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**EQ3 FRANCHISE HOLDINGS, INC.
EQ3 STORES**

**INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY
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

Issued: March 30, 2006

FRANCHISE OFFERING CIRCULAR



EQ3 Franchise Holdings, Inc.
a Delaware corporation
220 South Elm Street
High Point, NC 27260
(336) 882-7244
www.eq3.com

The franchisee will own and operate an EQ3 Store selling EQ3™ furniture products and accessories and approved non-EQ3 products.

The initial franchise fee is \$25,000. Certain existing EQ3 Store dealers will be offered the opportunity to become a franchisee with no payment of an initial franchise fee. You must also purchase an opening inventory of EQ3™ Products at a cost of approximately \$120,000 to \$150,000. In addition, you will have to pay us for implementation services to get your EQ3 Store developed and open ranging from \$7 to \$11 per square foot, depending upon the size, complexity and condition of your store and local labor rates, estimated at between \$35,000 to \$100,000 for stores between 5,000 and 10,000 square feet. You will also have to buy your required hardware and Point of Sales software from us at a cost of \$25,000 to \$35,000. The estimated initial investment ranges from \$380,700 to \$636,000. In addition, you must have a minimum capitalization of \$150,000.

RISK FACTORS:

1. THE FRANCHISE AGREEMENT AND THE PRODUCT SUPPLY AGREEMENT REQUIRE THAT DISPUTES (WITH LIMITED EXCEPTIONS) BE RESOLVED FIRST BY NON-BINDING MEDIATION, AND IF THAT PROCESS DOES NOT RESULT IN RESOLUTION, BY LITIGATION. MEDIATION MUST BE HELD IN NORTH CAROLINA. EQ3 FRANCHISE HOLDINGS, INC. IS ALSO PERMITTED TO SUE THE FRANCHISEE IN NORTH CAROLINA UNDER THOSE AGREEMENTS AND THE SECURITY AGREEMENT, AND TO SUE THE PRINCIPALS UNDER THE GUARANTY IN NORTH CAROLINA. OUT OF STATE MEDIATION OR LITIGATION MAY FORCE OR YOUR PRINCIPALS YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO MEDIATE WITH, OR TO BE SUED BY EQ3 FRANCHISE HOLDINGS, INC. IN NORTH CAROLINA THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT STATES THAT NORTH CAROLINA LAW GOVERNS THE AGREEMENT AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS THE LAW OF YOUR STATE. YOU MAY WANT TO COMPARE THESE LAWS.

3. THE UNITED STATES PATENT AND TRADEMARK OFFICE HAS NOT REGISTERED THE TRADEMARK. AN ADVERSE DETERMINATION BY THE UNITED STATES PATENT AND TRADEMARK OFFICE MAY RESULT IN YOUR DISCONTINUANCE OF THE USE OF THE TRADEMARK AND CHANGES IN SIGNAGE AND OTHER ITEMS BEARING THE TRADEMARK.
4. THE FRANCHISOR HAS BEEN IN EXISTENCE FOR A SHORT PERIOD OF TIME (SINCE OCTOBER 2003). THEREFORE, THERE IS ONLY A BRIEF OPERATING HISTORY TO ASSIST YOU IN JUDGING WHETHER OR NOT TO MAKE THIS INVESTMENT.
5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing franchisors is available. Call the state administrators listed in **Exhibit A** 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 appropriate State agency listed in **Exhibit A**.

Effective Date: See **Exhibit B** for the state effective dates.

**THE FOLLOWING PROVISIONS APPLY ONLY TO
TRANSACTIONS GOVERNED BY
THE MICHIGAN FRANCHISE INVESTMENT 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 the 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 license 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 franchise 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 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 service.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor 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.

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.

ANY QUESTIONS REGARDING THIS NOTICE SHOULD BE DIRECTED TO THE OFFICE OF THE ATTORNEY GENERAL, CONSUMER PROTECTION DIVISION, ATTN: FRANCHISE SECTION, G. MENNEN WILLIAMS BUILDING, 6TH FLOOR, LANSING, MICHIGAN 48933, (517) 373-71171.