

Papa Bello Enterprises, Inc.
Financial Statements
For the Years Ended December 31, 2008, 2007, and for the period July 13, 2006 to December 31, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Stockholders
Papa Bello Enterprises, Inc.
Las Vegas, Nevada

We have audited the accompanying consolidated balance sheets of Papa Bello Enterprises, Inc. as of December 31, 2008, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the period July 13, 2006 through December 31, 2006 and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Papa Bello Enterprises, Inc. as of December 31, 2008, 2007 and 2006 and the results of its operations and its cash flows for the period July 13, 2006 through December 31, 2006 and the years ended December 31, 2008 and 2007 in accordance with the U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's accumulated deficits, negative cash flows from operations, and operating losses, raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
July 2, 2009

Papa Bello Enterprises, Inc.
Consolidated Balance Sheets

	2008	December 31, 2007	2006
ASSETS			
Current Assets			
Cash	\$ 3,367	\$ 165,517	\$ 84,085
Accounts Receivable, net of allowance of \$35,313, \$0, and \$0 as of December 31, 2008, 2007, and 2006, respectively	9,541	69,132	9,825
Accounts Receivable - Related Party	-	27,734	-
Notes Receivable, short term, net of allowance of \$54,160, \$31,423, and \$0 as of December 31, 2008, 2007, and 2006, respectively	3,459	198	-
Notes Receivable - Related Party	-	229,641	-
Inventory	19,742	8,596	23,256
Assets Held for Sale	186,436	31,711	-
Total Current Assets	222,545	532,529	117,166
Notes Receivable, long term, net of allowance of \$370,401, \$312,980, and \$0 as of December 31, 2008, 2007, and 2006, respectively	71,249	358,215	-
Property and Equipment, net of accumulated depreciation of \$239,192, \$109,666, and \$54,979 as of December 31, 2008, 2007, and 2006, respectively	714,539	575,598	1,193,804
Total Assets	\$ 1,008,333	\$ 1,466,342	\$ 1,310,970
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 241,477	\$ 200,640	\$ 174,930
Accounts Payable - Related Party	21,444	-	-
Security Deposits	3,500	3,500	-
Deferred Gain on Sale of Restaurant Franchises	412,053	61,331	-
Lease Liability, current portion	3,828	-	-
Notes Payable, current portion	332,848	335,574	276,119
Notes Payable - Related Party, current portion	2,294,113	-	-
Subscribed Common Stock Liability	600,000	-	-
Total Current Liabilities	3,909,263	601,045	451,049
Long Term Lease Liability	13,867	-	-
Long Term Note Payable	-	11,137	-
Total Liabilities	3,923,130	612,182	451,049
Commitments	-	-	-
Stockholders' Equity (Deficit)			
Preferred stock: \$0.0001 par value 5,000,000 shares authorized; no shares issued and outstanding at December 31, 2008, 2007, and 2006	-	-	-
Common stock: \$0.0001 par value 200,000,000 shares authorized; 30,111,690, 20,000,000, and 10,875,753 issued and outstanding at December 31, 2008, 2007, and 2006, respectively	1,011	2,000	1,088
Additional paid in capital	339,833	2,223,661	1,209,199
Accumulated deficit	(3,255,641)	(1,371,501)	(350,366)
Total Stockholder's Deficit	(2,914,797)	854,160	859,921
Total Liabilities and Stockholders' Equity (Deficit)	\$ 1,008,333	\$ 1,466,342	\$ 1,310,970

The accompanying notes form an integral part of these consolidated financial statements.

Papa Bello Enterprises, Inc.
Consolidated Statements of Operations

	For the Years Ended December 31,		For the Period
	2008	2007	from July 16, 2006 through December 31, 2006
Restaurant Revenues:			
Company-operated restaurants	\$ 486,528	\$ 890,793	\$ 517,327
Franchise and licensed restaurants	152,054	243,576	-
Miscellaneous income	11,778	52,861	-
Total restaurant revenue	<u>650,360</u>	<u>1,187,230</u>	<u>517,327</u>
Cost of Goods Sold:			
Food and packaging	236,212	364,927	258,409
Beverages	43,709	80,494	41,434
Other	-	3,686	-
Gross profit	<u>370,439</u>	<u>738,123</u>	<u>217,484</u>
Operating, general and administrative expenses:			
Franchise related expenses	14,776	60,184	-
Advertising	22,435	31,581	290
Bad debt expense	144,735	344,403	-
Other operating, general and administrative expenses	1,858,204	1,191,865	567,900
Total operating, general and administrative expenses	<u>2,040,150</u>	<u>1,628,033</u>	<u>568,190</u>
Operating loss	(1,669,711)	(889,910)	(350,706)
Non-operating income (expense):			
Interest expense	(70,720)	(27,176)	-
Interest income	11,877	6,331	340
Gain on disposal of equipment	-	67,116	-
Loss on disposition of restaurant franchises and operating loss of stores held for sale	(155,586)	(177,496)	-
Net non-operating income (expense)	<u>(214,429)</u>	<u>(131,225)</u>	<u>340</u>
Net loss	<u>\$ (1,884,140)</u>	<u>\$ (1,021,135)</u>	<u>\$ (350,366)</u>
Loss per share (basic and diluted)	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>
Weighted average number of shares outstanding (basic and diluted)	<u>25,208,213</u>	<u>15,978,215</u>	<u>7,044,307</u>

The accompanying notes form an integral part of these consolidated financial statements.

Papa Bello Enterprises, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional Paid In Cap	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at date of inception July 13, 2006	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Issuance for cash contributions	-	-	10,875,753	1,088	1,209,199	-	1,210,287
Net Loss as of December 31, 2006	-	-	-	-	-	(350,366)	(350,366)
Balance as of December 31, 2006	-	\$ -	10,875,753	\$ 1,088	\$ 1,209,199	\$ (350,366)	\$ 859,921
Issuance for cash contributions	-	-	9,124,247	912	1,014,462	-	1,015,374
Net Loss as of December 31, 2007	-	-	-	-	-	(1,021,135)	(1,021,135)
Balance as of December 31, 2007	-	-	20,000,000	\$ 2,000	\$ 2,223,661	\$ (1,371,501)	\$ 854,160
Conversion of LLC equity to Notes Payable	-	-	-	(2,000)	(2,223,661)	-	(2,225,661)
Common stock subscribed	-	-	-	-	-	-	-
Franchise territory as compensation	-	-	-	-	268,000	-	268,000
Acquisition of Papa Bello - Nevada	-	-	10,111,690	1,011	71,833	-	72,844
Net Loss as of December 31, 2008	-	-	-	-	-	(1,884,140)	(1,884,140)
Balance as of December 31, 2008	-	\$ -	30,111,690	\$ 1,011	\$ 339,833	\$ (3,255,641)	\$ (2,914,797)

The accompanying notes form an integral part of these consolidated financial statements.

Papa Bello Enterprises, Inc.
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		For the Period from July 13, 2006 Through December 31, 2006
	2008	2007	
Cash Flows from Operating Activities:			
Net Loss	\$ (1,884,140)	\$ (1,021,135)	\$ (350,366)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	135,507	154,189	54,979
Bad debt expense	144,735	344,403	-
Franchise territory as compensation	268,000	-	-
Gain on disposal of equipment	-	(67,116)	-
Loss on disposition of restaurant franchises	152,846	163,262	-
Loss on acquisition of Papa Bello - Nevada	72,844	-	-
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(4,986)	971	(9,825)
(Increase) decrease in accounts receivable - related party	27,734	(27,734)	-
(Increase) decrease in inventories	(12,348)	14,660	(23,256)
Increase (decrease) in accounts payable and accrued expenses	40,837	71,302	174,930
Increase (decrease) in accrued expenses - related party	21,444	-	-
Increase (decrease) in security deposits	-	3,500	-
Increase (decrease) in deferred gain on sale of restaurant franchises	154,984	61,331	-
Net cash used in operating activities	<u>(882,543)</u>	<u>(302,367)</u>	<u>(153,538)</u>
Cash Flows From Investing Activities:			
Issuance of note receivable	15,074	598	-
Issuance of note receivable - related party	229,641	(229,641)	-
Acquisition of property and equipment	(175,327)	(462,685)	(972,664)
Proceeds from sale of property and equipment	-	60,153	-
Net cash provided by (used in) investing activities	<u>69,388</u>	<u>(631,575)</u>	<u>(972,664)</u>
Cash Flows From Financing Activities:			
Payments on leases payable	(3,584)	-	-
Payments on notes payable	(13,863)	-	-
Proceeds from related party notes payable	250,000	-	-
Payments on related party notes payable	(181,548)	-	-
Cash received for subscribed common stock liability	600,000	-	-
Proceeds from members' capital contribution	-	1,015,374	1,210,287
Net cash provided by financing activities	<u>651,005</u>	<u>1,015,374</u>	<u>1,210,287</u>
Net increase (decrease) in cash	(162,150)	81,432	84,085
Cash, beginning of period	165,517	84,085	-
Cash, end of period	<u>\$ 3,367</u>	<u>\$ 165,517</u>	<u>\$ 84,085</u>
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$ 51,487	\$ -	\$ -
Cash paid for income taxes	-	-	-
Assets held for sale reclassified to property and equipment	31,711	-	-
Property and equipment acquired by capital lease	21,279	-	-
Property and equipment and inventory sold for note receivable	75,000	507,500	-
Property and equipment held for sale acquired by note payable	-	25,000	-
Property and equipment held for sale reacquired for defaulted note receivable	618,473	-	-
Property and equipment purchased with note payable	-	-	276,119
Property and equipment sold for accounts receivable	-	60,278	-
Property and equipment sold for note receivable	-	193,414	-
Note payable issued for members' equity	2,225,661	-	-
Note payable issued for rent expense	-	45,592	-
Note receivable issued for area rights	155,000	-	-
Note receivable issued for assets held for sale	200,000	-	-

The accompanying notes form an integral part of these consolidated financial statements.

Papa Bello Enterprises, Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

NOTE 1 - Organization:

Papa Bello Enterprises, Inc. is a Florida corporation formed in 1999. Until June 2008, the Company was known as Synegrate Corp. In June 2008, the Company changed its name from Synegrate Corp. to Papa Bello Enterprises, Inc. (herein referred to as Papa Bello – Florida). All operations of Papa Bello – Florida prior to the merger described below were through its wholly owned subsidiary, Fox River Graphics.

Papa Bello Enterprises, LLC, was formed on July 13, 2006 to acquire substantially all of the assets of Papa Bello Development Group, LLC, a Nevada limited liability company, which held rights to the Papa Bello® brand and all of the associated intellectual property assets, as well as two Papa Bello® restaurants. On January 17, 2008, Papa Bello Enterprises, LLC changed to Papa Bello Enterprises, Inc., a Nevada corporation (herein referred to as Papa Bello – Nevada). The effect of the change to corporate status of Papa Bello - Nevada has been reflected in the accompanying consolidated financial statements. The accompanying financial statements have been restated to reflect the shares of common stock acquired through the merger described in the following paragraph as though they had been issued on the dates capital contributions were received from the owners of Papa Bello – Nevada.

Effective June 26, 2008, Papa Bello - Florida entered into an Exchange Agreement (the “Agreement”) with Papa Bello - Nevada, whereby Papa Bello - Florida issued 24,000,000 shares of common stock to the shareholders of Papa Bello - Nevada, in exchange for all the issued and outstanding shares of common stock of Papa Bello - Nevada immediately prior to the transaction. Additionally, shareholders of Papa Bello –Florida returned 66,401 shares of common stock to Papa Bello Florida in exchange for the common stock of its subsidiary, Fox River Graphics. The 66,401 shares of common stock returned were subsequently cancelled. As a result of the Agreement, the shareholders of Papa Bello - Nevada acquired approximately 79.7% of the outstanding post-transaction shares of Papa Bello – Florida. Papa Bello - Nevada has been deemed the accounting acquirer (a reverse acquisition in which Papa Bello - Nevada is considered the acquirer for accounting purposes). Accordingly, the historical financial information presented for the periods prior to June 26, 2008 is that of Papa Bello - Nevada. The results of operations of Papa Bello - Florida have been included with the results of operations of Papa Bello - Nevada in the accompanying financial statements from the date of acquisition.

References to Papa Bello – Florida and Papa Bello – Nevada as consolidated throughout these Notes to Consolidated Financial Statements are made using the first person notations of “we,” “us” and “our”, as well as “the Company”.

The Company owns a master sublease with WalMart to place Papa Bello Pizza stores in WalMart stores. The Company operates several pizza stores and sells franchises.

The Company’s restaurant portfolio consisted of the following:

	December 31,		
	2008	2007	2006
Company-operated	9	5	7
Franchised and licensed	10	7	-
Total	19	12	7

Business Condition

The Company has not generated sufficient revenue during the periods ended December 31, 2008, 2007, and 2006, and has accumulated deficits, and negative cash flows from operations. Accordingly, there is substantial doubt about the Company’s ability to continue as a going concern and to accomplish its business strategy and to ultimately achieve profitable operations. This is dependent upon its ability to generate profit and obtain additional debt or equity financing. During 2009, the Company will continue to aggressively market its product. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

NOTE 2 - Significant Accounting Policies:

Basis of Presentation and Fiscal Year

Our accompanying consolidated financial statements include the accounts of Papa Bello - Florida and our wholly-owned subsidiary, Papa Bello - Nevada. All significant intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been restated to reflect the shares of common stock as though they had been issued on the dates capital contributions were received from the owners of Papa Bello – Nevada. Our fiscal year ends on December 31. The consolidated financial statements have been prepared on the accrual basis of accounting and are in conformity with accounting principles generally accepted in the United States of America and prevailing industry practice.

Use of Estimates

Timely preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expense during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash and cash equivalents, highly liquid investments purchased with original maturities of three months or less are considered cash equivalents. The carrying amount reported in our accompanying consolidated balance sheets for these instruments approximates their fair value. The Company did not own cash equivalents as of December 31, 2008, 2007, or 2006.

Concentrations

We maintain cash balances at several highly-rated financial institutions in various states. Accounts at each institution are insured by either the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Association ("NCUA") up to \$250,000 for the year ended December 31, 2008 and \$100,000 for the years ended December 31, 2007 and 2006. At December 31, 2008 and 2006, we had no account balances over federally insured limits. At December 31, 2007, we had deposits in excess of federally insured limits.

For the periods ended December 31, 2008, 2007 and 2006, we maintained a distribution agreement with a vendor who accounted for 33%, 47% and 49% respectively, of all of our food purchases. We do not believe we have an over reliance on this vendor and would be able to change to another food purchase vendor should the need arise.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market and consist primarily of restaurant food, paper, equipment and supplies.

Credit Risks

Accounts receivable consist primarily of amounts due from franchisees and licensees for initial and continuing fees. In addition, we have notes receivables from certain franchisees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our brand. This concentration of credit risk is mitigated, in part, by the short-term nature of the franchise and license fee receivables.

Allowance for Doubtful Accounts

We estimate our accounts receivable risks and provide allowances for doubtful accounts accordingly. We believe that our credit risk for accounts receivable is limited because of the relatively small account balances per store. Accounts receivable includes the accrual of royalty revenue by month, as well as any unreimbursed expenses the Company may have paid for a

store or a franchisee. We evaluate the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes length of time receivables are past due, adverse situations that may affect a franchisee's ability to repay and prevailing economic conditions. We make adjustments to the allowance for doubtful accounts if the evaluation of allowance requirements differs from the actual aggregate reserve. This evaluation is inherently subjective and estimates may be revised as more information becomes available.

Allowance for Note Receivables

We estimate our note receivable risks and provide an allowance against specific notes receivable. The evaluation of the allowance is inherently subjective and based on management's knowledge of the franchisee, the economic environment and the particular case. If management has knowledge prior to the issuance of the Company's financial statements that a particular franchisee has defaulted on their note receivable or franchisee agreement then the Company fully allows against any unpaid note receivable.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and impairment write-downs. Depreciation is computed using the straight-line method based on the assets' estimated useful lives. Generally, furniture items have a useful life of seven years, while equipment items have a useful life of five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the related lease terms, as determined in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, as amended ("SFAS 13").

Assets Held for Sale

Assets held for sale consist of restaurant properties that we expect to sell within one year. Such assets are classified as assets held for sale upon meeting the requirements of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). We no longer depreciate assets once classified as held for sale.

Capitalized Costs

We have elected to account for construction costs in a manner similar to Statement of Financial Accounting Standards No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* ("SFAS 67"). As such, costs that have a future benefit for the project(s) are capitalized. If we subsequently make a determination that a site for which development costs have been capitalized will not be acquired or developed, any previously capitalized development costs are expensed and included in general and administrative expenses.

Impairment of Long-Lived Assets

In accordance with SFAS 144, long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed 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 (including the value of associated intangible assets) to its related estimated undiscounted future cash flows. If the undiscounted future cash flows are less than the carrying value, an impairment charge is recognized to the extent that the carrying amount of the asset exceeds the fair value of the asset. We typically estimate the fair value of assets based on the estimated future cash flows discounted at an estimated weighted-average cost of capital. Upon recording the impairment charge, the estimated fair value becomes the asset's new cost basis.

Gain (Loss) on the Sale of Restaurant Franchises and Deferred Revenues

The Company records gains and losses on the sale of restaurant franchises as the difference between the net proceeds received and net carrying values of the net assets sold. Losses are recognized immediately, while gains are recorded to deferred revenue based on the collectability of the note receivable that is associated with the sale of the restaurant franchises. Revenue is recognized as payments are made on the note by the Franchisee. Management records an allowance against these notes receivable once the Franchisee is placed into default status by the Company. If a loss was recognized on the sale, then the entire outstanding balance of the note receivable is allowed against. If there is unrecognized deferred revenue at the time of default, the difference between the amount of gain not recognized and the outstanding note receivable is recorded as the allowance. Loss on disposition of restaurant franchises and operating loss of restaurant franchises held for sale included in

the accompanying statements of operations, is made up of both the operating revenue and expenses from restaurants held for sale and the losses from disposition of restaurant stores.

Fair Value Accounting

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “*Fair Value Measurements*” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 were adopted January 1, 2008. In February 2008, the FASB staff issued Staff Position No. 157-2 “*Effective Date of FASB Statement No. 157*” (“FSP SFAS 157-2”). FSP SFAS 157-2 delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP SFAS 157-2 are effective for the Company’s fiscal year beginning January 1, 2009.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS 159 were adopted January 1, 2008. The Company did not elect the Fair Value Option for any of its financial assets or liabilities, and therefore, the adoption of SFAS 159 had no impact on the Company’s consolidated financial position, results of operations or cash flows.

Franchised and Licensed Operations

The Company executes franchise or license agreements for our brand that set out the terms of the arrangement with the franchisee or licensee. The franchise and certain license agreements require the franchisee or licensee to pay an initial, non-refundable fee and continuing fees based upon a percentage of gross sales. The Company offers three different levels of agreements:

- A Franchisee Agreement for the operation of a single restaurant – Initial fee of \$25,000.
- A Development Agreement for the operation of two or more restaurants within a give geographic area – Initial fee of \$25,000 plus a \$15,000 deposit for each additional restaurant developed.
- An Area Representative Agreement for the development and servicing of two or more restaurants within a given geographic area – Initial fee of \$30,000 and an additional \$0.02 per person within the geographic area.

In addition to the initial fees, the Company also receives monthly royalties in the amount of 6% of gross sales. Franchisees must also remit 1% of gross sales (monthly) to the Company’s “Advertising Fund”. The Franchisees who are leasing space within a WalMart store must pay an additional 1% of gross sales as a monthly management fee to the Company for the first two years and 1.25% of gross sales for each year thereafter. All of the Franchisee revenue is recorded to Franchise and Licensed restaurants revenue on the consolidated statements of operations.

Loss Contingencies

As required by Statement of Financial Accounting Standards 5, *Accounting for Contingencies* (“SFAS 5”), we assess each loss contingency to determine estimates of the degree of probability and range of possible settlement. Contingencies that are deemed to be probable, and where the amount of such settlement is reasonably estimable, are accrued in our Consolidated Financial Statements. We do not record liabilities for losses we believe are only reasonably possible to result in an adverse outcome.

Revenue Recognition

The revenue of Company-operated restaurants is recognized upon the sale of food or beverage to a customer in the restaurant. Franchised and licensed restaurants and other revenue include initial fees and royalties. Continuing fees and royalties are recognized in the period earned. Initial fees are recognized upon the opening of a restaurant, which is when we have performed substantially all initial services required by the franchise agreement. Monthly royalties are recorded when billed to the franchisee. Sales of food and equipment to franchisees are recognized at the time of delivery to the franchisees. In June 2006, the FASB ratified EITF 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*, to address the presentation of taxes in the income statement. Our accounting policy is to present the taxes within the scope of EITF 06-3 on a net basis. Our adoption of EITF 06-3 at the beginning of 2008 had no impact on our consolidated results of operations.

Loss Per Share

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, *Earnings Per Share* (“SFAS 128”) which requires the Company to present basic and diluted earnings per share for all periods presented. Basic earnings per share are computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur from common shares issuable through stock options, warrants, convertible debt and other convertible securities. As of December 31, 2008, 2007, and 2006, the Company has no potentially dilutive common shares due to our net loss position.

Income Taxes

Income taxes are provided for using the liability method of accounting in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (“SFAS 109”). A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

In July 2006, FASB issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a minimum recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition for tax related positions.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (“SFAS 141R”), and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (“SFAS 160”). SFAS 141R and SFAS 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at “full fair value” and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both of the pronouncements are effective for periods beginning on or after December 15, 2008, which for us is the first quarter of 2010, and earlier adoption is prohibited. SFAS 141R will be applied to business combinations occurring after the effective date. SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the impact of SFAS 141R and SFAS 160 on our consolidated financial position and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”), which amends SFAS 133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company’s strategies and objectives for using derivatives. SFAS 161 is effective for fiscal periods beginning on or after November 15, 2008, which for us is the first quarter of 2010. Early adoption is encouraged. We are currently evaluating the impact of SFAS 161 on our consolidated financial position and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS 162 will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board’s amendments to AU Section 411. We are currently evaluating the impact of SFAS 162 on our consolidated financial position and results of operations.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, (“FSP EITF 03-6-1”). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. We are not required to adopt FSP EITF 03-6-1 as of December 31, 2008; neither do we believe that FSP EITF 03-6-1 would have a material effect on our consolidated financial position and results of operations if adopted.

NOTE 3 – Accounts Receivable:

Accounts receivables consist of royalty and franchise payments due from our franchisees. As of December 31, 2008, 2007, and 2006, accounts receivable was \$44,854, \$96,866, and \$9,825, respectively. A specific allowance of \$35,313 was recorded as of December 31, 2008 for accounts which were deemed uncollectible. As of December 31, 2007 and 2006 all accounts were deemed to be fully collectible.

NOTE 4 – Notes Receivable:

Other receivables consist of promissory notes between the Company and a franchisee. These promissory notes are related to the sale of restaurant franchises. The terms of such notes are negotiated on a case-by-case basis, but range in term from 12 to 84 months at prevailing market interest rates, ranging from 5% to 8% per annum. These notes are secured by the property and equipment of the restaurants. As of December 31, 2008, 2007, and 2006, notes receivable were \$499,269, \$932,457, and \$0. Allowances of \$424,561 and \$344,403 were made at December 31, 2008 and 2007 for accounts which were deemed uncollectible.

NOTE 5 – Assets Held for Sale:

The Davenport store reverted to the Company when the franchisee defaulted in its obligations in the last quarter of 2007. The franchisee had an outstanding balance owed to the Company in the amount of \$6,710. During the third quarter of 2008, the Company became aware of a UCC1 lien on the property and equipment of this store. The Company negotiated the lien with the bank to \$25,000. The Company recorded this \$25,000 and the note receivable of \$6,710 to Assets Held for Sale at December 31, 2007. In October 2008, an agreement was drawn between the Company and the prior franchisee whereby the prior franchisee agreed to pay the lein of \$25,000. The payments are made through an escrow account to ensure the lien is paid in full to the bank and that the property and equipment are free and clear of the lien. In relation to the Davenport store, the total classified to Assets Held for Sale was \$0 and \$31,710 as of December 31, 2008 and 2007, respectively. The Company sold the Davenport property and equipment during 2008 but continues to pay on the lien. The Company expects to pay the lien in full by July 14, 2009.

The Hannibal, Wentzville, and DeSoto stores reverted to the Company when the franchisee defaulted on its note receivable in the amount of \$186,436 in October 2008. As of December 31, 2008, the Company reclassified the \$186,436 to Assets Held for Sale. As of December 31, 2008, 2007, and 2006, Assets Held for Sale in relation to these stores consisted of \$186,436, \$0, and \$0, respectively.

Any income or expenses related to stores that have been classified as held for sale has been reported as loss on sale of restaurant franchises for the periods ending December 31, 2008, 2007, and 2006 in our consolidated statement of operations.

NOTE 6 – Property and Equipment:

As of December 31, 2008, 2007, and 2006, property and equipment and accumulated depreciation consist of the following:

	2008	2007	2006
Construction in Process	\$ -	\$ 38,643	\$ 177,987
Equipment	329,106	215,696	419,655
Furniture	118,620	50,048	67,865
Leasehold Improvements	506,005	380,877	583,276
	<u>953,731</u>	<u>685,264</u>	<u>1,248,783</u>
Less: Accumulated Depreciation	(239,192)	(109,666)	(54,979)
Property and Equipment, net	<u>\$ 714,539</u>	<u>\$ 575,598</u>	<u>\$ 1,193,804</u>

For the years ending December 31, 2008, 2007, and 2006, we have recognized depreciation expense of \$129,526, \$54,687, and \$54,979, respectively.

NOTE 7 – Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consisted of the following at December, 2008, 2007 and 2006:

	2008	2007	2006
Accounts payable	\$ 190,529	\$ 176,520	\$ 157,276
Checks Written in Excess of Bank Funds	19,785	-	-
Payroll liabilities	7,437	21,398	16,024
Sales tax payable	4,991	2,722	1,630
Accrued interest	18,735	-	-
Accounts Payable and Accrued Expenses	<u>\$ 241,477</u>	<u>\$ 200,640</u>	<u>\$ 174,930</u>

NOTE 8 – Deferred Gain on Sale of Restaurant Franchises:

The Company records gains and losses on the sale of restaurant franchises as the difference between the net proceeds received and net carrying values of the net assets sold. Gains on sales of restaurants are deferred until payment is received in accordance with Staff Accounting Bulletin No. 81, *Gain Recognition On The Sale Of A Business Or Operating Assets To A Highly Leveraged Entity* (“SAB 81”).

During November 2008, the Company entered into an Area Representative Agreement for Shanghai, China which included a \$60,000 payment and another \$140,000 to be paid over 12 months; \$49,985 of the payment has been recorded as deferred revenue as of December 31, 2008.

As of December 31, 2008, 2007, and 2006, we had balances of \$412,053, \$61,331 and \$0, respectively, in deferred gain on sale of restaurant franchises.

NOTE 9 – Capital Lease Payable:

In February 2008, the Company entered into capital lease agreements for the acquisition of office equipment. These leases are payable in sixty monthly payments and have an annual interest rate of 10%.

Lease payments are due as follows:

Years Ending December 31,	
2009	\$ 5,425
2010	5,425
2011	5,425
2012	5,103
2013	<u>130</u>
Total Minimum Payments Required	21,508
Less: Amount Representing Interest	<u>(3,813)</u>
Present Value of Net Minimum Lease Payments	17,695
Less: Current Portion	<u>(3,828)</u>
Capital Lease Obligations – Long-term	<u>\$ 13,867</u>

NOTE 10 – Notes Payable and Commitments:

As previously disclosed in Note 5 – Assets Held for Sale, an agreement was entered into between a former franchisee and the Company in the amount of \$25,000 on October 31, 2008. This agreement called for a down payment of \$10,394 to be wired directly to the Company and remaining monthly payments in the amount of \$1,733 to commence on November 14, 2008. This note bears no interest and matures in June 2009. As of December 31, 2008, the monthly and down payments have been paid in full and the remaining unpaid principal is \$11,137. There are no defaults pertaining to this agreement as of the date of these financial statements. The property and equipment collateralizing this note was sold by the Company during 2008. The Company is continuing to make payments.

During 2006, the Company agreed to reimburse an unrelated third party for expenses incurred on the Company's behalf. During 2006, the creditor purchased leasehold improvements for the Park Rapids location in the amount of \$55,311. Additionally, the creditor paid for the acquisition of property and equipment in the amount of \$220,808 during 2006 for the Hannibal and DeSoto locations. During 2007, additional expenses for rent of \$45,592 were incurred in relation to the agreement. As of December 31, 2008, \$321,711 is due and is classified as a current note payable on our consolidated balance sheets.

In April 2009, the Company signed a promissory note for the \$321,711 due to the creditor with a payment plan to commence in May 2009 and to continue until it has been satisfied in full. This agreement bears a 3.67% interest rate per annum with interest to begin accruing on April 1, 2009. Of the amount due, up to \$246,711 can be converted to shares of the Company. The conversion rate is based on the current trading market value at the date of conversion, measured at the average market price on the close of business for the three trading days prior to the date of conversion. All debt is classified as current as of December 31, 2008. Because the Company entered into a payment plan subsequent to December 31, 2008, to pay off the \$321,711 note over multiple years, annual maturities of debt extend over a period greater than one year.

The aggregate annual maturities of notes payable for each of the five years subsequent to December 31, 2008 are as follows:

Years Ending December 31,	
2009	\$ 11,268
2010	9,326
2011	18,855
2012	19,559
2013	20,289
After 2013	<u>253,551</u>
Total Minimum Payments Required	<u>\$ 332,848</u>

Related Parties

Prior to January 2008, Papa Bello – Nevada was a limited liability company (“LLC”). On January 17, 2008, Papa Bello – Nevada converted to a C Corporation. Upon the reorganization of the Company, the members of the LLC became owners of the C Corporation. At that time, the LLC had received contributions from members accumulating to \$2,225,661 which were converted to a note payable payable in full (as amended) on June 30, 2009 with interest accruing at 4% per annum. Additionally, during 2008, the owner made cash advances to the Company in the amount of \$250,000. Each note bears a 4% interest rate and is due June 30, 2009.

As of December 31, 2008, principal payments of \$181,548 and interest payments of \$49,452 have been made towards the related party notes payable. As of December 31, 2008, we have recognized a current note payable due of \$2,294,113 with accrued interest of \$18,735.

Office Rent – (See also Note 14)

NOTE 11 – Stockholders’ Equity:

We are authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.0001 and 200,000,000 shares of common stock with a par value of \$0.0001. We have not issued any preferred shares.

In June 2008, prior to the reverse acquisition discussed in Note 1, the Board of Directors approved a 1 for 300 share reverse split of common stock. Included was a provision that, in the event the reverse split caused any shareholder of record to own less than 100 shares, such shareholder would still own a minimum of 100 shares after the reverse split. All prior period share information has been restated for the reverse split.

In connection with the reverse acquisition on June 26, 2008, as discussed in Note 1, 24,000,000 shares of common stock were issued to the Papa Bello - Nevada shareholders. In accordance with the Exchange Agreement, prior shareholders of Papa Bello – Florida returned 66,401 shares of common stock, which was cancelled. Total valuation of the reverse merger accumulated to \$72,844, which was expensed.

In August 2008, we amended our Articles of Incorporation to amend our total capital stock authorized to 5,000,000 shares of preferred stock and 200,000,000 shares of common stock and affected a par value on both of these at \$0.0001. All prior period share information has been restated for this amendment.

During the year ended December 31, 2008, we received proceeds of \$600,000 from certain investors. We have accounted for this transaction as a current liability as of December 31, 2008. As of the date of these financial statements, 600,000 shares of common stock have not been issued for this transaction. Upon the issuance of these shares, the investors will also receive detachable warrants which are exercisable for five years from the date of issue at \$5.00 per share for up to 600,000 shares. Also see Note 14.

During 2008, the Company entered into Area Representative Agreements with an unrelated third party as an incentive for the purchase of common stock. No consideration was paid for these agreements. The issuance of the agreements was valued using the average flat fees and average additional fees per person of five other Area Representative Agreements entered into during 2007 and 2008 for a total of \$492,000 to be recognized over a two year period. The Company accounted for this transaction with the issuance of the related common stock by recording additional paid in capital and compensation expense for the value of the incentive. Compensation expense recognized during the year ended December 31, 2008 totaled \$268,000.

NOTE 12 – Fair Value Accounting:

The following table sets forth our financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		Fair Value at December 31, 2008			
		Total	Level 1	Level 2	Level 3
Assets:					
Notes Receivable, net	\$	74,708	\$ -	\$ -	\$ 74,708
	\$	74,708	\$ -	\$ -	\$ 74,708
Liabilities:					
Note Payable – UCC-1	\$	11,137	\$ -	\$ -	\$ 11,137
	\$	11,137	\$ -	\$ -	\$ 11,137
		Fair Value at December 31, 2007			
		Total	Level 1	Level 2	Level 3
Assets:					
Notes Receivable, net	\$	588,055	\$ -	\$ -	\$ 588,055
	\$	588,055	\$ -	\$ -	\$ 588,055
Liabilities:					
Note Payable – UCC-1	\$	25,000	\$ -	\$ -	\$ 25,000
	\$	25,000	\$ -	\$ -	\$ 25,000

We have valued our notes receivable and their respective allowances at Level 3 because of the lack of observable market prices or quotes for similar assets. These assets were valued using the costs of the assets acquired in the exchange and any additional franchising fees applicable to the transaction. We have valued the allowance for the receivable based on management's assessment of the collectability of the receivable. This assessment takes into consideration knowledge of the franchisee, the economic environment and the particular case. If management has knowledge prior to the issuance of the Company's financial statements that a particular franchisee has defaulted on their note receivable or franchisee agreement then the Company fully allows against any unpaid note receivable on the reporting period.

We have valued our Note Payable – UCC-1 at Level 3 because of the complete lack of observable market prices or quotes for similar debt settlements. The bank's agreed settlement price for the underlying assets of \$25,000 is the best evidence available of the fair value of both the underlying assets and the note. There are no comparable market inputs or indexes against which to measure or compare the settlement value or interest rate of this debt to similar debt instruments. As of December 31, 2008, the fair value of the note was reduced to \$11,137 due to cash payments of \$13,863 made during 2008.

We had no Level 1 or Level 2 assets or liabilities as of December 31, 2008, 2007, and 2006 respectively. We had no Level 3 assets or liabilities as of December 31, 2006.

Fair value measurements using significant unobservable inputs at December 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	<u>Assets</u>	<u>Liabilities</u>	<u>Total</u>
Beginning balance	\$ 588,055	\$ 25,000	\$ 613,055
Total gains or losses (realized/unrealized)	(80,158)	-	(80,158)
Included in earnings	-	-	-
Purchases, issuances, and settlements, net	(144,735)	(13,863)	(158,598)
Transfers in and/or out of Level 3	(288,454)	-	(288,454)
Ending balance	<u>\$ 74,708</u>	<u>\$ 11,137</u>	<u>\$ 85,845</u>

Fair value measurements using significant unobservable inputs at December 31, 2007:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	<u>Assets</u>	<u>Liabilities</u>	<u>Total</u>
Beginning balance	\$ -	\$ -	\$ -
Total gains or losses (realized/unrealized)	(344,403)	-	(344,403)
Included in earnings	-	-	-
Purchases, issuances, and settlements, net	(8,979)	25,000	16,021
Transfers in and/or out of Level 3	941,437	-	941,437
Ending balance	<u>\$ 588,055</u>	<u>\$ 25,000</u>	<u>\$ 613,055</u>

NOTE 13 – Income Taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (“SFAS 109”) and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes.

At December 31, 2007 and 2006, the Company was a limited liability company where all profits and losses were distributed directly to the members of the Company. Therefore, there are no net operating loss carry forwards or federal incomes taxes due for the years ended December 31, 2007 and 2006. The Company will be filing its initial Form 1120 corporate tax return for the year ended December 31, 2008.

The significant components of net deferred tax assets and liabilities were as follows at December 31, 2008:

	2008
Deferred tax asset - operating loss carryforward	\$ 464,710
Allowance on receivables	160,956
Stock based compensation	93,800
Accrued interest on related party debt	6,556
Depreciation on property and equipment	(68,427)
Valuation allowance	(657,595)
Net deferred tax asset	<u>\$ -</u>

There were no amounts paid for federal income taxes during the year ended December 31, 2008. If not used, the operating loss carryforward expires in 2028. The income tax provision differs from the expense that would result from applying statutory tax rates to income before taxes because of certain expenses that are not deductible for tax purposes and the effect of the valuation allowance.

SFAS 109 specifies that deferred tax assets are to be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance increased by \$657,595 during the year ended December 31, 2008 based upon management's expectation of future taxable income. The Company will continue to assess the valuation allowance to the extent it is determined that such allowance is no longer required; the tax benefit of the net deferred tax asset will be recognized in the future.

The following is a reconciliation of the income tax benefit computed at the statutory federal rate of 35% to income tax expense included in the accompanying financial statements for the year ended December 31, 2008:

	2008
Income tax benefit at statutory rate (35%)	\$ (659,449)
Non-deductible expenses and adjustments	1,854
Change in valuation allowance	657,595
Income tax expense	<u>\$ -</u>

NOTE 14 – Contingencies:

Walmart Master Lease

The Company holds a Master Lease Agreement with WalMart for restaurant space in 18 of its stores as of December 31, 2008. The lease periods are generally 10 years with two 5 year renewal options. The basic lease agreement per location with WalMart is charged as a percentage of gross sales ranging from 2% for sales up to \$25,000 to 12% as gross sales increase to above approximately \$58,000. In addition to this base license fee, the Company is responsible for a monthly utility fee per location, also based upon gross sales, ranging from \$850 to \$1,500. Each location is also charged a flat fee of \$100 per month for grease trap fees. As of December 31, 2008, the average monthly fees per location were approximately \$2,000. As locations and sales increase, these amounts will increase accordingly. The Company is billed monthly by WalMart and in turn bills the franchisee of each location. The Company has drafting abilities over the franchisees' bank accounts to ensure payment of these amounts to the Company.

Loan Guarantee

The Company rents its corporate office space from a limited liability company, RNC Properties, LLC ("RNC"). One of the three members of the LLC is the President of Papa Bello. Each member of RNC is employed by an entity that occupies the building and pays rent. RNC borrowed money from the SBA and a bank to acquire the property and build the building. The SBA required the three operating companies occupying the building to guarantee the loan. In addition, the RNC members and certain other related entities have also provided loan guarantees. The spouses of the three RNC members have also provided limited guarantees. In addition, the three operating companies have each been required to, in effect, guarantee to RNC rent payments sufficient to amortize the SBA and bank debt along with taxes, utilities, insurance and other basic operating expenses of RNC. The SBA and bank debt totaled approximately \$3,888,500 at the inception the loans. No liability has been recorded in relation to this guarantee.

Operating Lease

In February 2008, we entered into an operating lease for our corporate offices with a related party. The lease expires in five years and stipulates monthly rental payments of \$8,000. The Company incurred \$88,000 of rent expense for eleven months of occupancy during 2008.

Future minimum lease payments under operating leases are as follows:

<i>Years Ending December 31,</i>	
2009	\$ 96,000
2010	96,000
2011	96,000
2012	96,000
2013	8,000
Total Minimum Lease Payments	<u>\$ 392,000</u>

Stock Subscriptions

During the year ended December 31, 2008, we received proceeds of \$600,000 from certain investors. We have accounted for this transaction as a current liability as of December 31, 2008. As of the date of these financial statements, 600,000 shares of common stock have not been issued for this transaction. Upon the issuance of these shares, the investors will also receive detachable warrants which are exercisable for five years from the date of issue at \$5.00 per share for up to 600,000 shares, and the current liability of \$600,000 will be reclassified as common stock.

NOTE 15 – Subsequent Events:

In January 2009, the Company's President and majority shareholder entered into a letter of intent with an unrelated third party in which the third party will exchange 300,000 shares of its common stock for 20,000,000 shares of common stock of the Company owned by the President and majority shareholder. The exchange will qualify as a tax-free reorganization allowing the third party to assume control of the Company. The letter of intent specifies that the Company will pay the related party debt to the President and majority shareholder over a period of 36 months with an annual interest rate of 5%. Upon the execution of the exchange, the President of the Company will enter into an employment agreement with the Company in which he will receive a monthly salary and be eligible to participate in a employee stock option plan. As of the date of these financial statements, no definitive agreement has been entered into.

In March 2009, 3,000,000 shares of common stock that were issued as a part of the reverse merger described in Note 1 were cancelled due to nonperformance by the shareholder.

In April 2009, the Company entered into a written agreement outlining the terms of the \$321,711 debt described in Note 10. This agreement bears a 3.67% interest rate per annum with interest to begin accruing on April 1, 2009. Of the amount due, up to \$246,711 can be converted to shares of the Company. The conversion rate is based on the current trading market value at the date of conversion, measured at the average market price on the close of business for the three trading days prior to the date of conversion. Payments commenced in May 2009. The fair value of the conversion feature representing the value of 237,222 shares the note can be converted into on the date the note was issued of \$248,678 (using the Black-Scholes option pricing model) will be recorded as a derivative liability. A discount representing the value of convertible portion of the note of \$246,711 will be recorded, reducing the carrying amount of the note to \$75,000. The discount will be amortized as interest expense over the life of the conversion feature. The remaining balance of the derivative liability totaling \$1,967 will be recorded as a loss on the derivative liability. The derivative liability resulting from the conversion feature will be adjusted to fair value in each annual and interim financial statement, with the corresponding change in the liability recorded as a gain or a loss on the derivative liability.

In June 2009, the Company issued an addendum to a stock certificate of 100,000 restricted shares of common stock. The addendum stipulates that the Company will issue 100,000 shares of restricted common stock pursuant to a trademark agreement. The original terms of the agreement had stated that one share of restricted stock would be issued for every dollar

paid to the Company. Since the date of these financial statements, 100,000 shares of restricted common stock have been issued.

As described in Note 11, during 2008, the Company entered into Area Representative Agreements with an unrelated third party as an incentive for the purchase of common stock. No consideration was paid for these agreements. The issuance was valued using the average flat fees and average additional fees per person of five Area Representative Agreements entered into during 2007 and 2008 for a total of \$492,000 to be recognized over a two year period. In 2009, the Company accounted for the remainder of this transaction by recording additional paid-in capital and compensation expense for the value of the incentive. Compensation expense recognized during 2009 totaled \$224,000.