

Exhibit "A"

Financial Statements

Confidential



BUTTERFLY FITNESS, INC.

Financial Statements

August 31, 2007

(Unaudited)

BUTTERFLY FITNESS, INC.**Balance Sheet**

August 31, 2007

(Unaudited)

Assets**Current Assets**

Cash	\$ 370,560
Accounts Receivable	70,652
Prepaid expenses	317,643
Inventory	17,074
Deferred taxes	58,000
	<u>833,930</u>

Property and equipment

Furniture and equipment, at cost	159,197
Accumulated depreciation	(39,359)
	<u>119,838</u>

Other assets

Notes receivable	271,121
Refundable deposits	14,529
Video and other master production costs	372,076
Accumulated amortization	(200,383)
Deferred taxes	9,000
	<u>466,343</u>
	<u>\$ 1,420,111</u>

Liabilities and Stockholders' Equity**Current Liabilities**

Accounts payable	\$ 217,813
Accrued liabilities	119,469
Deferred revenue	492,500
	<u>829,782</u>

Stockholders' Equity

Common stock, no par value, 1,000,000 shares authorized; 126,000 issued and outstanding	805,246
Paid in Capital	126,341
Accumulated earnings	(341,258)
	<u>590,329</u>
	<u>\$ 1,420,111</u>

BUTTERFLY FITNESS, INC.
Statement of Operations
For eleven months ended August 31, 2007
(Unaudited)

Revenue:	<u>YTD</u>
Initial franchise fees	\$5,079,600
Monthly royalty fees	626,000
Other revenues, net	<u>178,927</u>
Net Revenue	<u>5,884,527</u>
Operating Expenses:	
Salaries and benefits	2,067,040
National branding campaign	2,241,626
Professional fees	635,586
Travel and client development	659,071
Commissions	250,718
Rent	285,231
Insurance	29,612
Depreciation and amortization	111,494
General expenses	<u>419,403</u>
	<u>6,699,782</u>
Income (Loss) From Operations	(815,255)
Other Income (Expense):	
Other income	45,610
Interest income (expense), net	<u>(1,717)</u>
	<u>43,893</u>
Pretax Income (Loss)	<u>(771,361)</u>

BUTTERFLY FITNESS, INC.

(A California Corporation)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

BUTTERFLY FITNESS, INC.

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Independent Auditors' Report

The Board of Directors
and Shareholders
Butterfly Fitness, Inc.

We have audited the accompanying balance sheet of Butterfly Fitness, Inc. (a California corporation), as of September 30, 2006 and September 30, 2005, and the related statements of income and stockholders' equity and cash flows for the year ended September 30, 2006 and for the nine months ended September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butterfly Fitness, Inc. in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Walnut Creek, California
November 22, 2006

BUTTERFLY FITNESS, INC

BALANCE SHEET

<u>ASSETS</u>	<u>September 30, 2006</u>	<u>September 30, 2005</u>
CURRENT:		
Cash and cash equivalents	\$ 1,480,007	\$ 253,314
Accounts receivable	47,559	2,376
Prepaid expenses	57,571	32,969
Prepaid advertising	585,399	0
Inventory	30,464	9,892
Deferred taxes	<u>58,000</u>	<u>88,000</u>
TOTAL CURRENT ASSETS	2,259,000	386,551
PROPERTY AND EQUIPMENT, at cost		
	\$ 111,710	\$ 28,683
Less: accumulated depreciation	<u>15,487</u>	<u>6,419</u>
	96,223	22,264
OTHER:		
Video and other master production costs, net of accumulated amortization	56,498	112,995
Deferred taxes	<u>9,000</u>	<u>11,000</u>
	<u>\$ 2,420,721</u>	<u>\$ 532,810</u>

See notes to financial statements.

EXHIBIT A

<u>LIABILITIES</u>	<u>September 30, 2006</u>	<u>September 30, 2005</u>
CURRENT:		
Accounts payable	\$ 249,463	\$ 115,148
Accrued liabilities	187,177	70,001
Deferred rent	0	112,268
Deferred revenue	403,000	0
Retirement plan contribution	<u>219,391</u>	<u>0</u>
TOTAL LIABILITIES (All current)	1,059,031	297,417
 <u>STOCKHOLDERS' EQUITY</u>		
CAPITAL STOCK:		
Common stock, no par value, 1,000,000 shares authorized; 126,000 issued and outstanding	\$ 805,246	\$ 805,246
Paid in capital	<u>126,341</u>	<u>126,341</u>
RETAINED EARNINGS (DEFICIT) (EXHIBIT C)	<u>430,103</u>	<u>(696,194)</u>
	\$ <u>2,420,721</u>	\$ <u>532,810</u>

BUTTERFLY FITNESS, INC.

STATEMENT OF INCOME

	Year Ended <u>September 30, 2006</u>	Nine Months Ended <u>September 30, 2005</u>
REVENUE:		
Initial franchise fees	\$ 5,178,250	\$ 838,500
Monthly royalty fees	285,400	134,160
Other revenues	<u>65,272</u>	<u>83,321</u>
TOTAL REVENUE	<u>5,528,922</u>	<u>1,055,981</u>
OPERATING EXPENSES:		
Salaries and related costs	1,421,606	477,551
Advertising	968,399	87,155
Professional fees	426,339	177,404
Commissions	389,278	56,450
Travel and client development	351,277	41,121
Rent	227,535	161,997
Office operations	199,610	67,729
Depreciation and amortization	65,566	46,676
Insurance	37,936	4,342
Franchise equipment	18,034	107,668
Miscellaneous	<u>39,192</u>	<u>16,359</u>
TOTAL OPERATING EXPENSES	<u>4,144,772</u>	<u>1,244,453</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,384,150</u>	<u>(188,472)</u>
OTHER INCOME (EXPENSES):		
Administrative reimbursement from affiliate	0	49,886
Interest expense	(5,310)	(28,223)
Pension Plan Contribution	<u>(219,391)</u>	<u>0</u>
TOTAL OTHER INCOME (EXPENSES)	<u>(224,701)</u>	<u>21,663</u>
INCOME (LOSS) BEFORE INCOME TAXES	1,159,449	(166,809)
PROVISION (RECOVERY) FOR INCOME TAXES	<u>33,152</u>	<u>(98,200)</u>
NET INCOME (LOSS)	<u>\$ 1,126,297</u>	<u>\$ (68,609)</u>

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

	Common		Additional Paid in Capital	Retained Earnings (Deficit)	Total
	Shares	Amount			
Balance, December 31, 2004	114,000	\$ 150,000	\$ 0	\$ (627,585)	\$ (477,585)
Income (loss)				(68,609)	(68,609)
Shares issued	12,000	200,000			200,000
Debt converted to capital		455,246	126,341		581,587
Balance, September 30, 2005	126,000	805,246	126,341	(696,194)	235,393
Income				1,126,297	1,126,297
Balance, September 30, 2006	126,000	\$ 805,246	\$ 126,341	\$ 430,103	\$ 1,361,690

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF CASH FLOWS

	Year Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) (Exhibit B)	\$ 1,126,297	\$ (68,609)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	\$ 65,566	\$ 46,676
Deferred income taxes	32,000	(99,000)
Decrease (increase) in:		
Accounts receivable	(45,183)	10,112
Prepaid expenses	(610,002)	(5,422)
Other assets	(20,572)	1,013
Increase (decrease) in:		
Accounts payable	134,313	71,430
Interest payable	0	26,451
Accrued expenses	(470)	(14,108)
Accrued salaries and benefits	317,389	(3,791)
Accrued commissions	19,650	8,250
Deferred revenue	403,000	0
Deferred rent	(112,268)	(29,734)
	<u>183,423</u>	<u>11,877</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,309,720	(56,732)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(83,027)	0
NET CASH USED BY INVESTING ACTIVITIES	(83,027)	0
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	0	215,000
Debt proceeds - short term	0	78,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	293,000
NET INCREASE IN CASH	1,226,693	236,268
CASH AND CASH EQUIVALENTS, beginning of period	253,314	17,046
CASH AND CASH EQUIVALENTS, end of period	\$ 1,480,007	\$ 253,314

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>September 30, 2006</u>	<u>Nine Months Ended</u> <u>September 30, 2005</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
INFORMATION:		
Cash paid during the period for:		
Interest expense	\$ 5,310	\$ 28,223
Income taxes	\$ 800	\$ 1,600
Non cash financing activities:		
Debt converted to capital	\$ 0	\$ 581,587

See notes to financial statements.

BUTTERFLY FITNESS, INC.**NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005****Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Nature of business:**

Butterfly Fitness, Inc. (the Company) was incorporated on April 18, 2003, in California. The Company was formed to own and develop the franchise business for Butterfly Fitness Centers which offer fitness and weight loss programs to a core female customer base. Each center will offer fitness and nutritional programs, variable resistance strength equipment, and nutritional and weight loss supplements. The first franchise opened in February 2004.

The Company's management has filed a Franchise Offering Circular with the Commissioner of Corporations of the State of California and has been approved for franchising in every state of the U.S.

Basis of presentation:

The Company's balance sheet was prepared using accounting principles generally accepted in the United States of America.

Method of accounting:

The Company prepares its financial statements on the accrual method of accounting, recognizing income when earned and expenses when incurred.

Revenue recognition:

Initial franchise fees from the sale of Butterfly Fitness Centers franchises are recognized when all material services and conditions under terms of the franchise agreements have been performed or satisfied by the Company. Deferred revenue represents payments for franchise fees where all material services and conditions under the agreement have not yet been performed. Monthly franchise and advertising fees will be recognized as earned, net of an estimated allowance for uncollectible amounts.

Cash:

Cash includes cash and cash equivalents. The Company considers cash in banks and short-term investments with original maturities of three months or less to be cash. At September 30, 2006, the Company only held cash balances at a major bank.

Inventories:

The Company states its inventories at the lower of cost or market.

Property and equipment:

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful life, normally five years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Maintenance and repairs are charged to expense. Major improvements are capitalized.

BUTTERFLY FITNESS, INC.**NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005****Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued):****Video and other master production costs:**

Costs of producing master videos and certain other costs such as website development are capitalized and amortized over the estimated useful lives of currently three years. These costs will be evaluated annually to determine that the costs are being recovered from expected future revenue of franchisor operations.

Advertising:

The Company capitalizes direct-response advertising production costs and expenses advertising communication costs the first time advertising takes place.

Deferred income taxes:

Deferred income tax assets and liabilities are computed annually for differences between the financial and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and receivables from franchisees. Cash was held in one financial institution in amounts exceeding the guaranteed amount of the Federal Deposit Insurance Corporation. The Company performs ongoing credit evaluations of its franchisees' financial condition and generally, requires no collateral.

Note 4. RELATED PARTY TRANSACTIONS:

Butterfly Fitness, Inc. provided administrative operational support and office space to an affiliate during the year ended September 30, 2005. During that year, the Company received reimbursements in the amount of \$49,886.

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
 SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

Note 5. COMMITMENTS:

The Company has renewed an agreement to lease its office facility. This new lease is an amendment to the original agreement which expired September 30, 2005. Due to the increased business activity and work force, this new lease includes the occupancy of the entire facility.

Starting December 1, 2006, the Company is liable under a long-term lease of real property for the following minimum annual rentals:

<u>Year Ending</u> <u>September 30,</u>	
2007	\$ 200,405
2008	262,964
2009	276,108
2010	289,916
2011	<u>304,416</u>
Total	<u>\$ 1,333,809</u>

For the year ended September 30, 2006, rent expense totaled \$184,047.

Note 6. CONTINGENCIES:

The Company has several asserted claims arising in the ordinary course of its business. While it is not feasible to predict or determine the outcome of the litigation or other asserted claims, it is the opinion of Company's management that the outcome will have no material adverse effect on the financial position of the Company and that no accrued liabilities for contingencies were necessary at September 30, 2006.

Note 7. INCOME TAXES:

The provision for income taxes shown in the accompanying statement of income (Exhibit B) comprises the following components:

	<u>Year Ended</u> <u>September 30, 2006</u>	<u>Nine Months Ended</u> <u>September 30, 2005</u>
Current	\$ 800	\$ 800
Deferred	32,000	(99,000)
Other adjustment	<u>352</u>	<u>0</u>
Net provision (recovery) for income taxes	<u>\$ 33,152</u>	<u>\$ (98,200)</u>

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

Note 7. INCOME TAXES (Continued):

Deferred income taxes shown in the accompanying balance sheet (Exhibit A) comprise the following components:

	September 30, 2006	September 30, 2005	Net Change
Deferred tax assets	\$ 67,000	\$ 184,000	\$ (117,000)
Valuation allowance on deferred tax assets	<u>0</u>	<u>(85,000)</u>	<u>85,000</u>
Net deferred income taxes	<u>\$ 67,000</u>	<u>\$ 99,000</u>	<u>\$ (32,000)</u>
Net deferred income taxes are classified as:			
Current	\$ 58,000	\$ 88,000	\$ (30,000)
Long-term	<u>9,000</u>	<u>11,000</u>	<u>(2,000)</u>
Totals	<u>\$ 67,000</u>	<u>\$ 99,000</u>	<u>\$ (32,000)</u>

As of September 30, 2006, the Company had a net operating loss (NOL) carry forward of approximately \$253,000 for Federal income taxes, expiring from 2023 to 2024, and \$100,000 for California, expiring from 2013 to 2014, available to offset future taxable income.

The valuation allowance on the deferred tax asset has been eliminated. The Company anticipates generating additional revenues and will recognize income which will use the NOL carry forwards.

Note 8. SHAREHOLDERS' EQUITY:

Common stock:

The Company is authorized to issue 1,000,000 shares of common stock. In 2003, 121,200 shares of common stock were issued for \$200,600 of cash proceeds to the Company. In 2004, the Company repurchased 7,200 shares for cost at \$50,600.

Effective August 1, 2005 and pursuant to the second addendum to Shareholders' Agreement, the Company issued 12,000 shares for \$200,000 in cash and the conversion of \$455,246 in debt to common stock to an existing shareholder.

Of the \$455,246 converted to capital, \$54,246 was accrued interest. In addition, Company debt in the amount of \$126,341 was converted to additional paid in capital with no issuance of additional shares. This debt was related to cash contributions made by shareholders in the amount of \$93,000 and a line of credit which became the responsibility of the shareholders personally. As of September 30, 2005, the total amount of debt contributed to capital amounted to \$581,587.

BUTTERFLY FITNESS, INC.**NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005**

Note 9. JAPAN FRANCHISING:

As of December 5, 2005, the Company has sold to a Japanese corporation the franchise rights for Japan.

Note 10. PROFIT-SHARING AND DEFINED BENEFIT PLAN:

Effective October 1, 2005, for the exclusive benefit of all eligible Employees and their beneficiaries, the Company established the Butterfly Fitness, Inc. Profit Sharing Plan. This Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). For the year ended September 30, 2006, the Company contributed \$24,391 to the Profit Sharing Plan.

On the same date, the Company adopted the Butterfly Fitness, Inc. Defined Benefit Pension Plan. This Plan covers all eligible employees and their beneficiaries. As in the profit sharing plan, eligibility is attained at age 21 and after completing one year of service. Each year, the employer is required to contribute an actuarially determined amount to the Plan to fund the benefits provided under the Plan. The amount of the contribution varies from year to year depending on such factors as the Plan's participant turnover, benefit payments, and the trust's investment gain and losses. The Employer is subject to penalties if it does not meet certain minimum funding standards set forth by law. For the year ended September 30, 2006, the Company contributed \$195,000 to the Defined Benefit Pension Plan.

BUTTERFLY FITNESS, INC.

(A California Corporation)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND DECEMBER 31, 2004

BUTTERFLY FITNESS, INC.

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Notes to financial statements - September 30, 2005	Exhibit E Pages 1 - 5



Independent Auditors' Report

The Board of Directors
and Shareholders
Butterfly Fitness, Inc.

We have audited the accompanying balance sheet of Butterfly Fitness, Inc. (a California corporation), as of September 30, 2005, and the related statements of income and stockholders' equity and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Butterfly Fitness, Inc. as of December 31, 2004, were audited by other auditors whose report dated March 25, 2005, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements as of September 30, 2005 and the period then ended present fairly, in all material respects, the financial position of Butterfly Fitness, Inc. in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Walnut Creek, California
December 9, 2005

BUTTERFLY FITNESS, INC

BALANCE SHEET

<u>ASSETS</u>	<u>September 30, 2005</u>	<u>December 31, 2004</u>
CURRENT:		
Cash and cash equivalents	\$ 253,314	\$ 17,046
Accounts receivable	2,376	12,488
Prepaid expenses	32,969	10,905
Inventory	9,892	27,545
Deferred taxes	<u>88,000</u>	<u>0</u>
TOTAL CURRENT ASSETS	386,551	67,984
PROPERTY AND EQUIPMENT, at cost		
Less: accumulated depreciation	<u>\$ 28,683</u> <u>6,419</u>	<u>\$ 28,683</u> <u>2,116</u>
	22,264	26,567
OTHER:		
Video and other master production costs, net of accumulated amortization	112,995	155,369
Deferred taxes	11,000	0
	<u>\$ 532,810</u>	<u>\$ 249,920</u>

See notes to financial statements.

EXHIBIT A

<u>LIABILITIES</u>	<u>September 30, 2005</u>	<u>December 31, 2004</u>
CURRENT:		
Accounts payable	\$ 115,148	\$ 43,718
Accrued liabilities	70,001	79,650
Deferred rent	112,268	142,000
Line of credit	0	45,000
Line of credit	<u>0</u>	<u>31,137</u>
TOTAL CURRENT LIABILITIES	297,417	341,505
LONG-TERM:		
Note payable to shareholder	<u>0</u>	<u>386,000</u>
TOTAL LIABILITIES	297,417	727,505
 <u>STOCKHOLDERS' EQUITY</u>		
CAPITAL STOCK:		
Common stock, no par value, 1,000,000 shares authorized; 126,000 issued and outstanding	\$ 805,246	\$ 150,000
Paid in capital	<u>126,341</u>	<u>0</u>
RETAINED EARNINGS (DEFICIT) (EXHIBIT C)	<u>(696,194)</u>	<u>(627,585)</u>
	<u>\$ 532,810</u>	<u>\$ 249,920</u>

BUTTERFLY FITNESS, INC.

STATEMENT OF INCOME

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
REVENUE:		
Initial franchise fees	\$ 838,500	\$ 743,000
Monthly royalty fees	134,160	90,000
Other revenues	<u>83,321</u>	<u>17,759</u>
TOTAL REVENUE	<u>1,055,981</u>	<u>850,759</u>
OPERATING EXPENSES:		
Salaries and related costs	442,185	376,800
Professional fees	177,404	143,517
Rent	161,997	1,810
Franchise equipment	107,668	210,094
Advertising	87,155	95,541
Office operations	67,729	54,185
Commissions	56,450	0
Depreciation and amortization	46,676	16,058
Travel and client development	41,121	22,248
Insurance	39,709	17,566
Miscellaneous	<u>16,359</u>	<u>11,087</u>
TOTAL OPERATING EXPENSES	<u>1,244,453</u>	<u>948,906</u>
INCOME (LOSS) FROM OPERATIONS	<u>(188,472)</u>	<u>(98,147)</u>
OTHER INCOME (EXPENSES):		
Administrative (fee) reimbursement from affiliate	49,886	(48,961)
Interest expense	<u>(28,223)</u>	<u>(33,108)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>21,663</u>	<u>(82,069)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(166,809)</u>	<u>(180,217)</u>
PROVISION (RECOVERY) FOR INCOME TAXES	<u>(98,200)</u>	<u>800</u>
NET INCOME (LOSS)	<u>\$ (68,609)</u>	<u>\$ (181,017)</u>

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

	Common		Additional Paid in Capital	Retained Earnings (Deficit)	Total
	Shares	Amount			
Balance, December 31, 2004	114,000	\$ 150,000	\$ 0	\$ (627,585)	\$ (477,585)
Income (loss)				(68,609)	(68,609)
Shares issued	12,000	200,000			200,000
Debt converted to capital		455,246	126,341		581,587
Balance, September 30, 2005	<u>126,000</u>	<u>\$ 805,246</u>	<u>\$ 126,341</u>	<u>\$ (696,194)</u>	<u>\$ 235,393</u>

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) (Exhibit B)	\$ (68,609)	\$ (181,017)
Adjustments to reconcile income (loss) to net cash used by operating activities:		
Depreciation and amortization	\$ 46,676	\$ 17,432
Deferred income taxes	(99,000)	0
Decrease (increase) in:		
Accounts receivable	10,112	(12,488)
Prepaid expenses	(5,422)	(27,415)
Other assets	1,013	(10,905)
Increase (decrease) in:		
Accounts payable	71,430	(47,365)
Interest payable	26,451	31,137
Accrued expenses	(14,108)	50,951
Accrued salaries and benefits	(3,791)	16,602
Accrued commissions	8,250	
Due to affiliate	0	(20,835)
Deferred rent	(29,734)	99,500
	<u>11,877</u>	<u>96,614</u>
NET CASH USED BY OPERATING ACTIVITIES	(56,732)	(84,403)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	0	(198,236)
Proceeds on sale of property and equipment	<u>0</u>	<u>11,549</u>
NET CASH USED BY INVESTING ACTIVITIES	0	(186,687)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	215,000	0
Debt proceeds - short term	78,000	324,368
Repurchase shares of common stock	<u>0</u>	<u>(50,600)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>293,000</u>	<u>273,768</u>
NET INCREASE IN CASH	236,268	2,678
CASH AND CASH EQUIVALENTS, beginning of period	<u>17,046</u>	<u>14,368</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 253,314</u>	<u>\$ 17,046</u>

See notes to financial statements.

BUTTERFLY FITNESS, INC.

STATEMENT OF CASH FLOWS

	<u>Nine Months Ended</u> <u>September 30, 2005</u>	<u>Year Ended</u> <u>December 31, 2004</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest expense	\$ 28,223	\$ 0
Income taxes	\$ 1,600	\$ 800
Non cash financing activities:		
Debt converted to capital	\$ 581,587	\$ 0

See notes to financial statements.

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004**Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Nature of business:**

Butterfly Fitness, Inc. (the Company) was incorporated on April 18, 2003, in California. The Company was formed to own and develop the franchise business for Butterfly Fitness Centers which offer fitness and weight loss programs to a core female customer base. Each center will offer fitness and nutritional programs, variable resistance strength equipment, and nutritional and weight loss supplements. The first franchise opened in February 2004.

The Company's management has filed a Franchise Offering Circular with the Commissioner of Corporations of the State of California and also has filed in several other states.

Basis of presentation:

The Company's balance sheet was prepared using accounting principles generally accepted in the United States of America.

Method of accounting:

The Company prepares its financial statements on the accrual method of accounting, recognizing income when earned and expenses when incurred.

Revenue recognition:

Initial franchise fees from the sale of Butterfly Fitness Centers franchises are recognized when all material services and conditions under terms of the franchise agreements have been performed or satisfied by the Company. Monthly franchise and advertising fees will be recognized as earned, net of an estimated allowance for uncollectible amounts. In 2005, initial franchise fees received for single franchises consist of \$29,500 upon signing an agreement which is nonrefundable.

As of September 30, 2005 and since inception of the Company in April 2003, the Company's franchise activity was as follows:

Franchises sold	<u>98</u>
Franchises open	19
Franchises sold, not opened yet	32
Franchises defaulted, did not open	47
Franchises closed	<u>0</u>
Total	<u>98</u>

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued):

Cash:

Cash includes cash and cash equivalents. The Company considers cash in banks and short-term investments with original maturities of three months or less to be cash. At September 30, 2005, the Company only held cash balances at a major bank.

Property and equipment:

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful life, normally five years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Maintenance and repairs are charged to expense. Major improvements are capitalized.

Video and other master production costs:

Costs of producing master videos and certain other costs such as website development are capitalized and amortized over the estimated useful lives of currently three years. These costs will be evaluated annually to determine that the costs are being recovered from expected future revenue of franchisor operations.

Advertising:

The Company capitalizes direct-response advertising production costs and expenses advertising communication costs the first time advertising takes place.

Deferred income taxes:

Deferred income tax assets and liabilities are computed annually for differences between the financial and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and receivables from franchisees. Cash was held in one financial institution in amounts exceeding the guaranteed amount of the Federal Deposit Insurance Corporation. The Company performs ongoing credit evaluations of its franchisees' financial condition and generally, requires no collateral.

Note 4. RELATED PARTY TRANSACTIONS:

The principal founding shareholders of the Company are also the controlling shareholders of the fitness center business, Women's Workout and Weight-Loss Centers, Inc. ("WWW").

Butterfly Fitness, Inc. has provided administrative operational support and office space to WWW. Consequently, for the period ended September 30, 2005, the Company has received reimbursements from WWW in the amount of \$49,886.

Note 5. COMMITMENTS:

The Company has renewed an agreement to lease its office facility. This new lease is an amendment to the original agreement which expired September 30, 2005. As part of the renewal, the Company also paid the amount of \$112,268 in back rent originally owed by WWW and assumed by the Corporation in early 2005.

Starting November 1, 2005, the Company is liable under a long-term lease of real property for the following minimum annual rentals:

Year Ending <u>September 30,</u>	
2006	\$ 100,000
2007	125,000
2008	131,250
2009	137,813
2010	<u>169,013</u>
Total	<u>\$ 663,076</u>

For the period ended September 30, 2005, rent expense totaled \$156,662. This amount includes the back rent originally owed by WWW.

Note 6. CONTINGENCIES:

The Company has several asserted claims arising in the ordinary course of its business. While it is not feasible to predict or determine the outcome of the litigation or other asserted claims, it is the opinion of Company's management that the outcome will have no material adverse effect on the financial position of the Company and that no accrued liabilities for contingencies were necessary at September 30, 2005.

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004

Note 7. INCOME TAXES:

The provision for income taxes shown in the accompanying statement of income (Exhibit B) comprises the following components:

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
Current	\$ 800	\$ 800
Deferred	<u>(99,000)</u>	<u>0</u>
Net provision (recovery) for income taxes	<u>\$ (98,200)</u>	<u>\$ 800</u>

Deferred income taxes shown in the accompanying balance sheet (Exhibit A) comprise the following components:

	September 30, 2005	December 31, 2004	Net Change
Deferred tax assets	\$ 184,000	\$ 227,000	\$ (43,000)
Valuation allowance on deferred tax assets	(85,000)	(227,000)	142,000
Deferred tax liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income taxes	<u>\$ 99,000</u>	<u>\$ 0</u>	<u>\$ 99,000</u>
Net deferred income taxes are classified as:			
Current	\$ 88,000	\$ 0	\$ 88,000
Long-term	<u>11,000</u>	<u>0</u>	<u>11,000</u>
Totals	<u>\$ 99,000</u>	<u>\$ 0</u>	<u>\$ 99,000</u>

As of September 30, 2005, the Company had a net operating loss (NOL) carry forward of approximately \$750,000 for Federal income taxes, expiring from 2023 to 2024, and \$725,000 for California, expiring from 2013 to 2014, available to offset future taxable income.

The valuation allowance on the deferred tax asset has been decreased. The Company has consistently generated revenues in the past few months and expects to recognize income which will use a great portion of the NOL carry forwards.

BUTTERFLY FITNESS, INC.

NOTES TO FINANCIAL STATEMENTS –
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004**Note 8. SHAREHOLDERS' EQUITY:****Common stock:**

The Company is authorized to issue 1,000,000 shares of common stock. In 2003, 121,200 shares of common stock were issued for \$200,600 of cash proceeds to the Company. In 2004, the Company repurchased 7,200 shares for cost at \$50,600.

Effective August 1, 2005 and pursuant to the second addendum to Shareholders' Agreement, the Company issued 12,000 shares for \$200,000 in cash and the conversion of \$455,246 in debt to common stock to an existing shareholder who also agreed to transfer his total 50,000 shares to the Company's remaining two shareholders (25,000 shares each) in exchange for the remaining shareholders paying up to a maximum of approximately \$1,072,000 over ten years from one-half of proceeds from distributions paid to the shareholders and any sales of Company stock. The agreement provides for certain limitations on annual compensation that may be paid by the Company to the remaining shareholders and their spouses. In the event the maximum purchase price has not been paid by August 1, 2015, the remaining balance is due subject to the fair market value of the Company at that date.

Note 9. JAPAN FRANCHISING:

In September 2005, the Company received a \$50,000 nonrefundable deposit upon entering into a letter of intent with a Japanese corporation to purchase the franchise rights for Japan.

As of the date of this report, December 5, 2005, the Company has received the remaining \$200,000 from this Japanese corporation to secure the franchise rights.

Note 10. DEBT CONVERTED TO CAPITAL:

In August 2005, the amount of \$455,246 was converted to capital, of which \$54,246 was accrued interest. In addition, Company debt in the amount of \$126,341 was converted to additional paid in capital with no issuance of additional shares. This debt was related to cash contributions made by shareholders in the amount of \$93,000 and a line of credit which became the responsibility of the shareholders personally. As of September 30, 2005, the total amount of debt contributed to capital amounted to \$581,587.

Note 11. SUBSEQUENT EVENTS:

The Company received a \$35,000 deposit from an individual with the intent to enter an Area Representative Agreement in September. On November 7, 2005, the Company finalized the agreement and the remaining balance of \$215,000 was received.

On December 9, 2005, the Company entered another Area Representative Agreement for \$250,000 with an individual. As of the date of the agreement, the Company has received deposits in the amount of \$225,000.