EXHIBIT C

FINANCIAL STATEMENTS

SPORT CLIPS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

Brown, Graham and Company, P.C.
Certified Public Accountants

BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Sport Clips, Inc.

We have audited the accompanying consolidated balance sheets of Sport Clips, Inc. and Subsidiaries (the Company) as of December 31, 2005, 2004 and 2003, and the related consolidated statements of income, changes in 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 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 Sport Clips, Inc. and Subsidiaries as of December 31, 2005, 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.

Brown, Graham and Company P.C.

Austin, Texas
March 9, 2006

SPORT CLIPS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005, 2004 AND 2003

ASSETS	2005	2004	2003
Current assets:			
Cash and cash equivalents (Notes 2 and 6)	$ 1,648,402	$ 860,461	$ 1,046,651
Accounts receivable:			
Trade	428,618	319,944	234,391
Related party (Note 5)	8,202	8,083	12,030
Notes receivable (Note 3)	715,410	806,488	743,982
Deposits (Note 13)	166,152	-	-
Inventories	67,122	149,330	113,081
Prepaid expenses	103,763	152,818	74,942
Income tax receivable	-	-	2,117
Total current assets	3,137,669	2,297,124	2,227,194
Property and equipment, net of accumulated depreciation (Note 4)	1,438,306	1,264,058	948,601
Other assets:			
Notes receivable (Note 3)	958,953	600,000	688,000
Deposits	33,962	126,735	55,074
Antique car collection	207,015	101,223	-
Other assets	59,766	44,389	-
Total other assets	1,259,696	872,347	743,074
Total assets	$ 5,835,671	$ 4,433,529	$ 3,918,869

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

SPORT CLIPS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
DECEMBER 31, 2005, 2004 AND 2003

LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004	2003
Current liabilities:			
Accounts payable:			
Trade	$ 427,064	$ 410,836	$ 247,360
Related party (Note 5)	86,233	80,627	62,755
Accrued expenses	581,020	308,869	439,232
Advertising fund liability (Note 6)	1,091,506	569,540	620,304
Current portion of long-term debt (Note 7)	36,942	6,295	172,332
Current portion of capital lease obligation (Note 8)	6,385	-	-
Deferred revenue	200,000	292,500	270,000
Income tax payable	143,188	180,941	-
Deferred income tax liability applicable to current assets and current liabilities (Note 9)	109,800	115,200	227,100
Total current liabilities	2,682,138	1,964,808	2,039,083
Long-term debt, net of current portion (Note 7)	68,782	-	-
Capital lease obligation, net of current portion (Note 8)	26,251	-	-
Deferred revenue	471,500	291,000	156,500
Deferred income tax liability (Note 9)	201,400	270,800	219,700
Total liabilities	3,450,071	2,526,608	2,415,283
Minority interests	44,090	41,920	94,924
Stockholders' equity (Notes 10, 11, and 12):			
12% Series A convertible preferred stock; $0.10 par value; 1,000,000 shares authorized; -0-, -0-, and 6,000 shares issued and outstanding	-	-	600
Common stock; $0.10 par value; 9,000,000 shares authorized; 145,685, 145,185, and 141,685 shares issued; 120,462, 119,962, and 116,462 shares outstanding	14,569	14,519	14,169
Additional paid-in capital	1,049,550	1,037,100	1,070,350
Retained earnings	1,829,843	1,365,834	875,995
Treasury stock	(552,452)	(552,452)	(552,452)
Total stockholders' equity	2,341,510	1,865,001	1,408,662
Total liabilities and stockholders' equity	$ 5,835,671	$ 4,433,529	$ 3,918,869

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

SPORT CLIPS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
Revenue:			
Services and product sales (Company owned stores)	$ 3,262,808	$ 2,879,796	$ 2,818,358
Continuing fees	3,646,525	2,395,492	1,400,069
License fees	4,649,963	5,392,647	4,740,187
Training fees	500,850	292,483	96,330
Other fees	270,606	210,500	93,750
Miscellaneous	101,162	102,171	60,110
Total revenue	12,431,914	11,273,089	9,208,804
Expenses:			
Cost of sales and operations (Company owned stores)	2,909,699	2,572,314	2,454,633
General and administrative	8,670,442	7,938,974	5,503,307
Depreciation and amortization	258,960	192,167	141,522
Total expenses	11,839,101	10,703,455	8,099,462
Income from operations	592,813	569,634	1,109,342
Non-operating revenue (expenses):			
Interest income	75,885	71,835	64,837
Interest expense	(8,266)	(6,281)	(30,497)
Gain on sale of assets	74,447	485,602	-
Total non-operating revenue (expenses)	142,066	551,156	34,340
Minority interests	(2,170)	(183,018)	(30,766)
Income before provision for income taxes	732,709	937,772	1,112,916
Provision for income taxes (Note 9):			
Current	343,500	382,200	227,100
Deferred	(74,800)	(60,800)	219,700
Total provision for income taxes	268,700	321,400	446,800
Net income	$ 464,009	$ 616,372	$ 666,116

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

SPORT CLIPS, INC. AND SUBSIDIARIES
STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2002	$ 600	$ 14,149	$ 1,066,370	$ 220,679	$ (552,452)	$ 749,346
Preferred stock dividend	-	-	-	(10,800)	-	(10,800)
Common stock issued for services	-	20	3,980	-	-	4,000
Net income for 2003	-	-	-	666,116	-	666,116
Balance, December 31, 2003	600	14,169	1,070,350	875,995	(552,452)	1,408,662
Preferred stock dividend	-	-	-	(5,400)	-	(5,400)
Common stock issued for services	-	40	9,960	-	-	10,000
Preferred stock redeemed and cancelled (Note 10)	(290)	-	(43,210)	(121,133)		(164,633)
Preferred stock converted to common stock	(310)	310	-	-	-	-
Net income for 2004	-	-	-	616,372	-	616,372
Balance, December 31, 2004	-	14,519	1,037,100	1,365,834	(552,452)	1,865,001
Common stock issued for services	-	50	12,450	-	-	12,500
Net income for 2004	-	-	-	464,009	-	464,009
Balance, December 31, 2005	$ -	$ 14,569	$ 1,049,550	$ 1,829,843	$ (552,452)	$ 2,341,510

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

SPORT CLIPS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 464,009	$ 616,372	$ 666,116
Adjustments to reconcile net income to net cash flows from operating activities:			
Directors fees for common stock	12,500	10,000	4,000
Depreciation and amortization	258,960	192,167	141,522
Gain on sale of assets	(74,447)	(485,602)	-
Minority interest in earnings of subsidiary	2,170	183,018	30,766
Issuance of notes receivable for area developer fees	(799,000)	(700,000)	(1,118,750)
Deferred income tax liability	(74,800)	(60,800)	219,700
Increase in other assets	(22,455)	(34,725)	-
(Increase) decrease in:			
Accounts receivable:			
Trade	(30,675)	(85,553)	(66,900)
Related party	(119)	3,947	(3,643)
Inventories	77,900	(36,249)	(12,351)
Prepaid expenses	49,055	(77,876)	19,548
Deposits	(73,379)	(71,661)	(1,012)
Other assets	7,078	(5,664)	-
Income tax receivable	-	2,117	(2,117)
Increase (decrease) in:			
Accounts payable:			
Trade	16,228	163,476	59,824
Related party	5,606	17,872	8,775
Accrued expenses	272,151	(130,363)	266,697
Advertising fund liability	521,966	(50,764)	383,167
Deferred revenue	88,000	157,000	118,000
Income tax payable	(37,753)	180,941	-
Net cash flows from operating activities	662,996	(212,347)	713,342
Cash flows from investing activities:			
Purchase of property and equipment	(562,016)	(697,022)	(528,266)
Proceeds from sale of assets	164,744	641,500	-
Purchase of antique car collection	(105,792)	(101,223)	-
Purchase of other assets	-	(4,000)	-
Distributions to minority interest owners	-	(236,022)	(44,170)
Cash received on notes receivable	531,125	758,994	536,288
Net cash flows from investing activities	28,061	362,227	(36,148)

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

SPORT CLIPS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

	2005	2004	2003
Cash flows from financing activities:			
Payments of long-term debt	$ (25,571)	$ (166,037)	$ (304,324)
Payment of capital lease obligations	(2,545)	-	-
Proceeds from long term debt	125,000	-	-
Dividends paid	-	(5,400)	(10,800)
Redemption and cancellation of preferred stock	-	(164,633)	-
Net cash flows from financing activities	96,884	(336,070)	(315,124)
Net increase (decrease) in cash	787,941	(186,190)	362,070
Cash and cash equivalents:			
Beginning of year	860,461	1,046,651	684,581
End of year	$ 1,648,402	$ 860,461	$ 1,046,651
Supplemental disclosures of cash flow information:			
Interest paid	$ 8,266	$ 8,077	$ 28,701
Income tax paid	$ 381,253	$ 237,754	$ 192,463
Supplemental disclosures of non-cash transactions:			
Common stock issued for directors and professional fees	$ 12,500	$ 10,000	$ 4,000
Notes receivable issued in connection with developer fee agreements	$ 799,000	$ 700,000	$ 937,500
Note receivable issued in connection with sale of assets	$ -	$ 33,500	$ -
Accounts receivable in connection with sale of various assets	$ 78,000	$ -	$ -
Common stock (Treasury) purchased with assets or liabilities of the Company	$ -	$ -	$ 250,200
Various assets purchased with notes, leases and accounts payable	$ 35,181	$ -	$ 14,373
Donation of fully depreciated vehicle	$ -	$ 35,244	$ -

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

SPORT CLIPS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The consolidated financial statements include the accounts of Sport Clips, Inc. and its majority owned subsidiaries, Cowboy Clips, LLP, and DFW Clippers, LP (collectively, the "Company"). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

Sport Clips, Inc. was incorporated in the state of Texas on July 13, 1995. The Company is the franchisor of the Sport Clips System (Sport Clips), a system of hair cutting stores that are tailored to meet the needs of the male client. The Company has licensed the intellectual property from Sport Clips I Prop., Ltd. The Company awards licenses and provides support to franchisees as well as operating all Company owned units.

Cowboy Clips, LLP is a limited partnership owned by Sport Clips, Inc. as the general partner (62.4%) and an individual limited partner (37.6%). Cowboy Clips operated a hair cutting store located in Irving, Texas, and operated as a franchisee of the Sport Clips System. During the year ended December 31, 2004, the store was sold to another franchisee. The gain on the sale of the store is included in gain on sale of assets in the accompanying consolidated statements of income.

DFW Clippers, LP is a limited partnership owned by Sport Clips, Inc. as the general partner (47.8%) and two individual limited partners (35.6% and 16.6%). DFW Clippers, LP operated two hair cutting stores located in Farmers Branch and Watauga, Texas. These stores operated as franchisees of the Sport Clips System. During the year ended December 31, 2004, the store located in Watauga, Texas was sold. The gain on the sale of the store is included in gain on sale of assets in the accompanying consolidated statements of income.

Cash and cash equivalents
For the purposes of the statements of cash flows, the Company considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Inventories:
Inventories are valued at the lower of cost (first-in, first-out method) or market.

Depreciation and amortization:
The cost of property and equipment is being depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and on an accelerated method for income tax purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Intangible assets:
Intangible assets consisting of financing costs and trademarks in the amounts of $208,143 and $14,312, respectively, are fully amortized as of December 31, 2003. These assets were amortized on the straight-line method over five years. Amortization expense for the years ended December 31, 2005, 2004 and 2003 was $-0-, $-0-, and $10,168, respectively.

Product sales:
The Company purchases supplies and resells them to its franchisees. Also, the Company retails to the public through Company-owned Sport Clips units. Revenue from sales is recognized when the products are delivered.

Fiscal year:
The Company operates on a 52-53 week fiscal year, which ends on the Saturday closest to December 31. The fiscal years ending on December 31, 2005, January 1, 2005, and December 27, 2003 are identified in these financial statements as of December 31 or year ended December 31. The year ending January 1, 2005, was a 53 week fiscal year and the years ended December 31, 2005, and December 27, 2003 were 52 week fiscal years.

Advertising costs:
Advertising costs, except for costs associated with direct response advertising, are charged to operations when the advertising first takes place. The cost of direct response advertising is capitalized and amortized over the period during which future benefits are expected to be received. Advertising costs for the Company for the years ended December 31, 2005, 2004, and 2003 included in expense are approximately $327,000, $472,000 and, $237,000, respectively.

Income taxes:
Differences in reporting items of income and expense for financial statement and tax purposes result in tax timing adjustments. These items arise from differences in the method of accounting for receivables, payables and depreciation. Revenues and expenses were reported for tax purposes on the cash basis of accounting and for financial statement purposes on the accrual basis of accounting during the year ended 2003. Beginning in 2004, the Company changed to the accrual basis of accounting for both tax and financial statement purposes.

Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from timing differences that are not related to an asset or liability are classified as current or noncurrent depending on the periods in which the timing differences are expected to reverse.

Property and equipment are depreciated over their estimated useful lives using the straight-line method for financial reporting purposes and the modified accelerated cost recovery system allowed by Internal Revenue Service Code for income tax reporting purposes.

SPORT CLIPS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Franchise and royalty fees:
All franchise agreements made with either individual franchisees or area developers include a nonrefundable initial franchise fee which is included in revenue as earned. As part of the franchise agreement, the Company provides training to the area developer or franchisee; therefore, a portion of the initial franchise fee is recorded as deferred revenue until such training is complete.

Also, each franchisee pays a continuing nonrefundable weekly royalty fee. Royalty fees for substantially all franchised Sport Clips stores are 6% of net sales for each franchised store.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts and notes receivable:
The Company follows the direct write-off method of expensing accounts and notes receivable when considered uncollectible. Based on the Company's historical bad debt experience and the management's judgment, the effects of using this method (as compared to an allowance method) on the consolidated statements of income are immaterial.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2005, 2004 and 2003, the Company exceeded the insured limit by approximately \$1,371,437, \$700,351 and \$910,000, respectively. The Company has not experienced any losses in such accounts.

NOTE 3 - NOTES RECEIVABLE

During the years ended December 31, 2005, 2004, and 2003, the Company issued notes to area developers to finance the cost of Sport Clips area developer fees. The face amount of the notes range from \$50,000 to \$350,000, mature three to five years after the date of the notes, and are guaranteed by individual developers. Interest rates on the notes range from 4.00% to 6.00%. The Company is authorized to withhold up to fifty percent of royalties and franchise fees earned by these buyers under their Sport Clips Area Development Agreement as payment on these notes. Application of fees will first be applied to accrued interest and any remaining balance will then be applied towards the outstanding principal.

NOTE 3 - NOTES RECEIVABLE - CONTINUED

In connection with the sale of Cowboy Clips' store during the year ended December 31, 2004 (see Note 1), a 6% note receivable in the amount of $33,500 was issued to the buyer. This note will mature in July 2007.

Notes receivable as of December 31, 2005, 2004 and 2003, amounted to $1,674,363, $1,406,488 and $1,431,982, respectively, with $715,410, $806,488 and $743,982, respectively, estimated to be collectible during the next year.

NOTE 4 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2005, 2004 and 2003:

	2005	2004	2003
Furniture and equipment (Note 8)	$ 1,395,791	$ 1,118,988	$ 825,078
Leasehold improvements	678,859	463,366	549,030
Construction in progress	110,096	171,568	-
Total property and equipment	2,184,746	1,753,922	1,374,108
Less: Accumulated depreciation	(746,440)	(489,864)	(425,507)
Net property and equipment	$ 1,438,306	$ 1,264,058	$ 948,601

Depreciation expense for the years ended December 31, 2005, 2004 and 2003, was $258,960, $192,167, and $131,354, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

Accounts receivable–related party consists of advances to a stockholder in the amounts of $8,202, $8,083 and $12,030 as of December 31, 2005, 2004 and 2003, respectively.

At December 31, 2005, 2004 and 2003, accounts payable-related party consisted of amounts owed to Sport Clips I Prop, Ltd., which is owned substantially by a stockholder, for accumulated and unpaid license fees.

During the years ended December 31, 2005, 2004 and 2003, the Company leased office space under operating leases (Note 8) from an entity owned substantially by a stockholder. The leases expire in 2013 at which time the Company may renew for two additional terms of five years each. Rent expense for the years ended December 31, 2005, 2004 and 2003 was $126,930, $138,061, and $98,584, respectively.

SPORT CLIPS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

NOTE 6 - ADVERTISING FUND

Each franchised store, including Company owned stores, is required to pay a continuing non-refundable weekly fee of $250 as well as a one-time $15,000 grand opening fee into an advertising and promotion fund managed by the Company. These funds are maintained in a separate cash account with a corresponding liability on the Company's books until expended. Accordingly, advertising fund amounts collected and spent are not reflected as revenues or expenses in the accompanying consolidated statements of income.

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2005, 2004 and 2003:

	2005	2004	2003
10% note payable to Southwest/Catalyst Capital, Ltd.; payable in monthly installments of $2,500 plus accrued interest; final payment due July 1, 2004; secured by certificates of deposit	$ -	$ -	$ 15,000
10% note payable to The Catalyst Fund, Ltd.; payable in monthly installments of $2,500 plus accrued interest; final payment due July 1, 2004; secured by certificates of deposit	-	-	15,000
8% note payable to a certain shareholder; principal and accrued interest due July 31, 2005; unsecured	-	-	103,236
10% note payable to a corporation; payable in monthly installments of $3,187 including interest through February 2005; unsecured	-	6,295	39,096
6% note payable to a corporation; payable in monthly installments of $3,803 including interest through July, 2008; unsecured	105,724	-	-
Total long-term debt	105,724	6,295	172,332
Less: Current portion of long-term debt	(36,942)	(6,295)	(172,332)
Long-term debt, net of current portion	$ 68,782	$ -	$ -

SPORT CLIPS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

NOTE 7 – LONG-TERM DEBT - CONTINUED

The following are maturities of long-term debt for each of the next three years:

2006	$	36,942
2007		42,668
2008		26,114
	$	105,724

NOTE 8 – LEASES

Capital Lease
During the year ended December 31, 2005, the Company entered into a capital lease agreement for certain office equipment. The assets and liabilities under this capital lease are recorded at the lower of the present value of the lease payments or the estimated fair market value of the equipment. The net capitalized cost of this office equipment at December 31, 2005 was $32,836. The accumulated depreciation of this office equipment at December 31, 2005 was $2,345.

Obligations under capital lease as of December 31, 2005 are as follows:

		2005
Total minimum lease payments	$	37,345
Less: amount representing interest		(4,709)
Present value of minimum lease payments		32,636
Less: current portion of capital lease obligation		(6,385)
Capital lease obligation, net of current portion	$	26,251

Minimum future lease payments under the capital lease for each of the next five years follows:

2006	$	8,148
2007		8,148
2008		8,148
2009		8,148
2010		4,753
Total	$	37,345

NOTE 8 – LEASES-CONTINUED

Operating Leases

The Company leases the premises for its company-owned stores and headquarters (Note 5) as well as certain office equipment under operating leases expiring in various years through 2013.

Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of December 31, 2005 for each of the next five years and in the aggregate are:

2006	$ 430,462
2007	415,665
2008	393,578
2009	311,240
2010	271,394
Thereafter	382,887
Total minimum future rental payments	$ 2,205,226

Rent expense for the years ended December 31, 2005, 2004, and 2003 was $576,320, $476,660, and $450,767, respectively.

NOTE 9 - INCOME TAXES

A reconciliation of current income tax expense at the statutory rate to income tax expense at the Company's effective rate, is as follows:

	2005	2004	2003
Computed tax at the expected statutory rate	$ 282,090	$ 361,040	$ 413,900
Non-taxable, non-deductible items	12,000	(12,000)	18,900
Difference in the tax rates applied to items affecting future taxable income	(23,290)	(20,100)	-
Other	(2,100)	(7,540)	14,000
Provision for income taxes	$ 268,700	$ 321,400	$ 446,800

NOTE 9 - INCOME TAXES-CONTINUED

Changes in deferred income tax liability are as follows:

	2005	2004	2003
Balance at beginning of year	$ 386,000	$ 446,800	$ 227,100
Difference in income recognized on cash basis for tax purposes and accrual basis for financial accounting	-	-	94,300
Difference in financial and tax accounting for depreciation	4,500	20,400	75,900
Difference in financial and tax accounting for deferred income	(4,600)	(7,500)	-
Adjustment for change in tax accounting from cash to accrual method	(74,300)	(74,300)	-
Other	(400)	600	1,800
Utilization of net operating loss	-	-	47,700
Balance at end of year	$ 311,200	$ 386,000	$ 446,800
Included in the accompanying consolidated balance sheets under the following captions:			
Deferred income tax liability applicable to current assets and current liabilities	$ 109,800	$ 115,200	$ 227,100
Deferred income tax liability	201,400	270,800	219,700
Total	$ 311,200	$ 386,000	$ 446,800

NOTE 10 - PREFERRED STOCK

During the year ended December 31, 1996, the Company sold 6,000 shares of 12% Series A convertible preferred stock. The Series A shares are convertible into common stock on a one-for-one basis at any time after the date of issuance.

NOTE 10 - PREFERRED STOCK-CONTINUED

On July 1, 2004, the Company redeemed and cancelled 2,900 of the 6,000 preferred stock shares. On the same day, the remaining 3,100 Series A shares were converted into 3,100 shares of common stock. The Company paid $164,633 for the 2,900 preferred shares. The excess of the redemption price over the par value of these shares was charged to additional paid-in capital and retained earnings in the amounts of $43,210 and $121,133, respectively, in the accompanying consolidated statements of changes in stockholders' equity.

Accrued but unpaid dividends at December 31, 2005, 2004 and 2003 are $-0-, $-0-, and $2,700, respectively.

NOTE 11 - COMMON STOCK

During the years ended December 31, 2005, 2004, and 2003, 500 , 400, and 200 shares of common stock were issued to certain directors for services in the amount of $12,500, $10,000, and $4,000, respectively.

NOTE 12 - STOCK OPTIONS

During the year ended December 31, 1996, the Company established the 1996 Non-Statutory Stock Option Plan (the "Plan"). Pursuant to this plan, employees and any other persons who perform substantial services for, or on behalf of the Company may be granted options to purchase shares of common stock. The Company may grant to optionees from time to time, options to purchase an aggregate of up to 10,000 shares of the Company's common stock. All options shall be granted within five years from March 30, 1996.

During the year ended December 31, 2002, the shareholders of the Company approved an extension of the Plan for an additional 10,000 options to be granted no later than December, 2005.

A summary of the status of the Company's stock options as of December 31, 2005, 2004 and 2003, is presented below:

	2005	2004	2003
Options outstanding at beginning of year	16,500	14,285	13,500
Options granted	-	3,500	1,285
Options exercised	-	-	-
Options canceled	-	(1,285)	(500)
Options outstanding at end of year	16,500	16,500	14,285

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NOTE 12 - STOCK OPTIONS- CONTINUED

The following table summarizes the information about the stock options as of December 31, 2005, 2004 and 2003:

December 31, 2005

Range of Exercise Price	Number Outstanding at Dec. 31	Weighted Average Remaining Contractual Life Years	Weighted Average Exercise Price (Total Shares)	Number Exercisable at Dec. 31	Weighted Average Exercise Price (Exercisable Shares)
$ 10	1,000	1.0	$ 10.00	1,000	$ 10.00
10	12,000	5.7	10.00	7,150	10.00
25	3,500	9.0	25.00	700	25.00
10.00 to $ 25.00	16,500	6.3	$ 13.18	8,850	$ 11.19

December 31, 2004

Range of Exercise Price	Number Outstanding at Dec. 31	Weighted Average Remaining Contractual Life Years	Weighted Average Exercise Price (Total Shares)	Number Exercisable at Dec. 31	Weighted Average Exercise Price (Exercisable Shares)
$ 10	1,000	2.0	$ 10.00	1,000	$ 10.00
10	12,000	6.7	$ 10.00	7,150	$ 10.00
25	3,500	10.0	$ 25.00	700	$ 25.00
10.00 to $ 25.00	16,500	7.2	$ 13.18	8,850	$ 11.19

December 31, 2003

Range of Exercise Price	Number Outstanding at Dec. 31	Weighted Average Remaining Contractual Life Years	Weighted Average Exercise Price (Total Shares)	Number Exercisable at Dec. 31	Weighted Average Exercise Price (Exercisable Shares)
$ 10	1,000	3.0	$ 10.00	1,000	$ 10.00
10	12,000	8.0	$ 10.00	4,750	$ 10.00
20	1,285	10.0	$ 20.00	1,285	$ 20.00
10.00 to $ 20.00	14,285	7.6	$ 10.90	7,035	$ 11.83

All of the options were issued to employees, directors or consultants of the Company.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Under an employment agreement between an individual and the Company, the Company was obligated to annually issue options for common stock equal to 1% of the Company's fully diluted shares outstanding at December 31, beginning on December 31, 2003 and ending on December 31, 2008. Values for stock to be issued under this option plan were set by the Board of Directors each year. At December 31, 2003, the Company issued options to purchase 1,285 shares of common stock at the price of $20 per share of common stock. During the year ended December 31, 2004, the employment agreement and stock options were cancelled.

On September 10, 2004, the Company entered into a $127,000 agreement for customization of a marketing software application as well as a three-year service and unlimited usage license fee on this application. Costs paid as of December 31, 2005 and 2004 in the amount of $48,400 and $67,000, respectively, are included in deposits in the consolidated balance sheets.

On October 7, 2005, the Company entered into an agreement to purchase 500 licenses for a point of sales (POS) software application on a set schedule extending through June, 2009. The first 50 licenses will cost $2,000 each and the remaining 450 will cost $1,750 each. The Company also committed to paying for the development and customization of various (POS) software modules. The application is not yet operational and costs paid as of December 31, 2005, in the amount of $78,428 are included in deposits in the consolidated balance sheets.

On February 22, 2005, a franchisee filed suit against its landlord, the Company and the Company's chief executive officer (CEO). On March 21, 2005, the Company and its CEO filed an Answer denying all allegations and also filed a cross-claim against the landlord. Written discovery has taken place with depositions scheduled in late March and April 2006. A tentative trial date is set for late May 2006. The Company plans to vigorously defend its position. No amounts have been accrued in these consolidated financial statements since the outcome of this matter is uncertain.

In April 2004, a franchisee signed a Multi Unit Development Agreement and paid initial franchise fees of $39,500. This franchisee failed to open any stores and had his attorney send a letter to the Company demanding a return of these fees. The Company has filed a lawsuit seeking a declaratory judgment that no fees are due from the Company to the franchisee and seeking damages for breech of contract. To date, an Answer but no counterclaim has been filed by the franchisee. Discovery is ongoing and the Company plans to pursue the lawsuit vigorously while exploring the opportunities for settlement. No amounts have been accrued in these consolidated financial statements since the outcome of this matter is uncertain.

NOTE 14 – NOTE PAYABLE

During the year ended December 31, 2005, the Company established a $500,000 line of credit at a financial institution of which $-0- was used. The interest rate is 1% over the bank's prime rate. Any amounts outstanding on the credit line will be secured by accounts and notes receivable.

The Company sponsors a defined 401(k) contribution plan (the Plan) covering substantially all employees. Plan participants may make certain voluntary contributions to which they are 100% vested. The Company has agreed to make certain voluntary contributions to the plan not to exceed the amount deductible for federal income tax purposes. During 2005, the Plan was amended to take advantage of safe harbor provisions and all employees will become 100% vested when they become a participant. The Company's contribution to the Plan for the years ended December 2005, 2004, and 2003, was $94,288, $40,633, and $33,000, respectively.

NOTE 16 - FINANCIAL STATEMENT PRESENTATION

Certain accounts in the 2004 and 2003 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2005 year financial statements.

NOTE 17 - FRANCHISE ACTIVITY

The following is a summary of franchise activity for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Franchise licenses sold	204	228	207
Franchised stores in operation at December 31	301	212	141
Company owned stores in operation at December 31	9	7	7

The store(s) operated by Cowboy Clips, LLP and DFW Clippers, LP are listed under franchised stores.

NOTE 18 – SUBSEQUENT EVENT

Subsequent to December 31, 2005, the Company entered into a Common Stock Purchase Agreement and an Asset Purchase and Sale Agreement (the Agreements) to sell twenty-four thousand one hundred and seventy (24,170) shares of common stock to two trusts and a limited liability company (collectively, the Purchaser) which constitutes fifteen percent (15%) of the Company's total issued and outstanding shares of common stock on a fully diluted basis. Also under the Agreements, the Purchaser shall have the right to purchase additional shares which along with the above shares will equal to approximately thirty-four (34%) of all outstanding shares at the end of a four year period.