



HABIF, AROGETI & WYNNE, LLP

Certified Public Accountants and Business Advisors

### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Habif, Arogeti & Wynne, LLP consent to the use in the Franchise Disclosure Document issued by Cellairis Franchise, Inc. (the "Franchisor") on April 10, 2014, as it may be amended, of our report dated April 9, 2014 relating to the financial statements of the Franchisor for the year ending December 31, 2013.

Habif, Arogeti & Wynne, LLP  
Atlanta, Georgia  
April 10, 2014

**CELLAIRIS FRANCHISE, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

CELLAIRIS FRANCHISE, INC.

TABLE OF CONTENTS

	<u>PAGE</u>
Independent auditors' report	1
Financial statements:	
Balance sheets	2
Statements of income	3
Statements of stockholders' equity	4
Statements of cash flows	5
Notes to financial statements	6 - 9



Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Cellairis Franchise, Inc.

We have audited the accompanying financial statements of Cellairis Franchise, Inc. (an S corporation), which comprise the balance sheet as of December 31, 2013, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of Cellairis Franchise, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements of Cellairis Franchise, Inc. as of December 31, 2012, were audited by other auditors whose report dated March 13, 2013, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Halij, Anagete &amp; Partners, LLP".

Atlanta, Georgia

April 9, 2014

CELLAIRIS FRANCHISE, INC.  
BALANCE SHEETS  
DECEMBER 31,

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
<u>Current assets</u>		
Cash	\$ 114,169	\$ 31,548
Accounts receivable - trade, net of allowance for doubtful accounts of \$42,325 and \$0, respectively	284,111	258,963
Prepaid expenses	40,317	22,507
Due from related party	<u>2,405</u>	<u>-</u>
Total current assets	<u>441,002</u>	<u>313,018</u>
Total assets	<u>\$ 441,002</u>	<u>\$ 313,018</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2013</u>	<u>2012</u>
<u>Current liabilities</u>		
Accrued liabilities	\$ 27,007	\$ 21,792
Due to related party	<u>-</u>	<u>308</u>
Total current liabilities	<u>27,007</u>	<u>22,100</u>
<u>Stockholders' equity</u>		
Common stock, \$1 par value, 100,000 shares authorized; 45,000 shares issued and outstanding at December 31, 2013 and 2012	45,000	45,000
Retained earnings	<u>368,995</u>	<u>245,918</u>
Stockholders' equity	<u>413,995</u>	<u>290,918</u>
Total liabilities and stockholders' equity	<u>\$ 441,002</u>	<u>\$ 313,018</u>

See auditors' report and accompanying notes to financial statements

CELLAIRIS FRANCHISE, INC.  
 STATEMENTS OF INCOME  
 FOR THE YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
<u>Revenue</u>		
Royalties	\$ 3,053,967	\$ 2,587,179
Franchise fees	584,750	382,750
License fees	149,855	12,532
Other fees	<u>38,733</u>	<u>18,123</u>
	<u>3,827,305</u>	<u>3,000,584</u>
 <u>Operating expenses</u>		
General and administrative	1,491,070	1,085,192
Professional fees	<u>40,205</u>	<u>72,590</u>
	<u>1,531,275</u>	<u>1,157,782</u>
 Income from operations	 2,296,030	 1,842,802
 <u>Interest income</u>	 <u>16</u>	 <u>32</u>
 Net income	 \$ <u>2,296,046</u>	 \$ <u>1,842,834</u>

See auditors' report and accompanying notes to financial statements

CELLAIRIS FRANCHISE, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31,

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		
Balance at January 1, 2011	45,000	\$ 45,000	\$ 264,080	\$ 309,080
Distributions	-	-	(1,860,996)	(1,860,996)
Net income	<u>-</u>	<u>-</u>	<u>1,842,834</u>	<u>1,842,834</u>
Balance at December 31, 2012	45,000	45,000	245,918	290,918
Distributions	-	-	(2,172,969)	(2,172,969)
Net income	<u>-</u>	<u>-</u>	<u>2,296,046</u>	<u>2,296,046</u>
Balance at December 31, 2013	<u>45,000</u>	<u>\$ 45,000</u>	<u>\$ 368,995</u>	<u>\$ 413,995</u>

See auditors' report and accompanying notes to financial statements

CELLAIRIS FRANCHISE, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

Increase (Decrease) In Cash

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Net income	\$ <u>2,296,046</u>	\$ <u>1,842,834</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in allowance for doubtful accounts	42,325	-
Change in operating assets and liabilities:		
Accounts receivable - trade	(67,473)	118,304
Prepaid expenses	(17,810)	(22,507)
Due from related parties	(2,713)	9,377
Accounts payable	-	(250)
Accrued liabilities	5,215	(53,747)
Unpresented bank drafts	<u>-</u>	<u>(1,467)</u>
Total adjustments	<u>(40,456)</u>	<u>49,710</u>
Cash provided by operating activities	<u>2,255,590</u>	<u>1,892,544</u>
 <u>Cash flows from financing activities</u>		
Distributions to stockholders	<u>(2,172,969)</u>	<u>(1,860,996)</u>
Cash used by financing activities	<u>(2,172,969)</u>	<u>(1,860,996)</u>
Net increase in cash	82,621	31,548
Cash, beginning of the year	<u>31,548</u>	<u>-</u>
Cash, end of year	<u>\$ <u>114,169</u></u>	<u>\$ <u>31,548</u></u>

See auditors' report and accompanying notes to financial statements

CELLAIRIS FRANCHISE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**Note A**  
**Summary of Significant Accounting Policies**

Nature of Operations:

Cellairis Franchise, Inc., an S Corporation, was incorporated on August 9, 2005. Cellairis is engaged in offering and selling franchises throughout the United States for the operation of individual franchise retail locations offering a broad assortment of accessories and cases for cell phones, tablets, and other mobile devices. The majority of the Company's franchisees operate mall kiosk locations.

Use of Estimates:

The preparation of financial statements in conformity with accounting estimates 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. Estimates are used for, but not limited to, the accounting for doubtful accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable:

Account receivables consist of amounts due from franchisees related to royalties at December 31, 2013 and 2012. The Company generally does not require collateral to support franchisees' receivables. The Company provides an allowance for doubtful accounts based upon a review of the outstanding accounts receivable, historical collection information and existing economic conditions. The Company determines if receivables are past due based on days outstanding, and amounts are written off when determined to be uncollectible by management. The maximum accounting loss from the credit risk associated with accounts receivable is the amount of the receivable recorded, which is the face amount of the receivable, net of the allowance for doubtful accounts. As of December 31, 2013 and 2012, the allowance for doubtful accounts was \$42,325 and \$0, respectively.

Revenue Recognition:

Franchise fee revenues from an individual franchise sale are recognized, with an appropriate provision for estimated uncollectible amounts, when all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor. When an individual franchise is sold, the Company agrees to provide certain services to the franchisee, including training. Existing franchises may be transferred to a new owner for a fee.

Royalties are earned on sales by franchisees and are recognized as revenue in the month the related sales are made.

Advertising:

The Company expenses advertising costs as incurred. Advertising expenses were \$193,218 and \$79,548 for the years ended December 31, 2013 and 2012, respectively.

CELLAIRIS FRANCHISE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**Note A**  
**Summary of Significant Accounting Policies (Continued)**

Income Taxes:

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code and similar state statutes to be an S corporation. In lieu of federal corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision for income taxes has been included in the financial statements. In addition, management has assessed tax positions of the Company and determined that there is a less than 51 percent likelihood that a tax position will not be sustained in an examination by the applicable taxing authority resulting in a tax liability to the Company.

The Company is no longer subject to federal income tax examinations for calendar years prior to 2010.

Fair Value of Financial Instruments:

The Company's financial instruments, including cash, accounts receivable, prepaid expenses and accrued expenses, are carried at cost, which approximates their fair value because of the short-term nature of these financial instruments.

**Note B**  
**Commitments and Contingencies**

Operating Leases:

The Company leases office space with a related party expiring in December 2015.

At December 31, 2013, future minimum lease payments under the noncancelable operating lease were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 3,600
2015	<u>3,600</u>
	<u>\$ 7,200</u>

Rent expense under the agreement totaled \$3,600 for the years ended December 31, 2013 and 2012.

CELLAIRIS FRANCHISE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**Note C**  
**Franchise Agreements**

At December 31, 2013, there were (i) 569 franchised locations in operations, of which 39 were opened during the year ended December 31, 2013, and (ii) 21 franchised locations are projected to be opened in the next fiscal year.

At December 31, 2012, there were 651 franchised locations in operations, of which 305 were opened during the year ended December 31, 2012.

**Note D**  
**Related Party Transactions**

Royalty Revenue:

During the years ended December 31, 2013 and 2012, the Company recognized royalty revenue from franchisees operated by related parties of \$30,000 and \$25,137, respectively. The balance due to the Company from the related parties at December 31, 2013 and 2012 was \$2,500, respectively.

Management Fee Expense:

Effective January 1, 2012, the Company entered into a shared services agreement with Global Cellular, Inc. ("GCI"), an affiliate company through common stockholders. Under the share services agreement, the Company utilizes centralized services of GCI, including (i) information technology assets and related operations and (ii) general administrative and corporate level services, and related assets, in each case that are owned and operated by GCI or any of its direct or indirect subsidiaries and affiliates and which will be used to provide services with respect to business conducted by the Company. The shared services fee is based upon a percentage of the Company's revenue. The Company incurred \$1,102,980 and \$896,318 for such services during the years ended December 31, 2013 and 2012, respectively.

License Fee Revenue:

The Company entered into a system license agreement with Cellairis Franchise International, Inc. ("CFII"), Cellairis Franchise Canada, Inc. ("CFC"), and Cellairis Franchise UK Limited ("CFUK"), affiliate companies through common stockholders. Under the system license agreement, the Company grants to CFII, CFC, and CFUK a non-exclusive right and license to use a proprietary system, developed by the Company, in a defined territory. The Company reserves all rights in and to the system not licensed to the affiliates including, without limitation, the right to use the system itself or to authorize licensees, subsidiaries and affiliated parties to use the system outside the defined territory. The license fee is based upon a percentage of franchise fees, royalties, commissions and license fees collected by the affiliate companies. The Company recognized revenue of \$149,855 and \$12,532 for such services during the years ended December 31, 2013 and 2012, respectively.

CELLAIRIS FRANCHISE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**Note D**  
**Related Party Transactions (Continued)**

Promissory Notes:

GCI has an outstanding promissory note with a bank that was established in 2012. The note matures in September 2015. The outstanding balance of the promissory note was \$584,944 and \$898,827 at December 31, 2013 and 2012, respectively. GCI has an outstanding promissory note that was established in 2013. The note matures in November 2016. The outstanding balance of the promissory note is \$2,922,682 at December 31, 2013. The assets of the Company are pledged as collateral for both promissory notes.

Line of Credit:

GCI has a line of credit with a bank that was renewed in 2013. The assets of the Company are pledged as collateral for the line of credit. The line of credit matures in April 2015. The outstanding balance of the line of credit was \$500,000 and \$0 at December 31, 2013 and 2012, respectively.

Letter of Credit:

GCI has a letter of credit with a mall chain in the amount of \$500,000. This letter of credit is secured by a line of credit with a bank that allows for borrowing of up to \$500,000 in the event that the mall chain exercises the letter of credit. The Company and the stockholders are guarantors of the letter of credit. There were no borrowings against the letter of credit at December 31, 2013 and 2012.

Purchase Card:

GCI has a purchase card that allows for borrowings up to \$3,000,000. The Company and the stockholders are guarantors of the purchase card. The balance on the line of credit at December 31, 2013 and 2012, was \$830,830 and \$1,007,926, respectively.

**Note E**  
**Reclassification**

Certain items in the 2012 financial statement presentation have been reclassified to conform to the 2013 presentation. Such reclassifications have no effect on previously reported net income.

**Note F**  
**Subsequent Events**

The Company evaluated subsequent events through April 9, 2014, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.



**Form F – Consent of Accountant**

**CONSENT**

Warren Averett, LLC, Certified Public Accountants, consent to the use in the Franchise Disclosure Document issued by Cellairis Franchise, Inc. (the “Franchisor”) on March 28, 2013, as it may be amended, of our report dated March 13, 2013 relating to the financial statements of Franchisor for the periods ending December 31, 2012 and 2011.

Date: March 28, 2013

WARREN AVERETT, LLC

By: 

Print Name: PAUL LUNDY

Title: MEMBER

770.396.1100 MAIN  
770.393.0319 FAX

Six Concourse Parkway  
Suite 600  
Atlanta, GA 30328-5351

[WARRENAVERETT.COM](http://WARRENAVERETT.COM)

**CELLAIRIS FRANCHISE, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2012 and 2011**

**with  
Independent Auditors' Report**

**CELLAIRIS FRANCHISE, INC.**

**TABLE OF CONTENTS**

**December 31, 2012 and 2011**

---

Independent Auditors' Report.....	1-2
Balance Sheets .....	3
Statements of Income.....	4
Statements of Stockholders' Equity.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Cellairis Franchise, Inc.

We have audited the accompanying financial statements of Cellairis Franchise, Inc. (an S corporation), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

770.396.1100 MAIN  
770.393.0319 FAX  
Six Concourse Parkway  
Suite 600  
Atlanta, GA 30328-5351

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cellairis Franchise, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Warren Averett, LLC*

WARREN AVERETT, LLC

March 13, 2013  
Atlanta, Georgia

# CELLAIRIS FRANCHISE, INC.

## BALANCE SHEETS

December 31, 2012 and 2011

---

	ASSETS	
	2012	2011
<b>Current Assets</b>		
Cash	\$ 31,548	\$ -
Accounts receivable, net	258,963	377,267
Prepaid expenses and other assets	22,507	-
Due from related parties	-	9,069
Total Current Assets	<u>313,018</u>	<u>386,336</u>
<b>Total Assets</b>	<u>\$ 313,018</u>	<u>\$ 386,336</u>
	LIABILITIES AND STOCKHOLDERS' EQUITY	
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 250
Unpresented bank drafts	-	1,467
Accrued expenses	21,792	75,539
Due to related parties	308	-
Total Current Liabilities	<u>22,100</u>	<u>77,256</u>
<b>Commitments and Contingencies (Notes B, C and D)</b>		
<b>Stockholders' Equity</b>		
Common stock, \$1 par value; 100,000 shares authorized; 45,000 issued and outstanding	45,000	45,000
Retained earnings	245,918	264,080
Total Stockholders' Equity	<u>290,918</u>	<u>309,080</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 313,018</u>	<u>\$ 386,336</u>

See accompanying notes.

# CELLAIRIS FRANCHISE, INC.

## STATEMENTS OF INCOME

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Royalties	\$ 2,598,476	\$ 2,223,709
Initial franchise fees	328,500	312,272
Transfer and other fees	<u>73,608</u>	<u>101,636</u>
Total Revenues	<u>3,000,584</u>	<u>2,637,617</u>
<b>Operating Expenses</b>		
Professional fees	72,590	127,943
General and administrative	1,085,192	472,541
Amortization expense	<u>-</u>	<u>859</u>
Total Operating Expenses	<u>1,157,782</u>	<u>601,343</u>
<b>Other Income</b>		
Interest income	<u>32</u>	<u>-</u>
<b>Net Income</b>	<u>\$ 1,842,834</u>	<u>\$ 2,036,274</u>

*See accompanying notes.*

# CELLAIRIS FRANCHISE, INC.

## STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2012 and 2011

---

	Common Stock	Retained Earnings	Total
<b>Balance at December 31, 2010</b>	\$ 45,000	\$ 231,811	\$ 276,811
Net income	-	2,036,274	2,036,274
Distributions	-	(2,004,005)	(2,004,005)
<b>Balance at December 31, 2011</b>	45,000	264,080	309,080
Net income	-	1,842,834	1,842,834
Distributions	-	(1,860,996)	(1,860,996)
<b>Balance at December 31, 2012</b>	<u>\$ 45,000</u>	<u>\$ 245,918</u>	<u>\$ 290,918</u>

*See accompanying notes.*

# CELLAIRIS FRANCHISE, INC.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,842,834	\$ 2,036,274
Amortization expense	-	859
Changes in assets and liabilities:		
Accounts receivable	118,304	(98,346)
Prepaid expenses and other assets	(22,507)	-
Accounts payable	(250)	(4,885)
Unpresented bank drafts	(1,467)	1,467
Accrued expenses	(53,747)	(4,838)
Net cash provided by operating activities	<u>1,883,167</u>	<u>1,930,531</u>
<b>Cash flows from financing activities:</b>		
Distributions to shareholders	(1,860,996)	(2,004,005)
Repayments from (advances to) related parties	<u>9,377</u>	<u>(9,069)</u>
Net cash used in financing activities	<u>(1,851,619)</u>	<u>(2,013,074)</u>
Net increase (decrease) in cash	31,548	(82,543)
<b>Cash at beginning of year</b>	<u>-</u>	<u>82,543</u>
<b>Cash at end of year</b>	<u><u>\$ 31,548</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

# CELLAIRIS FRANCHISE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

---

### NOTE A—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cellairis Franchise, Inc. (“Cellairis,” “Cellairis US,” or the “Company”) was incorporated on August 9, 2005 for the purpose of selling franchises to third parties who will operate mall kiosks selling wireless cell phone accessories throughout the United States. As further described in the Franchise Offering Circular, Cellairis Franchise, Inc. offers customers of Global Cellular, Inc. (“Global”), a company with common shareholders, the opportunity to convert their current operation into a Cellairis franchise and waives the initial franchise fee. During 2012, no retailers were converted. During 2011, 15 retailers were converted. During 2012 and 2011, 302 and 170 franchises were sold, respectively. As of December 31, 2012 and 2011, there were 667 and 497 franchises open and operating, respectively.

The following is a summary of the significant accounting principles and policies followed by the Company:

Use of Estimates: The preparation of the 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, liabilities, revenues and expenses at the date of the financial statements. Actual results could differ from those estimates.

Revenue Recognition: The Company has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 952, *Franchisors*, regarding accounting for franchise fee revenue. FASB ASC 952 requires that all franchise fee revenues from an individual franchise sale be recognized, with an appropriate provision for estimated uncollectible amounts, when all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor. When an individual franchise is sold, the Company agrees to provide certain services to the franchisee, including training. Existing franchises may be transferred to a new owner for a fee. Franchise fees are recognized as revenue after the Company provides the services required by the franchise agreement.

Deferred revenue of \$0 and \$5,000 are reported as a component of accrued expenses at December 31, 2012 and 2011, respectively. Deferred revenue represents franchise fees from franchises that have been sold as of year end, but not yet opened. Costs related to services to be delivered to these franchises for the years ended December 31, 2012 and 2011 are minimal.

Royalties are earned on sales by franchisees and are recognized as revenue in the month the related sales are made.

# CELLAIRIS FRANCHISE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

---

### **NOTE A—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

Fair Value of Financial Instruments: At December 31, 2012 and 2011 the carrying value of financial instruments such as cash, receivables and payables approximated their fair values.

Cash and Cash Equivalents: For the purpose of reporting cash flows, the Company considers all demand notes and short-term investments with original maturities of three months or less to be cash equivalents.

Allowance for Doubtful Accounts: The Company uses the allowance method to account for uncollectible accounts receivable. The allowance is based on historical experience, the status of reviewed accounts receivable, and management's analysis of possible bad debts. Receivables are written off based on individual credit evaluation and specific circumstances of the franchise. The allowance for doubtful accounts at December 31, 2012 and 2011 was \$0 and \$54,006, respectively.

Income Taxes: The Company, with the consent of its stockholders, has elected to be an S Corporation under the Internal Revenue Code. Under this election, the Company's taxable income or loss and tax credits are passed through to the individual stockholders. Therefore, no income taxes have been recorded in the financial statements.

Management does not believe there are any uncertain tax positions as defined by FASB ASC 740, *Income Taxes*. The Company could be subject to income tax examinations for its U.S. Federal and State tax filings for the current year and previous filings for tax years 2011, 2010 and 2009 still open under the statute of limitations.

Events Occurring After Report Date: The Company has evaluated events and transactions that occurred between December 31, 2012 and March 13, 2013, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. See Note E.

# CELLAIRIS FRANCHISE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

---

### NOTE B—RELATED PARTY TRANSACTIONS

Management Fee Expense: Global provides Cellairis with management, accounting and marketing services. During 2012, Global began assessing a shared service fee to Cellairis by charging a fee based upon a percentage of revenue. Shared service fee expense incurred by Cellairis to Global was \$896,318. During 2011, Global assessed a management fee to Cellairis by allocating a portion of the salaries and benefits of Global employees who perform services for Cellairis. Management fee expense incurred by Cellairis to Global was \$222,781 during 2011.

Franchisee Transactions: Per the franchise agreements, Cellairis franchisees are required to purchase all inventory from Global. Cellairis and Global use common service providers for expenses such as professional services and the portion of these expenses that apply to Cellairis are allocated to them and reimbursed to Global. Certain franchises pay their royalty fees to Global who in turn, pay these amounts to Cellairis. These transactions are recorded in a due to/due from intercompany account. As of December 31, 2012 and 2011, the balance of this account was \$0.

Operating Lease: Effective January 1, 2008, Cellairis entered into an operating lease for office space with a party that is related by common ownership. The lease expired December 31, 2012 and Cellairis paid \$300 a month through expiration. Effective January 1, 2013, the Company renewed the operating lease with the same related party. The lease expires on December 31, 2015 and Cellairis is to pay \$300 a month until the lease expires. Rent expense for the years ended December 31, 2012 and December 31, 2011 was \$3,600.

Promissory Note: Global had a promissory note with a bank and the assets of Global and Cellairis served as collateral on the note. The note matured and was repaid in 2012. The balance on the note at December 31, 2011 was \$28,407. Global has a promissory note with a bank that was established in 2012. Assets of Global and Cellairis serve as collateral on the note. The note matures on September 5, 2015. The balance on the note at December 31, 2012 was \$898,828.

Line of Credit: Global has a line of credit with a bank that was established during 2011. On April 30, 2012, the borrowing capacity was increased on the line of credit from \$1,500,000 to \$2,000,000. Assets of Global and Cellairis serve as collateral on the line of credit. Additionally, Cellairis and the owners are guarantors of the line of credit. The line of credit matures on May 1, 2013. The balance on the line of credit at December 31, 2012 and 2011 was \$0 and \$1,000,000, respectively.

# CELLAIRIS FRANCHISE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

---

### NOTE B—RELATED PARTY TRANSACTIONS—Continued

Letter of Credit: Global has a letter of credit with a mall chain in the amount of \$500,000. This letter of credit is secured by a line of credit with a bank that allows for borrowing of up to \$500,000 in the event that the mall chain exercises the letter of credit. Cellairis and the owners are guarantors of the line of credit. There were no borrowings against the line of credit at December 31, 2012 or 2011.

Purchase Card: Global has a purchase card that is secured by a separate line of credit that allows for borrowings up to \$3,000,000 in the event of a default on the monthly payments. Cellairis and the owners are guarantors on this line of credit. The balance on the line of credit at December 31, 2012 and 2011 was \$1,007,926 and \$861,112, respectively.

Cellairis Canada: Cellairis Franchise Canada, Inc. (“Cellairis Canada”) shares common shareholders with Cellairis US. Cellairis Canada entered into a system license agreement with Cellairis US effective January 1, 2011 to use a proprietary system developed by Cellairis US. The term of the agreement is thirty years and the license fee amounts to ten percent of all franchise fees, royalties, commissions and license fees collected by Cellairis Canada during the applicable calendar month. Fees charged by Cellairis US to Cellairis Canada during 2012 and 2011 amounted to \$5,500 and \$7,197, respectively. As of December 31, 2012 and 2011, Cellairis US had a payable of \$100 and receivable of \$7,197 from Cellairis Canada, respectively.

Cellairis UK: Cellairis Franchise UK Limited. (“Cellairis UK”) shares common shareholders with Cellairis US. Cellairis UK entered into a system license agreement with Cellairis US effective January 1, 2011 to use a proprietary system developed by Cellairis US. The term of the agreement is thirty years and the license fee amounts to ten percent of all franchise fees, royalties, commissions and license fees collected by Cellairis UK during the applicable calendar month. Fees charged by Cellairis US to Cellairis UK during 2012 and 2011 amounted to \$7,032 and \$1,872, respectively. As of December 31, 2012 and 2011, Cellairis US had a payable of \$208 and receivable of \$1,872 from Cellairis UK, respectively.

# **CELLAIRIS FRANCHISE, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012 and 2011**

---

### **NOTE C—CONTINGENCIES**

From time to time, the Company is involved in various legal proceedings where the Company is either the defendant or the plaintiff. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between the affected parties, and other actions. Management assesses the probability of losses or gains for such contingencies and accrues a liability and/or discloses the relevant circumstances as appropriate. As of December 31, 2012, and through the date of the auditors' report, the Company is unable to predict with any reasonable degree of certainty the outcome of any pending legal proceedings. Management believes that any liabilities of, or benefits for, the Company that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the financial condition of the Company taken as a whole.

### **NOTE D—LETTER OF CREDIT AND PROMISSORY NOTE**

During 2010, the Company maintained a letter of credit agreement with American Express in the amount of \$100,000. The Company did not renew the letter of credit agreement. To back the letter of credit the Company had a promissory note with a bank. Advances under the promissory note bore interest at 6.5% and were secured by certain assets of the Company and Global. This note matured on October 16, 2012. It was secured by a \$100,000 hold on a money market account held by Global. There were no advances against this note at December 31, 2011.

### **NOTE E—SUBSEQUENT EVENT**

Between January 1, 2013 and March 13, 2013, two new franchise operations were sold. Additionally, 31 operations were transferred to new owners.