ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

FINANCIAL STATEMENTS
AND
AUDITORS’ REPORT

SEPTEMBER 30, 2006
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Advancement of Research for Myopathies (ARM)
Encino, California

We have audited the accompanying statements of financial position of
Advancement of Research for Myopathies – ARM (the “Organization”) (a
California non-profit Organization) as of September 30, 2007, and the related
statements of activities, functional expenses, and cash flows for the year then
ended. These financial statements are the responsibility of the Organization’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 Advancement of Research for
Myopathies (ARM) as of September 30, 2007, and the results of its operations
and its cash flows for the year then ended in conformity with accounting
principles generally accepted in the United States of America.

March 6, 2008
ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
Statement of Financial Position
September 30, 2006

ASSETS

Current Assets
Cash $  76,913

Total current assets 76,913

Fixed assets
Office equipment 401
Less accumulated depreciation 138

Total fixed assets 263

Total assets $  77,176

LIABILITIES AND NET ASSETS

Current liabilities
Accrued expenses $  2,269

Total current liabilities 2,269

Contingencies -

Net assets - Unrestricted 74,907

Total liabilities and net assets $  77,176

The accompanying notes are an integral part of these financial statements.
ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
Statement of Activities
Year Ended September 30, 2006

REVENUES:
Contributions and grants $ 413,126
Interest income 1,088
Total revenues 414,214

EXPENSES:
Program services:
   Primary research 254,843
   Research development and patient services 196,149
Total program services 450,992
Support services:
   General and administrative 4,834
   Fundraising 60,979
Total support services 65,813
Total expenses 516,805
Decrease in unrestricted net assets (102,591)
Unrestricted net assets at beginning of year 177,498
Unrestricted net assets at end of year $ 74,907

The accompanying notes are an integral part of these financial statements.
ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
Statement of Functional Expenses
For the Year ended September 30, 2006

<table>
<thead>
<tr>
<th>PROGRAM SERVICES</th>
<th>SUPPORT SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Program Services</strong></td>
<td><strong>Total Support Services</strong></td>
</tr>
<tr>
<td><strong>Total Program Services</strong></td>
<td><strong>General and Administrative</strong></td>
</tr>
<tr>
<td>Grants and allocations $ 450,992</td>
<td>$ 450,992</td>
</tr>
<tr>
<td>Fund-raising activities</td>
<td>-</td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>-</td>
</tr>
<tr>
<td>Rent</td>
<td>-</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>-</td>
</tr>
<tr>
<td>Office expenses</td>
<td>-</td>
</tr>
<tr>
<td>Postage and shipping</td>
<td>-</td>
</tr>
<tr>
<td>Telephone</td>
<td>-</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>-</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>-</td>
</tr>
<tr>
<td>Travel</td>
<td>-</td>
</tr>
<tr>
<td>Printing and visual aids</td>
<td>-</td>
</tr>
<tr>
<td>Credit card fees</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
</tr>
<tr>
<td>Bank fees</td>
<td>-</td>
</tr>
</tbody>
</table>

Total $ 450,992 $ 450,992 $ 4,834 $ 60,979 $ 65,813 $ 516,805

The accompanying notes are an integral part of these financial statements.
ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
Statement of Cash Flows
Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in unrestricted net assets $ 74,907
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:
  Depreciation 57
  Changes in assets and liabilities:
    Decrease in contributions receivable 32,781
    Increase in accrued expenses 174
    Decrease in grants payable (210,279)

NET DECREASE IN CASH AND CASH EQUIVALENTS (102,360)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 179,273

CASH AND CASH EQUIVALENTS AT END OF YEAR $ 76,913

The accompanying notes are an integral part of these financial statements.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Advancement of Research for Myopathies (the “Organization”) is a non-profit corporation organized to provide funds for development of effective treatments for autosomal recessive inclusion body myopathy (IBM2). IBM2 is also known as quadriceps spring myopathy (QSM), distal myopathy with rimmed vacuoles (DMRV or nonka’s myopathy), or hereditary inclusion body myopathy (HIBM).

Basis of Accounting

The financial statements of Advancement of Research for Myopathies have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fixed Assets

Property and equipment are stated at cost. Depreciation on assets is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for all assets.

Income Taxes

Advancement of Research for Myopathies is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, Advancement of Research for Myopathies has made no provision for federal income taxes in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restriction of Funds

All funds in the various bank accounts are unrestricted funds.

NOTE 2 – BASIS FOR GRANTS PAYABLE

Grants awards may extend a period of 1-3 years and are paid on a quarterly basis. The Organization records the initial year’s liabilities and related expenses for the awarded grants after recommended for approval by the Organization’s independent scientific peer reviewers and approved by the Board of Directors. Funding of the remaining committed future amounts of grants is contingent upon satisfactory scientific and/or medical review and the availability of funds. For the year ended September 30, 2006, $196,149 in grants were paid to HIBM Research Group, Inc., which is a non-profit organization with the main purpose of engaging in medical research regarding Hereditary Inclusion Body Myopathies (HIBM).

NOTE 3 – FUNDRAISING ACTIVITIES

Advancement of Research for Myopathies (ARM) organizes special events to increase awareness and raise funds for biomedical research.

NOTE 4 – FIXED ASSETS

As of September 30, 2006, fixed assets consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$401</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>$138</td>
</tr>
<tr>
<td>Total</td>
<td>$263</td>
</tr>
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</table>
NOTE 5 - COMMITMENTS

The Organization entered into a joint lease agreement with two other tenants for office space rental in April 2004. The lease was for three years and expired on March 31, 2007. Currently the facilities are being rented on a month-to-month basis. The company is in negotiations to finalize an agreement.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RENT EXPENSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 3,279</td>
</tr>
<tr>
<td>2008</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ 3,279</td>
</tr>
</tbody>
</table>

Total rent expense for the year was $6,552.

NOTE 6 – MAJOR CONTRIBUTIONS

During the year Advancement of Research for Myopathies (ARM) had contributions from four major donors (over $5,000), representing 13% of the contribution revenues and 8% of the overall revenues.

NOTE 7 - OFF-BALANCE SHEET CREDIT RISK

Advancement of Research for Myopathies (ARM) periodically maintains balances in its various cash accounts in excess of $100,000. Such excess is not insured by the Federal Depository Insurance Corporation (FDIC).