

INFORMATION FOR PROSPECTIVE FRANCHISEES  
REQUIRED BY THE FEDERAL TRADE COMMISSION



TO PROTECT YOU, WE'VE REQUIRED YOUR FRANCHISOR TO GIVE YOU THIS INFORMATION. WE HAVEN'T CHECKED IT AND DON'T KNOW IF IT'S CORRECT. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. WHILE IT INCLUDES SOME INFORMATION ABOUT YOUR CONTRACT, DON'T RELY ON IT ALONE TO UNDERSTAND YOUR CONTRACT. READ ALL OF YOUR CONTRACT CAREFULLY. BUYING A FRANCHISE IS A COMPLICATED INVESTMENT. TAKE YOUR TIME TO DECIDE. IF POSSIBLE, SHOW YOUR CONTRACT AND THIS INFORMATION TO AN ADVISOR, LIKE A LAWYER OR AN ACCOUNTANT. IF YOU FIND ANYTHING YOU THINK MAY BE WRONG OR ANYTHING IMPORTANT THAT'S BEEN LEFT OUT, YOU SHOULD LET US KNOW ABOUT IT. IT MAY BE AGAINST THE LAW.

THERE MAY ALSO BE LAWS ON FRANCHISING IN YOUR STATE. ASK YOUR STATE AGENCIES ABOUT THEM.

FEDERAL TRADE COMMISSION  
Washington, D.C. 20580

Date of Issuance: \_\_\_\_\_

(The Effective Date for the use of this document in your state may be different. See Exhibit F.)



**Cartridge World**



**MASTER FRANCHISE OFFERING CIRCULAR  
CARTRIDGE WORLD NORTH AMERICA, LLC  
a Nevada limited liability company  
6460 HOLLIS STREET  
EMERYVILLE, CA 94608  
(510) 594-9900  
[www.cartridgeworld.com](http://www.cartridgeworld.com)**

The Master Franchisee will be awarded a Territory, within which to offer, award and support unit franchises for the operation of retail stores in the business of refilling printer inkjet cartridges, remanufacturing laser cartridges and selling toners, hardware, software and related printer consumables under the Cartridge World marks.

The initial master franchise fee is expected to range from \$75,000 to \$500,000. The initial master franchise fee is due at the time you execute your Franchise Agreement. The estimated initial investment required ranges from \$94,000 to \$600,000.

**Risk Factors:**

**THE FRANCHISE AGREEMENT CONTAINS A MANDATORY BINDING ARBITRATION CLAUSE GOVERNING NEARLY ALL DISPUTES BETWEEN YOU AND US, AND ALSO PROVIDES FOR A FACE-TO-FACE MEETING AND MEDIATION TO SETTLE DISPUTES. MEDIATION, BINDING ARBITRATION (AND ANY LITIGATION) AND ANY ARBITRATION APPEAL WILL TAKE PLACE AT A NEUTRAL LOCATION IN THE COUNTY FOR OUR THEN-CURRENT PRINCIPAL BUSINESS ADDRESS (CURRENTLY ALAMEDA COUNTY, CALIFORNIA), AND THAT MAY COST YOU MORE THAN IF THOSE PROCEEDINGS TOOK PLACE NEAR YOUR RESIDENCE OR BUSINESS. COSTS OF THE FACE-TO-FACE MEETING, MEDIATION, ARBITRATION AND ANY ARBITRATION APPEAL MAY BE GREATER THAN IN LITIGATION. YOU AND WE WILL GENERALLY BEAR EACH OF OUR OWN COSTS IN ANY DISPUTE, BUT THE ARBITRATOR CAN ASSESS COSTS (BUT NOT ATTORNEY'S FEES) AGAINST A LOSING PARTY.**

**THE MASTER FRANCHISE AGREEMENT STATES THAT NEVADA LAW GOVERNS THIS AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.**

**SOME OF THESE PROVISIONS MAY BE SUPERSEDED BY CERTAIN STATE LAWS. REFER TO EXHIBIT F FOR ANY ADDENDUM APPLICABLE TO YOUR STATE.**

**THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.**

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit C or your public library for sources of information.

Registration of this franchise by a state does not mean that the state recommends it or has verified the information in this offering circular. If you learn that anything in the offering circular is untrue, contact the Federal Trade Commission and the state authority listed in Exhibit C.

Effective Date: \_\_\_\_\_

(The Effective Date for the use of this document in your state may be different. See Exhibit F.)

## **DISCLOSURES REQUIRED BY MICHIGAN LAW**

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.**

- (a) A prohibition on the right of a franchisee to join an association of franchisees.**
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.**
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.**
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the Franchised Business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of the franchisor's intent not to renew the franchise.**
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.**
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.**
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.**
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.****

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.**

Michigan law provides that a franchisor whose most recent statements are unaudited and which show a net worth of less than \$100,000 shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee or subfranchisor until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow. In the event that an escrow is so established, the escrow agent shall be a financial institution authorized to do business in the State of Michigan. The escrow agent may release to the franchisor those amounts of the escrowed funds applicable to a specific franchisee or subfranchisor upon presentation of an affidavit executed by the franchisee and an affidavit executed by the franchisor stating that the franchisor has fulfilled its obligation to provide real estate, improvements, equipment, inventory, training, or other items. This portion of the Michigan law does not prohibit a partial release of escrowed funds upon receipt of affidavits of partial fulfillment of the franchisor's obligation.

**SHOULD THE PROSPECTIVE FRANCHISEE HAVE ANY QUESTIONS REGARDING THE NOTICE OF THIS FILING WITH THE ATTORNEY GENERAL, SUCH QUESTIONS SHOULD BE ADDRESSED TO:**

**ADMINISTRATOR  
CONSUMER PROTECTION DIVISION  
ANTITRUST AND FRANCHISE UNIT  
MICHIGAN DEPARTMENT OF THE ATTORNEY GENERAL  
P. O. BOX 30213  
LANSING, MICHIGAN 48909  
(517) 373-7117**

## TABLE OF CONTENTS

ITEM	PAGE
1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES	1
2. BUSINESS EXPERIENCE	3
3. LITIGATION	4
4. BANKRUPTCY	6
5. INITIAL FRANCHISE FEE	6
6. OTHER FEES	6
7. INITIAL INVESTMENT	12
8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	15
9. FRANCHISEE'S OBLIGATIONS	17
10. FINANCING	18
11. FRANCHISOR'S OBLIGATIONS	18
12. TERRITORY	28
13. TRADEMARKS	32
14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION	34
15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS	35
16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	35
17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION	36
18. PUBLIC FIGURES	40
19. EARNINGS CLAIMS	40
20. LIST OF OUTLETS	41
21. FINANCIAL STATEMENTS	44
22. CONTRACTS	44
23. RECEIPT	44

## EXHIBITS

- A. MASTER FRANCHISE AGREEMENT AND ALL EXHIBITS
- B. FINANCIAL STATEMENTS
- C. STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS
- D. LIST OF CURRENT AND FORMER FRANCHISEES AND MASTER FRANCHISEES
- E. UNIT FRANCHISE OPERATIONS MANUAL TABLE OF CONTENTS
- F. STATE ADDENDUM
- G. FRANCHISE BROKERS
- H. RECEIPT

## **1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

### **The Franchisor, Business Form, Names, Address**

To simplify the language in this Offering Circular, "we", "us", "our", or "CWNA" means Cartridge World North America, LLC (the Franchisor). "You," or "your" means the person who buys the Master Franchise. If a business entity buys the Master Franchise, "you" includes the Master Franchisee's owners, as appropriate. Capitalized terms that are not defined in this Offering Circular have the meanings that are included in the Master Franchise Agreement (Section 2.01).

We were formed as a limited liability company in the State of Nevada in June 2002, and began offering Cartridge World® Master Franchises in late 2002. Our predecessor company, Cartridge World Pty. Ltd. ("CW International"), has offered Cartridge World® franchises in Australia since 1997. Our principal place of business is 6460 Hollis Street, Emeryville, CA 94608.

Our agent in this state authorized to receive service of process is in Exhibit C.

### **Our Business Activities and the Franchises to be Offered in this State**

We offer, and award, Master Franchises to qualified applicants in the United States, Central and South America, the Caribbean and other countries. The Master Franchisee will, in turn, offer, award, and service Cartridge World Unit Franchises in a specified area, using the "Cartridge World" name and design. The Cartridge World System includes methods for marketing and operating retail operations in the business of refilling printer inkjet cartridges, remanufacturing of laser cartridges and selling toners, hardware, software, and related printer consumables (the "Cartridge World System" or the "System"). Cartridge World Pty. Ltd. has licensed to us the right to use the Marks and System, and to award Master Franchises in the United States, Mexico, South America, Central America, and countries in the Caribbean. The Cartridge World System is characterized by certain trademarks and logos, operating systems, training and marketing concepts, the Manual, distinctive color schemes and logo apparel, specialized products and confidential information.

We license you to license independent Unit Franchisees to use the Cartridge World Marks and System. You will be required to comply with all franchise disclosure and other legal requirements applicable to your Territory, and to file a Uniform Franchise Offering Circular with any applicable state agency for the offer and sale of Unit Franchises. In certain states, Master Franchisees cannot offer or grant Unit Franchises until their Unit Franchise UFOC has received an effective registration with the applicable state.

We believe that the market for cartridge remanufacturing and refilling services and for printer consumables is developed, and continues to develop and evolve with changes in technology. The market for the unit franchises you will be offering is unknown, as this is a relatively recent retail concept in the United States. The primary markets for Cartridge World services are individual consumers and businesses looking for a convenient, efficient and economic means of meeting their demands for varied printer consumables. If we award you a Master Franchise, you and the franchises you establish will compete with other businesses offering services similar to those offered by a Cartridge World Unit Franchised Business, including large and small business supply stores/chains, equipment dealers, small local businesses, original equipment manufacturers, numerous internet-based refill services/offers, and larger industrial operations with production line type refill services, other cartridge refilling franchises, internet based providers and others. The technology of the products/services with which we work can



change rapidly and materially. For this reason, it is especially difficult to attempt to foresee how this industry and/or our business model will be required to evolve to keep pace with changes in product, methods of distribution, technical needs, consumer interest, competitive products and pricing, product demand, and other marketplace forces that can significantly impact the viability of the industry and/or our system, and those people and companies associated with it, including the franchise offered with this Offering Circular.

Master and Unit Franchised Businesses have no industry specific licensing requirements, although Cartridge World Franchises are responsible for ensuring their compliance with all local, state and federal business, retail sales, zoning and similar regulations and licensing requirements, and any applicable environment related laws and/or regulations. Your advertising, offering, and selling of unit franchises is subject to federal regulation by the FTC. Some states closely regulate franchising. You will be responsible for complying with all state and federal franchise laws and regulations. You should consult with your attorney and local, state and federal government agencies before buying your Cartridge World Master Franchise or any business to determine all legal requirements that you must comply with, their effects on you and the costs of compliance. It is your sole responsibility, on an ongoing basis, to investigate and satisfy all local, state and federal laws, since they vary from place to place and can change over time.

#### **Prior Business Experience, Predecessors, Affiliates, and Other Information**

Our predecessor company, Cartridge World Pty Ltd., ("CW International") was formed in South Australia, under the laws of Australia on February 10, 1999, and has offered Cartridge World franchises in Australia since then. Its principal place of business is 39 Charles Street, Norwood 5067, South Australia. We have an affiliated company named Cartridge World, Inc., which was incorporated in the state of Nevada in May 2002. It acts as the managing member of Cartridge World North America, LLC, and operates from 6460 Hollis Street, Emeryville, CA 94608. Cartridge World, Inc. does not offer franchises. Cartridge World Pty. Ltd. does not offer franchises in the United States.

CWNA has a wholly-owned subsidiary, Cartridge World Holdings, which is a Luxemburg company with a principal place of business in that country ("CW Luxemburg") and which purchased all of the stock of Cartridge World, Ltd. ("CW UK") and Cartridge World France, SARL ("CW France") in March, 2006. CW UK and CW France are Master Franchisees of CW International and have been licensed to grant Unit Franchises in their respective territories since 2000 and 2004, respectively. As of March, 2006, CW UK has approximately 300 Unit Franchises operating in its territory, which is comprised of the United Kingdom, Cyprus, Malta, and the Channel Islands, and is registered in England and Wales. CW France, a French company, has approximately 50 Unit Franchises in France, which is its territory. CW France and CW UK also sell ink, compatible cartridges and related consumables to Cartridge World Unit Franchises in their respective territories.

The Cartridge World concept was founded in Adelaide, Australia. CW International first began franchising in 1997 under the name Australian Cartridge Co. and changed its name in 1999 to Cartridge World Pty. Ltd. The company began franchising outside of Australia in 2000. As of December 31, 2005, CW International had 22 Master Franchises operating in Australia and other countries around the world. Currently there are 2 company owned Cartridge World retail Stores in Australia. CW International has been operating businesses of the type described in the Offering Circular since 1999.

As of December 31, 2005, there are 329 Unit and 18 Master Cartridge World Franchises that have been awarded in the United States. We have 1 Master Franchisee in Mexico as of the same date. The first Cartridge World Master Franchisee began offering Cartridge World Store Unit Franchises in the U.S. in February 2003.

We do not own or operate any Master Franchised Businesses, but our CEO owns and operates a Master Franchised Business that has awarded Unit Franchises in various states, and our CEO and COO have an interest in a second Cartridge World Master Franchise (See Items 2 and 20 of this Offering Circular).

We do not offer Cartridge World Store Unit Franchises as of the effective date of this Offering Circular and, but expect to grant them in states in which no Master Franchisee has been licensed to operate. As of February 1, 2006, those states include West Virginia, Kentucky, Louisiana, New Mexico and Arkansas. If we grant a Master Franchise for any of the listed states, we plan to assign any existing Unit Franchises to the applicable Master Franchisee. We do not own and operate any Cartridge World Stores. We do not offer franchises in any other line of business, but we reserve the right to do so. We also maintain a warehouse for products that we sell to Unit Franchisees.

This Offering Circular sets forth the terms on which we currently offer Cartridge World Master Franchises in this state. All money amounts described in this document are in U.S. Dollars. If we grant you a Cartridge World Master Franchise, you will have only a contractual relationship with us and only you and we will be parties to the Master Franchise Agreement. CW International will have no obligations to you, and you may look only to us for performance under the Franchise Agreement. We may have offered Cartridge World Master Franchises in the past, or may currently offer Cartridge World Master Franchises in other states or countries, on economic and/or other terms which differ from those offered by this Offering Circular. There may be instances where we have varied, or will vary, the terms on which we offer franchises to suit the circumstances of a particular transaction and as permitted by law. We urge you to carefully review all documents, as well as this Offering Circular, with independent advisors who can provide legal, business and/or economic guidance, such as lawyers and/or accountants.

We retain the right to award, or not award, a Cartridge World Master Franchise to you, regardless of the stage of the franchise award process, costs expended by you or otherwise.

You should also understand the following business realities: A franchised Cartridge World Business involves business risks. We don't have the ability to reliably make any promises, estimates, representations, guarantees or other assurances concerning your potential success as a Cartridge World Franchisee. We do not guarantee your success or any level of sales volume, profits (if any) or otherwise. Any volume, profit and possible success are primarily dependent on your sales ability and efforts as an independent business operator, as well as your proper use of the Cartridge World System. The Cartridge World concept is relatively young and our systems and methods for working with Master Franchisees and Unit Franchisees is relatively new and business model is evolving. The initial Cartridge World Master Franchise in the U.S. began operating in 2003 and other Master Franchises have been operating for shorter periods of time.

Master franchising poses special risks, since your possible success will depend, among other things, on your abilities to market, motivate, support and retain Unit Franchisees and to maximize their business volume.

For all of these reasons, the purchase of a Cartridge World franchise is a speculative investment. Significant investment beyond that outlined in this Offering Circular may be required to succeed, and there are no guarantees of success. We will not secure any pre-existing or future accounts, leads, or other sources of business for your use in the operation of your Cartridge World Business.

## **2. BUSINESS EXPERIENCE**

### **President – Paul Leslie Wheeler**

Paul Leslie Wheeler has been our President since our formation in June 2002. He served as CEO from June 2002 to January 2003. He has served as Director of our predecessor since March, 1999. Mr. Wheeler is a co-founder of CW International, and has been since May, 2002 Director and President of Cartridge World, Inc. ("CW Inc."), the managing member of CWNA.

### **CEO – Burt Yarkin**

Mr. Yarkin became our CEO on January 2, 2003. He served as the Director of Franchise Development for Gymboree Corporation, in Burlingame, California, from April 1998 until December 2002. Since its formation in December 2002, Mr. Yarkin also has been the CEO of Wildwood Franchising, Inc. a Cartridge World Master Franchisee operating in Northern California and licensed to award unit franchises in Northern California. Wildwood Franchising, Inc. also has been licensed to grant Unit Franchises in Hawaii, Louisiana, Kentucky, and New Mexico, but is not actively marketing unit franchises in any locations other than California. Additionally, Mr. Yarkin is an owner and managing member of PC Ink, LLC, a Master Franchise licensed to award Unit Franchises in a portion of Southern California, and is a member of another limited liability company, which is being formed and will be licensed as the Master Franchisee for Hawaii. Mr. Yarkin also holds a minority interest in CWNA and is a Director of CW Luxemburg, since March, 2006.

### **Secretary – Bryan Maxwell Stokes**

Bryan Maxwell Stokes became our Secretary in June 2002. Mr. Stokes is (with Paul Wheeler) co-founder of our predecessor and has served as its Director since 1999, first in Adelaide and now Norwood, South Australia. Prior to that time, he owned and operated (from 1994 to 1999) the Australian Cartridge Co., a business substantially similar to us and our predecessor, and located in Adelaide, Australia. Mr. Stokes also has been since May, 2002 a Director and Secretary for CW, Inc., the managing member of CWNA.

### **Chief Financial Officer ("CFO") – Steven L. Yeffa**

Steven L. Yeffa joined CWNA as their Chief Financial Officer in September 2005. Prior to that, he served as a consulting CFO for two companies in the San Francisco Bay Area. From July, 2001 to March, 2004, Mr. Yeffa was the Chief Financial Officer of the Western Region of IKON Office Solutions in Walnut Creek, CA. Mr. Yeffa also is a Director of CW Luxemburg, since March, 2006.

### **Executive Vice President and Chief Operating Officer ("COO") — John Dring**

John Dring became our Executive Vice President in June 2004 and was promoted to COO in September 2004. From May 1995 to June 2004, he was Senior Director of Franchise Development and Business Administration for Mail Boxes Etc. in San Diego, California. . Additionally, Mr. Dring is an owner

Cartridge World North America, LLC — Master UFOC — 03.2006

and member of PC Ink, a Master Franchise licensed to award Unit Franchises in a portion of Southern California. Mr. Dring also holds a minority interest in CWNA and is a Director of CW Luxemburg, since March, 2006.

**Vice President - Operations — Shawn Lynam**

Shawn Lynam became our Vice President - of Operations in May 2005. From 1996 until joining CWNA, he was a Senior Director of Franchise Operations and of Product Development & Management for Mail Boxes Etc. in San Diego, CA.

**Director of Franchise Development — Tim Easton**

Tim Easton became our Director of Franchise Development in June 2005. Mr. Easton is also the Director of Franchise Development for PC, Ink, LLC, the Master Franchisee for Southern California, owned by Mr. Dring and Mr. Yarkin. From September 1995 to June 2005 he was Area Development Manager for Mail Boxes Etc. in San Diego, California.

**Franchise Brokers**

We employ various franchise brokers to assist us in identifying qualified Master Franchise applicants. These franchise brokers are authorized to refer prospective franchisees to us. A list of these franchise brokers is attached as Exhibit G.

**3. LITIGATION**

Yvonne Ryzak v Wildwood Franchising, Inc., Cartridge World North America LLC, and Burt Yarkin. Superior Court of California, County of Alameda (Case No. RG05198697). Filed February 16, 2005. The complaint filed by Plaintiff, a Foster City, CA franchisee of Wildwood Franchising Inc., the master franchisee for that area, included allegations of intentional and negligent misrepresentations regarding failures to deliver training and support services, among others, as well as breach of contract. Plaintiff sought rescission and costs of suit and damages in the amount of at least \$165,000. Burt Yarkin, CWNA's CEO, is the principal shareholder of Wildwood Franchising, Inc. The defendants each vigorously denied the allegations of the complaint. Wildwood Franchising, Inc. advised CWNA that training and a variety of support services were delivered to this franchisee. Further, the defendants asserted that the franchisee's failure to follow the mutually agreed upon dispute resolution procedure stated in her franchise agreement was a material breach of that agreement. Nevertheless, in an effort to avoid a costly, protracted dispute and an unproductive use of resources, the matter was settled on April 15, 2005. Under this agreement, Wildwood Franchising, Inc. purchased the plaintiff's franchised business for \$160,000 and the parties released all claims. The plaintiff's complaint has been dismissed with prejudice. Wildwood Franchising, Inc. has subsequently resold and franchised the business to an unrelated franchisee.

Jack Pete as trustee of the Australian Cartridge Company – Holden Hill Unit Trust v. Australian Cartridge Company Pty Ltd (ACN 008 291 914) and Cartridge World Pty Ltd (ACN 086 234 826) and John Henry Nominees Pty Ltd (ACN 007975 902), Action No. 99 of 2002, District Court of South Australia, Adelaide, South Australia (Jan. 23, 2002). A complaint was filed against Cartridge World Pty Ltd and the other named defendants by the trustee of a Cartridge World franchisee previously operating in Holden Hill, South Australia. The plaintiff alleged that the defendants committed various misrepresentations and misused the advertising fund. The complaint sought various forms of relief, including a declaration that the franchisee validly terminated the franchise agreement and was not bound by the covenants against competition, an accounting of an advertising fund, and an award of damages in excess of \$115,000 for

breach of contract and violations of various Australian statutes, including the Trade Practices Act and the Fair Trading Act. The defendants filed a counterclaim, alleging various breaches of the franchise agreement, including \$4,000 for non-payment of royalties and ad fees, and seeking other relief. In December 2003, the court found in favor of the defendants on their counterclaim and ordered the plaintiff to pay the defendant's costs in both the action and the counterclaim. The court also struck out the plaintiff's complaint.

Cartridge World Pty Ltd (ACN 086 234 826) (formerly Australian Cartridge Company Pty Ltd (ACN 008 291 914) and John Henry Nominees Pty Ltd (ACN 007975 902) v. Latull Pty Ltd (ACN 008 030 000), Christopher John Biggs and Norma Geraldine Biggs, Action No. 1480 of 2001, District Court of South Australia, Adelaide, South Australia (Sept. 27, 2001). Our predecessor filed suit against a Cartridge World Franchisee in Norwood, South Australia, for non-payment of royalties owed. The franchisee filed a counterclaim against the plaintiff, also naming as defendants Messrs. Wheeler and Stokes and John Henry Nominees Pty Ltd. The franchisee alleged that it had an oral agreement with our predecessor to pay a reduced royalty fee. The franchisee asserted in its counterclaim that misrepresentations and breaches of warranty were committed by various defendants in connection with franchisee's purchase of the Norwood store operations and in the award of the franchise agreement. The counterclaim sought varying forms of relief from different defendants, including among them an order voiding the Business Purchase Agreement under which the franchisee acquired the franchised business, an accounting of an advertising fund, and an award of damages in an unspecified amount for breach of contract and warranty and violations of various Australian statutes, including the Trade Practices Act, the Fair Trading Act, the Franchising Code of Conduct, the Land and Business Act and the Misrepresentations Act.

In June, 2003 the parties entered into a settlement agreement, which involved: (i) a mutual discontinuance (termination) of the parties' respective claims; (ii) the parties agreeing to bear their own costs of and incidental to the action; and (iii) the parties releasing and discharging each other in relation to the claims made without requiring any payment to be made by one to the other in respect of those claims.

Additionally, the Franchisee consented to the formal termination of the Franchise Agreement, and the discharge of any future rights that it might otherwise have had under the Franchise Agreement. Cartridge World Pty Ltd agreed to buy, and the former Franchisee agreed to sell, the business, plant, equipment and stock of the former Franchisee's previously franchised business upon terms negotiated by the parties.

Other than the above 3 actions, and except as to any litigation information that may be related to our brokers (see Exhibit G), no litigation is required to be disclosed in this Offering Circular.

Neither we nor any person listed in Item 2 of the UFOC is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., or suspending or expelling such persons from membership in such association or exchange.

#### **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 or as required to be disclosed in this Item.

#### **5. INITIAL FRANCHISE FEE**

On signing the Master Franchise Agreement, you must pay us an Initial Master Franchise Fee which is expected to range from \$75,000 to \$500,000, depending upon the population, demographics, geographic size of the Territory, and other factors. The Initial Master Franchise Fee may be less for a Territory that is smaller than customary or for a portion of a Territory. We anticipate that Territories generally will be defined by state boundaries, but large states may be divided into several Territories.

This fee is non-refundable. Initial Master Franchise Fees usually are used for operating expenses as part of our general operating fund.

The Initial Master Franchise Fee will not be the same for all franchisees, depending on factors such as (but not only) prior relationship, number of Master Franchises awarded, and other factors. We had 18 Cartridge World Master Franchisees in the United States and 1 in Mexico as of December 31, 2005. The Initial Franchise Fees have ranged from \$175,000 to \$350,000 through 2004 and 2005.

#### 6. OTHER FEES

NAME OF FEE <sup>1</sup>	AMOUNT	DUE DATE	REMARKS
Portion of Unit Initial Franchise Fees	Greater of 50% or \$10,000	Within 5 Days after the earlier of Unit Franchise signing, opening, or date of required opening.	The \$10,000 is subject to adjustment for inflation. Required date of opening is set by your Master Franchise Agreement development standards.
Unit Training Fee	\$6,300 for the classroom portion of the training in Northern California (1 Attendee); \$700 for the classroom portion for additional attendees per Unit Franchise), and \$1,000 for the pre and post training for all attendees per Unit Franchise.	Within 5 days of Unit Franchise signing, unless we authorize a later payment date. Currently, payment is due when Unit Franchisee acquires rights to Store site, which is usually at lease signing.	Subject to reasonable adjustment, based upon training costs and other factors.  If you provide satisfactory pre and post training per Unit Franchise at a location in your territory, we will pay you the \$1,000 fee we receive for pre/post training
Unit Royalty Revenues <sup>2</sup>	Greater of 40% of Royalty Revenue from each Unit, or else 2.4% of Gross Volume and 2.4% Gross Profit from each Unit. <sup>3</sup>	Within 10 days after Royalty period.	Royalty period is currently a month. We may change the Royalty period.

NAME OF FEE <sup>1</sup>	AMOUNT	DUE DATE	REMARKS
Fee Revenues <sup>4</sup>	50% of Unit Fee Revenues	Within 5 Days after signing any Application Agreement and Letter of Intent; Within 5 days after receipt of other fee revenues by you and/or of the applicable due date.	Any application fee refunds paid equally
Product Revenues <sup>5</sup>	50% of Product Revenues	Monthly	Paid within 10 days after calendar month.
Other Revenues	50% of Other Revenues	Monthly	Paid within 10 days after calendar month. Includes revenue received by, or due to, you and your Affiliates relating to Cartridge World business.
Master Marketing Fund Contributions	The greater of .5% of your Initial Master Franchise Fee, or a minimum of \$1,000.	Quarterly. Must be received no later than the first day of the applicable calendar quarter.	Minimum is subject to inflation adjustment. Starts with first full calendar quarter after Effective Date of Master Franchise Agreement. Period may be adjusted. Paid in advance. See Item 11.
Local Advertising and Promotions	\$1,000	Quarterly	Paid to vendors, verified to us upon request. <sup>6</sup> We may encourage you to spend more than the minimum amount for local marketing, but you cannot spend less than this amount.
Internet-Intranet Service Fee <sup>7</sup>	Currently \$100 per month (maximum amount subject to adjustment due to vendor price increases, etc.)	Payable in advance, on a monthly or annual basis (or whatever other basis we select.)	Payable by credit card or auto draft as we select; maximum fee may increase due to vendor price increases and/or inflation adjustment as in franchise agreement. We will notify you of adjustments.
Renewal Master Franchise Fee	20% of our then-current Initial Master Franchise fee, but not less than \$20,000.	When you elect a Renewal franchise.	Minimum is subject to inflation adjustment. We may reduce and/or waive this fee in our sole discretion.

NAME OF FEE <sup>1</sup>	AMOUNT	DUE DATE	REMARKS
Renewal Master Franchise Costs	Amount incurred.	Prior to grant of Renewal Master Franchise.	You pay our related legal and other expenses.
Transfer Fee	\$10,000.	Before transfer of your franchise.	Subject to inflation adjustment. Applies only if 50% control or more changes hands. If the assignment occurs more than 120 days after your Franchise Agreement and is to a Business Entity wholly-owned by you, we can require you to pay an administrative services fee of \$500.
Initial training for more than 1 person;  Initial training for Master Franchisee acquiring existing Masters Franchise; <sup>8</sup>  Possible Fee for Additional Training Programs;	\$ 700 if more than 1 person attends initial training.  If you are acquiring an existing Master franchise you must a pay the then-current initial training fee. (Currently \$6,300 for the classroom portion for a single attendee and \$ 700 for additional attendees of the classroom portion, and \$1,000 for the combined pre and post opening training for all attendees) There is no fixed fee for additional training programs. A reasonable amount may be charged	As Incurred	You're responsible for all travel, living, incidental and other expenses and compensation for you and your personnel attending any training program.
Extra On-Site Consultations (at your request) <sup>9</sup>	Fee of not more than \$500 per day, plus all expenses.	Payable on Demand	Subject to limitations and inflation adjustment.
Interest on Late Payments	Maximum legal interest (not to exceed 1.5% per month).	Payable on Demand	Failure to pay can be grounds for termination. For repeated late payments, we can require cashier's check.



NAME OF FEE <sup>1</sup>	AMOUNT	DUE DATE	REMARKS
Late Report Fees; Costs of Collection	\$25 per late report	Payable as incurred for late or missed payment or funds transfer or report due	We may waive this charge in our sole discretion. Subject to inflation adjustment, but not to exceed legal limits.
Audit Expenses	Amount of understatement of revenues, with interest and late charges, plus costs of audit, if applicable.	Payable on Demand	Audit costs payable if reports not provided or understatement exceeds 2%. If understatement is intentional or exceeds 5%, we can terminate your Master Franchise.
Costs to Manage Your Master Franchised Business in the Event of Death or Disability	Reasonable amount.	At time of occurrence	If we operate the business on your behalf, we can pay ourselves a reasonable amount for such management services.
Management Fee <sup>10</sup>	<u>Only if you get notice of default</u> from us and we appoint manager; \$500 per day management fee, plus expenses.	Deducted from funds of your business.	Daily management fee subject to inflation adjustment. Compensation, other costs, travel and living expenses of appointed manager payable by you.
Supplier Approval Fee	We may require you to pre-pay any reasonable charges connected with our review, testing, and evaluation of any proposal.	Prior to review of product or supplier.	We may reduce and/or waive these fees in our sole discretion.
Grant of Security Interest	You grant us a security interest in assets and proceeds of business. <sup>11</sup>	Granted with Franchise Agreement	You must complete and sign any financing statements and related documents within 10 days of receipt from us.
Convention Support Fee	Determined at time of event, to offset cost of program.	At time of the event.	You must attend the annual convention and any other mandatory meetings unless we excuse you. You are responsible for all other costs of attending.
Facility Services Fee <sup>12</sup>	\$2,500 per Unit Franchise	Within 5 days after receipt by you and/or of the applicable due date.	We are the exclusive supplier for facility services as of this Offering Circular

(1) All fees collected by and/or payable to us are non-refundable, unless otherwise agreed, in writing, and signed by you and us. You must pay all payments due us on time and in full, regardless of the actual amount you collect, or choose to defer, finance, or off-set from Unit Franchisees. We can apply any payments owed by you to any debt of yours that we choose (except for Marketing Fund payments), set off any amounts owed to you against any amount owed by you to us/specified third parties and retain amounts received on your account for debts owed. We may elect to waive and/or credit, reduce or defer payment of any and all fees and charges of any kind in connection with the franchise on a case by case basis as we consider appropriate and as permitted by law. We may choose to collect any or all of these amounts through an electronic funds transfer program under which Unit Franchisees' payments are swept directly to an account of ours. If we do, we will keep the amounts validly owed to us, including any appropriate offsets, and promptly remit the balance to you, if you are in Good Standing. As of the date of this Offering Circular, all franchise (Unit and Master) royalties and other fees are paid by direct account debit credited to a CWNA account. We will attempt to perform these payment collection programs in a commercially reasonable manner, but make no guarantee that any program will be error-free. Nor do we guarantee the collection of any amounts due to you for royalties, fees, Products/Services, or any other amounts. We are not responsible for any Unit Franchisee account delinquencies or payment failures. You are free to decide upon the financial terms of any Unit Franchise Agreement, except that you are not permitted to establish new fees without our prior written authorization and we can specify maximum amounts for Royalties, fees, Products or Services and other amounts to the greatest degree permitted by law.

(2) Payments begin with the Royalty period in which the Master Franchised Business begins operations, pro-rated for opening date.

(3) Gross Volume includes all billings, whether collected or not, with no deduction for credit card or other charges. It excludes all sales or similar taxes and impositions paid to appropriate government authorities.

(4) This includes all fees due from Unit Franchises other than initial franchise fees, for example, application, transfer, renewal, and resale program fees; payments by Transferees; late payment fees, etc.

(5) Applies to any revenues from sale of Products and Services. As of the date of this Offering Circular, master franchisees are not authorized to sell any products or items to unit franchisees. The services they provide are franchise sales and support services as we specify.

(6) We may change the payment period, and pro-rate your payment to adjust to the new period. Refer to Item 11 for information on local advertising requirements.

(7) We have implemented an internet/intranet system to enhance communications by and among us and Franchisees, to help support various system maintenance services, and to permit the efficient/economic delivery of a variety of information. You must participate in any intranet/internet activities and maintain the necessary hardware, software, POS Systems, equipment, High-Speed Internet Service (Cable, DSL) (based on availability) or dial-up modem and other items as required by us to enable you to do so on an ongoing basis at your expense. Amounts may be adjusted to reflect increases in pricing by service providers. Refer to Item 11 of this Offering Circular for additional information regarding use of the Internet for your Business.

(8) This applies to additional attendees at the Master Training Program, mandatory additional or refresher training, required training of supervisory and franchise marketing personnel, optional meetings, or when retraining is required for a renewing Master Franchise or to cure a default on the development standards.

(9) This fee only applies if we are asked to provide extra on-site consultations. We routinely provide 1 personal on-site consultation, at our expense, in connection with the opening of the first Unit Franchise in your Territory. Subsequently, we make one personal on-site consultation, also at our expense, within every 24-month period. These consultations will be made by at least 1 Trained Employee, and will not last more than 3 days unless you we agree otherwise.

(10) If we deliver a notice of default to you pursuant to the Master Franchise Agreement, we may appoint a manager to operate the Master Franchise and Stores until you have cured all defaults. All funds from the operation of the Master Franchise and Stores during this period will be kept in a separate fund and all expenses of the Master Franchise and Stores including compensation, other costs, and travel and living expenses of our appointed manager, will be charged to the fund. If the fund is insufficient to pay the expenses of the Master Franchise and Stores in a reasonable business-like manner, we'll notify you and you must within 5 business days deposit in the fund the amount we require to attain a reasonable balance in the fund. We will still have the right to terminate.

(11) The security interest granted by you is prior to all other security interests in the collateral except for (a) bona fide purchase money security interests and (b) the security interest granted to a third party in connection with your original financing for your Cartridge World Master Franchise or Store(s), if any. In connection with any request for our approval of a security interest, we will make commercially reasonable efforts to accommodate reasonable lender's requirements, including the subordination of our interests to the lender's and/or lessor's, as applicable, in our judgment, bearing in mind the interests of the borrower, lender, ourselves and the System. If an event occurs that allows us to terminate your rights under the Master Franchise Agreement, or any other agreement between you and us, or if we are not assured that all of your (and any Affiliates') obligations will be met, we will have all the rights and remedies of a secured party under the Uniform Commercial Code of the State in which your Master Franchise is located, including the right to possession of the collateral.

(12) We provide your Unit Franchisee with a Store plan template and consult with them in the build out of their facility to provide space plan suggestions, among other advice, and help facilitate compliance with applicable Design Standards by interacting with their architect, contractor, materials suppliers and/or other persons they hire. This Fee is not due and no such services are provided for Unit Franchisees obtaining a renewal franchise agreement or acquiring an existing Cartridge World Store. If you provide satisfactory guidance on build-outs by your Unit Franchisees which comply with Cartridge World Store standards and specifications, we will pay to you up to \$1500 of the Facility Services Fee.

Items 5, 7, 8, 9, 11, and 17 of this Offering Circular also provide information about costs that you may incur in connection with your Master Franchised Business.

**7. INITIAL INVESTMENT — Certain Estimated Costs (3 Months Only)**

EXPENDITURES <sup>1</sup>	ESTIMATED AMOUNT OR ESTIMATED LOW- HIGH RANGE	WHEN PAYABLE	METHOD OF PAYMENT	TO WHOM PAID
Initial Master Franchise Fee <sup>2</sup>	\$75,000 – \$500,000	On signing Franchise Agreement	Lump sum	Us
Real Estate (Rent and Security Deposit)	\$0 – \$6,000 <sup>3</sup> (Base rent estimate only)	Usually on signing lease and then monthly	As Agreed	Lessor
Leasehold Improvements, Fixtures <sup>4</sup>	\$0 – \$10,000	As Incurred	As Agreed	Vendors
Office Equipment and Supplies	\$1,500 – \$8,000	As Incurred	As Agreed	Vendors
Insurance <sup>5</sup>	\$1,000 – \$3,000	As Required	As Agreed	Outside Suppliers
Expenses While Training <sup>6</sup>	\$1,500 – \$3,000	As Incurred	As Agreed	Vendors
Professional Fees <sup>7</sup>	\$4,000 – \$10,000	As Incurred	As Agreed	Attorneys, accountants, others
Initial Marketing	\$5,000 – \$20,000	As Incurred	As Agreed	Vendors
Travel Costs	\$1,000 – \$5,000	As Incurred	As Agreed	Vendors
Miscellaneous Opening Costs <sup>8</sup>	\$1,000 – \$5,000	As Incurred	As Agreed	Approved Suppliers, Utilities
Additional Funds 3 months <sup>9</sup>	\$4,000 – \$30,000	As Incurred	As Agreed	Vendors, Suppliers
<b>TOTAL ESTIMATED INITIAL INVESTMENT<sup>10</sup></b>	<b>\$94,000 – \$600,000</b>			

**Notes:**

(1) **Expenditures.** The initial investment table shows certain estimated expenditures required to develop a Cartridge World Master Franchise Territory. This chart does not reflect any costs associated with the establishment of a Traditional Cartridge World Store under a Unit Franchise Agreement. Note that these amounts may vary widely. Amounts payable to us are nonrefundable unless otherwise noted. Amounts payable to suppliers/vendors are refunded according to arrangements you make with the vendor, if any. These figures are estimates of the range of your initial costs in the first 3 months of operation only. Amounts may vary significantly from market to market.  
Cartridge World North America, LLC — Master UFOC — 03.2006

(2) **Initial Franchise Fee.** We do not offer any direct or indirect financing for the initial franchise fee. This fee includes the price of training for you or your Designated Individual. Some jurisdictions (i.e., New Mexico) impose a tax upon Franchise and Royalty Fees, which is subject to change without notice to you. You are responsible for paying any such tax and should consult a tax expert in your area for guidance.

The amount of the Initial Franchise Fee varies depending upon the population, demographics, geographic size of the Territory, and other factors. No Territory will have an Initial Master Franchise Fee of less than \$50,000. We awarded 1 Master Franchise in the United States during the last fiscal year. The Initial Franchise Fees have ranged from \$175,000 to \$350,000 through 2004 and 2005.

(3) **Real Estate.** It is extremely difficult to accurately estimate real estate related costs. Currently, we have a policy of allowing Master Franchisees to establish an office in their own home. We can change this policy. If you elect to find separate office space, real estate costs will vary significantly, depending upon a multitude of factors, including whether the property is purchased or leased, the landlord, the size, type, condition, and location of the property, the local real estate market, general and local economic conditions, and the availability of financing on commercially reasonable terms. The approximate size of a Cartridge World Master Franchise office may be 500 to 1,000 square feet. Although they vary widely, typical minimum rental costs range from \$500 to \$2,000 per month. The estimated range provided is based upon these square footage and cost/foot assumptions. In addition to rent, there are often a variety of additional charges that you may be obligated to pay, including a proportionate share of real estate taxes, utility, heat, air conditioning, security, common area maintenance, and other expenses of the building or structure in which the office is located. None of these costs are reflected in the estimates provided. A security deposit is also generally required by the landlord. The security deposit is usually refundable. Any or all of these costs may be different in your area, and you should research these costs and other lease terms before making any commitments.

(4) **Improvements and Fixtures:** Currently, our policy permits the operation of the Master Franchised Business from their home-based office. Although this policy is subject to change by us, there currently are no office improvements required by us. If you choose to lease an office, it is extremely difficult to accurately estimate real estate related improvement expenses. These improvement expenses will vary significantly, depending upon a multitude of factors, including the landlord, the size, type, condition, and location of the property, the local real estate market, general and local economic conditions.

(5) **Insurance.** You must maintain in force policies of insurance issued by carriers approved by us covering various risks, as specified by us, including the following: (i) comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, your Master Franchised Business and any Master-Owned Stores; (ii) all risk property and casualty insurance for the replacement value of your Master Franchised Business and any Master-Owned Stores and all associated items; and (iii) business interruption insurance providing for continued payment of all amounts due us and/or any Affiliate of ours under this Agreement. You must also secure and pay premiums on a worker's compensation (or similar) policy covering your employees as required by law. We may specify the types and amounts of coverage required under such policies and require different and/or additional kinds of insurance at any time, including excess liability insurance. Each insurance policy must a) name us and our Affiliates as additional named insureds; b) contain a waiver of all subrogation rights against us, our Affiliates and any Successors and assigns; c) and provide thirty (30) days' prior written notice to us of any material modifications, cancellation, or expiration of such policies. Current required insurance levels are given below:

<u>Type of Insurance</u>	<u>Limits and Other Details</u>
Commercial General Liability	\$1,000,000 General Aggregate \$1,000,000 Products Aggregate \$1,000,000 Each Occurrence \$1,000,000 Personal Injury/Advertising Injury \$1,000 Medical Payments
Business Interruption Insurance	\$100,000. Must provide continued payment of amounts due (or to become due) us, any applicable Related Company and/or any affiliate under the Franchise Agreement.
Fire Damage	\$50,000
All Risk Property and Casualty	Must cover the replacement value of the business operations and all associated items (e.g., inventory, signs, equipment, etc.)
Worker's Compensation	Statutory \$1,000,000 Employer's Liability

(6) **Training Expenses.** The Initial Master Franchise Fee covers the training program tuition, travel and accommodations for 1 person attending training at our training center in Emeryville, California. If more than one person attends initial training, you are responsible for travel and accommodation costs for the second person. Currently, the training fee for an additional attendee is Seven Hundred Dollars (\$700). In all cases, you are responsible for all other costs associated with attendance at initial training, such as wages, meals, incidentals and living expenses. The amount you expend will depend on several factors, including your number of attendees, the distance you must travel, and the type of accommodations you choose, among others.

(7) **Professional Expenses.** The advertising, offering, and selling of unit franchises are subject to federal regulation by the FTC. Additionally, some states closely regulate franchising and require that offers be registered before franchise sales can begin, and on an ongoing basis. You will be responsible for complying with all state and federal franchise laws and regulations, including those related to financial statements and independent audits. You should consult with your attorney and accountant and local, state and federal government agencies before buying your Cartridge World Master Franchise to determine all legal requirements that you must comply with, their effects on you, and the ongoing costs of compliance.

(8) **Miscellaneous Opening Costs.** Includes security deposits, utility costs, costs associated with obtaining business licenses and permits.

(9) **Additional Funds.** Additional Funds is an estimate of certain funds needed to cover your business (not personal) expenses during the first 3 months of operation of your business. You will need capital to support on-going costs of your business, such as payroll, utilities, taxes, loan payments and other expenses, to the extent that revenues do not cover business costs. New businesses (franchised or not) often have larger expenses than revenues. This is only an estimate, and we do not guarantee that the amounts specified will be adequate. You may need additional funds during the first 3 months of initial

operation or afterwards. Additionally, modifications to the Cartridge World System and practices at times may require additional and as yet undetermined expenditures. We do not furnish or authorize our salespersons or any other persons or entities to furnish estimates as to the capital or other reserve funds necessary to reach "break-even" or any other financial position, nor should you rely on any such estimates. The 3 month period from beginning business covers the time by which most Master Franchisees are fully in operation but does not necessarily mean that you will have reached "break-even", "positive cash flow", or any other financial position. In addition, the estimates presented relate only to costs associated with the franchised business and do not cover any personal, "living," unrelated business or other expenses you may have, such as fees due to us, referral fees to Unit Franchisees, Master Marketing Fund contributions and other marketing/advertising expenses, debt service on any loans, state sales, and/or use taxes on goods and services, salesperson draws and commissions, and a variety of other amounts not described above. Although we make no estimates or representations regarding financial performance of a Cartridge World Master Franchise, we recommend that, in addition to the additional funds shown, you have sufficient personal savings and/or income so that you will be self-sufficient and need not draw funds from your franchised Cartridge World Master Franchise for at least 3 months after start-up.

(10) **Total Estimated Initial Investment.** All of the above figures are estimates of certain initial start up expenses. It is not all inclusive as noted in footnote 9, above, and we cannot guarantee you will not have additional expenses in starting your Cartridge World Master Franchised Business. Your costs will vary depending on such factors as: how much you follow Cartridge World Master Franchise Systems and procedures; your management and marketing skill, experience and general business ability; local and general economic conditions; the local market for Cartridge World Master Franchises; levels of competition; prevailing wage rates, and the sales levels reached by you during the initial period.

Miscellaneous costs to begin operations and other financial requirements may be more or less than the figures specified above, as a function of the size of business (number of staff, anticipated volume of business, etc.), the area in which you intend to operate and other factors, as mentioned above. Many of these factors are primarily under your control in your independent operation of the business. We have made no provision for capital or other reserve funds necessary for you to reach "break-even" or any other financial position nor do any of these estimates include any finance charges, interest or debt service obligations. You should not assume that revenues from your franchisees will necessarily cover your initial (or other) expenses, particularly since once a franchise agreement is signed, it can take a Cartridge World Store up to 6 months to open for business, and some take longer. You should review these figures carefully with a business advisor (such as an accountant and an attorney) before making any decision to purchase the franchise. In preparing the figures in this chart, we relied on our 3 years of industry experience. These figures are estimates, and we cannot guarantee that you will not have additional expenses.

## **8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You must use in the development and operation of the Master Franchise and any Unit Franchises in your Territory those fixtures, items of equipment, including cash registers, computer systems and software, storefront, supplies and signs that we have approved as meeting our specifications and standards.

Your Cartridge World Master Franchise and the Unit Franchises in your Territory will purchase, use and offer such Designated Equipment, Products and Services, as are specified by us. We can designate a single or multiple suppliers for any given item or service and can concentrate purchases with

one or more suppliers. Suppliers may include, and may be limited to, us and/or companies affiliated with us. We can approve, or revoke or deny approval, of particular items or suppliers, as we consider appropriate. You can request the approval of an item, service or supplier by notifying us in writing submitting such information and/or materials we may request. We may require you to pre-pay any reasonable charges connected with our review and evaluation of any proposal. We'll notify you of our decision in 30 to 60 days. You are not authorized to designate or approve any suppliers of any products or services in your Territory, including you, unless we expressly consent to the same in advance and in writing.

We may delete, substitute, modify or add to the Products, Services, suppliers, and may select a supplier on the basis of whatever requirements we find appropriate. Requirements may relate to frequency of delivery, product life and quality; standards of service; as well as payments, contributions or other consideration being paid to us, or our Affiliates, or other criteria.

A Unit Franchisee must purchase certain equipment and initial inventory from us. The Unit Franchisee's POS system, vacuum filling machine, freight charges, and opening inventory are included in the Initial Opening Inventory and Equipment Package, which is \$36,000, as of the date of this Offering Circular (\$37,000, if paid by credit card). The Unit Franchisee is required to obtain the Store POS system as part of its opening package from us to ensure that franchisees use a common transaction/reporting system in their Store operations. The Unit Franchisee must also obtain the vacuum filling machine and related equipment from us. We also are the only designated supplier of inks, ink cartridges and related printer consumables to help ensure that these branded products are of a uniform, high quality and are uniformly available in all Traditional Cartridge World Stores, and warehouse these products near our headquarters. Consistent, high quality is critical to our ability to offer and maintain the customer refund policy described below in this Item. We also currently are the designated supplier for training services and programs; and construction assistance and facility design and construction management services. (Refer to Item 6 of this Offering Circular for information on training and facility services fees). In the 2005 fiscal year, our revenue from sales of all these products to Cartridge World Stores was \$9,225,000 or 59% of our total revenue of \$15,691,000 from all sources.

Inclusive of the Initial Master Franchise Fee, we estimate that approved suppliers will provide you with between 70% and 90% of your total costs in connection with the establishment of your Master Franchise. We anticipate that approved suppliers will provide less than 15% of total ongoing operating costs.

You must operate your Cartridge World Master Franchise in full compliance with the then-current Cartridge World System and applicable Manuals. You must promptly comply at your expense with all then current requirements, standards and operating procedures relating to every aspect of a Cartridge World Master Franchise and its operations (including use of Designated Equipment, Products and Services, computer hardware and software; signs, logos, designs, advertising and marketing materials, and forms; website designs and formats). Under the Master Franchise Agreement, you have to undertake all changes that we require. You must ensure that your Unit Franchises conform to Cartridge World System standards and comply with changes to these standards.

Additionally, you are required to participate in our franchise marketing programs, such as our franchise referral programs. We currently have two referral programs. Under our franchisee referral program, participating franchisees are paid a \$2,000 referral fee for leads to qualified candidates who acquire a franchise, subject to program criteria. You and we split the cost of this fee. Under the current form of Unit Franchise Agreement, Unit Franchisees that want to sell their business must pay a referral



fee of 10% of their Store purchase price, if your or we direct a buyer to them, subject to certain criteria/qualifications. If a referred prospect buys the selling franchisee's Franchised Business the seller will pay the referral fee. You and we share these fees on an equal basis. Referral programs are subject to change and/or elimination at any time.

It is our policy (though we reserve the right to change it) to guarantee all refilled cartridges. You and the Unit Franchisees in your Territory will uphold this guarantee. When a customer has a problem with a refilled cartridge, it will be repaired or the customer will receive a refund for the amount of ink or toner used. If our product causes damage to a printer, and the customer provides a written, detailed report from a technician showing that this is so, the franchisee must pay the cost of repairs. You will ensure that this policy is upheld by Unit Franchisees in your Territory.

We do not provide you with any material benefit (such as successor or additional franchises) if you use our recommended or approved suppliers. However, the continuation of the franchise agreement depends on your compliance with product and supplier requirements. We may, but are not obligated to, negotiate certain purchasing arrangements, including price terms, for the benefit of the franchise system.

### **Purchasing or Distribution Cooperatives**

There currently are no formal purchasing or distribution cooperatives in the United States. If one is formed, we can require that you and your unit franchisees make your purchases through a Cartridge World cooperative.

## **9. FRANCHISEE'S OBLIGATIONS**

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE MASTER FRANCHISE 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 MASTER FRANCHISE AGREEMENT (MFA)	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition/lease	9.01, Exhibits A and F of MFA	Items 7 and 11
b. Pre-opening purchases/leases	none	Items 7, 8 and 11
c. Site development and other pre-opening requirements	none	Items 7 and 11
d. Initial and ongoing training	7.01-7.03, 8.01, 9.01-9.02, 13.03, Exhibit F of MFA	Items 6 and 11
e. Opening	none	Items 6, 7 and 11
f. Fees	4.01-4.07, 4.09-4.10, 6.02, 7.01-7.03, 8.01, 10.01-10.4, 13.03, 15.08, 17.03, 19.01, 19.03	Items 5, 6, 7 and 17
g. Compliance with standards and policies/Operations Manual	1.01, 3.01, 3.04, 6.01, 6.03, 9.01-9.04, 13.03, 15.01-15.02, 17.03, 22.08, Exhibit F of MFA	Items 8 and 11
h. Trademarks and proprietary information	3.01-3.02, 11.01, 14.01, 15.01, 15.11, 15.13, 17.04, 22.06, 22.06, Exhibit D	Items 13 and 14

OBLIGATION	SECTION IN MASTER FRANCHISE AGREEMENT (MFA)	ITEM IN OFFERING CIRCULAR
i. Restrictions on products/services offered	6.01, 6.03, Exhibit F of MFA	Items 8, 11 and 16
j. Warranty and customer service requirements	6.01	
k. Territorial development and sales quotas	5.01	Item 12
l. On-going product/service purchases	6.01, 6.03, Exhibit F of MFA	Item 8
m. Maintenance, appearance and remodeling requirements	6.03, 9.01	Item 11 and 17
n. Insurance	12.01	Items 7 and 8
o. Advertising	10.01-10.05	Items 6, 7 and 11
p. Indemnification	5.03, 9.01, 10.03, 12.02, 15.08, 15.13, 17.05-17.06, 17.08, 20.01, 22.05, 22.07, 22.15, Exhibit E of MFA	Items 6 and Item 17
q. Owner's participation/management/staffing	1.01, 7.01, 9.01, 13.02, 17.02, 17.04-17.05, Exhibits A and G of MFA	Items 11 and 15
r. Records/reports	9.03, 15.01-15.02	Item 11
s. Inspections/audits	9.03-9.04, 15.01-15.02, Exhibit F of MFA	Item 6
t. Transfer	4.08, 15.01, 15.11, 15.13, 17.01-17.08, 19.01, Exhibits E and G of MFA	Item 17; Exhibit D "Build-out Agreements"
u. Renewal	4.08, 5.01, 13.02-13.03, Exhibit E of MFA	Item 17
v. Post-termination obligations	14.01, 15.01, 15.10-15.14, 19.01, 22.01-22.17, 23.01, Exhibit B of MFA	Item 17
w. Non-competition covenants	15.13, 17.04, 19.01, 22.06	Item 17
x. Dispute resolution <sup>(1)</sup>	22.01-22.17	Item 17
y. Franchisor Management at Franchisee default	15.08	Items 6 and 17
z. Our Right to Purchase Franchise Assets	5.03, 17.08	17
AA. Security Interests	16.01	6
BB. Personal Guarantee	1.01, 17.03, 17.04, Exhibit G of MFA	Items 15 and 17
CC. Franchisee Associations	6.02, 10.05	Item 11

(1) The Franchise Agreement contains a mandatory arbitration clause governing nearly all disputes between you and us, as well as other clauses covering dispute resolution and which may affect your rights. You should read Articles 22 and 23 of the Franchise Agreement and you may want to consult an attorney regarding the effect of these provisions. You and we agree that the Federal Arbitration Act governs the Franchise Agreement.

## 10. **FINANCING**

We do not offer direct or indirect financing. We do not guarantee your note, lease or obligation. As of the date of this Offering Circular, we do not sell, assign or discount to a third party all or part of any Cartridge World North America, LLC — Master UFOC — 03.2006

financing arrangement, because we provide no financing. However, we reserve the right to do so in the future.

We have been a member of the SBA Franchise Registry since July 18, 2003. This affiliation may assist you with obtaining expedited loan processing if you should decide to obtain SBA financing.

## **11. FRANCHISOR'S OBLIGATIONS**

Except as listed below, we need not provide any assistance to you.

### **Our Pre-Opening Obligations to Cartridge World Master Franchisees**

Before you begin operation of your Master Franchised Business, we will:

- 1) Identify your territory with you. (Master Franchise Agreement, Section 3.01 and MFA Exhibit A)
- 2) Provide you or your Designated Individual with initial training in our Master Training Program. (Master Franchise Agreement, Section 7.01)
- 3) We will consider premises proposed by you, and any applicable leases, and grant, condition or withhold our approval of them as appropriate. (Master Franchise Agreement, Section 2.01 and 9.01)

### **Our Obligations During the Operation of Your Cartridge World Master Franchise**

During the operation of your Master Franchised Business, we will:

- 1) Provide you with a copy of the Manuals and other Confidential Information. (Master Franchise Agreement, Section 2.01, and 14.01) A copy of the Table of Contents of our Manual for operation of a Unit Franchise appears as Exhibit E to this Offering Circular. There is no separate operations manual for Master Franchisees as of the date of this Offering Circular. You will be required to comply with the provisions of any such manual if a manual exclusively relating to master franchise operations is introduced by us.
- 2) License to you the use of our Marks and System within your Territory to operate a Master Franchise. (Master Franchise Agreement, Section 3.01)
- 3) License you to enter Unit Franchise Agreements as a subfranchisor of Traditional Cartridge World Stores. (Master Franchise Agreement, Section 3.01)
- 4) Provide you with the current form of our Unit Franchise Agreement and related documents for use in awarding Unit Franchises. (Master Franchise Agreement, Section 3.01 and MFA Exhibit H)
- 5) Review for our approval any marketing and advertising materials, offering circulars, and agreements or documents you may use in your Unit award process. (Master Franchise Agreement, Section 3.01)

- 6) Conduct annual, mandatory meetings. (Master Franchise Agreement, Section 4.06)
- 7) Identify to you our approved suppliers, and (while you are in Good Standing) allow you to purchase Designated Equipment, Products, and Services for which we or our Affiliates are the sole approved source. (Master Franchise Agreement, Section 6.01)
- 8) Set and inform you of current standards for the Cartridge World System. (Master Franchise Agreement, Section 6.03)
- 9) Provide additional training, as we consider appropriate. (Master Franchise Agreement, Section 7.02)
- 10) Make one personal on-site consultation, at our expense, in connection with the opening of the first Unit Franchise in your Territory, and to assist you with implementing the System in your Territory. This consultation will be made by at least one Trained Employee, and will not last more than 3 days unless you and we agree otherwise. (Master Franchise Agreement, Section 8.01) (Not applicable if you are acquiring an existing Master Franchise.)
- 11) Make one personal on-site consultation, at our expense, within every 24 month period after our initial consultation. These consultations will be made by at least one Trained Employee, and will not last more than 3 days unless you and we agree otherwise. (Master Franchise Agreement, Section 8.01) (Not applicable if you are acquiring an existing Master Franchise.)
- 12) Provide, with one month's notice and at your expense, additional on-site consultations, lasting not less than 2 days. (May be limited by us to one visit per year). (Master Franchise Agreement, Section 8.01)
- 13) Make a Trained Employee available to communicate with you by phone, email, or other electronic means. (Master Franchise Agreement, Section 8.01)
- 14) Provide you with technical information and training materials for your Unit Franchisees. We maintain a website to convey forms, newsletters, technical instructions and improvements. (Master Franchise Agreement, Section 9.02)

#### **Computer Hardware and Software**

You must purchase, use, maintain and update at your expense the software, computer and other systems meeting our specifications, as we may modify them. There is no limitation on the cost and frequency of this obligation. If we require, you must maintain your systems on-line to allow us access to system data and information. You must comply with our then-current Terms of Use and Privacy Policies and any other requirements regarding all computer and other systems, including Internet usage. You are responsible for all supplier or and/or licensor charges for use, maintenance, support and/or updates of and to the required systems.

Presently, we require each Cartridge World Master Franchisee to have a PC or laptop with the following minimum standards:

Windows XP Professional  
Pentium IV processor

256 MB Memory  
Internet Access  
CD-ROM Drive  
Microsoft Word and Excel software

You will use this computer for general office and administrative functions and for Internet access. You must use Microsoft Office software, which is the proprietary property of Microsoft. Microsoft's principal business address and telephone number are One Microsoft Way, Redmond, WA 98052-6399, (425) 882-8080. Microsoft does not have any contractual obligation to provide ongoing maintenance, repairs, upgrades or updates. You may acquire this computer from any supplier of your choice.

### **Advertising — General**

Your advertising will be in good taste and conform to ethical and legal standards, including all applicable Franchise laws regarding content, disclosure, filing and other requirements. We may require that samples of all advertising and promotional materials for any media, including the Internet, be submitted to us for our review and approval prior to use. You will not use any materials or programs disapproved by us. You cannot establish and/or maintain, without our prior written consent, any independent website, domain name, e-mail address or other presence for use in your Master Franchised Business, and you may not use the CARTRIDGE WORLD name or marks with any of the foregoing. You are responsible for legal compliance and any costs incurred by us in connection with any legal reviews or other compliance costs.

### **Advertising — Master Marketing Fund**

We have established an advertising, publicity and marketing fund (the "Master Marketing Fund") to promote the award of Traditional Cartridge World Store Unit Franchises in the United States and the Brand. You'll contribute to the Master Marketing Fund each calendar quarter the greater of .5% of the Initial Master Franchise Fee actually paid by you to us or a minimum Master Marketing Fund Contribution of \$1,000, subject to inflation adjustment. This fee is owed for each Master Franchise and/or Master Franchise Territory granted to you by us, and is payable in advance commencing with the first full calendar quarter following the Effective Date of the Agreement. We may adjust the payment period if we choose (with corresponding payment amount adjustments made on a pro rated basis).

During the fiscal year ended December 31, 2005, expenditures from the Fund are categorized as follows:

Media – 98%  
Advertising Creative: 2%

Fund expenditures represented approximately 90% of Fund contributions collected in the fiscal year ending 12/31/05. The remaining contributions are carried forward for future Fund activity.

You must participate in all Master Marketing Fund programs. You have the right to set your own prices, except that we may specify maximum prices for fees, payments, goods or services to the greatest degree permitted by law. You will fully honor all coupons, price reduction and other promotions/programs as we direct. We can choose to furnish you with marketing, advertising and promotional materials; however, we may also require that you pay the cost of producing, shipping and handling for the materials.

We have sole discretion over all matters relating to the Master Marketing Fund, including operational, marketing, or any other matter (consistent with its purposes and the provisions of the Master Franchise Agreement). The Master Marketing Fund may be used for (among other things) product development; signage; creation, production and distribution of marketing, advertising, public relations and other materials in any medium, including the internet; administration expenses; web site development and maintenance; brand/image campaigns; media; national, regional and other marketing programs; activities to promote current and/or future Franchise awards and the Brand; agency and consulting services; research, any reasonable expenses approved by us and associated with any Master Franchise advisory groups formed by us. A brief statement regarding the availability of Products and Services at Traditional Cartridge World Store locations may be included in advertising and other items produced using the Master Marketing Fund.

We and any Franchisor Related Persons/Entities can provide goods, services, materials, etc. (including administrative services and "in-house advertising agency" services). We can be reimbursed for this from the Marketing Fund. The Marketing Fund can compensate us for this. Any compensation must be reasonable in amount. We can arrange for goods, services, materials, etc. (including administrative services) to be provided by independent persons or companies and all related costs, fees, etc. will be paid by the Master Marketing Fund.

The Master Marketing Fund will be accounted for separately and may be used to pay all administrative and other costs of the Master Marketing Fund related to its activities and purposes or as authorized by the relevant Master Franchise Agreements. All taxes of any kind incurred in connection with or related to the Master Marketing Fund, its activities, contributions to the Master Marketing Fund or any other Fund aspect, whether imposed on us, the Master Marketing Fund or any other related party, will be the sole responsibility of the Master Marketing Fund. We will prepare Financial statements for the Master Marketing Fund annually, which will be furnished to you upon written request. We can choose to have statements audited and for any related accounting/auditing costs to be paid by the Marketing Fund. Funds in the Master Marketing Fund must be expended, prior to termination of the Master Marketing Fund, only for the purposes authorized by the relevant Franchise Agreement(s). No profit, gain or other benefit will directly accrue to us from the Master Marketing Fund. All interest earned on monies contributed to, or held in, the Master Marketing Fund will be remitted to the Master Marketing Fund and will be subject to the restrictions of the relevant Franchise Agreement(s).

Financial management of the Master Marketing Fund will be our sole responsibility. We may, if we choose:

- 1) compensate ourselves or any Franchisor Related Person/Entity for salaries, administrative costs, overhead and other expenses incurred in Master Marketing Fund related programs or activities, including, for example, production, research, insurance, and collection expenses, as well as any legal expense related to the activities and purposes of the Master Marketing Fund (consistent with the provisions of the Master Franchise Agreement);

- 2) charge the Master Marketing Fund for attorney's fees and other costs related in any way to claims against us or any of the Franchisor-Related Persons/Entities regarding the Master Marketing Fund. However, we shall be required to reimburse the Master Marketing Fund for any attorneys' fees and/or costs paid by the Master Marketing Fund in connection with any action in which we are finally found to have acted unlawfully or to be guilty of wrongdoing with respect to the Master Marketing Fund;