

**EXHIBIT B TO
CARTRIDGE WORLD NORTH AMERICA, LLC
OFFERING CIRCULAR
FINANCIAL STATEMENTS**

DEPARTMENT OF CORPORATIONS
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**Cartridge World North America
Income Statement
Jan 2006 - Feb 2006**

Account	Jan-06 Amount	Feb-06 Amount	2006 YTD Amount
Total - Income	1,338,888	1,407,168	2,746,056
Total - Cost Of Sales	668,611	659,846	1,328,457
Gross Profit	670,276	747,323	1,417,599
Total - 6005 - G & A	59,713	95,999	155,712
Total - 6006 - Sales & Marketing	41,503	46,079	87,582
Total - 6500 - Salaries and Benefits	258,679	215,286	473,965
Total - 6004 - Travel & Entertainment	3,180	26,618	29,798
Total - 6003 - Facilities	41,580	42,155	83,734
Total - 6002 - Operation Services	28,730	26,875	55,605
Total - 6001 - Professional Services	20,232	39,832	60,064
Total Expense	453,617	492,844	946,461
EBITDA	216,660	254,479	471,138
Total Taxes and Depreciation	(7,274)	(7,274)	(14,549)
Net Other Income	1,011	942	1,953
Net Income	210,397	248,146	458,542

**Cartridge World North America
Balance Sheet
End of Feb 2006**

Account	Amount
ASSETS	
Total - Current Assets	2,931,531
Total - Fixed Assets	525,985
Total - Other Assets	275,010
Total - ASSETS	3,732,525
LIABILITIES & EQUITY	
Total - Current Liabilities	2,392,749
Total - Liabilities	2,392,749
Equity	
Total - Equity	1,339,776
Total - LIABILITIES & EQUITY	\$3,732,525



CARTRIDGE WORLD NORTH AMERICA, LLC

FINANCIAL STATEMENTS

DECEMBER 31, 2005, DECEMBER 31, 2004
AND DECEMBER 31, 2003

CARTRIDGE WORLD NORTH AMERICA, LLC

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Independent Auditors' Report

The Members
Cartridge World North America, LLC

We have audited the accompanying balance sheet of Cartridge World North America, LLC (a California limited liability company) as of December 31, 2005, December 31, 2004 and December 31, 2003 and the related statements of income, members' capital, 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 audit.

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

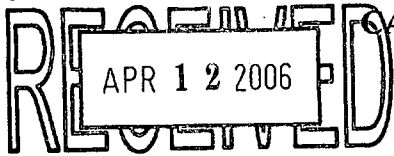
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cartridge World North America, LLC as of December 31, 2005, December 31, 2004 and December 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
January 20, 2006

DEPARTMENT OF CORPORATIONS



SACRAMENTO OFFICE

CARTRIDGE WORLD NORTH AMERICA, LLC

BALANCE SHEET

<u>ASSETS</u>	December 31, 2005	December 31, 2004	December 31, 2003
CURRENT ASSETS:			
Cash	\$ 1,154,221	\$ 309,776	\$ 85,522
Accounts receivable	289,242	237,500	1,041
Inventory	756,894	555,832	212,477
Prepaid expenses	187,300	95,188	149,376
Cash - advertising fund restricted assets	536,588	84,030	0
TOTAL CURRENT ASSETS	2,924,245	1,282,326	448,416
PROPERTY AND EQUIPMENT:			
Equipment	191,513	136,233	178,914
Leasehold improvements	61,252	38,617	24,959
Office equipment	142,526	66,983	34,568
Totals	395,291	241,833	238,441
Less accumulated depreciation	(134,109)	(65,269)	(36,393)
	261,182	176,564	202,048
OTHER ASSETS:			
Security deposits	43,953	33,097	6,825
Note receivable	155,455	55,000	0
Other	31,695	140,455	0
TOTAL ASSETS	\$ 3,416,530	\$ 1,687,442	\$ 657,289
<u>LIABILITIES AND MEMBERS' CAPITAL</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 740,702	\$ 807,079	\$ 137,846
Notes payable to members	0	0	200,000
Accrued expenses	364,770	66,869	226,730
Customer prepaid fees	840,473	337,500	48,000
Income taxes payable	6,000	17,790	6,000
401(k) contribution payable	2,389	914	0
Advertising fund restricted liabilities	536,588	84,030	0
TOTAL LIABILITIES (all current)	2,490,922	1,314,182	618,576
MEMBERS' CAPITAL (Exhibit C)	925,608	373,260	38,713
TOTAL LIABILITIES AND MEMBERS' CAPITAL	\$ 3,416,530	\$ 1,687,442	\$ 657,289

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF INCOME

	Years Ended December 31,		
	2005	2004	2003
REVENUE:			
Initial franchise fees	\$ 3,705,797	\$ 4,491,865	\$ 3,157,099
Training fees and kit sales	8,610,861	3,991,994	0
Product sales and royalties	3,098,812	739,482	49,558
Other revenue	270,402	59,655	0
TOTAL REVENUE	15,685,872	9,282,996	3,206,657
COST OF GOODS SOLD	8,199,222	4,249,779	602,090
GROSS PROFIT	7,486,650	5,033,217	2,604,567
OPERATING EXPENSES	5,245,831	3,433,110	1,890,068
INCOME FROM OPERATIONS	2,240,818	1,600,107	714,499
OTHER INCOME (EXPENSE):			
Interest income	5,385	0	0
Loss on abandonment of assets	(13,789)	0	0
PROVISION FOR INCOME TAXES	13,573	12,590	6,800
NET INCOME	\$ 2,218,841	\$ 1,587,517	\$ 707,699

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF MEMBERS' CAPITAL

	Years Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 373,260	\$ 38,713	\$ (6,508)
Net income	2,218,841	1,587,517	707,699
Contributions	0	0	5,522
Distributions	<u>(1,666,493)</u>	<u>(1,252,970)</u>	<u>(668,000)</u>
TOTAL MEMBERS' CAPITAL	<u>\$ 925,608</u>	<u>\$ 373,260</u>	<u>\$ 38,713</u>

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (Exhibit B)	\$ 2,218,841	\$ 1,587,517	\$ 707,699
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	80,010	58,077	31,884
Loss on abandonment of assets	13,789	0	0
Decrease (increase) in:			
Cash - advertising fund restricted assets	(452,558)	(84,030)	0
Accounts receivable	(51,742)	(236,459)	(1,041)
Inventory	(201,062)	(343,355)	(194,575)
Prepaid expenses	(92,112)	54,188	(146,301)
Security deposits	(10,856)	(26,272)	0
Increase (decrease) in:			
Accounts payable	(66,377)	669,233	92,805
Accrued expenses	297,901	(159,861)	226,730
Customer prepaid training fees	502,973	289,500	48,000
Income taxes payable	(11,790)	11,790	5,200
401(k) contribution payable	1,475	914	0
Advertising fund restricted liabilities	452,558	84,030	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,681,050	1,905,272	770,401
CASH FLOWS FROM INVESTING ACTIVITIES:			
Repayment (issuance) on note receivable, net	40,000	(55,000)	0
Purchases of equipment	(178,417)	(173,048)	(157,711)
Other assets	(31,695)	0	0
NET CASH USED IN INVESTING ACTIVITIES	(170,112)	(228,048)	(157,711)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term debt	0	0	200,000
Repayment of short-term debt	0	(200,000)	(66,118)
Capital contributions	0	0	5,522
Distributions to members	(1,666,493)	(1,252,970)	(668,000)
NET CASH USED IN FINANCING ACTIVITIES	(1,666,493)	(1,452,970)	(528,596)
INCREASE IN CASH	844,445	224,254	84,094
CASH, beginning of year	309,776	85,522	1,428
CASH, end of year	\$ 1,154,221	\$ 309,776	\$ 85,522
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	\$ 800	\$ 800	\$ 800
Interest	\$ 0	\$ 0	\$ 0

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC**NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2005, DECEMBER 31, 2004
AND DECEMBER 31, 2003**

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**Nature of activities:**

The Company holds the master franchise agreement to sell territorial master franchises for Cartridge World Pty Ltd. of Australia in North, South and Central America. The agreement with Cartridge World Pty Ltd. for the use of the name and trademark "Cartridge World" is a perpetual, royalty-free, nontransferable license. In addition to selling territorial master franchises the Company provides toner cartridge refills to the individual franchises.

Accounts receivable:

The Company uses the allowance method of accounting for bad debts. The Company's bad debt experience indicates however, that any current allowance for doubtful accounts would not be a material amount.

Inventory:

Inventory is stated at the lower of average cost or market.

Restrictions on cash:

The Company participates in a National Unit Ad Fund established to collect and administer funds contributed for the use in advertising. Contributions to the advertising funds are derived from unit franchise outlets based on a percent of unit franchise outlets sales. These funds are restricted for use in advertising.

Revenue recognition:

The Company recognizes franchise fee revenue when all material services or conditions relating to a sale of a franchise have been substantially performed or satisfied by the franchisor. Franchise royalty revenues are based on franchisees' sales and are recognized as earned.

Depreciation:

The Company computes depreciation on its property and equipment using the straight-line method of accounting over a period of three to five years, and leasehold improvements over the life of the lease.

Advertising:

The Company expenses advertising costs as the advertisements are published. Advertising expense for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was approximately \$346,400, \$501,000 and \$212,000, respectively.

Income taxes:

The Company has been organized as a Limited Liability Company ("LLC"). As such, the Company pays no federal income taxes but is taxed at the state level using the statutory rates in effect for an LLC. Additionally, the members are individually taxed on their proportionate share of the Company's taxable income.

CARTRIDGE WORLD NORTH AMERICA, LLC**NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2005, DECEMBER 31, 2004
AND DECEMBER 31, 2003**

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. Cash was held in a financial institution in an amount exceeding the guaranteed amount of the Federal Deposit Insurance Corporation. Accounts receivable are due from master franchisees for their initial franchise fees and from franchisees for royalties.

Note 4. FRANCHISE ACTIVITIES:

The Company sold one new master franchise agreements for \$200,000 and amended two franchise agreement for extension of territories for \$185,000 during the year ended December 31, 2005. These master franchise agreements give the holder territorial rights to sell unit franchise outlets in its designated area. The company also recognized \$65,000 during the year for remaining balances on master franchise agreements sold in 2003.

The holders of the master franchise agreements sold 252 unit franchise outlets in their designated areas which accounted for \$3,240,797 in franchise fees for the Company during the year ended December 31, 2005. There were 325 franchise outlets in operation as of December 31, 2005.

Note 5. RETIREMENT PLAN:

The Company has a 401(k) plan covering substantially all of its employees. The Plan provides for employee salary deferrals as well as a matching employer contribution equal to 100% of the amount each employee contributes during the plan year to a maximum of 4% of their compensation. In addition, the Company may also make discretionary contributions and qualified non-elective contributions to the Plan. Employer contributions to the Plan for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 amounted to \$14,089, \$9,538 and \$0, respectively.

Note 6. RELATED PARTY TRANSACTIONS:

The members have a financial interest in several other Cartridge World entities worldwide. The Company had the following related party transactions:

The CEO of the Company is an investor and CEO of Wildwood Franchising Inc., master franchisee for the Northern California territory. The CEO is also an investor and managing member of PC Ink, LLC, master franchisee for the Southern California territory.

At December 31, 2005, the Company has a note receivable for \$140,455 from its members. In addition, the Company has a receivable of \$120,000 from PC Ink, LLC which is included in accounts receivable.

At December 31, 2004, the Company has a receivable of \$100,000 from Wildwood Franchising, Inc. and a \$120,000 receivable from PC Ink, LLC which are included in accounts receivable.

CARTRIDGE WORLD NORTH AMERICA, LLC

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2005, DECEMBER 31, 2004 AND DECEMBER 31, 2003

Note 6. RELATED PARTY TRANSACTIONS (Continued):

During the year ended December 31, 2003, the Company paid Cartridge World Australia \$264,000 during the year to train the unit franchisees to run a store. The Company incurred management fees of \$150,000 for services provided by Cartridge World Australia. The members advanced \$200,000 to the Company as a short-term loan. The balance bears interest at 5% per annum and was repaid in 2004.

Note 7. COMMITMENTS:

The Company is liable under various long-term lease commitments for the following annual rentals on facilities:

<u>Years Ending</u> <u>December 31,</u>	
2006	\$ 432,402
2007	266,232
2008	59,616
2009	<u>0</u>
Total	<u>\$ 758,250</u>

Rent expense for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was \$422,521, \$234,893 and \$70,000 respectively.

Note 8. PENDING LITIGATION:

On October 5, 2005, a competitor of the Company filed a complaint against the Company and its CEO alleging several causes of action. The Company thereafter filed a demurrer to the complaint on the ground that the allegations fail to state valid legal claims. The Court has sustained the demurrer as to a majority of the competitor's claims. The competitor has been granted leave to amend its complaint in an effort to state legally cognizable claims. Given the preliminary status of this matter, it is difficult at this point to evaluate the likelihood of an unfavorable outcome. However, management believes the complaint is without merit and intends to defend the action vigorously.

Note 9. SUBSEQUENT EVENTS:

Cartridge World North America, through a newly formed wholly-owned subsidiary, Cartridge World Holdings, Luxemburg (a Luxemburg company), is in negotiations to acquire all of the stock of Cartridge World, Ltd. ("CW UK") and Cartridge World France, SARL. ("CW France") for approximately \$20,000,000. Both are master franchisees of CW International. Currently, CW UK has approximately 300 franchised stores, while CW France has approximately 60 franchised stores. CW UK and CW France also sell ink, compatible cartridges, and related consumables to their franchisees. This transaction is expected to close in February 2006. Cartridge World Holdings, Luxemburg is expected to incur approximately \$30,000,000 of debt and stand by financing in connection with the proposed transaction and future operations.

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CARTRIDGE WORLD NORTH AMERICA, LLC

FINANCIAL STATEMENTS

DECEMBER 31, 2004

CARTRIDGE WORLD NORTH AMERICA, LLC

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Notes to financial statements - December 31, 2004	Exhibit E Pages 1 - 3



Independent Auditors' Report

The Members
Cartridge World North America, LLC

We have audited the accompanying balance sheet of Cartridge World North America, LLC (a California limited liability company) as of December 31, 2004 and the related statements of income, members' capital, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cartridge World North America, LLC as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
February 28, 2005

CARTRIDGE WORLD NORTH AMERICA, LLC**BALANCE SHEET - DECEMBER 31, 2004**ASSETS

CURRENT ASSETS:

Cash		\$	309,776
Accounts receivable			237,500
Inventory			555,832
Prepaid expenses			95,188
Cash - advertising fund restricted assets			<u>84,030</u>

TOTAL CURRENT ASSETS 1,282,326

PROPERTY AND EQUIPMENT:

Equipment	\$	136,233	
Leasehold improvements		38,617	
Office equipment		<u>66,983</u>	
Total		241,833	
Less accumulated depreciation		<u>(65,269)</u>	176,564

OTHER ASSETS:

Security deposits			33,097
Note receivable			55,000
Other			<u>140,455</u>

TOTAL ASSETS \$ 1,687,442

LIABILITIES AND MEMBERS' CAPITAL

CURRENT LIABILITIES:

Accounts payable	\$	807,079
Accrued expenses		66,869
Customer prepaid training fees		337,500
Income taxes payable		17,790
401(k) payable		914
Advertising fund restricted liabilities		<u>84,030</u>

TOTAL LIABILITIES (all current) 1,314,182

MEMBERS' CAPITAL (Exhibit C)

373,260

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$ 1,687,442

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC**STATEMENT OF INCOME****YEAR ENDED DECEMBER 31, 2004**

REVENUE:		
Initial franchise fees	\$ 4,491,865	48.39%
Training fees and kit sales	3,991,994	43.00
Product sales and royalties	739,482	7.97
Other revenue	<u>59,655</u>	<u>0.64</u>
TOTAL REVENUE	9,282,996	100.00
COST OF GOODS SOLD	<u>4,249,779</u>	<u>45.78</u>
GROSS PROFIT	5,033,217	54.22
OPERATING EXPENSES	<u>3,433,110</u>	<u>36.98</u>
INCOME FROM OPERATIONS	1,600,107	17.24
PROVISION FOR INCOME TAXES	<u>12,590</u>	<u>0.14</u>
NET INCOME	<u>\$ 1,587,517</u>	<u>17.10%</u>

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF MEMBERS' CAPITAL

YEAR ENDED DECEMBER 31, 2004

Balance at January 1, 2004	\$ 38,713
Net income	1,587,517
Distributions	<u>(1,252,970)</u>
TOTAL MEMBERS' CAPITAL	<u>\$ 373,260</u>

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (Exhibit B)		
Adjustments to reconcile net income to net cash provided by operating activities:		\$ 1,587,517
Depreciation	\$ 58,077	
Decrease (increase) in:		
Cash - advertising fund restricted assets	(84,030)	
Accounts receivable	(236,459)	
Inventory	(343,355)	
Prepaid expenses	54,188	
Security deposits	(26,272)	
Increase (decrease) in:		
Accounts payable	669,233	
Accrued expenses	(159,861)	
Customer prepaid training fees	289,500	
Income taxes payable	11,790	
401(k) payable	914	
Advertising fund restricted liabilities	84,030	317,755
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,905,272

CASH FLOWS FROM INVESTING ACTIVITIES:

Issuance of note receivable	(55,000)	
Purchases of equipment	(173,048)	
NET CASH USED IN INVESTING ACTIVITIES		(228,048)

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayment of short-term debt	(200,000)	
Distributions to members	(1,252,970)	
NET CASH USED IN FINANCING ACTIVITIES		(1,452,970)

INCREASE IN CASH	224,254
CASH, beginning of year	85,522
CASH, end of year	\$ 309,776

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:		
Income taxes	\$	800
Interest	\$	0

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2004

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

The Company holds the master franchise agreement to sell territorial master franchises for Cartridge World Pty Ltd. of Australia in North, South and Central America. The agreement with Cartridge World Pty Ltd. for the use of the name and trademark "Cartridge World" is a perpetual, royalty-free, nontransferable license. In addition to selling territorial master franchises the Company provides toner cartridge refills to the individual franchises.

Accounts receivable:

The Company uses the allowance method of accounting for bad debts. The Company's bad debt experience indicates however, that any current allowance for doubtful accounts would not be a material amount.

Inventory:

Inventory is stated at the lower of cost (first-in-first-out method) or market.

Franchise fee revenue recognition:

The Company recognizes franchise fee revenue when all material services or conditions relating to a sale of a franchise have been substantially performed or satisfied by the franchisor.

Depreciation:

The Company computes depreciation on its property and equipment using the straight-line method of accounting over a period of three to five years.

Advertising:

The Company expenses advertising costs as the advertisements are published. Advertising expense for the year ended December 31, 2004 was approximately \$501,000.

Restrictions on cash:

The Company participates in a National Unit Ad Fund established to collect and administer funds contributed for the use in advertising. Contributions to the advertising funds are derived from unit franchise outlets based on a percent of unit franchise outlets sales. These funds are restricted for use in advertising.

Income taxes:

The Company has been organized as a Limited Liability Company ("LLC"). As such, the Company pays no federal income taxes but is taxed at the state level using the statutory rates in effect for an LLC. Additionally, the members are individually taxed on their proportionate share of the Company's taxable income.

CARTRIDGE WORLD NORTH AMERICA, LLC**NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2004**

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. Cash was held in a financial institution in an amount exceeding the guaranteed amount of the Federal Deposit Insurance Corporation. Accounts receivable are due from master franchisees for their initial franchise fees.

Note 4. FRANCHISE ACTIVITIES:

The Company sold seven new master franchise agreements and amended two franchise agreements for extension of territories for \$2,002,500 during the year ended December 31, 2004. These master franchise agreements give the holder territorial rights to sell unit franchise outlets in its designated area. The company also received \$252,000 during the year for remaining balances on master franchise agreements sold in 2003.

The holders of the master franchise agreements sold 195 unit franchise outlets in their designated areas which accounted for \$2,237,365 in franchise fees for the Company during the year ended December 31, 2004. There were 118 unit franchise outlets in operation as of December 31, 2004.

Note 5. RETIREMENT PLAN:

The Company has a 401(k) plan covering substantially all of its employees. The Plan provides for employee salary deferrals as well as a matching employer contribution equal to 100% of the amount each employee contributes during the plan year to a maximum of 4% of their compensation. In addition, the Company may also make discretionary contributions and qualified nonelective contributions to the Plan. Employer contributions to the Plan for the year ended December 31, 2004 amounted to \$9,538.

Note 6. RELATED PARTY TRANSACTIONS:

The members have a financial interest in several other Cartridge World entities worldwide. The Company had the following related party transactions:

The Company incurred management fees of \$39,000 for services provided by Cartridge World Australia.

The members advanced \$200,000 to the Company as a short term loan in 2003. The loan was repaid in 2004.

The CEO of the Company is an investor and CEO of Wildwood Franchising Inc., master franchisee for the Northern California territory. The CEO is also an investor and managing member of PC Ink, LLC, master franchisee for the Southern California territory.

CARTRIDGE WORLD NORTH AMERICA, LLC

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2004

Note 7. COMMITMENTS:

The Company is liable under various long-term lease commitments for the following annual rentals on facilities:

<u>Year Ending December 31,</u>	
2005	\$ 463,616
2006	413,232
2007	266,232
2008	<u>59,616</u>
Total	<u>\$ 1,202,696</u>

Rent expense for the period ended December 31, 2004 was \$234,893.

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CARTRIDGE WORLD NORTH AMERICA, LLC

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DECEMBER 31, 2003

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Independent Auditors' Report

The Members

Cartridge World North America, I.L.C

We have audited the accompanying balance sheet of Cartridge World North America, LLC (a California limited liability company) as of December 31, 2003 and the related statements of income, members' capital, and cash flows for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cartridge World North America, LLC as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rooney, Ida, MCM & Ann

Certified Public Accountants

Oakland, California

February 27, 2004

EXHIBIT A

CARTRIDGE WORLD NORTH AMERICA, LLC

BALANCE SHEET - DECEMBER 31, 2003

ASSETS

CURRENT ASSETS:

Cash		\$	85,522
Accounts receivable			1,041
Inventory			212,477
Prepaid expenses			<u>149,376</u>

TOTAL CURRENT ASSETS 448,416

PROPERTY AND EQUIPMENT:

Equipment	\$	178,914	
Leasehold improvements		24,959	
Office equipment		<u>34,568</u>	
Total		238,441	
Less accumulated depreciation		<u>(36,393)</u>	202,048

OTHER ASSETS:

Security deposit			<u>6,825</u>
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TOTAL ASSETS \$ 657,289

LIABILITIES AND MEMBERS' CAPITAL

CURRENT LIABILITIES:

Accounts payable	\$	137,846	
Notes payable to members		200,000	
Accrued expenses		226,730	
Customer deposits		48,000	
Income taxes payable		<u>6,000</u>	

TOTAL LIABILITIES (all current) 618,576

MEMBERS' CAPITAL (Exhibit C) 38,713

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$ 657,289

See accompanying notes to the financial statements.

EXHIBIT B**CARTRIDGE WORLD NORTH AMERICA, LLC****STATEMENT OF INCOME****YEAR ENDED DECEMBER 31, 2003**

REVENUE:		
Initial franchise fees	\$ 3,157,099	98.45%
Product sales and royalties	<u>49,558</u>	<u>1.55</u>
TOTAL REVENUE	3,206,657	100.00
COST OF GOODS SOLD	<u>602,090</u>	<u>18.78</u>
GROSS PROFIT	2,604,567	81.22
OPERATING EXPENSES	<u>1,890,068</u>	<u>58.94</u>
INCOME FROM OPERATIONS	714,499	22.28
OTHER INCOME (DEDUCTIONS):		
Interest expense	<u>0</u>	<u>0.00</u>
INCOME BEFORE INCOME TAXES	714,499	22.28
PROVISION FOR INCOME TAXES	<u>6,800</u>	<u>0.21</u>
NET INCOME	<u>\$ 707,699</u>	<u>22.07%</u>

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

STATEMENT OF MEMBERS' CAPITAL

YEAR ENDED DECEMBER 31, 2003

Balance at January 1, 2003	\$ (6,508)
Net income	707,699
Contributions	5,522
Distributions	<u>(668,000)</u>
TOTAL MEMBERS' CAPITAL	<u>\$ 38,713</u>

See accompanying notes to the financial statements.

EXHIBIT D**CARTRIDGE WORLD NORTH AMERICA, LLC****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2003****CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (Exhibit B)		\$	707,699
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	\$	31,884	
Decrease (increase) in:			
Accounts receivable		(1,041)	
Inventory		(194,575)	
Prepaid expenses		(146,301)	
Increase (decrease) in:			
Accounts payable		92,805	
Accrued expenses		226,730	
Unearned revenue		48,000	
Income taxes payable		5,200	
			<u>62,702</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 770,401

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of equipment	<u>(157,711)</u>	
NET CASH USED IN INVESTING ACTIVITIES		(157,711)

CASH FLOWS FROM FINANCING ACTIVITIES:

Short-term debt:		
Proceeds	200,000	
Repayment	(66,118)	
Capital contributions	5,522	
Distributions to members	<u>(668,000)</u>	
NET CASH USED IN FINANCING ACTIVITIES		<u>(528,596)</u>

INCREASE IN CASH 84,094

CASH, beginning of year 1,428

CASH, end of year \$ 85,522

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:		
Income taxes	\$	800
Interest	\$	0

See accompanying notes to the financial statements.

CARTRIDGE WORLD NORTH AMERICA, LLC

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2003

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

The Company holds the master franchise agreement to sell territorial master franchises for Cartridge World Pty Ltd. of Australia in North, South and Central America. The agreement with Cartridge World Pty Ltd. for the use of the name and trademark "Cartridge World" is a perpetual, royalty-free, nontransferable license. In addition to selling territorial master franchises the Company provides toner cartridge refills to the individual franchisees.

Inventory:

Inventory is stated at the lower of cost (first-in-first-out method) or market.

Franchise fee revenue recognition:

The Company recognizes franchise fee revenue only when all material services or conditions relating to a sale of a franchise have been substantially performed or satisfied by the franchisor.

Depreciation:

The Company computes depreciation on its property and equipment using the straight-line method of accounting over a period of five years.

Advertising:

The Company expenses advertising costs as the advertisements are published. Advertising expense for the year ended December 31, 2003 was approximately \$212,000.

Income taxes:

The Company has been organized as a Limited Liability Company ("LLC"). As such, the Company pays no federal income taxes but is taxed at the state level using the statutory rates in effect for an LLC. Additionally, the members are individually taxed on their proportionate share of the Company's taxable income.

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. Cash was held in a financial institution in an amount exceeding the guaranteed amount of the Federal Deposit Insurance Corporation.

CARTRIDGE WORLD NORTH AMERICA, LLC
NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2003

Note 4. FRANCHISE ACTIVITIES:

The Company sold twelve master franchise agreements for \$2,370,000 during the year ended December 31, 2003. These master franchise agreements give the holder territorial rights to sell unit franchise outlets in its designated area.

The holders of the master franchise agreements sold thirty-six unit franchise outlets in their designated areas which accounted for \$927,600 in franchise fees for the Company during the year ended December 31, 2003. Of these unit franchise outlets sold, only ten were in operation as of December 31, 2003.

The Company is responsible for providing training to the unit franchise outlets as part of their franchise agreements. As of December 31, 2003, six unit franchise outlets have yet to receive their training.

Note 5. RELATED PARTY TRANSACTIONS:

The members have a financial interest in several other Cartridge World entities worldwide. The Company had the following related party transactions:

The Company paid Cartridge World Australia \$264,000 during the year to train the unit franchisees to run a store.

The Company incurred management fees of \$150,000 for services provided by Cartridge World Australia.

The members advanced \$200,000 to the Company as a short term loan. The balance bears interest at 5% per annum and is to be repaid in 2004.

Note 6. COMMITMENTS:

The Company is liable under a long-term lease commitment for the following annual rentals on its facility:

<u>Years Ending</u> <u>December 31,</u>	
2004	\$ 54,600
2005	<u>27,300</u>
Total	<u>\$ 81,900</u>

Rent expense for the period ended December 31, 2003 was approximately \$70,000.