

**EXHIBIT 5**  
**To**  
**Offering Circular**

**FINANCIAL STATEMENTS**

# Rosenthal & Co., P.A.

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Certified Public Accountants  
2122 Meeting House Road  
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CARPET NETWORK, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

CARPET NETWORK, INC.

Financial Statements

December 31, 2005 and 2004

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## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of  
Carpet Network, Inc.  
Mount Laurel, New Jersey

We have audited the accompanying balance sheets of Carpet Network, Inc. as of December 31, 2005 and 2004 and the related statements of operations, accumulated deficit and cash flows for the years 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 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 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 audits provide 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 Carpet Network, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 24, 2006

*Rosenthal & Co., P.A.*

CARPET NETWORK, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	<u>2005</u>	<u>2004</u>
Current		
Cash	\$3,393	\$4,136
Cash - restricted	15,809	17,729
Royalties receivable	34,101	25,858
Notes receivable - franchise fees	8,079	5,877
Samples and Supplies	33,806	24,304
Other receivables	38,774	33,811
Total Current	<u>133,962</u>	<u>111,715</u>
Equipment, at cost	42,520	35,647
Less accumulated depreciation	<u>33,318</u>	<u>32,487</u>
	9,202	3,160
Equipment under capital lease	30,887	30,887
Less accumulated amortization	<u>14,406</u>	<u>10,177</u>
	<u>16,481</u>	<u>20,710</u>
Total equipment - net	<u>25,683</u>	<u>23,870</u>
Franchise development fees (net of accumulated amortization of \$56,153 and \$54,818 at December 31, 2005 and 2004 respectively)	770	2,105
Notes receivable - franchise fees	6,921	12,743
Deposit	<u>100</u>	<u>100</u>
Total other	<u>7,791</u>	<u>14,948</u>
Total assets	<u>\$167,436</u>	<u>\$150,533</u>

See accompanying notes.

CARPET NETWORK, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	<u>2005</u>	<u>2004</u>
<b>Current</b>		
Accounts payable and accrued expenses	\$66,607	\$35,783
Payroll taxes payable	7,630	7,386
Current portion of long-term debt	18,000	17,500
Obligation under capital lease	4,650	5,644
Loan payable - officer/shareholder	8,068	4,356
Deferred income	-	17,500
National Marketing Fund balance	7,355	10,169
Family Fund balance	8,454	7,560
<b>Total current</b>	<u>120,764</u>	<u>105,898</u>
<b>Other</b>		
Long-term debt	47,212	65,148
Obligations under capital leases	8,882	13,405
<b>Total other</b>	<u>56,094</u>	<u>78,553</u>
<b>Stockholders' equity</b>		
Common stock - Authorized 1,000 shares, issued and outstanding 135 shares	1,350	1,350
Additional paid-in capital	184,150	184,150
Accumulated deficit	<u>(194,922)</u>	<u>(219,418)</u>
<b>Total stockholders' equity</b>	<u>(9,422)</u>	<u>(33,918)</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$167,436</u>	<u>\$150,533</u>

See accompanying notes.

CARPET NETWORK, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2005	2004
Revenues	<u>\$709,165</u>	<u>\$569,333</u>
Expenses		
Advertising	18,615	31,643
Automobile and truck	5,232	5,029
Bad debt	22,314	3,364
Clothing	2,295	2,235
Sales commissions	13,929	19,500
Convention	52,882	40,323
Depreciation and amortization	6,395	5,714
Employee benefits	22,774	10,561
Franchise set-up costs	10,102	12,617
Insurance	2,203	2,049
Licenses and permits	3,010	2,910
Office and miscellaneous	30,704	29,909
Payroll	251,833	195,874
Payroll and miscellaneous taxes	29,055	18,565
Postage	14,159	17,329
Printing	10,003	8,991
Professional fees	18,149	14,735
Professional seminars	6,567	
Rent	34,397	34,339
Samples and purchases	61,381	53,030
Telephone	13,871	13,756
Temporary labor	683	693
Training support	6,897	6,012
Travel and entertainment	29,437	18,395
Utilities	6,098	4,796
Total expenses	<u>672,985</u>	<u>552,369</u>
Income from operations	<u>36,180</u>	<u>16,964</u>
Other income (expense)		
Interest earned	1,117	1,529
Interest expense	(11,452)	(11,990)
Loss on sale of fixed assets	-	(1,478)
Total other income (expense)	<u>(10,335)</u>	<u>(11,939)</u>
Income before taxes	25,845	5,025
Provision for state income taxes	<u>1,349</u>	<u>500</u>
Net income	<u>\$24,496</u>	<u>\$4,525</u>

See accompanying notes.

CARPET NETWORK, INC.  
STATEMENTS OF ACCUMULATED DEFICIT

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Accumulated deficit - beginning of year	(\$219,418)	(\$223,943)
Net income	<u>24,496</u>	<u>4,525</u>
Accumulated deficit - end of year	<u>(\$194,922)</u>	<u>(\$219,418)</u>

See accompanying notes.



CARPET NETWORK, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income	<u>\$24,496</u>	<u>\$4,525</u>
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	6,395	5,714
Loss from disposition of fixed assets	-	1,478
Changes in operating assets and liabilities		
Royalties receivable	(8,243)	699
Notes receivable - franchise fees	3,620	14,363
Samples and supplies	(9,502)	(8,129)
Other receivables	(4,963)	(8,704)
Accounts payable and accrued expenses	30,824	(23,418)
Payroll taxes payable	244	(6,832)
Deferred income	(17,500)	17,500
Other liabilities	<u>(2,288)</u>	<u>17,500</u>
	<u>(1,413)</u>	<u>(7,329)</u>
Net cash provided (used) by operating activities	<u>23,083</u>	<u>(2,804)</u>
Cash flows from investing activities		
Acquisition of fixed assets	(6,873)	(3,410)
Disposition of fixed assets	-	1,162
Acquisition of assets under capital leases	<u>-</u>	<u>(18,128)</u>
Net cash provided (used) by investing activities	<u>(\$6,873)</u>	<u>(\$20,376)</u>

See accompanying notes.

CARPET NETWORK, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income	<u>\$24,496</u>	<u>\$4,525</u>
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	6,395	5,714
Loss from disposition of fixed assets	-	1,478
Changes in operating assets and liabilities		
Royalties receivable	(8,243)	699
Notes receivable - franchise fees	3,620	14,363
Samples and supplies	(9,502)	(8,129)
Other receivables	(4,963)	(8,704)
Accounts payable and accrued expenses	30,824	(23,418)
Payroll taxes payable	244	(6,832)
Deferred income	(17,500)	17,500
Other liabilities	(2,288)	
	<u>(1,413)</u>	<u>(7,329)</u>
Net cash provided (used) by operating activities	<u>23,083</u>	<u>(2,804)</u>
Cash flows from investing activities		
Acquisition of fixed assets	(6,873)	(3,410)
Disposition of fixed assets	-	1,162
Acquisition of assets under capital leases	-	(18,128)
Net cash provided (used) by investing activities	<u>(\$6,873)</u>	<u>(\$20,376)</u>

See accompanying notes.

CARPET NETWORK, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Cash from financing activities		
Proceeds from loans	\$6,000	\$98,530
Payment of loans	(17,436)	(90,984)
Proceeds from capital lease obligation	-	18,128
Payment of capital lease obligation	(5,517)	(5,394)
Net cash provided (used) by financing activities	<u>(16,953)</u>	<u>20,280</u>
Net increase (decrease) in cash	(743)	(2,900)
Cash - beginning of year	<u>4,136</u>	<u>7,036</u>
Cash - end of year	<u><u>\$3,393</u></u>	<u><u>\$4,136</u></u>
Supplemental disclosures of cash flow information		
Cash paid during the year:		
Interest	<u>\$11,220</u>	<u>\$11,990</u>
Taxes	<u>\$0</u>	<u>\$2,200</u>

See accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### Description of Franchisor and Franchisee Obligations

The Company was founded in July 1991 to sell franchises to operate mobile retail carpet, flooring and window covering sales businesses under the trade name Carpet Network.

As franchisor, the Company provides each franchisee with an exclusive sales territory, training, interior/exterior van design package, samples, initial supplies, printed materials, use of the copyrighted name and logo, ongoing business/marketing support and access to suppliers who provide volume discounts to the network.

In exchange, the franchisee pays the franchisor an initial franchise fee which covers assignment of the sales territory, training, and use of the trade name and logo. An initial set-up fee is paid by the franchisee for the van interior and exterior design package, samples, supplies and printing. A monthly royalty payment based on a sliding scale from 7% to 2% is also paid by the franchisee.

Beginning January 2000, new franchise agreements are effective for 15 years with a 15 year renewal option. Previous agreements were for an initial term of 5 years with a 5 year renewal option.

There are a total of 34 franchise territories awarded at December 31, 2005 and 39 franchise territories awarded at December 31, 2004.

The Company maintains an Area Director Program whereby eligible franchisees can purchase the exclusive right to sell additional franchises within their territories. Revenues from the sale of Area Director Program franchises are recognized upon the sale of franchises by the Area Director. There are 42 Area Directors at the year ended December 31, 2005 and 4 Area Directors at the year ended December 31, 2004. No revenues have been recognized under this program.

Franchisees operate throughout the United States.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Equivalents

The Company maintains cash balances at financial institutions in New Jersey which may exceed federally insured amounts.

For purposes of preparing the statement of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash or cash equivalents.

Restricted cash consists of funds contributed primarily by the franchisees to the National Marketing Fund and the Carpet Network Family Fund as follows:

	2005	2004
National Marketing Fund	\$7,355	\$10,169
Carpet Network Family Fund	<u>8,454</u>	<u>7,560</u>
Total restricted cash	<u>\$15,809</u>	<u>\$17,729</u>

See notes 5 and 6.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Advertising

The Company recognizes advertising costs as an expense when the related service is performed. Advertising expense was \$18,615 and \$31,643 for the years ended December 31, 2005 and 2004 respectively.

### Samples and supplies

Samples and supplies consisting of flooring and window treatment samples and promotional materials are stated at cost. Samples and promotional materials are expensed when shipped to the franchisee.

### Equipment and Depreciation

Equipment is stated at cost. Leased equipment under capital leases is stated at the lower of the net present value of the minimum lease payments or the equipment cost at the lease inception date. Expenditures for maintenance and insurance are charged against operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related asset.

### Franchise Development Fees/Amortization

Franchise development fees represent the Company's costs for franchise documentation and marketing materials. These costs are being amortized on the straight-line method over an estimated useful life of 10 years.

### Income Taxes

The Company, with the consent of its shareholders, has elected to be taxed as an "S" Corporation for federal income tax purposes. This election generally eliminates income taxes at the corporate level and profits and losses are passed through to the Company's shareholders. Therefore, only a provision for state taxes has been provided in the accompanying financial statements. It is the Company's policy to provide funds in the form of dividends to the shareholders to pay any related federal income taxes. No dividends were paid during the years ended December 31, 2005 or 2004.

### Revenue Recognition

The initial franchise fee is recognized as income upon the opening of the franchise, typically 30 days following the signing of the franchise agreement. At this time the franchisor has completed all significant services required by the franchise agreement (i.e. assignment of sales territory, training, etc.). Funds received in advance of training are recorded as deferred income.

Royalty revenues are recognized monthly as earned.

Revenues for the years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Royalties and other	\$630,865	\$522,833
Franchise fees	78,300	46,500
	<u>\$709,165</u>	<u>\$569,333</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Notes Receivable - Franchise Fees

	December 31,	
	<u>2005</u>	<u>2004</u>
\$14,500 9% note receivable repayable in monthly installments of interest and principal beginning April 2003 through February 2009	\$9,888	\$12,601
\$18,400 9.5% note receivable repayable on demand	<u>5,112</u>	<u>6,019</u>
Total notes receivable	15,000	18,620
Less current portion	<u>8,079</u>	<u>5,877</u>
Noncurrent portion	<u>\$6,921</u>	<u>\$12,743</u>

All notes receivable are secured by the personal guarantees of the franchisees. No provision for bad debts is required for the years ended December 31, 2005 and 2004.

3. Description of Leasing Arrangements

Operating

The Company classifies its lease for office/warehouse facilities as an operating lease. The lease was renewed in December 2004 for 2 years. The Company subleases space under a monthly lease.

Rental expense consists of the following at December 31,

	2005	2004
Minimum rentals	<u>\$39,197</u>	<u>\$40,239</u>
Less: sublease income	<u>(4,800)</u>	<u>(5,900)</u>
Net rental expense	<u>\$34,397</u>	<u>\$34,339</u>

Future minimum lease payments are as follows:

Year ended December 31,	2005	2004
2005	-	33,500
2006	33,500	-
Thereafter	-	-
	<u>\$33,500</u>	<u>\$33,500</u>

There are no minimum subrental payments due under noncancellable subleases at December 31, 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Description of Leasing Arrangements (continued)

Capital

The Company leases office equipment and a forklift under leases classified as capital leases. The minimum future lease payments and present value of the net minimum lease payments applicable to the years ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
<u>Year ended December 31,</u>		
2005	-	8,266
2006	6,544	6,372
2007	4,820	4,876
2008	3,548	3,547
2009	2,956	2,956
Thereafter	<u>-</u>	<u>-</u>
Total minimum lease payments	17,868	26,017
Less executory costs	<u>769</u>	<u>970</u>
Net minimum lease payments	17,099	25,047
Less imputed interest	<u>3,567</u>	<u>5,998</u>
Present value of net minimum lease payments	13,532	19,049
Less current portion	<u>4,650</u>	<u>5,644</u>
Noncurrent portion	<u><u>\$8,882</u></u>	<u><u>\$13,405</u></u>

4. Long-term debt

In August 2001 the Company refinanced its long-term debt with a \$95,000, 8.5%, 5 year self amortizing loan with a monthly payment of \$1,949. The proceeds of the loan were used to payoff a 9% bank loan and various short-term debt obligations.

In March 2004 this loan was refinanced with a \$95,000, 6.25%, 5 year self amortizing loan with a monthly payment of \$1,848. The net proceeds of the loan were used to payoff the original loan and for general working capital.

Interest expense relating to this long term debt for the years ended December 31, 2005 and 2004 was \$3,839 and \$5,687 respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. National Marketing Fund

In 2000, pursuant to the Franchise Agreement, the Company instituted a National Marketing Fund (NMF) for the benefit of the franchisees. Currently a dedicated fee is assessed against each franchisee and deposited into a segregated corporate checking account. These funds are used exclusively for the benefit of the NMF.

Cash flows for the NMF for the years ended December 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Cash balance beginning	<u>\$10,169</u>	<u>\$8,875</u>
Inflows	<u>61,881</u>	<u>63,855</u>
Outflows		
Web site fees	41,781	51,618
Expenses reimbursements to NMF members	3,193	2,796
Advertising/marketing	10,427	3,650
Bank fees	1,589	1,466
Trade show display	7,105	2,431
Professional fees	<u>600</u>	<u>600</u>
Total outflows	<u>64,695</u>	<u>62,561</u>
Cash balance (restricted)	<u><u>\$7,355</u></u>	<u><u>\$10,169</u></u>

Cash inflows are recorded as liabilities when received and offset by payments to vendors. The transactions are not recorded as revenues or expenses by the franchisor since use of the funds is limited to the National Marketing Fund.

SVB Corporation, a company controlled by a minority shareholder of the franchisor, receives monthly fees from the NMF for web site development costs and ongoing marketing and internet support services.

It is specifically stipulated by SVB Corporation in the Web Site Development, License and Management Agreement that all monthly fees are payable from the NMF account, and not from the assets of the franchisor.



NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Carpet Network Family Fund

In 2004 the franchisor sponsored the opening of the Carpet Network Family Fund (CNFF). The purpose of the CNFF is to provide a source of money to assist franchisees who are in financial need. Participation is completely voluntary and donations are accepted from sources outside of the Carpet Network Franchises. Funds are maintained in a segregated account and disbursements will be made when approved by a committee of franchisees.

Activity in the CNFF for the years ended December 31, 2005 and 2004 was as follows:

	<u>2005</u>	<u>2004</u>
Beginning of year	\$7,560	\$0
Receipts	800	7,531
Interest income	94	29
Distributions	<u>-</u>	<u>-</u>
End of year	<u>\$8,454</u>	<u>\$7,560</u>

7. Related Party Transactions

Officer/shareholders of the Company advanced funds to the Company at various times. The loans are repayable on demand, without interest, and have been classified as current for the years ended December 31, 2005 and 2004.

8. Contingencies

29% of the franchisees accounted for approximately 56% of the royalties received for the year ended December 31, 2005 and 27% of the franchisees accounted for approximately 66% of the royalties received for the year ended December 31, 2004.

# Rosenthal & Co., P.A.

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CARPET NETWORK, INC.  
NATIONAL MARKETING FUND  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

CARPET NETWORK, INC.

National Marketing Fund

December 31, 2005 and 2004

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## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of  
Carpet Network, Inc.  
Mount Laurel, New Jersey

We have audited the accompanying schedule of cash receipts and disbursements of the Carpet Network, Inc. National Marketing Fund for the years ended December 31, 2005 and 2004. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule 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 audits to obtain reasonable assurance about whether the schedule of cash receipts and disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash receipts and disbursements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the schedule of cash receipts and disbursements referred to above presents fairly, in all material respects, the transactions of the Carpet Network, Inc. National Marketing Fund for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

February 24, 2005

*Rosenthal & Co., P.A.*

CARPET NETWORK, INC.  
NATIONAL MARKETING FUND

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	Year Ended December 31,	
	2005	2004
Cash Beginning	\$10,169	\$8,875
Cash receipts		
Franchisees	61,881	63,855
Cash disbursements		
SVB Corporation	41,781	44,118
Consulting fees	-	7,500
Advertising	10,427	3,650
Expense reimbursement - NMF members	3,193	2,796
Bank fees	1,589	1,466
Trade show display	7,105	2,431
Professional fees	600	600
Total disbursements	64,695	62,561
Cash ending	\$7,355	\$10,169

See accompanying note.

## NOTES TO THE SCHEDULE OF RECEIPTS AND DISBURSEMENTS

### Summary of Significant Accounting Policies

#### 1. National Marketing Fund

In 2000, pursuant to the Franchise Agreement, the Company instituted a National Marketing Fund (NMF) for the benefit of the franchisees. Currently a monthly fee is assessed against each franchisee and deposited into a segregated corporate checking account. These funds are used exclusively for the benefit of the NMF.

SVB Corporation, a company controlled by a minority shareholder of the Franchisor, receives monthly fees from the NMF for the web site development costs and ongoing marketing and internet support services.

It is specifically stipulated by SVB Corporation in the Web Site Development, License and Management Agreement that all monthly fees are payable from the NMF account, and not from the assets of the Franchisor.

CARPET NETWORK, INC.

Financial Statements

December 31, 2004 and 2003

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## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of  
Carpet Network, Inc.  
Mount Laurel, New Jersey

We have audited the accompanying balance sheets of Carpet Network, Inc. as of December 31, 2004 and 2003 and the related statements of operations, accumulated deficit and cash flows for the years 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 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 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 audits provide 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 Carpet Network, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 7, 2005

*Rosenthal & Co., P.A.*



CARPET NETWORK, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	<u>2004</u>	<u>2003</u>
Current		
Cash	\$4,136	\$7,036
Cash - restricted	17,729	8,875
Royalties receivable	25,858	26,557
Notes receivable - franchise fees	5,877	11,757
Samples and Supplies	24,304	16,175
Other receivables	33,811	25,107
Total Current	<u>111,715</u>	<u>95,507</u>
Equipment, at cost	35,647	51,781
Less accumulated depreciation	<u>32,487</u>	<u>51,372</u>
	<u>3,160</u>	<u>409</u>
Equipment under capital lease	30,887	20,259
Less accumulated amortization	<u>10,177</u>	<u>12,242</u>
	<u>20,710</u>	<u>8,017</u>
Total equipment - net	<u>23,870</u>	<u>8,426</u>
Franchise development fees (net of accumulated amortization of \$52,559 and \$50,095 at December 31, 2004 and 2003 respectively)	2,105	4,365
Notes receivable - franchise fees	12,743	21,226
Deposit	<u>100</u>	<u>100</u>
Total other	<u>14,948</u>	<u>25,691</u>
Total assets	<u>\$150,533</u>	<u>\$129,624</u>

See accompanying notes.

CARPET NETWORK, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	<u>2004</u>	<u>2003</u>
Current		
Accounts payable and accrued expenses	\$35,783	\$59,201
Payroll taxes payable	7,386	14,218
Current portion of long-term debt	17,500	19,405
Obligation under capital lease	5,644	3,564
Loan payable - officer	4,356	23,826
Deferred income	17,500	-
National Marketing Fund balance	10,169	8,875
Family Fund balance	7,560	-
Total current	<u>105,898</u>	<u>129,089</u>
Other		
Long-term debt	65,148	36,227
Obligations under capital leases	13,405	2,751
Total other	<u>78,553</u>	<u>38,978</u>
Stockholders' equity		
Common stock - Authorized 1,000 shares, issued and outstanding 135 shares	1,350	1,350
Additional paid-in capital	184,150	184,150
Accumulated deficit	<u>(219,418)</u>	<u>(223,943)</u>
Total stockholders' equity	<u>(33,918)</u>	<u>(38,443)</u>
Total liabilities and stockholders' equity	<u>\$150,533</u>	<u>\$129,624</u>

See accompanying notes.

CARPET NETWORK, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2004	2003
Revenues	<u>\$569,333</u>	<u>\$586,159</u>
Expenses		
Advertising	31,643	22,530
Automobile and truck	5,029	3,278
Bad debt	3,364	6,371
Clothing	2,235	2,893
Sales commissions	19,500	32,000
Convention	40,323	42,983
Depreciation and amortization	5,714	4,782
Employee benefits	10,561	13,746
Franchise set-up costs	12,617	12,621
Insurance	2,049	1,640
Licenses and permits	2,910	2,835
Office and miscellaneous	29,909	27,085
Payroll	195,874	185,760
Payroll and miscellaneous taxes	18,565	16,157
Postage	17,329	15,549
Printing	8,991	9,461
Professional fees	14,735	9,192
Rent	34,339	25,745
Samples and purchases	53,030	70,536
Telephone	13,756	9,611
Temporary labor	693	725
Training support	6,012	6,393
Travel and entertainment	18,395	12,049
Utilities	4,796	4,346
Total expenses	<u>552,369</u>	<u>538,288</u>
Income from operations	<u>16,964</u>	<u>47,871</u>
Other income (expense)		
Interest earned	1,529	3,646
Interest expense	(11,990)	(17,614)
Loss on sale of fixed assets	(1,478)	-
Total other income (expense)	<u>(11,939)</u>	<u>(13,968)</u>
Income before taxes	5,025	33,903
Provision for state income taxes	<u>500</u>	<u>2,207</u>
Net income	<u>\$4,525</u>	<u>\$31,696</u>

See accompanying notes.

CARPET NETWORK, INC.

STATEMENTS OF ACCUMULATED DEFICIT

	Year Ended December 31,	
	<u>2004</u>	<u>2003</u>
Accumulated deficit - beginning of year	(\$223,943)	(\$255,639)
Net income	<u>4,525</u>	<u>31,696</u>
Accumulated deficit - end of year	<u>(\$219,418)</u>	<u>(\$223,943)</u>

See accompanying notes.

CARPET NETWORK, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Net income	<u>\$4,525</u>	<u>\$31,696</u>
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	5,714	4,782
Loss from disposition of fixed assets	1,478	-
Changes in operating assets and liabilities		
Royalties receivable	699	(4,853)
Notes receivable - franchise fees	14,363	(15,256)
Samples and supplies	(8,129)	10,006
Other receivables	(8,704)	(7,368)
Accounts payable and accrued expenses	(23,418)	(7,037)
Payroll taxes payable	(6,832)	9,207
Deferred income	17,500	-
	<u>(7,329)</u>	<u>(10,519)</u>
Net cash provided (used) by operating activities	<u>(2,804)</u>	<u>21,177</u>
Cash flows from investing activities		
Acquisition of fixed assets	(3,410)	(5,350)
Disposition of fixed assets	1,162	
Acquisition of assets under capital leases	(18,128)	-
Net cash provided (used) by investing activities	<u>(\$20,376)</u>	<u>(\$5,350)</u>

See accompanying notes.

CARPET NETWORK, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2004	2003
Cash from financing activities		
Proceeds from loans	\$98,530	\$0
Payment of loans	(90,984)	(21,396)
Proceeds from capital lease obligation	18,128	5,350
Payment of capital lease obligation	(5,394)	(3,174)
Net cash provided (used) by financing activities	20,280	(19,220)
Net increase (decrease) in cash	(2,900)	(3,393)
Cash - beginning of year	7,036	10,429
Cash - end of year	\$4,136	\$7,036
Supplemental disclosures of cash flow information		
Cash paid during the year:		
Interest	\$11,990	\$16,909
Taxes	\$2,200	\$500

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Franchisor and Franchisee Obligations

The Company was founded in July, 1991 to sell franchises to operate mobile retail carpet and floor covering sales businesses under the trade name Carpet Network.

As franchisor, the Company provides each franchisee with an exclusive sales territory, training, interior/exterior van design package, samples, initial supplies, printed materials, use of the copyrighted name and logo, ongoing business/marketing support and access to suppliers who provide volume discounts to the network.

In exchange, the franchisee pays the franchisor an initial franchise fee which covers assignment of the sales territory, training, and use of the trade name and logo. An initial set-up fee is paid by the franchisee for the van interior and exterior design package, samples, supplies and printing. A monthly royalty payment based on a sliding scale from 7% to 2% is also paid by the franchisee.

Beginning January 2000, new franchise agreements are effective for 15 years with a 15 year renewal option. Previous agreements were for an initial term of 5 years with a 5 year renewal option.

There are a total of 39 franchise territories awarded at December 31, 2004 and 39 franchise territories awarded at December 31, 2003.

The Company maintains an Area Director Program whereby eligible franchisees can purchase the exclusive right to sell additional franchises within their territories. Revenues from the sale of Area Director Program franchises are recognized upon the sale of franchises by the Area Director. There are 4 Area Directors at the year ended December 31, 2004 and 3 Area Directors at the year ended December 31, 2003. No revenues have been recognized under this program.

Franchisees operate throughout the United States.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

The Company maintains cash balances at financial institutions in New Jersey which may exceed federally insured amounts.

For purposes of preparing the statement of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash or cash equivalents.

Restricted cash consists of funds contributed primarily by the franchisees to the National Marketing Fund and the Carpet Network Family Fund as follows:

	2004	2003
National Marketing Fund	\$10,169	\$8,875
Carpet Network Family Fund	<u>7,560</u>	<u>          </u>
Total restricted cash	<u>\$17,729</u>	<u>\$8,875</u>

See notes 5 and 6.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Advertising

The Company recognizes advertising costs as an expense when the related service is performed. Advertising expense was \$31,643 and \$22,530 for the years ended December 31, 2004 and 2003 respectively.

Samples and supplies

Samples and supplies consisting of flooring and window treatment samples and promotional materials are stated at cost. Samples and promotional materials are expensed when shipped to the franchisee.

Equipment and Depreciation

Equipment is stated at cost. Leased equipment under capital leases is stated at the lower of the net present value of the minimum lease payments or the equipment cost at the lease inception date. Expenditures for maintenance and insurance are charged against operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related asset.

Franchise Development Fees/Amortization

Franchise development fees represent the Company's costs for franchise documentation and marketing materials. These costs are being amortized on the straight-line method over an estimated useful life of 10 years.

Income Taxes

The Company, with the consent of its shareholders, has elected to be taxed as an "S" Corporation for federal income tax purposes. This election generally eliminates income taxes at the corporate level and profits and losses are passed through to the Company's shareholders. Therefore, only a provision for state taxes has been provided in the accompanying financial statements. It is the Company's policy to provide funds in the form of dividends to the shareholders to pay any related federal income taxes. No dividends were paid for the years ended December 31, 2004 or 2003.

Revenue Recognition

The initial franchise fee is recognized as income upon the opening of the franchise, typically 30 days following the signing of the franchise agreement. At this time the franchisor has completed all significant services required by the franchise agreement (i.e. assignment of sales territory, training, etc.). Funds received in advance of training are recorded as deferred income.

Royalty revenues are recognized monthly as earned.

Revenues for the years ended December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Royalties and other	\$522,833	\$452,159
Franchise fees	46,500	134,000
	<u>\$569,333</u>	<u>\$586,159</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Notes Receivable - Franchise Fees

	December 31,	
	<u>2004</u>	<u>2003</u>
\$7,250 15% note receivable repayable in 18 monthly installments of interest and principal of \$452 beginning January 2004	\$12,601	\$14,243
\$14,500 9% note receivable repayable in 60 monthly installments of interest and principal beginning April 2003 as follows: 12 months at \$140, 47 months at \$348, and a final payment of \$527 in June 2008	-	7,250
\$8,000 9% note receivable repayable in 12 monthly installments of interest and principal of \$195 beginning June 2001 increasing to 24 monthly installments of interest and principal of \$288	-	1,410
\$18,400 9.5% note receivable repayable in 36 monthly installments of interest and principal of \$500 beginning November 1999	6,019	8,964
\$6,000 6% note receivable repayable in 72 monthly installments of interest and principal of \$100 beginning January 1999	<u>-</u>	<u>1,116</u>
Total notes receivable	18,620	32,983
Less current portion	<u>5,877</u>	<u>11,757</u>
Noncurrent portion	<u>\$12,743</u>	<u>\$21,226</u>

All notes receivable are secured by the personal guarantees of the franchisees. No provision for bad debts is required for the years ended December 31, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Description of Leasing Arrangements

Operating

The Company classifies its lease for office/warehouse facilities as an operating lease. The lease was renewed in December 2002 for 2 years. The Company subleases space under a monthly lease.

Rental expense consists of the following at December 31,

	<u>2004</u>	<u>2003</u>
Minimum rentals	\$40,239	\$33,504
Less: sublease income	(5,900)	(2,427)
Less: common area maintenance (CAM) refund	-	(5,332)
Net rental expense	<u>\$34,339</u>	<u>\$25,745</u>

Future minimum lease payments are as follows:

Year ended December 31,	<u>2004</u>	<u>2003</u>
2004	-	\$33,500
2005	33,500	-
Thereafter	-	-
	<u>\$33,500</u>	<u>\$33,500</u>

There are no minimum subrental payments due under noncancellable subleases at December 31, 2004 and 2003.

Capital

The Company leases office equipment and a forklift under leases classified as capital leases. The minimum future lease payments and present value of the net minimum lease payments applicable to the years ended December 31, 2004 and 2003 are as follows:

<u>Year ended December 31,</u>	<u>2004</u>	<u>2003</u>
2004	\$0	\$4,746
2005	8,266	2,959
2006	6,372	517
2007	4,876	-
2008	3,547	-
Thereafter	<u>2,956</u>	<u>-</u>
Total minimum lease payments	26,017	8,222
Less: Executory costs	<u>970</u>	<u>966</u>
Net minimum lease payments	25,047	7,256
Less imputed interest	<u>5,998</u>	<u>941</u>
Present value of net minimum lease payments	19,049	6,315
Less current portion	<u>5,644</u>	<u>3,564</u>
Noncurrent portion	<u>\$13,405</u>	<u>\$2,751</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Long-term debt

In August 2001 the Company refinanced its long-term debt with a \$95,000, 8.5%, 5 year self amortizing loan with a monthly payment of \$1,949. The proceeds of the loan were used to payoff a 9% bank loan and various short-term debt obligations.

In March 2004 this loan was refinanced with a \$95,000, 6.25%, 5 year self amortizing loan with a monthly payment of \$1,848. The net proceeds of the loan were used to payoff the original loan and general working capital.

Interest expense relating to this long term debt for the years ended December 31, 2004 and 2003 was \$5,687 and \$5,653 respectively.

5. National Marketing Fund

In 2000, pursuant to the Franchise Agreement, the Company instituted a National Marketing Fund (NMF) for the benefit of the franchisees. Currently a dedicated fee is assessed against each franchisee and deposited into a segregated corporate checking account. These funds are used exclusively for the benefit of the NMF.

Cash flows for the NMF for the years ended December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Cash balance beginning	<u>\$8,875</u>	<u>\$7,150</u>
Inflows	<u>63,855</u>	<u>57,090</u>
Outflows		
Web site fees	51,618	46,465
Expenses reimbursements to NMF members	2,796	6,583
Advertising/marketing	3,650	-
Bank fees	1,466	1,717
Trade show display	2,431	
Professional fees	<u>600</u>	<u>600</u>
Total outflows	<u>62,561</u>	<u>55,365</u>
Cash balance (restricted)	<u>\$10,169</u>	<u>\$8,875</u>

Cash inflows are recorded as liabilities when received and offset by payments to vendors. The transactions are not recorded as revenues or expenses by the franchisor since use of the funds is limited to the National Marketing Fund.

SVB Corporation, a company controlled by a minority shareholder of the franchisor, receives monthly fees from the NMF for web site development costs and ongoing marketing and internet support services.

It is specifically stipulated by SVB Corporation in the Web Site Development, License and Management Agreement that all monthly fees are payable from the NMF account, and not from the assets of the franchisor.

# Rosenthal & Co., P.A.

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CARPET NETWORK, INC.

NATIONAL MARKETING FUND

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003

CARPET NETWORK, INC.

National Marketing Fund

December 31, 2004 and 2003

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## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of  
Carpet Network, Inc.  
Mount Laurel, New Jersey

We have audited the accompanying schedule of cash receipts and disbursements of the Carpet Network, Inc. National Marketing Fund for the years ended December 31, 2004 and 2003. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule 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 audits to obtain reasonable assurance about whether the schedule of cash receipts and disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash receipts and disbursements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the schedule of cash receipts and disbursements referred to above presents fairly, in all material respects, the transactions of the Carpet Network, Inc. National Marketing Fund for the years ended December 31, 2004 and 2003 in conformity with accounting principles Generally accepted in the United States of America.

February 7, 2005

*Rosenthal & Co., P.A.*

CARPET NETWORK, INC.  
NATIONAL MARKETING FUND

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	Year Ended December 31,	
	<u>2004</u>	<u>2003</u>
Cash Beginning	<u>\$8,875</u>	<u>\$7,150</u>
Cash receipts		
Franchisees	<u>63,855</u>	<u>57,090</u>
Cash disbursements		
SVB Corporation	44,118	46,465
Consulting fees	7,500	
Advertising	3,650	-
Expense reimbursement - NMF members	2,796	6,583
Bank fees	1,466	1,717
Trade show display	2,431	
Professional fees	<u>600</u>	<u>600</u>
Total disbursements	<u>62,561</u>	<u>55,365</u>
Cash ending	<u><u>\$10,169</u></u>	<u><u>\$8,875</u></u>

See accompanying note.

## NOTES TO THE SCHEDULE OF RECEIPTS AND DISBURSEMENTS

### Summary of Significant Accounting Policies

#### 1. National Marketing Fund

In 2000, pursuant to the Franchise Agreement, the Company instituted a National Marketing Fund (NMF) for the benefit of the franchisees. Currently a monthly fee is assessed against each franchisee and deposited into a segregated corporate checking account. These funds are used exclusively for the benefit of the NMF.

SVB Corporation, a company controlled by a minority shareholder of the Franchisor, receives monthly fees from the NMF for the web site development costs and ongoing marketing and internet support services.

It is specifically stipulated by SVB Corporation in the Web Site Development, License and Management Agreement that all monthly fees are payable from the NMF account, and not from the assets of the Franchisor.