kenner, Louisiana

We have audited the accompanying consolidated balance sheets of Smoothie King Systems, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Smoothie King Systems, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Legier + Matern, CPAs

February 18, 2005

CONSOLIDATED BALANCE SHEETS

Smoothie King Systems, Inc. and Subsidiaries

December 31, 2004 and 2003

<u>ASSETS</u>	2004	2003
Current		
Cash and cash equivalents	\$ 820,985	\$ 400,363
Receivables:		
Trade, net of allowance for doubtful accounts of \$55,000 and \$34,233	450,212	438,570
Other	154,194	59,682
Notes receivable, current portion	52,332	20,672
Income taxes receivable	41,500	41,500
Due from stockholder	8,319	8,319
Due from affiliates	-	25,250
Inventories	24,897	35,415
Prepaid expenses	88,462	52,072
Deferred income taxes	356,000	286,000
	<hr/>	<hr/>
Total current assets	1,996,901	1,367,843
	<hr/>	<hr/>
Property and equipment, net	451,476	456,015
	<hr/>	<hr/>
Other		
Notes receivable, less current portion	-	58,761
Deferred income taxes	-	6,000
Other assets	14,791	6,015
	<hr/>	<hr/>
Total other assets	14,791	70,776
	<hr/>	<hr/>
Total assets	\$ 2,463,168	\$ 1,894,634
	<hr/>	<hr/>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS**Smoothie King Systems, Inc. and Subsidiaries**

December 31, 2004 and 2003

	2004	2003
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable	\$ 86,199	\$ 337,943
Accrued expenses	180,165	160,325
Notes payable, current portion	79,310	33,125
Deferred franchise revenue	988,050	807,800
Income taxes payable	177,525	-
	<hr/>	<hr/>
Total current liabilities	1,511,249	1,339,193
Long term liabilities		
Notes payable, less current portion	43,275	50,227
Deferred income taxes	54,000	-
	<hr/>	<hr/>
Total liabilities	1,608,524	1,389,420
Stockholders' equity		
Voting common stock, no par value, 3,000,000 shares authorized, 7,274 shares issued and outstanding	7,274	7,274
Non-voting common stock, no par value, 3,000,000 shares authorized, 3,442 shares issued and 3,000 shares outstanding at December 31, 2004 and 2003	13,000	13,000
Additional paid in capital	554,992	554,992
Retained earnings	541,273	191,843
Treasury stock, 442 shares, at cost, at December 31, 2004 and 2003	(261,895)	(261,895)
	<hr/>	<hr/>
Total stockholders' equity	854,644	505,214
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 2,463,168	\$ 1,894,634

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME**Smoothie King Systems, Inc. and Subsidiaries**

For the years ended December 31, 2004 and 2003

	2004	2003
Revenues		
Franchise, development and transfer fees	\$ 1,547,243	\$ 1,714,867
Product sales	418,303	433,179
Management fees	7,500	106,837
Royalty fees	4,266,063	3,859,819
	<hr/>	<hr/>
Total revenues	6,239,109	6,114,702
	<hr/>	<hr/>
Cost of revenues		
Cost of product sales	156,958	161,797
General and administrative	5,498,507	5,562,916
Depreciation and amortization	155,161	139,091
	<hr/>	<hr/>
Total cost of revenues	5,810,626	5,863,804
	<hr/>	<hr/>
Income from operations	428,483	250,898
	<hr/>	<hr/>
Other income (expenses)		
Interest expense	(11,274)	(6,597)
Interest income	6,126	5,486
Bad debt recovery	43,161	37,693
Other income, net	98,934	156,348
	<hr/>	<hr/>
Total other income	136,947	192,930
	<hr/>	<hr/>
Income before income taxes	565,430	443,828
	<hr/>	<hr/>
Income taxes	(216,000)	(153,658)
	<hr/>	<hr/>
Net income	\$ 349,430	\$ 290,170
	<hr/>	<hr/>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Smoothie King Systems, Inc. and Subsidiaries

For the years ended December 31, 2004 and 2003

	Common Stock		Additional Paid In Capital	Retained Earnings (Accumulated Deficit)	Less Cost of Treasury Stock	Total
	Voting	Non-Voting				
	\$ 7,274	\$ 12,000	\$ 554,992	\$ (98,327)	\$ (235,263)	\$ 240,676
Balances, December 29, 2002						
Issuance of 44.2 shares of non-voting common stock at \$22.62 per share	-	1,000	-	-	-	1,000
Purchase of 44.2 shares of non-voting common stock at \$602.52 per share	-	-	-	-	(26,632)	(26,632)
Net income	-	-	-	290,170	-	290,170
Balances, December 31, 2003	\$ 7,274	\$ 13,000	\$ 554,992	\$ 191,843	\$ (261,895)	\$ 505,214
Net income	-	-	-	349,430	-	349,430
Balances, December 31, 2004	\$ 7,274	\$ 13,000	\$ 554,992	\$ 541,273	\$ (261,895)	\$ 854,644

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Smoothie King Systems, Inc. and Subsidiaries

For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net income	\$ 349,430	\$ 290,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	155,161	139,091
Deferred income tax expense (benefit)	(10,000)	61,000
Changes in operating assets and liabilities:		
Receivables	(106,154)	(74,172)
Income taxes receivable	-	(41,500)
Inventories	10,518	495
Prepaid expenses	(36,390)	(10,967)
Accounts payable	(251,744)	159,788
Accrued expenses	19,840	57,142
Deferred franchise revenue	180,250	(196,800)
Other assets	(8,776)	-
Income taxes payable	177,525	(4,500)
Net cash provided by operating activities	<u>479,660</u>	<u>379,747</u>
Cash flows from investing activities		
Collections on notes receivable	27,101	19,945
Purchases of property and equipment	(74,245)	(139,070)
Advances to affiliates	-	(11,197)
Collections of advances to affiliates	25,250	-
Net cash used in investing activities	<u>(21,894)</u>	<u>(130,322)</u>
Cash flows from financing activities		
Purchase of treasury stock, net	-	(25,632)
Principal payments on notes payable	(37,144)	(18,601)
Net cash used in financing activities	<u>(37,144)</u>	<u>(44,233)</u>
Net change in cash and cash equivalents	420,622	205,192
Cash and cash equivalents		
Beginning of year	400,363	195,171
End of year	<u>\$ 820,985</u>	<u>\$ 400,363</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 11,274	\$ 6,487
Income taxes, net	<u>\$ 48,475</u>	<u>\$ 137,000</u>
Non-cash investing and financing activity:		
Purchases of fixed assets through notes payable	<u>\$ 76,377</u>	<u>\$ 101,953</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Smoothie King Systems, Inc. and Subsidiaries

December 31, 2004

Note 1 - NATURE OF BUSINESS AND ORGANIZATION

Smoothie King Systems, Inc. and Subsidiaries (the "Company") has three wholly-owned subsidiaries: Smoothie King Franchises, Inc., Smoothie King Company, Inc., and Smoothie King Dallas, Inc. Smoothie King Franchises, Inc. offers and sells franchises and area development rights throughout the United States and Korea for the operation of nutritional lifestyle centers specializing in the preparation and sales of nutritional drinks and products. Smoothie King Company, Inc., operates one company-owned nutritional lifestyle center. Smoothie King Dallas, Inc. is dormant. At December 31, 2004 and 2003, the Company's system included 369 and 336 nutritional lifestyle centers with one location owned and operated by the Company.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Fiscal Year End

In 2003, the Company changed from a 52-week period fiscal year to a calendar year end. The 2003 fiscal year presented includes the period from December 30, 2002 to December 31, 2003.

b. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its three wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

c. Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

e. Inventories

Inventories consist of frozen fruit, health food mixes, vitamins, and paper products for the Company owned store and are valued at the lower of cost, on a first-in, first-out basis, or market.

f. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the various classes of depreciable assets. Leasehold improvements are amortized based on the straight-line method over the shorter of the estimated useful lives of the improvements or the lease term. Expenditures of \$500 or greater for renewals and betterment are capitalized. Expenditures for maintenance, repairs, and minor renewals are charged against earnings as incurred.

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

g. Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs were \$77,981 in 2004 and \$93,510 in 2003.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Trademark

Trademark costs recorded prior to December 30, 2001, were being amortized on a straight-line basis over 15 years. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 issued in June 2001, these trademark costs are not amortized after December 30, 2001, and the Company will evaluate this intangible on an annual basis for potential impairment.

i. Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

j. Franchise, Development, Transfer, and Royalty Fees

The Company sells franchise agreements whereby the franchisees pay an initial franchise fee upon execution of the franchise agreement. The Company incurs various costs in providing services to the franchisees including establishing the franchise agreement, monitoring acceptable franchise sites, approving franchise site lease agreements, organizing floor plans, training staff and other services. The Company expenses these cost as incurred. The Company recognizes approximately 30% of the franchise fee as revenue at the time a franchise agreement is executed with the remainder recognized at the time the franchise is opened, at which time substantially all of the Company's obligations to the franchisee are met.

Under the franchise agreements, the Company generally receives a 5% to 6% royalty fee based on the franchisees' total gross sales.

The Company offers area development agreements to franchisees to develop several nutritional lifestyle centers in a specific geographical area. Development fees are collected upon execution of a development agreement and are not refundable to the franchisee. Upon execution of the agreement, the Company has no additional obligation to the franchisee. Development fees are considered earned upon execution of the development agreement.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Franchise, Development, Transfer, and Royalty Fees (Continued)

During the year ended December 31, 2003, the Company entered into its first such agreement for area development in Korea. The \$150,000 development fee from this contract was included in franchise, development and transfer fee revenue in the accompanying 2003 consolidated statement of income.

The Company charges a transfer fee when an existing nutritional lifestyles center is transferred to a new franchisee. The transfer fee is usually 30% to 75% of the initial franchise fee depending on the location and other variables. The transfer fee is earned upon execution of the transfer agreement because there are no further obligations to the new franchisee.

k. Stock Compensation

The Company accounts for stock options in accordance with the provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. The Company did not have a formal employee stock option plan in place at December 31, 2004 or 2003.

l. Use of Estimates

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

m. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Note 3 - PROVISION FOR COLLECTION LOSS

Trade receivables are reported at their estimated net realizable value. Collection losses have historically been significant, and management concluded that, based on its review of material balances outstanding, a valuation allowance was needed for balances due from entities that are experiencing financial difficulties. At December 31, 2004 and 2003, the allowance was \$55,000 and \$34,233, respectively.

Note 4 - PROPERTY AND EQUIPMENT

The major classifications and estimated useful lives of property and equipment are summarized below:

	<u>Useful Life</u>	<u>2004</u>	<u>2003</u>
Equipment	5-7 years	\$568,673	\$ 492,940
Furniture and fixtures	5-7 years	88,195	67,884
Leasehold improvements	5 years	100,661	96,966
Automobiles	5 years	<u>153,788</u>	<u>102,905</u>
		911,317	760,695
Accumulated depreciation and amortization		<u>(459,841)</u>	<u>(304,680)</u>
Property and equipment, net		<u>\$ 451,476</u>	<u>\$ 456,015</u>

Depreciation and amortization expense was \$155,161 and \$139,091 for 2004 and 2003, respectively.

Note 5 - LEASES

The Company leases office, store, and warehouse space pursuant to lease agreements which are classified as operating leases. Rent expense was \$204,334 and \$163,753 for 2004 and 2003, respectively.

Note 5 - LEASES (Continued)

As of December 31, 2004, future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year, are as follows:

2005	\$141,883
2006	42,159
2007	40,645
2008	41,658
2009	42,673
Thereafter	84,584

The lease on the Company owned lifestyle center provides for a percentage rent of 5% of sales in excess of an escalating annual sales amount, in addition to the \$3,127 per month fixed minimum rent included above. There were no percentage rents incurred in 2004 or 2003.

Note 6 - NOTES PAYABLE AND LINE-OF-CREDIT

Notes payable consisted of the following at December 31, :

	2004	2003
Note payable to a bank due April 29, 2006, collateralized by an automobile, due in monthly installments of \$2,095 including interest at 5.5%	\$ 32,257	\$ 54,948
Note payable to a bank due July 7, 2006, collateralized by an automobile, due in monthly installments of \$998 including interest at 6.5%	17,970	28,404
Note payable to Chrysler due May 29, 2009 collateralized by an automobile, due in monthly installments of \$750 including interest at 5.3%	35,458	-
Other notes payable to vendors	36,900	-
	<u>122,585</u>	<u>83,352</u>
Less current portion	<u>79,310</u>	<u>33,125</u>
	<u>\$ 43,275</u>	<u>\$ 50,227</u>

Note 6 - NOTES PAYABLE AND LINE-OF-CREDIT (Continued)

Annual scheduled maturities of notes payable for the years following December 31, 2004 are as follows:

2005	\$79,310
2006	22,896
2007	8,120
2008	8,560
2009	3,699

At December 31, 2004 and 2003, the Company was a party to a line-of-credit agreement with a commercial bank which provided for borrowings up to \$500,000, with interest at New York prime plus 1.5%. The interest rate at December 31, 2004 was 5.5%. At December 31, 2004 and 2003, the Company had no outstanding indebtedness under the line-of-credit agreement. The \$500,000 line matures July 7, 2005. Substantially all of the Company assets, as well as the personal guarantees of certain stockholders, secure the line-of-credit.

Note 7 - INCOME TAXES

Income tax expense related to continuing operations consisted of the following at December 31, 2004:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 226,000	\$ (10,000)	\$216,000
State	-	-	-
Totals	<u>\$ 226,000</u>	<u>\$(10,000)</u>	<u>\$216,000</u>

Income tax expense related to continuing operations consisted of the following at December 31, 2003:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 92,658	\$ 61,000	\$153,658
State	-	-	-
Totals	<u>\$ 92,658</u>	<u>\$ 61,000</u>	<u>\$153,658</u>

Note 7 - INCOME TAXES (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2004 were as follows:

	<u>Assets</u>	
	<u>Current</u>	<u>Non-Current</u>
Net operating losses	\$ -	\$ 375,000
Deferred franchise revenue	375,000	-
Accrued stock based compensation	-	38,000
Allowance for doubtful accounts	21,000	-
Tax depreciation and amortization in excess of book amounts	<u>-</u>	<u>(92,000)</u>
	396,000	321,000
Less valuation allowance	<u>(40,000)</u>	<u>(375,000)</u>
Net deferred tax assets (liabilities)	<u>\$356,000</u>	<u>\$ (54,000)</u>

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2003 were as follows:

	<u>Assets</u>	
	<u>Current</u>	<u>Non-Current</u>
Net operating losses	\$ -	\$ 406,000
Deferred franchise revenue	275,000	-
Accrued stock based compensation	-	34,000
Allowance for doubtful accounts	11,000	-
Tax depreciation and amortization in excess of book amounts	<u>-</u>	<u>(28,000)</u>
	286,000	412,000
Less valuation allowance	<u>-</u>	<u>(406,000)</u>
Net deferred tax assets	<u>\$286,000</u>	<u>\$ 6,000</u>

Note 7 - INCOME TAXES (Continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2004, net operating loss carryforwards of approximately \$9,368,000, are available for state income tax purposes. The Company has no Federal loss carryforwards. These loss carryforwards will enable the Company to offset future state taxable income and thereby eliminate related state income taxes. These net operating loss carryforwards will expire, if not used, in various years beginning in the year 2012.

Based upon projections for future state taxable income over the periods in which the temporary differences are deductible, management believes that it is unlikely that the Company will realize all of the benefits of the net operating loss attributable to the State of Louisiana. As a result, a valuation allowance in the amount of \$415,000 and \$406,000 was recorded as of December 31, 2004 and 2003. This amount represents that portion of the deferred tax asset generated as a result of the carryover of net operating losses which are not expected to benefit future years. The valuation allowance increased by \$9,000 from the prior year amount.

Note 8 - PROFIT-SHARING PLAN

The Company has a profit-sharing plan ("the Plan"). Employees are eligible to participate in the Plan on the first of the month immediately following the date on which they complete one year of service with the Company. Contributions are discretionary under the Plan and are determined by the Company's management. The Company accrued contributions of approximately \$79,000 and \$44,000 in 2004 and 2003, respectively.

Note 9 - ADVERTISING FUND

Under the terms of the franchise agreement, all Smoothie King franchisees can be required to contribute up to 2% of weekly gross sales to the Advertising Fund. For fiscal 2004 and 2003, franchisees were required to submit 1% of their gross sales to the Advertising Fund.

The Company, as franchisor, administers the Advertising Fund. The funds collected are used for advertising, marketing, public relations, and the purchase of promotional supplies and other related services and expenses. The records of the Advertising Fund are maintained on the accrual method of accounting. Amounts related to this fund are not included in the accompanying consolidated financial statements.

Note 9 - ADVERTISING FUND (Continued)

At December 31, 2004 and 2003, the Advertising Fund owed the Company \$116,416 and \$52,057 for Advertising Fund expenses paid by the Company. This amount is reflected in other receivables in the accompanying consolidated balance sheets. During 2004 and 2003, the Company did not charge the Advertising Fund any administrative fees.

Note 10 - RELATED PARTY TRANSACTIONS

The Company recognized royalty fees from franchises owned by relatives of certain stockholders of \$53,847 and \$47,122 for 2004 and 2003, respectively. Of this amount, \$14,878 and \$4,205 was due from related parties as of December 31, 2004 and December 31, 2003, respectively.

The Company also has agreements with certain related parties who operate nutritional lifestyle centers that are licensed to use the Smoothie King trademark and sell smoothies and related products whereby the related parties are not required to pay royalty fees. Had the related parties been subject to royalty fees required by the standard franchise agreement, the Company would have earned additional royalty fees of \$116,905 and \$68,971 in 2004 and 2003, respectively.

The Company subleases office and storage space on a month-to-month basis, which is leased by an officer of the Company, pursuant to a lease agreement classified as an operating lease. Rent expense under this lease was \$13,800 each year for 2004 and 2003.

Employees of Smoothie King Franchises, Inc. are able to receive smoothies free of charge from the Company-owned location and one nutritional lifestyle center owned by a stockholder. Such nutritional lifestyle centers then bill Smoothie King Franchises, Inc. for an amount equal to approximately 50% of the retail price of the item given. During the year, amounts paid by the Company to the Company-owned center and the center owned by a stockholder for such purchases totaled approximately \$30,501 and \$7,400 for 2004 and 2003, respectively.

The Company has an amount receivable from another company owned by one of the principals of the Company in the amount of \$41,559 at December 31, 2004. This amount is included in accounts receivable - other in the accompanying consolidated balance sheets

Note 11 - STOCK OPTIONS AND AWARDS

During 1998, the Company executed stock option agreements which granted two employees options to purchase a total of 994 shares of the Company's non-voting common stock for a combined price of \$11,000. These options, earned by the employees in prior years, had a fair value of approximately \$360,000. Related compensation expense of approximately \$350,000 was recorded in prior years as general and administrative expense.

Of the options for 442 shares owned by a former employee, options for 88.4 shares were exercised during 2000, options for 221 shares were exercised during 2001, options for 88.4 shares were exercised during 2002 and 44.2 shares were exercised in 2003. The remaining options for 552 shares are held by a current employee and expire in July 2005.

During 2000, the Company executed a stock option agreement whereby an employee was granted an option to purchase 224 shares of the Company's non-voting common stock at the fair market value of \$220 a share. The employee is 100% vested. This agreement expires on May 2, 2005. No compensation expense related to this agreement was required to be recorded. The Company is obligated to redeem the stock at its fair market value less a discount for a minority interest that shall not exceed 30%.

During 2000, the Company also entered into an employment agreement with a second employee that would allow the employee to purchase 3% of the Company's non-voting common stock at the date of exercising the stock options at the then current fair market value; vesting has not been determined. No compensation expense related to this agreement was required to be recorded. These options were forfeited on February 12, 2003.

If the above stock options are exercised, the Company is obligated to redeem the stock upon demand. The weighted average exercise price as of December 31, 2004 was \$1.81.

Note 12 - COMMITMENTS AND CONTINGENCIES

The Company is involved in routine litigation incidental to its business; however, there are no material pending legal proceedings that would require disclosure or accrual in these financial statements. Accordingly, no amounts are disclosed or accrued in these financial statements with respect to these matters.

At December 31, 2004, cash in bank accounts exceeded the federally insured limits by approximately \$655,000.