

## ITEM 1

### THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Offering Circular the terms “CN”, “We”, “Us” or “Our” refers to Carpet Network, Inc., the franchisor. The terms “We” and “Us” do not include you, the purchaser of the franchise. We refer to the purchaser(s) of the franchise, the franchisee, as “You.” If the franchisee is a partnership, corporation, or other limited liability company, the term “You” includes Your guarantors under Section 16 of the Franchise Agreement.

#### The Franchisor, Its Predecessors and Affiliates

CN is a New Jersey corporation incorporated in August 1991 with a principal business address at 109 Gaither Drive, Suite 302, Mount Laurel, New Jersey 08054. We do business only under Our corporate name and the trade name “Carpet Network.” We have no predecessors. We have offered the Mobile Shop-At-Home Retail Business franchises for the type of business being offered in this Offering Circular since August 1991 and have not offered franchises in any other line of business. We do not engage, and have never engaged, in any other line of business.

We operated a Carpet Network business in New Jersey for five years. Our affiliate, BAT/SAC, Inc., operated a retail carpet and floor covering business under the trade name “Fabulous Floors and Carpets” from October 1979 through October 1993.

#### The Franchise Offered

##### Mobile “Shop-At-Home” Retail Business Franchise

The Carpet Network franchise consists of the operation of a Mobile “Shop-At-Home” Retail Business, featuring the sale of carpet, laminate, hardwood, vinyl, ceramic floor coverings, window treatments and area rugs. Under Our Franchise Agreement, We grant You the right to establish and operate one Carpet Network mobile retail business using the Proprietary Marks and System described below (“Mobile Business”). During the Franchise Agreement term, we will not locate, operate or grant another franchise for a mobile business within Your defined designated territory (“Territory”), which will be delineated by zip codes in the Franchise Agreement. You will present samples of quality floor coverings, window treatments, and area rugs to customers at their homes or businesses where they will have the opportunity to match colors with existing wall coverings, furniture and décor. Because the Carpet Network business offers customers convenient, shop-at-home service, We do not require You to maintain a commercial retail location. Once the customer has selected the desired floor coverings, window treatments or area rugs, You will place the appropriate order directly with a supplier. Suppliers typically deliver floor coverings, window treatments and area rugs to a designated area to be picked up and installed by the customer or a third party installation contractor. Franchisees typically receive a 50% deposit from customers at the time the customer places an order. The balance due is payable upon delivery.

#### The Franchise System and Proprietary Marks

Carpet Network franchises are characterized by, among other things, distinct standards and specifications for products, inventory, supplies and service; uniform standards, specifications and procedures for operations; procedures for management control; marketing, advertising, and accounting systems; training and assistance (the “System”). The System is identified by means of certain trade

names, trademarks, service marks, logos, emblems and other indicia of origin, including the Service Mark "Carpet Network The Traveling Floor and Window Store (and design)" "Some Decisions Are Better Made At Home" and other marks which We designate and require You to use in connection with the System (collectively, the "Proprietary Marks").

### Market, Competition

As a Mobile "Shop-At-Home" Retail Business Franchisee, You will be offering Your products and services to the general public. The market for floor coverings, window treatments and area rugs is well-developed. You will be competing with other stores that offer floor covering, window treatments and area rugs. You will also be competing with other shop-at-home retailers, department stores and do-it-yourself improvement stores.

### Industry Specific Regulations

Your Mobile "Shop-At-Home" Retail Business will be subject to various federal, state and local laws and regulations affecting the franchised business including state and local licensing requirements. We anticipate that You will use the services of independent contractors to furnish installation services to Your customers. Therefore, federal and state tax laws governing the status of independent contractors will affect the operation of Your franchised business. In addition, some states impose contractor licensing requirements which may apply to the franchised business. To the extent You hire Your own employees, Your franchised business will be subject to employment laws which include the Fair Labor Standards Act and various state laws governing such matters as minimum wages, overtime and working conditions. Any such fees shall be the responsibility of the Franchisee.

## **ITEM 2**

### **BUSINESS EXPERIENCE**

The following is a list of directors, principal officers, and other executives who will have management responsibility in connection with the franchises offered by this Offering Circular, and their principal occupations and employers during the past 5 years.

#### CEO: Leonard Rankin

Leonard Rankin has been Our CEO since incorporation in August 1991. From May 1986 through October 1993, Mr. Rankin served as Vice President of BAT/SAC, Inc., the corporation which owned and operated Fabulous Floors and Carpet ("Fabulous Floors"). In this capacity, Mr. Rankin was responsible for merchandising, operations and the management of the Fabulous Floors retail store in Medford, New Jersey. From 1975 to 1986, Mr. Rankin was employed by Bayard Sales Corporation, A Philadelphia based company which is one of the largest floor covering distributors in the country, where he began in wholesale distributions and quickly became part of the management team. In that capacity, Mr. Rankin was responsible for sales, marketing and new territory development.

#### President: Christine Rankin

Christine Rankin assumed the position of President in March 2005, focusing primarily on training and support. Ms. Rankin provides training and continuing support to System franchisees, and periodically provides updated information to System franchisees regarding color, design, and fashion trends, which affect the Mobile Business and the industry generally. Prior to becoming President, Ms. Rankin served as Our Director of Training and Support from 1991 until March 2005. From 1980 to

October 1993, Ms. Rankin was employed by Fabulous Floors, where she was responsible for sales and training new personnel. Ms. Rankin began her career as an interior decorator and has concentrated on floor fashions since that time. Ms. Rankin has been responsible for the layout of retail stores as well as training salespeople, specifically concerning color and design and how they relate to the consumer.

Vice President – Franchise Development and Operations: Jennifer Ostroff

Jennifer Ostroff serves in the capacity of Vice President of Franchise Development and Operations and has held this position since March 2005. She is responsible for Franchise Development as well as the daily operations of the team at the Home Office. Ms. Ostroff is a graduate of Marist College in Poughkeepsie, NY, with a degree in Human Resources. Prior to joining Carpet Network, she worked at Parkway Corporation in Philadelphia, PA from June 1999 until February 2005. Her comprehensive education and employment background have prepared her for her responsibilities at Carpet Network.

Area Director

We have attached as part of Exhibit 3 to this Uniform Franchise Offering Circular a list of all Our Area Directors, their geographical area and their business experience.

**ITEM 3**

**LITIGATION**

Patricia Murphy v. Carpet Network, Inc., et al, District Court of Nevada, Clark County (Case No. A340498) (the “Nevada action”). On December 7, 1994, Patricia Murphy (“Murphy”), a former System franchisee, filed a complaint against us in the District Court of Nevada. In the complaint, Murphy asserted claims for fraudulent misrepresentation, breach of contract and breach of fiduciary duties based upon Our alleged failure to inform her that Nevada law required her to obtain a contractor license before engaging the services of a subcontractor in that state. This matter was amicably resolved between the parties in January 1997. Pursuant to the terms of the confidential settlement agreement, we agreed to return \$12,500 to Ms. Murphy, in exchange for mutual releases.

Steve Schell v. Carpet Network, Inc., et al, Montana Eighth Judicial District Court, Cascade County (No.BDV-97-347). On or about March 15, 1997, Steve Schell (“Schell”), a former System franchisee, filed a complaint against us alleging tortious interference with contract, wrongful termination of a Franchise Agreement, negligent misrepresentation, constructive fraud without actual fraudulent intent pursuant to § 28-2-406 M.C.A. and breach of fiduciary duty. This matter was resolved in 1998 pursuant to the terms of a confidential settlement agreement, and the case against Carpet Network was dismissed.

Other than these two actions, no litigation is required to be disclosed in this Offering Circular.

**ITEM 4**

**BANKRUPTCY**

No person previously identified in Items 1 or 2 of this Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

**ITEM 5**

**INITIAL FRANCHISE FEE**

We currently charge an initial franchise fee of \$24,500.

We will also finance up to 50% of the Initial Franchise Fee. See Item 10 below for terms of financing.

**ITEM 6**

**OTHER FEES**

<b>FEE OR PAYMENT</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
<b>Royalty</b>	The applicable percentage of "Gross Revenues" for each reporting month \$100 Minimum Royalty Fee	Monthly	See Note 1
<b>National Marketing/ Advertising Fund</b>	Up to 2% of Gross Revenue, currently set at a flat fee of \$165 monthly	Monthly	See Note 2
<b>Sample Update[s]</b>	Maximum of \$700	Annually	See Note 3
<b>Supplier Approval and Disapproval</b>	Cost of testing	Completion of testing	See Note 4
<b>Transfer</b>	\$3,500	Time of transfer	See Note 5
<b>Insurance</b>	Cost of Insurance	As incurred	See Note 6
<b>Books and Records</b>	Cost of Audit	As incurred	See Note 7
<b>Collection Cost, Attorneys' Fee, Interest</b>	Costs of collection	As incurred	See Note 8
<b>Indemnification</b>	Amount of liability	As imposed	See Note 9

Note 1. Royalty Fee. During the term of the Franchise Agreement You must pay Us a monthly royalty fee equal to the greater of \$100 or 7% of the portion of annual "Gross Revenue" up to and including \$100,000; 6% of portion of annual "Gross Revenue" from \$100,001 up to and including \$200,000; 5% of portion of annual "Gross Revenue" from \$200,001 up to and including \$300,000; 4% of portion of annual "Gross Revenue" from \$300,001 up to and including \$400,000; 3% of portion of annual "Gross Revenue" from \$400,001 up to and including \$500,000; 2% of portion over \$500,000.

"Gross Revenue" includes all revenue generated through the operation of Your mobile business, including without limitation, all sums received from the sale of merchandise and for the installation of merchandise in any form received. Gross Revenue does not include deposits You may receive from customers at the time You place an order, or sales, use, or equivalent taxes. Gross Revenue shall be

deemed to have been received at the earlier of the date of installation of merchandise or the date You actually received payment in full from customers.

Note 2. National Marketing/Advertising Fund. Currently You pay Us a monthly advertising fund fee of \$165. We have the right to increase the advertising fund fee up to 2% of Your monthly Gross Revenue, as defined in Note 1. Payments are made to Us by a pre-authorized auto-draft arrangement or such other means as We specify.

Note 3. Sample Update[s]. We have the right to update, from time to time, the uniform set of Carpet Network floor covering, window treatment and area rug samples. We can require You to purchase these updated materials or samples as We deem necessary, however, Your annual cost for these updates will not exceed \$700 per year.

Note 4. Supplier Approval and Disapproval. If You wish to purchase any merchandise, for which We have designated or approved suppliers, from an unapproved supplier, You must provide Us the name, address and telephone number of the proposed supplier, a description of the merchandise You wish to purchase, and the purchase price, if known. At Our request, You must provide Us, for testing purposes, a sample of the supplier's goods. If We incur any costs in connection with evaluating a supplier at Your request, You must reimburse Us Our reasonable testing costs, regardless of whether We subsequently approve the supplier. We have the right to revoke Our approval of particular suppliers when We determine, at Our sole discretion, that such suppliers no longer meet Our standards. Upon receipt of written notice of such revocation, You must cease purchasing products from such suppliers.

Note 5. Transfer Fee. If You transfer Your interest in the Mobile Business, as defined in Section 10.3 of the Franchise Agreement, the transferee must pay Us a \$3,500 transfer fee.

Note 6. Insurance. At all times during the term of the Franchise Agreement and at Your own expense, You must obtain and keep in force at a minimum; (a) public liability and property damage insurance covering the operation of the mobile business and the location where the business is conducted with a minimum combined single limit of \$1,000,000; (b) real and personal property insurance including fire and extended coverage on all risk replacement cost basis; (c) automobile insurance on each vehicle used in connection with the mobile business with commercial limits of not less than \$300,000 per occurrence; and (d) worker's compensation insurance as required by the laws of the state in which Your Territory is located. All insurance policies must contain a separate endorsement naming Us as an additional insured and shall be written by an approved insurance carrier. If You fail to comply with at least the minimum insurance requirements set forth in this paragraph, We have the right but not the obligation to obtain such insurance and keep it in force during the term of the Franchise Agreement. If We obtain and maintain this insurance coverage, You must pay Us, on demand, the insurance premium and reimburse Us Our administrative costs in connection with obtaining the insurance. We may increase or otherwise modify the minimum insurance requirements upon 30 days prior written notice to You, and You must comply with any such modification.

Note 7. Books and Records. You must maintain accurate business records, reports, accounts, books and data relating to the operation of Your mobile business in a manner we specify. We have the right to inspect and/or audit Your business records at any time during normal business hours, to determine whether you are current with suppliers and are otherwise operating in compliance with the terms of the Franchise Agreement and Operations Manual. If any audit reveals that You have understated Your Gross Revenues or local marketing expenditures by more than 2%, or if You have failed to submit royalty payments or monthly reports of Your marketing expenditures for any 2 reporting periods within any 12-month period, You must pay the reasonable cost of such audit and/or inspection, including the cost of

outside auditors and attorneys (if We incur such costs), together with such royalty payments, Advertising Fund contributions and/or other fees which are past due as a result of such underreporting and/or failure to submit reports, and interest from the date when such fees should have been submitted.

Note 8. Collection Costs, Attorneys' Fees, Interest. You must timely deliver all payments to Us together with any reports or statements which We may prescribe. Any payment or report which We do not actually receive on or before the due date will be deemed overdue. If any payment is overdue, You must pay Us, in addition to the overdue amount, interest on such amount from the date it was due until paid, at the rate of 18% per annum or the maximum rate permitted by law, whichever is less. You are not entitled to set-off any payments required to be made under the Franchise Agreement against any monetary claim You may have against Us. If You are in breach or default of any monetary or non-monetary material obligation under the Franchise Agreement or any related agreement between You and Us, and We engage an attorney to enforce Our rights (whether or not formal judicial proceedings are initiated), You must pay all reasonable attorneys' fees, court costs and litigation expenses We incur. If You institute any legal action to interpret or enforce the terms of the Franchise Agreement, and Your claim in such action is denied or the action is dismissed, We are entitled to recover Our reasonable attorneys' fees, and all other reasonable costs and expenses We incur in defending against the claim, and to have such an amount awarded as part of the judgment in the proceeding.

Note 9. Indemnification. You must defend, indemnify and hold us Our principals, agents and employees harmless from all fines, suits, proceedings, claims, demands, obligations or actions of any kind (including costs and reasonable attorneys' fees) arising in whole or in part from the operation of Your mobile business, including Your advertising and business practices, except as otherwise provided in the Franchise Agreement.

## ITEM 7

### INITIAL INVESTMENT

Except as otherwise described in the notes below, the following chart provides an estimate of Your initial investment for a single franchised business and the costs necessary to begin operation of Your franchised business. All costs listed in the chart are estimates only. Actual costs will vary for each franchisee and each territory depending on a number of factors. All fees and payments are non-refundable, unless otherwise stated or permitted by the payee.

#### Mobile "Shop-At-Home" Retail Business Franchise

FEE OR PAYMENT	AMOUNT	METHOD OF PAYMENT	WHEN DUE	NAME OF PAYEE
<b>Initial Franchise Fee<sup>1</sup></b>	\$24,500	Lump Sum	Signing of Franchise Agreement	Franchisor
<b>Computer and Internet Access</b>	\$0 - \$2,000	As Agreed	Prior to beginning operation of the Mobile Business	Suppliers
<b>Equipment<sup>2</sup></b>	\$0 - \$1,500	As Agreed	As Incurred	Suppliers
<b>Van<sup>3</sup></b>	\$1000 - \$2,400	As Agreed	As Agreed	Supplier
<b>Prepaid Insurance<sup>4</sup></b>	\$600 - \$2,100	Lump Sum	Before obtaining insurance	Insurance company or broker

FEE OR PAYMENT	AMOUNT	METHOD OF PAYMENT	WHEN DUE	NAME OF PAYEE
Telephone Deposit <sup>5</sup>	\$0 - \$250	Lump Sum	Before obtaining telephone	Supplier
Permits and Licenses <sup>6</sup>	\$0 - \$1,500	Lump Sum	Before beginning operation of the Mobile Business	Government Authorities
Training <sup>7</sup>	\$500 - \$1,400	As Incurred	As Incurred	Restaurants/ Transportation and lodging providers
Initial Opening Package <sup>8</sup>	\$12,000	Lump Sum	When you sign the Franchise Agreement	Franchisor
Marketing/ Advertising Fund Payments <sup>9</sup> (first 12 months)	\$1,485	Monthly	As incurred	Franchisor
Storage Space <sup>10</sup>	\$0 - \$9,600	Monthly	As incurred	Landlord/Rental Agency
Additional Funds <sup>11</sup>	\$2,500 - \$5,000	As Incurred	As Incurred	Miscellaneous suppliers
<b>Total</b>	<b>\$42,585 - \$63,735</b>			

### Notes

Note 1. See Item 5 for a description of the initial franchise fee.

Note 2. The figure in this category includes Our estimate for standard office equipment, including calculators, a facsimile machine, telephone, chairs and filing cabinets. You may operate Your mobile business from your residence.

Note 3. You must purchase or lease a new or used unicell van. Your van must comply with Our color and design specifications. Franchisees typically lease or finance the purchase of the van. We estimate that monthly lease payments will range from \$250 to \$600. The higher figure in the chart represents the first 3 months' and last months' payment. If You should purchase a van, Your total initial investment would increase by the amount of Your purchase cost. Generally You may finance the vehicle through commercial sources at prevailing rates; however, Your ability to finance depends upon the policies of lending institutions and We do not guarantee that You will qualify for financing arrangements.

Note 4. The cost of insurance will vary from state to state and will depend on Your prior loss experience, if any, and/or the prior loss experience of Your insurance carrier in the state or locale in which You operate, and national or local market conditions. We estimate that Your annual insurance costs, including business and automobile insurance, will be approximately \$2,100. If You hire any employees, You will also be required to purchase workers' compensation insurance with limits prescribed by the state in which

You operate Your mobile business. The figure in the chart represents a one-year estimated insurance premium.

Note 5. Telephone companies may require you to pay a deposit prior to connecting Your telephone. Refundability of this deposit will be subject to Your agreement with the telephone company.

Note 6. Some states and local municipalities may require that You obtain a permit or license before engaging a subcontractor to perform installation services or for some other business purpose. We recommend that You check with the appropriate government authorities located in Your proposed Territory before purchasing a Carpet Network franchise.

Note 7. We do not charge tuition for initial training. The figure in this category assumes living and travel expenses of approximately \$700 per person for 2 persons to attend Our initial training program.

Note 8. When You sign the Franchise Agreement You are required to purchase an Initial Opening Package from Us, which consist of the van package (interior and exterior) and those items specified in Exhibit E to the Franchise Agreement.

Note 9. Currently You pay Us a monthly advertising fund fee of \$165. We have the right to increase the advertising fund fee up to 2% of Your monthly Gross Revenue, as defined in Note 1. Payments are made to Us by a pre-authorized auto-draft arrangement or such other means as We specify.

Note 10. Before You begin operating Your mobile business, You will need 1,500 sq. ft. of inventory storage space. If you are required to lease storage space, we estimate the cost of storage space to be approximately \$9,600 per year. Please note that this figure is an estimate and the costs of storage space will vary depending on your local area. Be sure to investigate all storage space costs prior to entering into a lease.

Note 11. Before you begin operating Your mobile business, and in order to operate the business during the initial period which We estimate to be approximately 12 months, We estimate You will need up to \$5,000 in additional funds to pay local marketing expenditures. The amount of working capital that You may need will vary according to the location of the franchise and Your individual needs. Your living expenses are not included and We recommend you do not hire employees in Your first year. In preparing these estimates, We relied upon Our CEO's experience in the floor covering and window treatment industry.

## ITEM 8

### RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Except as described below, You are not required by either the Franchise Agreement or any other device or practice to purchase or lease from Us or Our designees goods, services, supplies, fixtures, equipment, inventory, computer hardware or software, or real estate relating to the establishment or operation of the franchised business.

You must use signs, supplies, equipment and inventory which comply with Our standards and specifications (including specifications of product and service quality). We formulate and modify Our standards and specifications for products and services based upon Our principals' experience in the retail floor covering and window treatment industries. Our standards and specifications are included in the Franchise Agreement and Operations Manual. We will notify You of any changes to Our standards and



specifications by way of written amendments to the Operations Manual or otherwise in writing. You must adhere to these standards and specifications in the operation of Your franchised business. We do not issue Our standards and specifications to suppliers.

We can require You to purchase certain signs, supplies, equipment and samples from Us, Our affiliate or approved or designated suppliers which we identify in the Operations Manual (currently on Our Intranet - "Carpet-Net") or otherwise in writing. Currently, We require You to buy all floor covering, window treatments and area rugs from approved suppliers in accordance with the purchase price and credit terms We negotiate on behalf of the franchise System. We do allow you, however, to purchase miscellaneous items used in the operation of the mobile business from any supplier as long as those materials conform to Our standards and specifications. Although You may purchase advertising from any supplier, We must approve all signs, emblems, lettering, logos, displays and advertising materials prior to their use. You may purchase stationery, business cards, invoices and other supplies bearing Our Proprietary Marks from Us to the extent We have them available. Except for those items contained in Our Opening Package, as described in Items 5 and 6, We are not currently an approved or designated supplier for any goods or services.

We will approve, in Our discretion, a previously unapproved supplier if We are satisfied that the proposed supplier meets Our then-current standards and specifications. Our criteria for supplier approval are not available to franchisees. If You wish to purchase merchandise for which We have established approved or designated supplier(s), from an unapproved supplier, You must provide Us the name, address and telephone number of the proposed supplier, a description of the merchandise You wish to purchase, and purchase price of the merchandise, if known. At Our request, You must provide Us, for testing purposes, a sample of the merchandise You wish to purchase. We will make a good faith effort to notify You of supplier approval or disapproval within 5 days of receiving Your request for approval; however, Our failure to respond within such 5-day period will constitute disapproval. If We incur any costs in connection with testing a particular product or evaluating an unapproved supplier at Your request, You must reimburse Us Our reasonable testing costs, regardless of whether We subsequently approve the supplier. We may revoke Our approval of particular products or suppliers when We determine, in Our sole discretion, that such products or suppliers no longer meet Our standards for the Carpet Network System. Upon receipt of written notice of such revocation, You must cease purchasing products from such supplier. You may use products purchased from approved suppliers solely in connection with the operation of the franchised business and not for any competitive business purpose.

We have the right, under the Franchise Agreement, to change the standards and specifications applicable to the operation of the franchise, including standards and specifications for signs, furnishings and supplies, fixtures and equipment under the Mobile Shop-At-Home Retail Business franchise. You recognize that You may incur an increased cost to comply with these changes; however, no change will materially alter Your fundamental rights under the Franchise Agreement. We will notify You of any change to Our standards and specifications by way of written notice and/or written amendments to the Operations Manual.

We derive revenue from Your purchases to the extent You purchase materials or supplies directly from Us and from certain System Suppliers. During calendar year 2005, We received monies from various vendors as a result of franchisee purchases, which We used to offset some of Our administrative expenses, as well as cost for organizing and conducting a Carpet Network franchisee convention and sampling costs. Our total revenue in fiscal year 2005 was \$709,165, of which approximately \$56,000 (approximately 8%) was received from various carpet vendors based upon franchisee purchases as described above. See Our attached financial statements attached in Item 21. We estimate that Your required purchases or leases from Us will account for approximately 15% of all purchases and leases

necessary to establish the Mobile Shop-At-Home Retail Business franchise, and will account for approximately less than 5% of all purchases and leases necessary to operate the franchise business after opening. You will not receive any material benefit from Your use of designated or approved suppliers. There are currently no purchasing or distribution cooperatives in existence for the Carpet Network System.

## ITEM 9

### YOUR OBLIGATIONS

THESE TABLES LIST YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
<b>a. Site selection and acquisition/lease</b>	No provision	1
<b>b. Pre-opening purchases/leases</b>	5.1, 7.4	5, 7
<b>c. Site development and other pre-opening requirements</b>	8.2	5, 11
<b>d. Initial and ongoing training</b>	7.2, 7.3, 8.2	7 and 11
<b>e. Opening</b>	8.1	11
<b>f. Fees</b>	5, 6.3, 10.3.2.8	5, 6 and 7
<b>g. Compliance with standards and policies/Operating Manual</b>	7.1, 8.3, 8.4, 9.8	8 and 11
<b>h. Trademarks and proprietary information</b>	3, 11.1.1.6	13 and 14
<b>i. Restrictions on products/services offered</b>	8.3, 8.4, 8.11	8 and 16
<b>j. Warranty and customer service requirements</b>	8.6.3	11
<b>k. Territorial development and sales quotas</b>	11.1.1.13	No provision
<b>l. Ongoing product/service purchases</b>	8.3, 8.4, 8.5	8
<b>m. Maintenance, appearance and remodeling requirements</b>	2	17
<b>n. Insurance</b>	8.12	6 and 7
<b>o. Advertising</b>	6, 8.8	6 and 11
<b>p. Indemnification</b>	9.2	6
<b>q. Owner's participation/management/staffing</b>	8.9	11 and 15
<b>r. Records and reports</b>	8.15, 8.17, 8.18	6
<b>s. Inspections/audits</b>	8.15	6 and 11
<b>t. Transfer</b>	10	6 and 17
<b>u. Renewal</b>	2	17
<b>v. Post-termination obligations</b>	8.10, 9.5.2, 12	17
<b>w. Non-competition covenants</b>	8.9, 9.5, 9.7, 11.1.1.8	17

OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
x. Dispute resolution	14.2, 14.3, 14.4	17

## ITEM 10

### FINANCING ARRANGEMENTS

We may in, Our sole discretion, finance up to 50% of the initial franchise fee for the Mobile “Shop-At-Home” Retail Business franchise for qualified persons. If We finance all or a portion of the initial franchise fee for the Mobile “Shop-At-Home” Retail Business franchise You must sign Our “Promissory Note” attached as Exhibit 9. The annual percentage rate of interest charged (as of the Effective Date of this Offering Circular) is 1.5% per month and Your Promissory Note must be paid within eighteen (18) months.

The obligations under the Promissory Note are secured by the franchise, computer and equipment, pursuant to the “Security Agreement” attached as Exhibit 9. If You are a corporation, partnership or other acceptable entity, the note must be guaranteed by all shareholders, partners, members or persons having a legal interest in the entity. The debt can be prepaid without penalty.

A late charge of \$25.00 will be assessed on any installment that is due and remains unpaid for more than 5 days. The payment of the note may be accelerated (at Our option) in certain enumerated occurrences, including, among other things, default in payment or other obligations of yours under the Franchise Agreement or other agreements, termination or transfer of the franchise or any significant assets, discovery of a misrepresentation by You, failure to pay taxes, death, abandonment of the franchised business, failure to furnish financial information, appointment of a receiver or if, in Our reasonable opinion, Your financial responsibility and/or business viability becomes unsatisfactory. Default under the Promissory Note can result in a termination of the Franchise Agreement (Promissory Note, Exhibit 8).

The Promissory Note contains no waiver of defenses or similar provisions, except that it does contain waivers of presentment, demand, notice of dishonor, notice of protest and requires You to pay all cost and expenses of collection and/or enforcement including reasonable attorney’s fees if You default on any payment and obligations under the note. (Promissory Note, Exhibit 8; Security Agreement, Exhibit 10).

We have not engaged in any practice of selling, assigning, or discounting to a third party any notice, contract or other obligation of any franchisee and We currently have no intent to do so, although We reserve the right to do so in the future. If We were to assign the Promissory Note and Security Agreement, You could lose Your defenses against the person(s) holding these documents. (Promissory Note, Exhibit 8; Security Agreement, Exhibit 9).

We do not place financing and, therefore, We do not receive payments for the placement of financing.

## ITEM 11

### FRANCHISOR'S OBLIGATIONS

Mobile "Shop-At-Home" Retail Business Franchise

Except as listed below, We need not provide any assistance to You.

#### PRE-OPENING OBLIGATIONS

1. Operations Manual. We loan You one copy of Our Operations Manual. You will also have access to our Intranet site (Carpet-Net). Your Operations Manual received in training and loaned to You during the term of the Franchise Agreement will be updated and expanded on our Carpet-Net Intranet site Under the Franchise Agreement, You must conduct Your business in accordance with the Operations Manual (sometimes referred to as the "Manual"). You must, at all times, treat the Manual and information received through our Carpet-Net Intranet site, any other manuals created for or approved for use in the operation of the franchised business, and the information contained therein, as confidential, and must use all reasonable efforts to maintain this information as secret and confidential. You must not at any time copy, duplicate, record, or otherwise reproduce any portion of the Manual or information on Our Carpet-Net Intranet site, nor otherwise make the same available to any unauthorized person. You are required to keep certain confidential information, trade secrets and other confidential materials disclosed to You confidential both during, and after termination of, the Franchise Agreement. (Franchise Agreement, Section 7.1).

2. Off-Site Training. We will admit You (if You are an individual, one of Your principals if You are a corporation, partnership or limited liability company), and one other person to Our initial 6-day training program. (Franchise Agreement, Section 7.2).

3. Home Study Materials. Before You begin Our initial training program, We will provide You a home-study training regimen and materials including videos and work books providing introductory information about Us and the System, as well as instruction and training concerning the operation of the mobile business. (Franchise Agreement, Section 7.3).

4. Merchandising. We will consult with You about use of samples, price and cost books for Your mobile business and advise You with respect to merchandising and retailing, display, sales techniques, personnel development and other business, operational and advertising matters that directly relate to the franchise operation. (Franchise Agreement, Section 7.5).

#### OBLIGATIONS AFTER OPENING

After beginning operation of the mobile business, and during the term of Your Franchise Agreement, We will perform the following obligations:

Continuing Consultation, Advice and Assistance. We will provide, either Ourselves or through Our designee, periodic assistance as We deem appropriate and advisable. Subject to availability of personnel and at Your request, We will provide ongoing telephone support and assistance and marketing assistance. (Franchise Agreement, Section 7.6).

## NATIONAL MARKETING/ADVERTISING FUND

Under Our Franchise Agreement, You may be required to contribute up to 2% of Your monthly Gross Revenue for a National Marketing/Advertising Fund. In November of 1999, We implemented the Advertising Fund and franchisees currently pay a flat monthly fee of \$165.00. The Fund is currently used for Internet development and operation and funding the expenses of the Carpet Network Franchisee Advisory Committee for their meetings and communications. Payments by You to the Fund are made by bank draft or credit card. The Fund may be spent by Us, in Our sole and absolute discretion. We are not required to allocate or expend National Marketing/Advertising Fund contributions for the benefit of any particular franchisee or group of franchisees or on a pro rata or proportional basis nor in any specific territory. We will determine and budget the specific use of the National Marketing/Advertising Fund. The Fund is not audited but is kept in a separate bank account and financial information about the Fund is available annually. Upon Your written request, We will provide You with an unaudited accounting of the Fund expenditures. All monies not allocated at the end of any year remain in the Fund and will ultimately be used as We deem best for the franchise system in Our sole and absolute discretion (Franchise Agreement, Section 6.4).

We currently have a contract in place with a nonaffiliated company named SVB, Inc. for Internet development and operation. We may distribute National Marketing/Advertising Fund contributions to any third parties, namely SVB, Inc., advertising agencies, consultants and media.

At the start of Your franchise business, We will provide You with certain marketing materials. You may not thereafter use any marketing or advertising materials unless it has been submitted and approved by Us prior to use.

As of the Effective Date of this Offering Circular, there is no local, regional, or national advertising cooperative.

## COMPUTER SYSTEM

We do not currently utilize any electronic cash register system. You are, however, required to have a computer and Internet access. Under the Franchise Agreement, We have the right to develop a computer software system, or Internet business applications for use in connection with the System and to require You to acquire computer hardware equipment and software and to use the Internet applications as We reasonably require in connection with the operation of the franchise. We have the right to require You to update or upgrade computer hardware components and/or required software up to 3 times per year. We can also require You to enter into a separate maintenance agreement for the computer hardware and/or software.

## SITE SELECTION AND OPENING

We grant You the right to operate a Carpet Network Mobile Business at any location within a designated Territory. The actual length of this period will depend upon, among other things, Your ability to obtain a van and to complete training. You must attend training within 60 days from the date You sign the Franchise Agreement and commence operating Your mobile business 60 days from the date You complete training. If You fail to begin operations during this period, We have the right to terminate the Franchise Agreement after a 15-day cure period.

## OPERATIONS MANUAL

You will be permitted to view the Operations Manual at Our headquarters or elsewhere as arranged with Us prior to purchasing the franchise. We will not send Our Operations Manual to either You or Your attorney prior to purchase. You will not be permitted to copy or make notes regarding any portion of the Operations Manual. To protect the confidentiality of the Operations Manual, We may require You to execute a confidentiality agreement.

## TRAINING

Before You begin operating Your mobile business, We will admit You (if You are an individual, one of Your principals if You are a corporation, partnership or limited liability company) and one other individual to Our initial 6-day training program. You and Your Designated Manager, if You operate the Mobile Business through a Designated Manager, or one other person must successfully complete Our initial training program. You will be responsible for all personal expenses incurred by those persons during training, including transportation to and from training, dining and lodging expenses, and salaries. Your additional and/or replacement Designated Managers must also attend Our initial training program, which We offer tuition-free.

Our training program consists of a home study program and 6 days of off-site training at Our headquarters in Mount Laurel, New Jersey or such other place as We designate. Our initial training program includes marketing and sales instruction; training in the use of carpet, window treatment and area rug samples; measuring; color and design; floor and window fashions; in-home selling; product orientation; operations; warranty procedure; inventory control; advertising; accounting procedures; and basic techniques of management skills. All training related expenses, including transportation to and from the training site, lodging, meals and salaries for You and Your employees during training are Your sole responsibility.

Our initial training program is currently conducted on an as-needed basis. The individuals described in Item 2 of this Offering Circular will provide or supervise Your initial training. You must pay all expenses incurred during training including travel, lodging and dining expenses and Your employees' salaries. See Item 6. We provide the training program materials at no charge. See Items 6 and 7. The training program includes instruction as outlined in the following chart. Each day will consist of approximately 8 hours of instruction.

### Home Study Program Schedule

SUBJECT	DAY	INSTRUCTIONAL MATERIAL	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	TRAINING LOCATION
Carpet/Fiber Company Product Knowledge	1	Video/CD/DVD Text/Internet Websites			
Hard Surface Flooring Product Knowledge		CD/Videos/Internet Websites			
Carpet Installation		Text & Video			
Window Treatment Product Knowledge		Text, Video			

Off-Site Training Schedule

<b>Off Site Training Schedule</b>		<b>Day</b>	<b>Hours</b>	<b>Instructor</b>
Overview of Agenda for the Week		1	0.5	CR
Review Operations Manual		1	0.5	CR
Carpet Product Knowledge	Backings	1	1	CR
	Fibers	1	1	CR
	Styles	1	1	CR
	Residential & Commercial	1	0.5	CR
	Sort out and Identify various carpet styles in our program	1	2	CR
Window Treatment Product Knowledge	Overview	1	0.5	CR
	Horizontal Treatments	1	1	CR
Carpet Network Technology	Carpet-Net Intranet	1	1	LS
Cushion Product Knowledge		1	0.5	CR
Review Cost Manual	Product Price Lists	2	0.75	CR
	Vendor Directories	2	0.25	CR
	How to Figure Gross Profit Margins	2	1	CR
Review Price Manual		2	0.5	CR
Measuring and Estimating for Carpet		2	6.5	CR
Review Measuring Homework		3	1	CR
Carpet Installation	Labor Price Lists	3	1	CR
Hardwood Product Knowledge	Mannington, Mohawk & Shaw	3	1.5	CR
Laminate Product Knowledge	Mannington, Mohawk & Shaw	3	1.5	CR
Window Treatment Product Knowledge Con't	"Ette" Treatments	3	1.5	CR
Measuring/Installing Window Treatments		3	1.5	CR
Carpet Network Technology	Global and HomeTown	3	1	LS
	Exact Target			
Marketing	Target Customers	4	2	LR
	Marketing Planning	4	2	LR
Area Rug Product Knowledge	Dalyn	4	0.5	CR
	Masland	4	0.5	CR
	Dixie	4	0.5	CR

	Tuftex	4	0.5	CR
Natural Cork Product Knowledge	Cork, Handscraped, Bamboo	4	1	CR
Hard Surface Measuring and Installation		4	1	CR
Salesmanship		5	2	LR
Vinyl Product Knowledge	Congoleum	5	1	CR
	Mannington			
Systems and Paper Flow	Organization	5	1	CR
	Accounting	5	1	CR
	Ordering Procedures	5	1	CR
	Claims Resolution	5	0.5	CR
	Reports to Home Office	5	0.5	CR
Color And Design		5	1	CR
All Product Review		6	1	LR/CR
Planning for What's Next		6	2	LR/CR
Graduation		6	0.5	LR/CR

We reserve the right to offer, from time to time, additional training programs and/or refresher courses to You, Your manager and/or Your employees. You are obligated to attend such training. You are responsible for all training related expenses, including transportation to and from the training site, lodging, meals and salaries for You and Your employees during training. The additional training programs and refresher courses will be offered tuition-free.

## ITEM 12

### TERRITORY

You are granted a franchise for the operation of a Carpet Network Mobile Business. You will provide shop-at-home service within an exclusive area (the "Territory") comprised of approximately 35,000 households and delineated by zip codes identified in the Franchise Agreement. During the term of the Franchise Agreement, so long as You comply with its terms and conditions, We will neither establish nor operate, nor license another to establish nor operate, another business in Your Territory which features the mobile retail sale of floor coverings, window treatments and area rugs under the System and Proprietary Marks described in this Offering Circular. We do not otherwise undertake to limit Our rights of product or service distribution or to engage in other business activities in Your Territory and the Franchise Agreement does not prohibit Us from operating a similar or competitive business in Your Territory under a different trademark.

You may advertise or solicit Your services to customers located outside Your Territory, but You are not permitted to solicit customers inside the defined territory of any other System franchisee without Our prior permission. We are not required, by the terms of the Franchise Agreement, to pay You any compensation in the event We solicit or accept orders within Your Territory. The Franchise Agreement does not convey to You any options, right of first refusal or similar rights to acquire additional franchises or households in contiguous territories.



## ITEM 13

### TRADEMARKS

Under the Franchise Agreement, We grant You the non-exclusive right to use the Marks in connection with the operation of Your Mobile Shop-At-Home Retail Business franchise. Our primary marks are registered on the principal register of the United States Patent and Trademark Office as follows:

Carpet Network

The Traveling Floor and Window Store (and design)



Registration Number: 1,724,495

Registration Date: October 13, 1992

"Some Decisions Are Better Made At Home®"

Registration #2,903,523

Registration Date 2004

Your right to use the Mark granted under the Franchise Agreement is non-exclusive, and We retain the right, among others: (a) to use the Mark in connection with selling products and services; and (b) to grant others licenses for the Mark, in addition to those licenses already granted to existing franchisees.

All Your usage of the Mark and any goodwill You establish is to Our exclusive benefit and You retain no right in the Mark on the termination or expiration of the Mobile Shop-At-Home Retail Business franchise. You may not use the Mark as a part of any corporate or trade name, nor may You use any trade names, trademarks, service marks, emblems or logos other than as We may designate from time to time.

There are currently no effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the Trademark administrator of any state or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation involving the Mark. There are no other agreements currently in effect which significantly limit Our right to use or license the use of the Mark in any manner material to the franchise. We have filed all required affidavits and no renewal registration has been denied.

You must immediately notify Us of any information that You acquire concerning any use by others of names or Marks which are confusingly or deceptively similar to the Mark. We shall have the sole discretion to take whatever action We deem appropriate and to exclusively control any litigation or administrative proceeding. While We are not required to defend You against a claim for Your use of the Mark, it is Our policy to do so.

We may, from time to time, change or modify the System presently identified by the Mark "Carpet Network" including the adoption and use of a new or modified trade name or names, service marks, trademarks. If We make such a change, You must adopt and make the change as if it were a part of Your Franchise Agreement at the time of its execution.

We do not actually know of either superior prior rights or infringing uses that could materially affect Your use of the Mark in any state.

You may not use any of Our proprietary marks on the World Wide Web, and must obtain Our permission and approval for all Internet domain names and/or home page addresses.

#### ITEM 14

#### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

We do not claim rights in patents or registered copyrights that are material to Our business, but We claim proprietary rights and common law copy rights in the material contained in Our Operation Manual and sales techniques.

We have developed certain confidential and proprietary information to be used in the establishment and operation of Your franchise businesses. We have the right to use and impart certain confidential information (the "Confidential Information") which includes but is not limited to the following: (a) the system and know-how related to its use; (b) advertising, marketing and promotional programs for franchises; (c) any computer software programs We may in the future provide or recommend for use and the hardware specifications for running such software; (d) the terms and conditions of Our agreements with preferred suppliers; (e) methods, techniques, formats, specifications, standards, systems, procedures, information, sales and marketing techniques, and knowledge of and experience in the development, operation, and franchising of Carpet Network franchises, including but not limited to the authorized and required services; (f) training materials, programs and conference materials; (g) all information contained in and contents of the Operations Manual; and (h) knowledge of operating results and financial performance of franchises other than Your franchise.

We will disclose much of the Confidential information to You and Your personnel by furnishing the Operations Manual to You, and by providing training, guidance and assistance to You. In addition, in the course of the operation of Your franchise, You or Your employees may develop ideas, concepts, methods, techniques or improvements relating to the Carpet Network franchise, which You agree to disclose to Us. Such improvements will then also constitute Confidential Information, however this shall not be construed to apply to the ownership of other paraphernalia developed by You for use in franchise(s), provided that the methods, techniques and applications related to the use of said paraphernalia will be Confidential Information.

Your relationship with Us will not vest in You any interest in the Confidential Information other than the right to use it in the development and operation of Your franchise, and the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. Any and all information, knowledge, know-how, and techniques which We designate as confidential will be deemed confidential for purposes of the Franchise Agreement, except information, which You can demonstrate came to Your attention prior to its disclosure by Us or which has entered the public domain other than through disclosure by You. However, while certain elements of the Confidential Information may be in the public domain for other applications, those elements nevertheless comprise Confidential Information in the manner in which they are used in Our franchises. The Confidential Information is proprietary, includes trade secrets belonging to Us and is disclosed to You or authorized for Your use solely on the condition that You faithfully observe each of Your confidentiality obligations under the Franchise Agreement or otherwise. You must agree, both during the term of the Mobile Shop-At-Home Retail Business and forever thereafter, that You: (a) will not use the Confidential Information in any business or capacity other than as a franchise in good standing; (b) will maintain the absolute

confidentiality of the Confidential Information during and after the term of the Franchise Agreement; (c) will not make unauthorized copies of any portion of the Confidential Information disclosed via electronic medium, in written form or in other tangible form, including, for example, the Operations Manual; and (d) will adopt and implement all reasonable procedures We may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including restrictions on disclosure to Your employees and the use of the nondisclosure and non-competition agreements We may prescribe for employees or others who have access to the Confidential Information.

#### ITEM 15

##### **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATIONS OF THE FRANCHISE BUSINESS**

We recommend that You (if You are an individual, or one or more of Your principals if You are a corporation, partnership or limited liability company) personally supervise the day-to-day operation of the Mobile “Shop-At-Home” Retail Business Franchise. If You do not personally supervise day-to-day operations, You must designate a full-time manager (“Designated Manager”) to engage in such supervision. Your Designated Manager must have successfully completed Our initial training program prior to assuming managerial responsibility, and shall be responsible for training Your employees. We require that all additional and/or replacement Designated Managers attend Our initial training program, which We will provide at Our then current tuition. (See Item 11). For the Mobile Shop-At-Home Retail Business franchise, We do not place any restrictions on whom You may hire as Your Designated Manager and Your Designated Manager need not own any equity interest in the franchise, but You must inform Us as to the identity of Your Designated Manager. Such Designated Manager shall devote his or her personal full-time attention and best efforts to the management and operation of the mobile business and, before assuming management responsibility, must sign confidentiality and non-compete agreements containing terms similar to those contained in the Mobile Shop-At-Home Retail Business franchise.

#### ITEM 16

##### **RESTRICTION ON GOODS AND SERVICES OFFERED BY FRANCHISEE**

You must offer and sell all products and services that We prescribe, and only those products and services that We prescribe. You may not sell any product or render any services in connection with Your Mobile “Shop-At-Home” Retail Business Franchise which do not meet Our standards and specifications. If at any time during the term Mobile Shop-At-Home Retail Business of the Franchise Agreement or any renewal of the Franchise Agreement, We modify the products or services offered by the System, You must immediately offer such additional services and/or order the new products and upon receipt of the products offer such products for sale. You are permitted to solicit customers and/or advertise outside Your Territory, but You may not solicit customers within the defined territory of another System franchisee without Our prior written authorization, which We will not unreasonably withhold. We may condition Our authorization upon Your agreement to offer other System franchisees who are operating System franchises in territories covered by the proposed advertising media the opportunity to participate in, and share the expense of, such solicitation and/or advertising on a pro rata basis.

**ITEM 17**

**RENEWAL, TERMINATION, TRANSFER and DISPUTE RESOLUTION**

This table lists important provision of the Mobile “Shop-At-Home” Retail Business Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this Offering Circular. The Franchise Agreement describes these provisions more fully than does the summary in the table.

	<b>PROVISION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>SUMMARY</b>
a.	Term of franchise	2.2	15 years.
b.	Renewal or extension of the term	2.3	The term for the then current Franchise Agreement.
c.	Requirements for You to renew or extend	2.3	Notice, update Your vehicle(s), sign new agreement, attend training, sign a release, may not be in default.
d.	Termination by You	No provision	You may not terminate the Franchise Agreement.
e.	Termination by Us without cause	No provision	
f.	Termination by Us with “cause”	11.1	We can terminate if You default.
g.	“Cause” defined – default which can be cured	11.1.2 11.1.3	You have 30 days to cure: non-payment of fees; failure to maintain samples; failure to complete training; failure to commence operations; failure to maintain quality control; unauthorized transfer; other conduct or 60 days to cure: failure to comply with any one or more of the terms of the Franchise Agreement; make unauthorized purchases
h.	“Cause” defined – default which cannot be cured Automatic termination	11.1.1 11.2	Non-curable defaults: conviction of felony; repeated defaults even if cured; abandonment; fraud; misrepresentation; bankruptcy; insolvency; violation of non-compete covenants. Failure to cure within applicable time period.
i.	Your obligations on termination/non-renewal	12	Obligations include complete de-identification and payments of amounts due (also see r, below).
j.	Assignment of contract by Us	10.5	No restriction on Our right to transfer.
k.	“Transfer” by You - definition	10.1, 10.3, 10.4	Includes transfer of contract or ownership change if You are a corporation, partnership, or limited liability company
l.	Our approval of transfer by You	10.1	You may not transfer without Our prior written consent.
m.	Conditions for Our approval of transfer	10.3.2	All fees paid; all defaults cured; You sign release; new franchisee qualifies; transfer fee paid; new agreement signed by new franchisee (also see r, below).
n.	Our right of first refusal to acquire Your business	10.3.1	We may match any offer for the franchisee’s business.
o.	Our option to purchase Your business	No Provision	
p.	Your death or disability	10.2	Your legal representative has the right to continue operating the mobile business as franchisee under the terms and conditions described in the Franchise Agreement.
q.	Non-competition covenants during the term	9.5.1	No involvement in competing business.

	PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
	of the Franchise Agreement		
r.	Non-competition covenants after the term of the Franchise Agreement	9.5.2	No competing business for 3 years within 5 miles of Your Territory or any other Carpet Network business in operation or which is contemplated as of the date of expiration or termination of the Franchise Agreement
s.	Modification of the Franchise Agreement	14.1	All modifications must be in writing and signed by both parties.
t.	Integration/merger clause	14.1, 15.1	Only the terms of the Franchise Agreement and its exhibits are binding. Any other promises may not be enforceable.
u.	Dispute resolution by arbitration or mediation	14.3, 14.4	Except as otherwise provided in the Franchise Agreement, all disputes must be arbitrated in Burlington County, New Jersey. At Our option We may request nonbinding mediation.
v.	Choice of forum	14.2	Litigation must be in Burlington County, New Jersey.
w.	Choice of law	14.2	New Jersey law applies.

#### ITEM 18

#### ARRANGEMENT WITH PUBLIC FIGURES

We do not use any public figures to promote Our franchise.

#### ITEM 19

#### REPRESENTATIONS REGARDING EARNINGS CAPABILITY

No representations or statements of actual, average, projected or forecasted sales, profits or earnings are made to franchisees with respect to franchises for franchised businesses offered in this Offering Circular. We do not furnish or authorize Our sales persons to furnish any oral or written information concerning the actual, average, projected or forecasted or potential sales, costs, income or profits of a franchise.

We specifically instruct Our sales personnel, agents, employees and officers that they are not permitted to make such claims or statements as to earnings, sales or profits, or prospects or chances of success, nor are they authorized to represent or estimate dollar figures as to the franchisee's operation. We will not be bound by allegations of any unauthorized representations as to earnings, sales, profits or prospects or chances for success.

You should disregard any unauthorized information, whether oral or written, concerning the actual, average, projected, forecasted or potential sales, costs, income or profits, or the prospects or chances of success, or representation or estimated dollar figures as to Your operation furnished by any person. You should immediately notify Us of any such unauthorized information or representation.

**ITEM 20**

**INFORMATION REGARDING FRANCHISES OF THE FRANCHISOR**

**Franchised Business Status Summary  
For Fiscal Years 2005, 2004, 2003**

STATE	TRANSFERS	CANCELED OR TERMINATED	NOT RENEWED	REACQUIRED BY FRANCHISOR	LEFT THE SYSTEM OTHER	TOTAL FROM LEFT COLUMNS (2)	FRANCHISES OPERATING AT YEAR END
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
California	0/0/0	0/1/0	0/0/0	0/0/0	0/0/0	0/1/0	0/0/1
Colorado	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Indiana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Iowa	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Kansas	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	1/0/0	1/2/2
Louisiana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Maryland	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Michigan	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Minnesota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/3/3
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
New Hampshire	0/0/0	0/0/0	0/0/0	0/0/0	0/1/0	0/1/0	1/1/1
New Jersey	0/0/0	0/0/1	0/0/0	0/0/0	0/1/0	0/1/1	6/6/5
New York	0/0/1	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	5/5/5
Oregon	0/0/0	1/1/0	0/0/0	0/0/0	0/0/0	1/1/0	1/2/3
Pennsylvania	0/0/1	0/1/0	0/0/0	0/0/0	0/0/0	0/0/2	7/7/7
Texas	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	1/0/0	2/3/3
Utah	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	1/0/0	0/1/1
Vermont	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Wisconsin	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
<b>TOTALS</b>	<b>0/0/2</b>	<b>4/3/1</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/2/0</b>	<b>4/4/3</b>	<b>37/39/39</b>

1) Note: All numbers are as of December 31<sup>st</sup> for each year.

2) The numbers in the "Total" column may exceed the number of System franchises affected because several events may have affected the same mobile business. For example, the same mobile business may have had multiple owners.

3) Exhibit 3 contains the names of all franchisees and the addresses and telephone numbers of all System franchises.

**Projected Openings  
For Mobile “Shop-At-Home” Retail Business Franchises  
As of January 2006**

STATE	FRANCHISE AGREEMENTS SIGNED BUT BUSINESS NOT IN OPERATION (1)	PROJECTED FRANCHISED NEW BUSINESSES IN THE NEXT FISCAL YEAR	PROJECTED COMPANY OWNED OPENINGS IN NEXT FISCAL YEAR
Colorado	0	2	0
Iowa	0	1	0
New Jersey	0	1	0
New York	0	1	0
Minnesota	0	1	0
Texas	0	1	0
<b>Total</b>	<b>0</b>	<b>7</b>	<b>0</b>

A list of Mobile “Shop-At-Home” Retail Business franchisees who have had a mobile business terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during Our most recent fiscal year or have not communicated with us within the 10 weeks preceding the date of this amended Offering Circular is contained in Exhibit 3.

We maintained an Area Director Franchise program until 2003. The following are Our Area Directors:

Daryl Foelske  
Carpet Network of Cedar Falls  
5226 Norse Drive  
Cedar Falls, IA 50613  
(319) 266-7660

Jan Vanderspek  
Carpet Network of Eugene  
1655 Prospect Dr.  
Eugene, Oregon 97803  
(541) 302-8000

Robert Klein  
Carpet Network of Gibsonia  
1150B Middlesex St.  
Gibsonia, PA 15044  
(724) 449-1100

Scott Graham  
Carpet Network of Loveland  
877 Crestone Drive  
Loveland, CO 80537  
(970) 612-0214

**ITEM 21**

**FINANCIAL STATEMENTS**

Exhibit 5 of this Offering Circular contains audited financial statements as of December 31, 2005, December 31, 2004 and December 31, 2003.

## **ITEM 22**

### **CONTRACTS**

Exhibit 6 of this Offering Circular contains a copy of the Mobile Shop-At-Home Retail Franchise Agreement.

Carpet Network, Inc. Mobile Shop-At-Home Retail Business Franchise Agreement has the following Exhibits:

- Exhibit A – Continuing Personal Guaranty and Indemnification Agreement
- Exhibit B – Conditional Assignment of Franchisee's Telephone Numbers
- Exhibit C – Spousal Consent
- Exhibit D – Acknowledgment of Receipt of Completed Contract Documents by a Prospective Franchisee
- Exhibit E – Opening Package
- Exhibit F – Franchisee's Acknowledgments

## **ITEM 23**

### **RECEIPT**

Attached as Exhibit 11 to this Offering Circular are duplicate copies of a receipt page. You should sign both copies of the Receipt and return one signed copy to Leonard Rankin, CEO, Carpet Network, Inc., 109 Gaither Drive, Suite 302, Mount Laurel, New Jersey 08054.