

**Item 1**  
**THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

The franchisor is EQ3 Franchise Holdings, Inc., and will be referred to in this document as "EQ3FH," "we", "us" or "our". "You" is the franchisee or the person or legal entity (includes a corporation, partnership, limited liability company or other entity) buying the franchise. We will require you to establish and maintain a separate limited liability entity, for the sole purpose of establishing, maintaining and operating the EQ3 Franchised Business and all associated business. "You" also includes your direct and indirect, legal and beneficial owners. We call them "principals". We may also refer to our or your "Related Parties." This term means each person, association or entity who, or that, directly or indirectly or by or through one or more intermediaries controls, is controlled by or is under common control with us or you.

EQ3FH is a Delaware corporation that was incorporated on October 14, 2003. EQ3FH does business only under the name EQ3 Franchise Holdings, Inc. or under the trademark EQ3™. Our principal business address in the United States is 220 South Elm Street, High Point, North Carolina 27260. Our international home office is 55 Furniture Park, Winnipeg, Manitoba R26 1B9 Canada. Our international office is shared with all companies under common ownership with us. Our agents for service of process are disclosed in **Exhibit C**.

**Our Predecessors and Affiliates**

We do not have any predecessors.

We are a wholly owned subsidiary of EQ3 Holdings, Inc. ("Holdings-US"), which is a Delaware corporation incorporated on October 14, 2003. Holdings-US's principal place of business is also 220 South Elm Street, High Point, North Carolina 27260.

The EQ3 Store concept was created and initially developed by Palliser Furniture, Ltd., a Canadian corporation ("PFL"), located at 55 Furniture Park, Winnipeg, Manitoba R26 1B9 Canada. PFL is the parent of Palliser Furniture Corporation, a North Dakota corporation ("PFC"). PFC maintains its principal place of business at 192 Murdock Road, Troutman, North Carolina 28166. PFC is the parent company of Holdings-US.

PFL licensed its EQ3™ trademark and the EQ3™ merchandising concept in the United States to Holdings-US, which in turn has sublicensed the trademark and merchandising concept to us for purposes of operating a franchise system (the "EQ3 Franchise System") in the United States.

EQ3 Stores are also currently being franchised in Canada. The Canadian franchise system is being operated by our affiliate EQ3 Franchise Holdings, Ltd. ("EQ3CAN"), located at 55 Furniture Park, Winnipeg, Manitoba R26 1B9 Canada. EQ3CAN is a Canadian corporation under common ownership with us that has been licensed by its parent corporation, EQ3 Holdings, Ltd. ("Holdings-Can") to franchise EQ3 Stores in Canada. (See Item 13.) PFL is the parent company of Holdings-Can. Except for EQ3CAN, none of our other Related Parties have offered or sold franchises in this or any other line of business.

## **Our Business**

Our sole business is the franchising of rights for the operation of EQ3 Stores in which EQ3 Products and other approved products will be offered for retail sale by our franchisees. We began offering franchises in August 2004. No other franchising has ever been conducted by us. We do not operate businesses of the type being franchised to you. We have previously provided consulting services to some EQ3 dealers set up by PFL. (See "Prior Business Experience" below.) It is possible that Holdings-US or one of its Related Parties may operate retail stores in the United States under the EQ3 trademark. We do not engage in other business activities and have never offered franchises in any other line of business.

## **The Franchises We Offer**

PFL developed and owns the rights to the retail furniture concept known as the EQ3 Store Program which is designed to enable the establishment and operation of an EQ3 Store for retail sale of specified furniture products to the general public under the EQ3™ trademark. PFL licensed to Holdings-US and we have acquired the right from Holdings-US to use the EQ3 Store Program to develop, establish, operate and service EQ3 Stores under the EQ3™ trademark, and to offer franchises to others.

The EQ3 Store Program includes trademarks, advertising, publicity, training programs, and other policies, procedures, techniques and requirements described in the Franchise Agreement or the EQ3 Operations Manual. The EQ3 Store Program may be modified at our discretion and franchisees must comply with the EQ3 Store Program as it exists.

Franchisees will get a license to operate one Franchised Business using the EQ3 Store Program and the Trademark within a defined territory at approved premises.

We will be the supplier of EQ3 Products to our franchisees. We or our Related Parties will also supply you with other goods you may purchase for your operation of the EQ3 store (the "Related Products"). In doing so, we will initially rely upon the supply experience of PFC and PFL. Both of those companies have a lengthy history of supplying furniture to retailers, including the supply of EQ3 Products to numerous non-franchise retailers or distributors in the United States and Canada. PFL and PFC intend to continue supplying EQ3 Products to retailers and distributors authorized to distribute EQ3 Products outside of the EQ3 Franchise System ("EQ3 Distributors"). PFL has established EQ3 "In-Store Galleries" for EQ3 Products with some EQ3 Distributors, consisting of floor space in a retail furniture store, department store or multi-line retailer dedicated to EQ3 Products. Your rights and PFL's obligations regarding EQ3 In-Store Galleries are discussed in Items 12 and 13.

## **Franchises Offered by Our Affiliate**

EQ3CAN commenced offering franchises for EQ3FH Stores in Canada in October, 2003. As of the date of this Offering Circular, there are 2 stores being operated as franchises in Canada. There are also 2 stores being operated as EQ3 Stores under supply agreements or unwritten arrangements with PFL, some of which may be offered the opportunity to convert to the franchise program.

## **Prior Business Experience**

PFL has been in the business of manufacturing furniture and related items for over 60 years. In addition to the EQ3 Products discussed in this Offering Circular, PFL has and will continue to manufacture furniture and related items under its mark "Palliser" and other brands in various channels of distribution within and outside your Territory.

The EQ3 Store Program was first developed by PFL. It was the original intention of PFL to have dedicated dealer relationships throughout Canada and the United States. The first EQ3 Store in the United States pursuant to an arrangement with PFL opened in December, 2002 in Grand Rapids, Michigan. There is no written agreement with PFL defining the status of that store, but it has been in continuous operation as a dealer of EQ3 Products under the EQ3™ trademark since its opening. The second U.S. EQ3 Store opened in the San Francisco area in June 2003 as a dealer of EQ3 Products under a Product Supply Agreement between the owners of the store and PFL. The third EQ3 Store in the U.S. opened in October 2003 in New York City, the fourth U.S. EQ3 Store opened in October 2003 in Torrance, California, the fifth U.S. EQ3 Store opened in November 2004 in North Carolina, a sixth U.S. EQ3 Store opened in July 2004 in Virginia, and a seventh store opened in December 2005 in Burbank, California. All of these stores were opened by independent dealers, except the Torrance store which was opened by one of our affiliates. The Torrance store has been managed since July 2005 by the dealer that opened the Burbank store, and the San Francisco dealer opened another store in Emeryville, California. Like the Michigan store, there is no written agreement with PFL defining the status of either the New York City, Torrance, North Carolina, Virginia or Burbank stores. We provided consulting services to some of these EQ3 Stores after we were organized. However, PFL originally intended that the New York, North Carolina and Virginia area stores would operate in a manner similar to the San Francisco and Michigan stores. The New York City store converted to an In-Store Gallery in June 2004. We have offered some of these existing EQ3 Store dealers an opportunity to become a franchisee without the payment of an initial franchise fee.

EQ3 Retail Holdings, Ltd., a Canadian company under common ownership with us, has been operating a corporate store in Winnipeg, Manitoba, Canada since November, 2001. EQ3 Retail Holdings, Ltd. opened other corporate stores in Yaletown, British Columbia in May, 2004, in Polo Park, Winnipeg, Manitoba in January 2005, and in Calgary, Alberta in April 2005. The Yaletown store is now being managed by another party. These are the only furniture stores operated by any of our related companies. EQ3 Retail Holdings, Ltd. may open additional EQ3 Stores in Canada in the future, and plans to open a store in Calgary, Alberta within the next several months. Also, it is possible that one of our related companies may in the future operate one or more corporate EQ3 Stores in the United States, inside or outside your Territory.

## **General Market/Competition**

The market in North America for contemporary furniture products and accessories like those we offer is developing. Your target age group is the 25-45 age group, with good penetration in the 18-25 and 46+ age groups. Your target market from a price stand point is upper introductory to the mid-price point market. You will face competition from local retailers selling products similar to ours as well as from regional and national contemporary furniture

retailers, in either the introductory or mid-price point market, including Ikea, Plummers, Crate & Barrel, Restoration Hardware and Bo Concepts. You may also face competition from entities that sell competing products via the Internet.

Depending on the location of your EQ3 Store, you may face competition from one or more EQ3 Distributors with In-Store Galleries. In addition, as of the date of this Offering Circular, the dealers' EQ3 Stores discussed above are currently being supplied EQ3 Products by PFL or PFC. You may also face competition from us or from affiliates or third parties who may be selling EQ3 Products through catalog sales or over the Internet.

## **Regulations**

Our franchisees are subject to the following types of regulations in addition to laws applicable to business generally in your state: retailer licensing laws, which vary by state and sometimes by county or municipality, and privacy requirements. You may need other specific types of licenses required by the jurisdictions in which you will operate. Check with your lawyer to learn about specific laws applicable to your business.

## **Agreements You will Execute for the Franchise**

To obtain a franchise, you will first submit to us an Application for Franchise Award (**Exhibit D**). If we allow you to see the EQ3 Operations Manual before you sign a Franchise Agreement, you will have to sign a Confidentiality Agreement (**Exhibit E**). If your Application is approved, you will execute the Franchise Agreement (**Exhibit F**), Appointment of Agent/Power of Attorney (**Schedule J to Exhibit F**), Conditional Assignment of Telephone Number, Telephone Listings and Internet Presence (**Schedule K to Exhibit F**), the Product Supply Agreement (**Exhibit H**), a Security Agreement (**Exhibit I**), and an Entity Profile (**Exhibit J**). If we are willing to grant to you the right to obtain franchises for additional EQ3 Stores in your Territory, you will also execute the Additional Outlets Rider (**Schedule C to Exhibit F**). After you execute the Security Agreement, the Security Agreement authorizes us to file a UCC-1 Financing Statement in the form attached to **Exhibit I**. You will also have to execute the Franchisee Disclosure Questionnaire (**Exhibit K**) and Receipt of Franchise Related Documents (**Exhibit L**). All of your owners, officers, managers, employees and others who have access to our confidential information will have to sign an All Hands Confidentiality Agreement (**Schedule N to Exhibit F**).

## **Principal's Obligations**

If you are an entity, your principals must sign the Guaranty and Indemnification Covenant attached as **Schedule I** to the Franchise Agreement (**Exhibit F**). This Guaranty will also impose confidentiality obligations. All principals must also sign the Principals' Acknowledgement following the signature lines of the Franchise Agreement each agreeing to accept and be bound by their specific rights and duties in the Franchise Agreement.

**Item 2**  
**BUSINESS EXPERIENCE**

Our officers, directors and executives and employees who will have management responsibility regarding the franchises offered to you are described below.

President and Director: Peter Tielmann

Mr. Tielmann has been EQ3FH's President and a Director since its inception in October 2003. In addition to his duties with EQ3FH, Mr. Tielmann has been PFL's Senior Vice President-EQ3 since September 2003, and President of EQ3CAN since its inception in October 2003. He was also PFL's Senior Vice President - Imports from September 2003 to March 2005. Mr. Tielmann joined PFL in January 1999, and was the Director of Corporate Marketing from December 1999 to November 2000 and was Vice President of Marketing and Business Development from November 2000 to September 2003. He works from PFL's offices in Winnipeg, Manitoba, Canada.

Vice President and Director: Arthur DeFehr

Mr. DeFehr has been EQ3FH's Vice President and a Director since its inception in October 2003. In addition to his position with EQ3FH, Mr. DeFehr has served as EQ3CAN's Vice President since its inception in October 2003. Mr. DeFehr has been with PFL since 1967, serving as its President since December 1985, and becoming its Chief Executive Officer (while retaining the Presidency) in February 1996. He works from Winnipeg, Manitoba, Canada.

Secretary/Treasurer and Director: J. Reginald [Reg] Kliewer

Mr. Kliewer has served as EQ3FH's Secretary and Treasurer and a Director since its inception in October 2003. Mr. Kliewer has been EQ3CAN's Secretary and Treasurer since its inception in October 2003 and also has served as PFL's Senior Vice President of Finance since March 2002. Mr. Kliewer joined PFL in May 1991, and was its Vice-President of Finance from that date to March 2002. He works from Winnipeg, Manitoba, Canada.

Director of Corporate Affairs; Manager of Corporate Services for PFL: Diane Dawiskiba

Ms. Dawiskiba has served as Manager of Corporate Services for PFL since October 1999 and in that capacity is responsible for EQ3's franchise program. She also has been Director of Corporate Affairs for EQ3FH and our affiliate, EQ3 Franchise Holdings, Ltd. since October 2003. She works from Winnipeg, Manitoba, Canada.

Controller for PFL: Willie Janzen

Mr. Janzen has been the Controller of the EQ3 division of PFL since September 2003. From September 2002 to August 2003, he was Controller, Sales and Marketing for PFL. From August 2000 to August 2002, he was Controller, Upholstery Group Division of PFL. He works from Winnipeg, Manitoba, Canada.

Sales Manager - EQ3 for PFL: Nathan Dick

Mr. Dick has been the Sales Manager - EQ3 for PFL since April 2003. From October 2002 to April 2003 he was PFL's Merchandising Manager - EQ3. From January 2001 to October 2002, he was PFL's Administrative Manager - EQ3. From March 2000 to January 2001, he was PFL's Market Research Coordinator. From April 1999 to March 2000, he was a Product Analyst for PFL. He works from Winnipeg, Manitoba, Canada.

**Item 3  
LITIGATION**

No litigation is required to be disclosed in this Offering Circular.

**Item 4  
BANKRUPTCY**

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

**Item 5  
INITIAL FRANCHISE FEE**

**Initial Franchise Fee**

Franchisees must pay an initial franchise fee of \$25,000 (the "Initial Franchise Fee") in 2 installments. The first \$5,000 installment of the Initial Franchise Fee is a down payment which must be paid with the submission of your Application for a Franchise Award. If you request it, we will send you an Application approximately 10 business days after your receipt of this Offering Circular. If your Application is approved, you must pay us the balance of the Initial Franchise Fee (\$20,000) when you execute the Franchise Agreement. We may offer some qualified franchisees the opportunity to pay the Initial Franchise Fee in installments. (See Item 10.) If your Application is denied or if you choose not to enter into the Franchise Agreement after providing your down payment and initial document submissions to us, we will return \$3,000 of your down payment, but will retain the other \$2,000 of the down payment to cover our administrative and legal costs.

If you enter into a Franchise Agreement, both you and EQ3FH will have the option to terminate the Franchise Agreement if a suitable site to establish your EQ3 Store is not approved by us within 150 days from the execution of the Franchise Agreement. If the option is exercised and you fully comply with the conditions of termination, we will refund \$10,000 of the Initial Franchise Fee to you, but will retain the other \$15,000 in consideration of the time, effort and expenses incurred by us during our relationship with you.

Except as provided above, the Initial Franchise Fee is not refundable.

We may offer some existing EQ3 Store dealers the opportunity to become franchisees without the payment of an Initial Franchise Fee.

### **Opening Inventory of EQ3 Products**

You must purchase an opening inventory of EQ3™ Products from us. We estimate that the initial order will be for between \$120,000 and \$150,000. (See Item 7.) If you qualify, we will provide you with 30 days credit for your initial order of EQ3™ Products. (See Items 7 and 10.) The payment for the initial order is not refundable.

### **Implementation Services**

You must use our millwork, design, merchandising and on-site training services at your EQ3 Store to develop and open the store ("Implementation Services"). These implementation services are estimated to be between \$7 to \$10 per square foot, depending upon the size, complexity and condition of your store and local labor rates because each job is different, estimated at \$35,000 to 50,000 for a 5,000 square foot store, \$52,500 to \$75,000 for a 7,500 square foot store, and \$70,000 to \$100,000 for a 10,000 square foot store. Implementation services for small stores may be closer to the \$11 per square foot figure, and Implementation Services for merchandising will be significantly less for any additional EQ3 Stores you may open. After we have agreed upon an acceptable location for the EQ3 Store in the Territory, we will prepare a quotation for Implementation Services for the location listing the required goods and services and estimated costs and deliver it to you. We have the discretion to request prepayment by you of the Implementation Services. Otherwise, invoices for certain goods included in the Implementation Services will be sent on shipment and payable 30 days after the date of invoice. We will invoice you for the rest of the Implementation Services upon completion, also payable 30 days after the date of invoice. The payment for Implement Services is not refundable.

### **Computer Hardware and Point of Sales System**

We will also provide you with our required hardware and version of Point of Sales ("POS") software and will arrange for installation of the POS software and hardware network at your cost and payable on your receipt of our invoice (See Items 7, 8 and 11), the cost of which will be \$25,000 to \$35,000, and you must pay the first month's Technical Support Fee, which is \$200 or greater. (See Item 6.) These payments are not refundable.

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**Item 6  
OTHER FEES**

<u>Name of Fee</u> <sup>(1)</sup>	<u>Amount or Formula</u>	<u>Due Date</u>	<u>Remarks</u>
Royalty Fee	You have the choice of paying either 3% of the monthly Gross Revenues <sup>(2)</sup> of your EQ3 Store, or a fixed amount per calendar quarter depending on whether this is your first store (\$5,000), second store (\$2,500), or a third or subsequent store (\$1,250).	Payable monthly by the 15th day of the following month if you elect monthly royalties, or by the 15 day of the first month following the calendar quarter if you elect quarter payments.	Monthly records required by the Franchise Agreement must be submitted with payment. (See Item 9.)
Annual License Fee for Software	\$4,800 per year (payable monthly)	Payable monthly by the due date set by the software vendor	(See Items 5, 7, 8, 9 and 11.)
Technical Support Fee for Software	\$2,400 minimum per franchise per year plus applicable taxes. <sup>(3)</sup>	Payable monthly by the 15 <sup>th</sup> day of each month.	(See Items 5, 8, 9 and 11.)
Ad Fund Fee	Up to 1% of your annual Gross Revenues. <sup>(2)</sup>	Payable quarterly within 30 days of end of quarter.	When Advertising Fund is instituted. See Item 11 for a description of the use of this fee.
Additional Advertising Expenditures <sup>(4)</sup>	Total of 6% of your annual Gross Revenues. <sup>(2)</sup>	(Note 4)	No later than the 15th day of each quarter, you must provide us with copies of all advertisements and an accounting of all monies expended during the previous quarter.
Ongoing Product Purchases of EQ3 Products and Related Products	Our wholesale price for franchisees CIF on receipt of orders, less applicable discounts and incentives. We estimate that the average EQ3 Store will purchase about \$80,000 of these products per month.	Net 30 days after invoice (on shipment) unless financed; may require payment before delivery if your credit is not in good standing.	30 days notice of price increases for EQ3 Products.
Transfer Fee	\$10,000 for third party transfer; \$2,000 for Related Party transfer.	At time of initiation of transfer process.	Franchisee assets and the principals' interests may not be transferred without our prior written approval subject to conditions. (See Item 9.)

<u>Name of Fee</u> <sup>(1)</sup>	<u>Amount or Formula</u>	<u>Due Date</u>	<u>Remarks</u>
Renewal Fee	First Renewal \$3,500 Second Renewal: \$5,000.	At time of renewal.	Franchisee must comply with conditions of Section 13 of the Franchise Agreement. (See Items 9 and 17.)
Interest on Overdue Amounts	Interest after the due date at the lesser of Bank of America's prime rate of interest for Charlotte, North Carolina plus 5%, or the maximum amount of interest allowed by applicable law.	As accrued.	Applies to all amounts due to us and our Related Parties.
Fees on Default and Indemnity	Attorney's fees, costs and interest.	On demand, as incurred.	Paid in addition to other payments to us.
Audit Charge	Cost of Audit.	On Billing.	If audit reveals under payment of 5% or more of Royalty Fee or Advertising Fees or records are unavailable at time of audit.
Expense reimbursement under the Security Agreement	Expenses when we are performing your duties, plus interest at 15% or the maximum allowed by applicable law.	On demand.	Applies if you fail to perform your duties under the Security Agreement.
Indemnification	Our and our Related Parties' liability, claims, damages (including consequential), losses and expenses, including attorney's fees.	As Incurred.	Arising out of your breach, your business or activities, operation of your EQ3 Store, your or your agents' servants', employees', contractees', or customers' acts or omissions, including claims for property damage, injury or death, excluding claims regarding defective EQ3 Products, misleading POP or advertising we provide.
Catalogs	You can choose from among 3 payment options. (See Note 5)	(See Note 5)	You will need to purchase catalogs for your Franchised Business.

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**Notes:**

1. All fees are imposed by and payable to EQ3FH except for the majority of your advertising expenditures (excluding the Ad Fund Fee), which you will pay directly to the vendors and media outlets. All fees payable to us are non-refundable.
2. "Gross Revenues" is defined in the Franchise Agreement as "the entire amount of the actual sales price, whether for cash, credit or otherwise, of all sales of goods and services, including without limitation extended warranty packages and revenue derived from delivery and installation services performed by you and all other revenue derived in respect of the Franchised Business, and all other receipts whatsoever from all business conducted upon or originating from the Premises, including the proceeds from any business interruption insurance received with respect to the Franchise, excluding taxes collected and paid to the appropriate taxing authority, refundable deposits until they become non-refundable and revenues collected for installation or delivery services if performed by a third party, and any Internet sales. Each charge or sale upon installment or credit shall be treated as a sale for the full price during the reporting period in which the charge or sale is delivered, regardless of the time when you receive payment (whether full or partial)."
3. The minimum required payment provides for 24 hours annually at the current minimum hourly rate of \$100, plus applicable taxes. At a minimum you will be billed \$200 monthly. Any usage over 24 hours annually will be billed at the then current hourly rate. We are permitted by the Franchise Agreement to make reasonable increases to the hourly rate.
4. In addition to your Ad Fund Fee (which is payable to us), you must participate locally in national advertising campaigns initiated by us and also conduct your own local advertising campaigns. These expenditures must total at least 6% of the annual Gross Revenue of your EQ3 Store. (See Item 7 – Note 10.) The majority of these advertising expenditures will be paid to local vendors and media outlets (on the terms negotiated by you); however, you may be requested to purchase advertising materials from us (at cost) for the national coordinated campaigns.
5. You will have to commit for your orders of catalogs (5,000 minimum) at least 4 weeks prior to shipping. You can choose from among 3 payment options:

Option A

- A1) Quantity 5,000 - \$10,750 landed (\$2.15 per catalog)
- A2) Buy 10,000 get 5,000 free. Total cost \$21,500 (\$1.43 per catalog)
- A3) Buy 16,000 get 9,000 free. Total cost \$34,400 (\$1.38 per catalog)
- A4) Buy 24,000 get 16,000 free. Total cost \$51,600 (\$1.29 per catalog)

Option B

Select quantity from A1, A2, A3 or A4 above.  
Half the order ships by October 30, payment due in 30 days from shipment.  
Half the order ships at end of December, payment due in 30 days from shipment.  
Pricing: Option plus 8% premium

Option C

Select any quantity (minimum 5,000)

Pricing is fixed at A1 above.

Payment terms:

30% due at 30 days

20% due at 60 days

20% due at 90 days

30% due at 120 days

**Item 7**  
**INITIAL INVESTMENT**

In order to properly capitalize the set up of your business, you must have a minimum capitalization of \$150,000 by way of ownership equity and/or ownership loans. The capital investment cannot be reduced while you hold a franchise. Any loans by the owners that are part of the initial capital investment may not be secured against the assets of the EQ3 Store franchise and must be subordinate to our rights to receive payment and/or performance from you and/or your principals. You are also required to obtain a line of credit of at least \$100,000 with a bank acceptable to us.

The table below sets forth an estimate of your initial expenditures in obtaining, establishing and operating your franchise.

<u>Description</u>	<u>Estimated Cost</u>	<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is to be Made</u>	<u>Refundable</u>
Initial Franchise Fee	0 to \$25,000 <sup>(1)</sup>	Lump sum	\$5,000 paid with submission of Application; \$20,000 paid upon signing of the Franchise Agreement	EQ3FH	See Note 2
Travel and Living Expenses While Training in Winnipeg, Manitoba, Canada <sup>(3)</sup>	\$5,000 to \$12,000	As incurred	During training	Hotels, Restaurants, Airline	No
Real Estate and Improvements <sup>(4)</sup>	\$50,000 to \$87,500	As incurred	As incurred	Lessor (or Seller), contractors	No

<u>Description</u>	<u>Estimated Cost</u>	<u>Method of Payment</u>	<u>When Due</u>	<u>To Whom Payment is to be Made</u>	<u>Refundable</u>
Implementation Services, including In-store merchandising and training expenses <sup>(5)</sup>	\$35,000 to \$100,000	As incurred	We can request prepayment. Otherwise, for certain goods, 30 days after shipment. Otherwise, as agreed with vendors	EQ3FH	No
Supplies and Miscellaneous Office Furniture <sup>(6)</sup>	\$5,000 to \$10,000	As incurred	Prior to Opening	Vendors	No
Computer Hardware and Point of Sale Inventory Software <sup>(7)</sup>	\$25,000 to \$35,000	Lump sum	Within 30 days of billing	EQ3FH	As agreed
Opening Inventory of EQ3™ Products <sup>(8)</sup>	\$120,000 to \$150,000	Note 8	Note 8	EQ3FH	No
Opening Inventory of Authorized Products <sup>(9)</sup>	\$20,000 to \$30,000	Per terms with suppliers	Per terms with suppliers	Authorized Suppliers	No
Catalogs <sup>(10)</sup>	\$10,700 to \$21,500	You have a choice of 3 options <sup>(10)</sup>	Depending on the option you choose	EQ3FH or one of our affiliates	No
Grand Opening Advertising and Event Expenses; ongoing advertising (3 months) <sup>(11)</sup>	\$25,000 to \$50,000	As incurred	As incurred	Vendors and media outlets	No
Required Insurance (3 months) <sup>(12)</sup>	\$10,000 to \$15,000	As incurred	As incurred	Insurance carrier	Partially or Cancellation
Additional Funds (3 months) <sup>(13)</sup>	\$75,000 to \$100,000	As incurred	As Incurred	Employees, suppliers, utilities, professionals	No
Totals <sup>(14)</sup>	\$380,700 to \$636,000 (not including your required minimum capitalization)				

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**Notes:**

1. Some existing EQ3 Store dealers may be offered an opportunity to become a franchisee without payment of an Initial Franchise Fee.
2. See Item 5 for the conditions for partial refund of the Initial Franchise Fee.
3. At least one of your principals, or a designee acceptable to us, must attend our training program in Winnipeg, Manitoba, Canada. The estimate given is for travel and living expenses for one individual; the individual's compensation and any other related expenses are not included.
4. If you do not own premises that are acceptable to us for your EQ3 Store, you must lease the land and the building. Typical locations are shopping centers, charter buildings, and strip malls. The typical EQ3 Store has 8,500 square feet of selling space and 1,500 square feet of warehouse inventory space. Rent is estimated to be between \$200,000 -- \$350,000 per year, depending on factors including size, condition and the location of the leased premises. You will be required to upfit or renovate your EQ3 Store premises (the "Premises") to meet our standards and will be responsible for all costs related to the upfit or renovation. (See Item 11), in addition to our Implementation Services. You could face additional expense if the required leasehold improvements are not negotiated into the lease. Actual implementation costs will be specific to your EQ3 Store and will be determined after site selection has been finalized. The estimate includes the first three months of rent.
5. Our Implementation Services are described in Item 5. After we agree on a location for your EQ3 Store, we will prepare a quotation for the location. We have the discretion to request prepayment by you of the Implementation Services. Otherwise, EQ3's hard costs, like millwork product, point of purchase items, etc., are invoiced as shipped, net 30 days. You can use your special 4 months terms for financing (See Item 10) if your product orders are not over \$150,000. Other costs are billed as negotiated with the contractor, landlord and others.
6. Includes items like office furniture, stationery, copier, pens, pencils, cabinets, files and other office items.
7. Price is dependent upon the hardware components you select. Initial outlay will be less if hardware is leased rather than purchased. You must enter into a software license agreement with our authorized software supplier and pay annual license fees, which we currently estimate to be approximately \$400, and our Technical Support Fee, currently a minimum of \$200 per month. See Item 6. See Item 11 for additional information pertaining to the acquisition of the hardware and software.
8. This is an estimate of your initial order of EQ3 Products (the "Initial Order"). If you qualify, we will provide you with 30 days credit for your initial order (see Item 10). Unless we establish an Authorized Limit for you, EQ3 offers no other financing arrangements, but we may receive rebates as a result of your purchase from certain "Authorized Suppliers" or other entities with which we have contractual agreements. (See Items 8 and 10.) Your EQ3 Store must be stocked based on square footage of your store up to \$20 to \$30 per square foot, depending on the location.
9. You will also be required to sell Authorized Products, which are furniture and accessories purchased from third party suppliers we authorize. These currently include rugs, lamps, desk, etc.
10. Your obligation to buy catalogs and the 3 payment options you have are discussed in Item 6, note 5.
11. On an annual basis, you must expend an amount of no less than 6% of the gross revenues from your store on local advertising, which includes locally participating in nationally coordinated advertising campaigns. You will also be required to expend an additional amount during your initial phases of operation. This is an estimate of your pre-opening and your advertising expenditures during the first 3 months of your

operations. This does not include the 1% of gross revenue Ad Fund Fee that you will be required to pay EQ3FH on a quarterly basis. (See Items 6 and 11.)

12. Insurance costs vary from state to state. You must maintain insurance required under the lease for your EQ3 Store and the insurance we require. Currently, we require:
- public liability insurance in the amount of \$2,000,000 per occurrence including owned and non-owned vehicle coverage;
  - full replacement property damage insurance;
  - all risks coverage insurance on the fixtures, furnishings, inventory, equipment, and leasehold improvements of your EQ3 Store;
  - business interruption insurance;
  - rental insurance; and
  - product liability insurance.

For other insurance requirements, See Section 9.1 of the Franchise Agreement.

13. This estimates your additional initial start up expenses for the first 3 months of operation. These expenses include payroll costs, general and administrative expenses, but do not include any or compensation to you or your principals.
14. These figures are estimates and EQ3FH cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors including how much you follow our methods and procedures, your management skill, experience and business acumen; local economic conditions; the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period. EQ3FH has relied on the furniture business experience of its officers and its related companies to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

### **Item 8**

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

You must purchase or lease and install, at your expense, all fixtures, furnishings, equipment, decor, and signs for your Franchised Business as we direct. You may not install on or about your Premises any fixtures, furnishings, equipment, decor, signs, or other items not previously approved as meeting our standards and specifications without our prior written consent.

In your Franchised Business, the product lines you will purchase consists of EQ3™ Products and Related Products that you will purchase from us, as well as Authorized Products from suppliers authorized by EQ3FH (“Authorized Suppliers”). We are the only authorized suppliers of EQ3™ Products and Related Products. We may designate certain EQ3 Products, Related Products and certain Authorized Products which you may or must use or sell at the Premises. Product inventory, product mix and product display standards, methods and requirements are established by EQ3FH and set out in the EQ3 Operations Manual. You must display a full range and mix of current EQ3 Products, Related Products and Authorized Products and maintain in stock our required minimum inventory levels of EQ3 Products. You must follow our recommendations for inventory selection, product mix and layout described in the EQ3 Operations Manual. We have the right to approve specific stock keeping units (“skus”) and will

provide you with a list of approved vendors and products, which list may change in our sole discretion. We may terminate your Franchise Agreement if you purchase from unapproved sources in violation of your Franchise Agreement.

We may modify specifications of the product line items in the EQ3 Stores at any time on a regional or national basis, by amendments to the EQ3 Operations Manual or by written notice to you. For example, we may determine that modifications of specifications are necessary based on an analysis of the cost structure and quality of each item, the contents and yield of each category of product, a modification of the contents of the products due to inflationary pressures, supply and demand problems, or the development of new and better products, or other business reasons for these changes.

We may negotiate arrangements with third party Authorized Suppliers for supply of Authorized Products. All external third party suppliers must be approved by us before becoming an Authorized Supplier to the EQ3 Store Program and we will provide you with an approved list of Authorized Products and Authorized Suppliers, which may be updated, in our sole discretion. You must purchase the categories of products or services using the Trademarks only from Authorized Suppliers so designated or approved by us or from us. Any rebates offered by Authorized Suppliers as a result of that kind of arrangement shall be solely for our benefit and account. We will not provide material benefits to you based on your use of Authorized Suppliers.

In making our determination as to whether to grant Authorized Supplier status to a supplier, we take into consideration the following general criteria: the ability of the supplier to make the product to our specifications and standards; whether the supplier will grant us and our affiliate, EQ3CAN, product exclusivity in the United States and Canada; whether the supplier's products will benefit all of our franchisees; the ability of the supplier to work with you and our other franchisees; the supplier's production and delivery capabilities and the supplier's financial condition and the supplier's reputation and performance abilities.

If you identify a supplier which you believe can supply a product or products that will benefit all EQ3™ Stores, you may make a written request to us that we consider the supplier for status as an Authorized Supplier. If you make a request, you will be required to supply us with the information, specifications and samples we believe is necessary for us to ascertain whether the supplier and its product(s) meet our specifications. We will not charge you a fee to review the proposal for Authorized Supplier approval. We will have the right to require that our representatives be permitted to inspect the proposed Supplier's facilities and that samples from the proposed Supplier be delivered to us or our designated testing facility for evaluation and testing. We will have sole discretion as to whether or not to approve any Supplier. Approval of a Supplier as to any products or services using the Trademarks must be made by us in writing and may also be conditioned on requirements relating to the frequency of delivery, standards of service, including prompt attention to complaints, concentration of purchases and other criteria, and may be conditioned on the Supplier providing us with adequate insurance protection, the Supplier's execution of reasonable indemnity and confidentiality agreements, and the Supplier's payment of reasonable license fees to us, and may be temporary or conditional, pending our further evaluation of the Supplier. We reserve the right to re-inspect, at any time, the facilities, products and/or services of any Approved Supplier and to revoke our approval upon the

Approved Supplier's failure to continue to meet any of our then-current criteria. We anticipate approving or disapproving a supplier within 60 days after receipt of all of the required information from you.

We estimate that the proportion of your required purchases and leases to all purchases and leases by you of products and services in establishing and operating the Franchised Business is 90% to 95%.

EQ3FH will derive revenue from the supply of EQ3 Products to you. We did not derive revenue from the sale of the EQ3 Products to franchisees during our fiscal year ending December 31, 2005 because we did not sell any franchises in 2005.

We will also derive revenue under our arrangements with certain Authorized Suppliers from the supply of Authorized Products. The current agreements provide for rebates in the range of 7.5% to 10% of the revenues generated by the specific Authorized Supplier from the sale of Authorized Products to you.

We currently have an agreement with Citicorp Financial that provides us with a cooperative advertising allowance once the total annual charges on all EQ3 credit cards reach a certain threshold. The current rebate rate is .02 percent (.02%) of the amounts charged after the threshold is met.

We will retain the full amounts of all rebates from the Authorized Suppliers and Citicorp Financial (or replacement credit provider). We estimate that on a franchise-wide basis, these revenues will approximate less than 1% of our total revenue.

You must use customized point of sale ("POS") software (See Item 11.) We will purchase the hardware and the POS software for you at competitive rates and will arrange for the installation of the POS software and hardware network. You will enter into a software licensing agreement directly with the software developer. We will charge you our costs to purchase the products and the cost of the installation. You may also have an opportunity to lease the hardware from us or from a third party. The hardware and software requirements for your POS system are included as an exhibit to our Franchise Agreement (**Schedule G to Exhibit F**). You will be required to obtain technical support for your POS system from us at a fee. (See Item 6.)

You must maintain the insurance coverage (at the required amounts) specified in the Franchise Agreement, EQ3 Operations Manual or by written notice. You may obtain additional insurance coverage as you feel necessary. You must purchase your insurance from a provider authorized to do business in your territory and rated "A" or better in "Best's Insurance Guide".

We may establish a program to provide extended warranties on EQ3 upholstery products. If we do so, you will be required to promote and sell our extended warranty program for upholstery, where permitted by applicable law. You will pay us a portion of the premiums received from your customers on sales representing the cost of the warranty. Also, the gross revenue generated from the warranty sales will be subject to your royalty fee calculation. Because we have not yet implemented this program, we have no basis for which to determine the percentage of gross revenue that we may derive from your participation in the program.

However, we estimate that those kinds of revenues on a franchise wide basis will not comprise more than ½ of 1 percent (.5%) of our total revenue.

You must work with a real estate consultant that we designate for the selection of the location for your EQ3 Store. This consultant's responsibilities include representing us in all EQ3FH Program real estate matters and managing and negotiating all transactions to ensure that our interests are protected if you default under the Franchise Agreement, lease or Product Supply Agreement. The costs of these services are included in your Initial Franchise Fee.

**Item 9  
FRANCHISEE'S OBLIGATIONS**

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

<u>Obligation<sup>(1)</sup></u>	<u>Sections in Franchise Agreement (or ancillary agreements as noted)</u>	<u>Item in Offering Circular</u>
a. Site selection and acquisition/lease	§6.1 of Franchise Agreement; <b>Schedules F and M</b> to Franchise Agreement <sup>(2)</sup>	7, 8, 11, 12
b. Pre-opening purchases/leases	§§5.2, 5.3, 5.4, 6.11, and 8.1 of Franchise Agreement; §§2, 6, and 7 of Product Supply Agreement <sup>(3)</sup>	6, 7, 8, 10, 11, 22
c. Site development and other pre-opening requirements	§§5.1, 5.3, 6.1, 6.2, 6.3 and 11.2 of Franchise Agreement; <b>Schedule F</b> to Franchise Agreement	6, 7, 17
d. Initial and ongoing training	§§3.3 and 6.10 of Franchise Agreement	6, 7, 11, 17
e. Opening	§§5.3 of Franchise Agreement	7, 11, 17

<u>Obligation<sup>(1)</sup></u>	<u>Sections in Franchise Agreement (or ancillary agreements as noted)</u>	<u>Item in Offering Circular</u>
f. Fees	Article 8 and §§9.7, 11.1 and 11.2 of Franchise Agreement; <b>Schedule D</b> to Franchise Agreement <sup>(4)</sup> ; §9.4 of the Product Supply Agreement; and §8.3 of Security Agreement	5, 6, 7, 11, 17
g. Compliance with standards and policies/Operations Manual	§§1.4, 5.3, 6.2, 6.3, 6.4, 6.9, 6.10 and Article 9 of Franchise Agreement	8, 11, 16, 17
h. Trademarks and proprietary information	Article 7 and §§9.11, 14.1, 14.2 and 14.3 of Franchise Agreement; <b>Schedule N</b> to Franchise Agreement	12, 13, 14, 17
i. Restrictions on products/services offered	§§3.6, 6.5, 6.6, 6.8, 6.12, 8.3, 9.4, 10.3 and Article 11 of Franchise Agreement	8, 16, 17
j. Warranty and customer service requirements	§§6.9, 6.10, 9.5, 9.6 and 10.2 of Franchise Agreement	6, 8, 11, 17
k. Territorial development and sales quotas	§§9.6 and 13.1(a) of Franchise Agreement; <b>Schedule C</b> to Franchise Agreement	12, 16, 17, 20
l. Ongoing products/service purchases	§§6.5, 6.6, 6.8, and 10.1 of Franchise Agreement; §§6 and 7 of Product Supply Agreement <sup>(3)</sup>	7, 8, 10, 11, 22
m. Maintenance, appearance and remodeling requirements	§§6.3 and 6.4 of Franchise Agreement	11
n. Insurance	§9.1 of Franchise Agreement; §4.3(b) of Security Agreement	8, 17

<u>Obligation<sup>(1)</sup></u>	<u>Sections in Franchise Agreement (or ancillary agreements as noted)</u>	<u>Item in Offering Circular</u>
o. Advertising	§§5.3, 8.3, 9.6, 11.1, 11.2, 11.3, 11.4, 11.5, 11.6, 11.7 and 11.8 of Franchise Agreement	6, 7, 8, 11
p. Indemnification	§§2.5, 12.2, and 12.3 of Franchise Agreement; <b>Schedule I</b> to Franchise Agreement <sup>(5)</sup> ; §8.15 of Security Agreement	8, 17, 22
q. Owner's participation / management/ staffing	§§3.3 and 6.10 of Franchise Agreement	7, 15
r. Records and reports	§§9.6, 9.10, 9.12, 9.13 and 9.16 of Franchise Agreement, <b>Schedule H</b> to Franchise Agreement; §§4.1(c) and 5.2 of Security Agreement <sup>(6)</sup>	6, 8, 11
s. Inspections and audits	§§9.3, 9.14 and 9.15 of Franchise Agreement; §4.1(a) of Security Agreement	6, 8, 11
t. Transfer	§§13.4 and 13.6 of Franchise Agreement	6, 17
u. Renewal	§4.2 of Franchise Agreement; Renewal Rider ( <b>Schedule L</b> to Franchise Agreement); <b>Schedule D</b> to Franchise Agreement; §8.12 of Security Agreement	6, 17
v. Post-termination obligations	§§5.5, 13.2, 13.3, 13.4, 13.7 and 13.8 of Franchise Agreement; §9.4 of Product Supply Agreement; §8.12 of Security Agreement <sup>(7)</sup>	17

<u>Obligation<sup>(1)</sup></u>	<u>Sections in Franchise Agreement (or ancillary agreements as noted)</u>	<u>Item in Offering Circular</u>
w. Non-competition covenants	§§13.7, 13.8 and 13.9 of Franchise Agreement	17
x. Dispute resolution	Article 15 of Franchise Agreement; §10.1 of Product Supply Agreement; §13 of Guaranty	Cover page, 17
y. Guaranty	Section 2.5 of Franchise Agreement; <b>Schedule I</b> to Franchise Agreement <sup>(5)</sup>	10, 22
z. Security	§5.2 and 16.2 of Franchise Agreement; Security Agreement; Product Supply Agreement <sup>(8)</sup> ; §8.14 of Security Agreement	10, 22
aa Minimum Capitalization/Line of Credit	§5.1 of Franchise Agreement	7, 10
bb. Conventions	§6.13 of the Franchise Agreement	11

**Notes:**

1. Because the principals must acknowledge their obligations under the Franchise Agreement, some of the obligations in this table are applicable to both you and your principals.
2. The standard terms that must be included in any lease for your Premises are set forth on **Schedules F and F-1** to the Franchise Agreement.
3. Attached as **Exhibit H** to this Offering Circular is the Product Supply Agreement, and our current form Purchase Order for your purchase from us of EQ3 Products.
4. **Schedule D** to the Franchise Agreement sets forth your Schedule of Fees.
5. **Schedule J** to the Franchise Agreement and **Schedule I** to the Franchise Agreement each contain separate indemnification provisions (as does the main body of the Franchise Agreement). **Schedule J** to the Franchise Agreement is the form of the Power of Attorney that you will give to us pertaining to the release of certain tax information and contains a separate indemnification provision. **Schedule I** to the Franchise Agreement is the form of the Guaranty and Indemnification Covenant to be executed by your Principals.

6. **Schedule H** to the Franchise Agreement sets forth your financial reporting obligations to us. **Schedule G** to the Franchise Agreement sets forth hardware and software requirements pertaining to your point-of-sale system. Also see the Franchise Technical Requirements manual which is part of the EQ3 Operations Manual.
7. **Schedule K** to the Franchise Agreement is the form by which you will conditionally assign to us your telephone numbers, telephone listings, and Internet presence.
8. The Security Agreement pertaining to your obligations under the Franchise Agreement and the Product Supply Agreement and a sample UCC-1 Financing Statement are **Exhibit I** to this Offering Circular.

## **Item 10 FINANCING**

Except as discussed below, we do not offer direct or indirect financing. We do not guarantee your note, lease or other obligations.

### **Initial Franchise Fee**

We may allow some franchisees to pay the Initial Franchise Fee in installments. (See Item 5.) A franchisee paying in installments would have to sign a promissory installment note. Each note will be individually negotiated and we do not currently have any standard terms or forms of promissory installment notes for such situations.

### **Financing of EQ3 Products**

If you qualify (based on credit approval), we will give you 30 days credit for your Initial Order of EQ3 Products (up to \$150,000) on a no interest basis. (See Item 7.) You must enter into our Product Supply Agreement and Security Agreement at the same time you sign the Franchise Agreement. In addition, your principals will sign the Guaranty and Indemnification Covenant attached as **Schedule I** to the Franchise Agreement (**Exhibit F**) which will cover this obligation. Except for this financing arrangement, your Initial Order will be subject to the Product Supply Agreement.

After the Initial Order, all future orders will be purchased under our standard payment terms, up to the limit that we establish at our discretion ("Authorized Limit"). Interest on amounts due to us under the Authorized Limit will be charged at the lower of the prime rate of interest announced periodically by Bank of America, Charlotte, North Carolina plus 5%, or the maximum rate of interest allowable under applicable law. The Bank of America, Charlotte prime rate charged as of July 1, 2004 was 4.25%. One set up a direct debit process, you will be required to provide us with relevant bank authorizations to facilitate a direct debit process by us when installments on the initial order become due, when your purchases exceed the Authorized Limit, and for payment of monthly interest charges accrued on the Authorized Limit. We will have a security interest on all inventory and other goods purchased from us, including your initial inventory. If you do not have that financing arrangement, payment will be due for all EQ3 Products net 30 days.

You must grant us a security interest to secure payment and performance of any and all obligations, indebtedness and liability to us and/or the Related Parties, including the Franchise

Agreement and Product Supply Agreement, in your undertaking and all of your present and hereafter acquired personal property, including all Goods, Chattel Paper, Documents of Title (whether negotiable or not), Instruments, General Intangibles, Equipment, Deposit Accounts, Accounts, Cash Proceeds and Investment Property owned or later acquired by you (including that returned or repossessed by you) and all Proceeds, Products and renewals to this property, additions and accessions to this property and substitutions of this property, and including all of the following that you own or acquire for the Franchise Agreement or the operation of your EQ3 Store: your Inventory; your Equipment; your Accounts, debts, dues, claims, and cases in action; your deeds, documents, writings, papers, books of account and other books and records of debts, chattel paper or documents of title; your contractual rights and insurance claims; your Intellectual Property and all property that will be listed on a schedule to the Security Agreement. This security interest will secure payment and performance of all of your indebtedness and liability to us, including interest thereon. (Capitalized terms are defined in the Uniform Commercial Code.)

You may not assign a security interest in the assets of your EQ3 Store or in the EQ3 franchise without our prior written approval. However, we will subordinate our general security interests to any recognized arm's length financial institution if you wish to obtain financing for the purposes of developing your EQ3 Store.

Under the Security Agreement, you will waive protest of any instrument that is part of the Collateral on which you are in any way liable and notice of any other action we take. You will waive your right to receive a copy of any financing statement or amendment or continuation, or any verification statement.

Unpaid balances relative to the Initial Order and the Authorized Limit can be prepaid; there is no prepayment penalty.

On default of payment for the Initial Order, the outstanding balance will become due and owing on the outstanding balance and interest (as mentioned above) will accrue from the date of demand. Upon termination of the Product Supply Agreement, all amounts will accelerate and interest will continue to accrue. We may cancel all unfilled orders for EQ3 Products.

Each of your principals must jointly and severally, irrevocably and unconditionally guarantee your and your principals' payment and performance of all obligations to us.

Under the Guaranty and Indemnification Covenant, your principals will waive (a) any right to require us to proceed against you or any other person or to proceed against or exhaust any security we hold at any time or pursue any other remedy in our power; (b) any statute of limitations in any action to collect any of your guaranteed obligations; (c) any defense by reason of your incapacity, lack of authority or bankruptcy or our failure to file or enforce a claim against your estate, or any other or others; (d) demand, protest and notice of any kind including notice of the existence, creation or incurring of new or additional obligations or of any action or non-action on your, any endorsers, or any creditors of yours or any guarantor under the Guarantee and Indemnification Covenant, or any other person or entity regarding any obligation or evidence of indebtedness we hold or regarding any obligations guaranteed; (e) any defense based on our election of remedies including an election to proceed by non-judicial rather than judicial

foreclosure, which election destroys or impairs subrogation rights and/or rights of principals or the right of principals to proceed against you for reimbursement or contributions, or both, which rights are not waived; (f) any duty of ours to disclose to the principals any facts we may now or later know about you, regardless of whether we have reason to believe that these facts materially increase the risk beyond that which your principals intend to assume or have reason to believe that these facts are unknown to principals or have a reasonable opportunity to communicate these facts to your principals; and (g) any and all rights and defenses available to principals under the provisions of North Carolina General Statutes 26-7 through 26-9 or any similar law of any state regarding limitations to a principal's obligations if a written notice is sent to you and your failure to take any action on the notice. Your principals will have no right of subrogation, contribution or reimbursement and will waive any right to enforce any remedy that we now or in the future may have against you.

A default of payment of the Initial Order (and all future inventory purchases) will be a default under your Product Supply Agreement and the Security Agreement (and as a result the Franchise Agreement). It is not our intention to sell, assign, or discount to a third party all or part of your account, but we reserve the right to do so. If an assignment is made, you may lose all defenses against the third party as a result of the sale, transfer, or assignment. The Security Agreement provides that you may not assert any claim or defense against us against any assignee of the Security Agreement or the security interests it creates.

You will be required to waive protest of any "Instrument" constituting our "Collateral" regarding any amounts you owe to us on the Initial Order or otherwise. (See Section 8 of the Security Agreement; the terms "Instrument" and "Collateral" have the meanings given to them in the Security Agreement). Except for that waiver, we will not require you to confess judgment or waive any defenses you may have against us regarding your Initial Order (or any other amounts owed to us). However, as a franchisee you will be waiving notice of certain defaults and disclaiming certain types of damages. As identified in Item 8, we do have arrangements with certain Authorized Suppliers and financial institutions that will result in rebates to us.

A financing statement consistent with the Security Agreement will be filed in the applicable jurisdiction as a charge against your undertaking and all of your present and after acquired assets. You will acknowledge receipt of a copy of the Security Agreement and waive your right to receive a copy of the Financing Statement filed in the applicable jurisdiction.

#### **Arrangements of Financing From Other Sources.**

Open account financing of Authorized Products may be available to you through national contracts that we have or may establish in the future with Authorized Suppliers. The terms of any financing (whether arranged by us or not) will be as stated in the Product Supply Agreement as mutually agreed between you and the vendor. Our arrangements with the Authorized Suppliers will result in the payments of rebates to us. (See Item 8.)

You will be required to establish a line of credit of at least \$100,000 with a bank acceptable to us. (Franchise Agreement - §5.1.)

**Item 11**  
**FRANCHISOR'S OBLIGATIONS**

Except as listed below, EQ3FH need not provide any assistance to you. EQ3FH is not obligated to perform these services to your particular level of satisfaction, but as a function of EQ3FH's experience, knowledge and judgment.

**Pre-Opening Obligations**

Before you open your business, EQ3FH will:

- 1) Designate your Territory. (Franchise Agreement §3.1; See **Schedule A** to the Franchise Agreement.)
- 2) License you to operate an EQ3 Store Franchise and to use our trademarks, subject to the conditions in the Franchise Agreement. (Franchise Agreement §3.1).
- 3) Provide you with assistance and information for site evaluation, premises lease analysis and contract negotiation, including the designation of a real estate consultant that you must work with during your site selection process. (Franchise Agreement – §6.1; **Schedules F** and **F-1** to the Franchise Agreement). We must approve or disapprove your proposed site within 60 days after we receive notice of the site. If a mutually agreeable site is not found within 180 days of your execution of the Franchise Agreement, either you or EQ3FH may terminate the Franchise Agreement. (Franchise Agreement §5.5.) (See Item 8 and additional information below regarding site selection.)
- 4) Provide, at your cost, millwork, design and other Implementation Services. We will also consult (or have our designate consult) with you and your builders, architects and designers on the interior and exterior appearance, interior floor planning and other matters as may be necessary in order to facilitate the design and timely construction of your EQ3 Store in accordance with our standards and specifications. (Franchise Agreement §§5.4 and 6.2; see Item 7.)
- 5) Provide an initial training program at our International Headquarters in Winnipeg, Manitoba, Canada (as described below), and at our affiliate's EQ3 Store in Winnipeg, to your designee not less than 30 days before the opening of your EQ3 Store. To be eligible for this training you must have signed the Franchise Agreement, secured your financing, made your site selection, signed your business premises lease (if applicable), and paid all required fees to us. (Franchise Agreement §3.3 and 6.10.) The cost of training is included in your Franchise Fee (see Item 7). However, you must pay the travel and living expenses for your designee with respect to the training.
- 6) Loan to you one copy of our EQ3 Operations Manual to use during the term of your Franchise Agreement. (Franchise Agreement §1.4).
- 7) Assist you in planning the grand opening of your EQ3 Store. (Franchise Agreement §5.3.)

8) Provide special terms on your Initial Order of EQ3 Product inventory. (Franchise Agreement §5.2; Product Supply Agreement and Security Agreement; see Items 7 and 10.)

9) Provide you with an initial list of Authorized Suppliers and the initial list of Authorized Products that you will be required to carry and the required initial inventory level of the Authorized Products. (Franchise Agreement §§6.5 and 6.6; see Item 7).

10) Designate financial institutions to issue EQ3 Credit Cards to consumers (Franchise Agreement §6.12; see Item 9). You will not be charged for the use of the cards but we expect to receive a rebate from the institutions as a result of your charges made by your customers. Currently, we have an arrangement with Citifinancial Retail Services Division of Citicorp Trust Bank, fsb, to allow you to accept credit card payment from customers. You will have to execute the then current form of Citifinancial Retail Services Dealer Agreement to use these services. See **Exhibit M** for a sample Citifinancial Retail Services Dealer Agreement.

11) Procure for you our required point of sale software system and the hardware needed to operate it. The software and the initial minimum required hardware must be purchased from us. (Franchise Agreement §6.11). A description of the hardware and software specifications for your point of sale system is in a schedule the Franchise Agreement. (**Schedule G** to Franchise Agreement.)

### **Obligations During Operations**

During the operation of your EQ3 Store Franchise, EQ3FH will:

1) Establish suggested national pricing for all EQ3 Products. (Franchise Agreement §6.7.)

2) Provide initial on-site training at your EQ3 Store to you through our corporate trainer as disclosed in Table B below. The travel and living expenses incurred by the trainer conducting the on-site training at your EQ3 Store will be included in our Implementation Services. (Franchise Agreement §6.10.)

3) Provide resource materials about EQ3 Products, policies and warranties. (Franchise Agreement §6.8.)

4) Negotiate arrangements for the supply of Authorized Products from third party Authorized Suppliers, which agreements may provide you with discounted prices on those products. EQ3FH will provide you with information on an on-going basis and you can avail yourself of those benefits in your sole discretion, although you may be required to offer certain Authorized Products. (Franchise Agreement §6.12; see Item 8.)

5) Periodically designate the EQ3 Products and Authorized Products which you may or must stock and promote. For EQ3 Products we will also periodically

designate the inventory level of the EQ3 Products, which you must carry. (Franchise Agreement §§6.5, 6.6 and 6.8; see Item 8.)

6) Periodically update the designation of financial institutions that are to be used to issue EQ3 Credit Cards to consumers. (Franchise Agreement §6.12.)

7) Organize a convention in the United States or Canada to create a forum for networking, continued education and information about the EQ3 Store Franchise system. These conventions will be held not more than twice per year. Our franchisees are required to attend these conventions. Although there will be no registration costs, franchisees will be required to pay their own travel and expenses to attend the convention. The conventions will be held at locations determined in our sole discretion. (Franchise Agreement §6.13.)

8) Potentially provide an extended customer warranty program for EQ3 upholstery products, where permitted by applicable law. (Franchise Agreement §10.2; see Item 8.)

9) Indemnify you if someone makes a claim against you because of your use of our misleading point of purchase material or advertising that we provided to you. (Franchise Agreement §12.3; see Item 14.)

10) Provide maintenance/support service for your point of sale system. (See Items 6 and 7.) The technical support fee payable to us includes managing accounting issues with the hardware manufacturer and software developer, all network and communication issues and all application support issues. (Franchise Agreement §6.11; See Item 6.)

11) Provide to you the right to have a dedicated page be linked to an EQ3 website owned and operated by us or one of our affiliates. (Franchise Agreement §11.8; see Item 12.)

12) Potentially provide you with rights to participate or receive commissions on online sales generated from your Territory if we decide to start Internet sales. (Franchise Agreement §10.3.)

### **Advertising and Promotion**

We reserve the right to establish, maintain and administer an advertising fund (the "Ad Fund") by giving you at least 30 days' advance written notice of its effective date and the amount of the Advertising Fees. The purpose of the Ad Fund is to support and pay for marketing programs we deem necessary, desirable or appropriate to promote the goodwill and public image of all Franchised Businesses. (Franchise Agreement §11.4.) Currently, there is no Ad Fund. If an Ad Fund is established, you will pay not more than 1% of Gross Revenue on a quarterly basis. We can modify the amount of the Advertising Fees with at least 30 days' written notice to you. We intend for all franchisees to contribute to the fund at the same rate (see Item 6). (Franchise Agreement §§8.3, 11.4, 11.5, 11.6.)

If an Ad Fund is established, we will direct all marketing programs financed by the Ad Fund and have sole discretion over the creative concepts, materials and endorsements used and their geographic, market and media placement and allocation. We may use the Ad Fund to pay the costs of preparing and producing video, audio and written advertising materials; administering local, regional, multi-regional and national advertising and marketing programs, including purchasing direct mail and other media advertising; employing advertising, public relations and media buying agencies to assist in these activities; and supporting public relations, market research and other advertising and marketing activities. We may also elect to use the Ad Fund to furnish you with marketing, advertising and promotional formats and sample materials without additional charge or to provide you with multiple copies of marketing, advertising and promotional materials at a reasonable cost. (Franchise Agreement §11.5.)

The Ad Fund is not a trust. However, the Ad Fund will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for costs, salaries, travel expenses, administrative costs, overhead and similar expenses we may incur in activities reasonably related to the administration of the Ad Fund and its marketing programs (including conducting market research, preparing advertising and marketing materials, general production costs, and collecting and accounting for contributions to the Ad Fund). We may spend in any fiscal year an amount greater or less than the total contributions of all Franchised Businesses to the Ad Fund in that year, and we may invest any surplus in a money market fund or comparable investment for future use by the Ad Fund. We will collect for remittance to the Ad Fund any advertising or promotional monies or credits offered by any supplier to the Ad Fund because of your purchases. All interest earned on monies contributed to the Ad Fund will be used to pay advertising costs of the Ad Fund before other assets of the Marketing Fund are expended. We will prepare an annual statement of monies collected and costs incurred by the Ad Fund and will furnish it to you upon written request. The Ad Fund will not be audited. (Franchise Agreement §11.5.)

You agree that the Ad Fund will be intended to maximize recognition of the Trademarks and patronage of all Franchised Businesses in the United States. Although we will try to use the Ad Fund to develop marketing materials and programs, and to place advertising that will benefit all Franchised Businesses, we are not obligated to ensure that expenditures by the Ad Fund in any geographic area will be proportionate or equivalent to the contributions to the Ad Fund by franchisees operating in that geographic area. We are also not obligated to ensure that any Franchised Businesses will benefit directly or in proportion to its contribution to the Ad Fund. While we intend the Ad Fund to last indefinitely, we will have the right to terminate it and, if terminated, to reinstate it at any time after all the money in the fund has been spent. (Franchise Agreement §11.6.)

Except as described above, we assume no liability or obligation to you regarding the maintenance, direction or administration of the Ad Fund.

We have not yet established an Ad Fund, and there are no disclosures for us to make regarding use of the Ad Fund in 2005. Once established, we intend to use the Ad Fund for all forms of radio, Yellow Pages or comparable telephone directory listings, outdoor, direct response marketing, interactive and Internet media. We do not intend to use the Ad Fund for advertising or promotion that is principally targeted to the offer or sale of franchises. Our

advertising department and regional and/or national advertising agencies will prepare advertising, marketing, and related materials and programs. We intend to review and contract with advertising agencies on an annual basis.

You will have the right to create and use your own advertising, marketing and promotional materials. We will require you to submit these materials to us for approval.

You may not use any promotional materials and advertising until it has been submitted to and approved by us and you must follow our instructions for the use of advertising and promotional materials.

We require that quarterly you spend at least 6% of Gross Revenue for local marketing. (Franchise Agreement §11.2.) This amount will not be reduced by the amount of any Advertising Fees you must pay.

We will not receive payments for providing products or services to the Ad Fund except as discussed above. The Ad Fund is not required to spend any money on advertising in the area or territory where you are located.

For additional information concerning advertising, see Items 6, 7, 8 and 9.

We do not maintain a franchisee advertising council to advise us on advertising policies. You are not required to participate in local or regional advertising cooperatives.

We presently anticipate that at least initially our marketing programs will be primarily developed by us or one of our affiliates. No payments have been made to or from the Ad Fund as of the date of this Offering Circular.

We may initiate national advertising campaigns to promote the sale of EQ3 Products. You will be required to participate in those national campaigns at your cost as limited in the Franchise Agreement. Your expenditures will be in addition to the payments you must make to the Ad Fund but will count as expenditures against your advertising expenditure obligation. (Franchise Agreement §11.1; See Item 6.) We are not obligated to mention your EQ3 Store in our advertising or advertise in your Territory or the Option Territory. We will also approve all advertising materials developed for sole use by the Franchisee to advertise and promote the EQ3 Products. (Franchise Agreement §§11.2, 11.3.)

You will have the right to be linked (together with other franchisees of EQ3 Stores) to an Internet Web Site owned and operated by one of our affiliates which will promote EQ3 Products, complete with product description and pricing ("EQ3 Web Site"). Web pages of your Web Site promoting EQ3 Products are subject to our prior written approval, with information limited to identifying information of your Franchised Business, its location and an area location map with directions to the user to access the EQ3 Web Site for EQ3 Product descriptions. Only we can post EQ3 Product information and advertising materials on the Internet or make EQ3 Product sales over the Internet (Franchise Agreement §11.8).

## **Cooperatives**

We do not have the power to require that cooperatives be formed, changed, dissolved or merged.

## **Site Selection**

We anticipate that the site for your EQ3 Store will be leased by you from a third party. The site must comply with our specifications in the EQ3 Operations Manual. Although you are solely responsible for locating your site within the Franchise Territory, its location is subject to our written acceptance which we may withhold in our sole discretion. If you choose to operate from a site that is owned by you, your site will still have to be approved by us and appropriate amendments will have to be made to the Franchise Agreement, which is based on a leasing situation.

If you lease the site for your EQ3 Store, you will work with a broker approved by us. We will provide you with a letter of intent template to be used in your negotiations with your potential landlord. You may not execute the letter of intent without first obtaining our approval to the terms in it. The proposed lease for the Premises must also be approved by us before it is executed. The lease must contain the lease provisions disclosed in **Schedule F-1** to the Franchise Agreement as well as any other provisions reasonably required by us. You must provide us with a fully executed copy of the lease for the Premises within 30 days following execution. (Franchise Agreement §6.1.)

In addition to the general territorial criteria discussed in Item 12, factors as square footage, rent and other lease terms, accessibility, profile of neighboring businesses and the ability to build out the site in accordance with the EQ3 Store image are factors considered in determining whether the site is acceptable. We will analyze multiple factors in determining whether your site is appropriate. These factors include: (1) market research based on analysis of market potential and penetration levels of existing stores with 15 and 30 minute drive times and the volume of consumers in the target market age groups, (2) costs, including initial upfitting and operating, and (3) site factors (access, size, height, etc.).

The preferred selling space for EQ3 Stores is 7,500 and 10,000 square feet of selling space. Your EQ3 Stores must have at least 5,000 square feet of selling space and 1,500 square feet of warehouse inventory space.

## **Opening of Business**

On average, a franchisee should open its store between 6 and 8 months after the payment of the down payment of the Initial Franchise Fee to us and between 4 and 6 months after the signing of the Franchise Agreement. The factors that affect this time are the ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, and delayed installation of equipment, fixtures, and signs.

## **Computer Systems**

We will provide you with the hardware and personalized version of point of sale ("POS") software, and will arrange for installation of the POS software and hardware network, at your cost, unless you already have a POS System with sufficient capabilities that we approve for use in your EQ3 Store. You must pay us upon receipt of an invoice. You will have to enter into a software licensing agreement with the authorized supplier and pay annual licensing fees. You will have to upgrade the hardware no less than every 42 months and purchase a minimum technical support package from us. (Franchise Agreement §6.11.)

### ***Computer Software***

Point of Sale & Inventory Control software - Furniture Wizard - to record sales, produce invoice, generate reports, manage inventory levels, and order product.

Productivity software - Microsoft Office Pro 2003 & Adobe Acrobat Function - to assist in the day to day operation and communications of the store.

Communication Software - BizConnect

Functionality - to provide data and file transfers between stores and corporate offices. Used for sales information.

### ***Hardware***

CPU's monitors, printers, network switches and basic peripherals - Dell Function - used to run Furniture Wizard, BizConnect and Office.

Scanners - Symbol & Unitech - Function - used to scan inventory for both point of sale and inventory counts in POS system.

Firewall - Sonic Wall - Function - to provide network security for store and to establish a secure "tunnel" between each store and the corporate office.

We will develop the network plan and arrange for the installation of the POS software and hardware network. You will be required to reimburse us our costs incurred in the development and installation of the network. (See Item 7.)

The following business information/data will be collected and/or generated by the POS software program: sales and inventory information, extended warranty registration information when instituted, credit note information, and e-mail address information from customers that have authorized the sending of newsletters, surveys, and promotions. We will have independent access to your point of sale system to monitor this information. (Franchise Agreement – §9.15.) We will also have access to the system to perform audits of your sales information and to perform technical service. (Franchise Agreement §9.14.)

It is our plan that our franchisees will always have the most recent version of the POS software. We anticipate that you will be provided with access to the most recent version upon

payment of your annual license fee, which we estimate will be at least \$400 and could be as high as \$1500. You will be responsible for the payment of the annual license fee.

## **Operations Manual**

Our operations manual consists of 3 separate documents. The EQ3 Franchise Operations Manual, which has 179 pages, contains our standard operational procedures, policies, rules and regulations with which you must comply. We also have a Site Implementation manual, consisting of 23 pages, and a Franchise Technical Requirements manual, consisting of 19 pages. These 3 manuals are confidential and remain our property. We may modify these manuals, but the modification will not alter your status and rights under the Franchise Agreement (Franchise Agreement - §1.1; see Item 8). The table of contents of our current EQ3 Franchise Operations Manual, Site Implementation manual and Franchise Technical Requirements manual are attached to this Offering Circular as **Exhibit N**. These 3 manuals are collectively referred to in this Offering Circular as the "EQ3 Operations Manual".

If we allow you to see the EQ3 Operations Manual before you sign your Franchise Agreement, you will have to sign the Confidentiality Agreement attached as **Exhibit E**.

We will provide our franchisees with updates to our Operations Manual and various supplemental bulletins and notices that will contain the specifications, standards and restrictions on your purchase of products and services.

## **Training**

Our training has two elements. First, our training program held in Winnipeg, Manitoba, Canada and, second, on-site training we will provide as part of the Implementation Services. Training must be completed by the designated persons to our satisfaction.

For our training program, at least one of your principals or designees acceptable to us who will participate personally in the direct management of your EQ3 Store must attend the training program. (Franchise Agreement §§3.3 and 6.10.)

As part of our Implementation Services, we will provide initial on-site training to your Principal or designees and your personnel.

**TABLE A  
EQ3 STORES – INITIAL TRAINING SCHEDULE (OFF-SITE)**

<b>Subject</b>	<b>Instructional Material</b>	<b>Hours Of Classroom Training</b>	<b>Hours Of On The Job Training</b>	<b>Instructor</b>
Mgmt. training: - Product knowledge - Sales - Merchandising - Advertising - POS system - Logistics - Reports	EQ3 Operations Manual, POS manual, product lab sheets, on-line training	40 hours (Note 1)	48 hours (Note 2)	Corporate trainer/ Corporate store management

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**TABLE B  
EQ3 STORES – INITIAL TRAINING SCHEDULE (ON-SITE)**

<b>Subject</b>	<b>Instructional Material</b>	<b>Hours Of Classroom Training</b>	<b>Hours Of On The Job Training</b>	<b>Instructor (Note 3)</b>
Management training refresher: - Review of previous training - Logistics - Reports	EQ3 Operations Manual, POS manual, on-line training	8 hours, before opening	4 hours, after opening	Corporate trainer
Staff training - Sales - Product knowledge - Merchandising - POS system - Logistics	EQ3 Operations Manual, POS manual, on-line training	16 hours, before opening	20 hours, after opening	Corporate trainer

**Notes:**

1. 5 days of classroom (off-site) training will be conducted at our international offices in Winnipeg, Manitoba, Canada, not less than 30 days before the opening of your EQ3 Store.
2. The initial on-the-job training (off-site) will be conducted immediately after the completion of the initial class room training. The training will be conducted at the EQ3 Store in Winnipeg owned by EQ3 Retailer, Ltd.
3. Trainer remains on site for a minimum of 3 days before opening and 3 days after opening.

The person who will be in charge of our training program will be our corporate trainer.

In Winnipeg, the store staff that will participate in the training is under the direction of Karen Chernesky, Operations Manager, but she will not participate in the training. On-line training will include an overview of EQ3, sales training and product knowledge. On-site training will include a review of the on-line training and support on-site by the corporate trainer.

## **Item 12 TERRITORY**

You will be granted the right to own and operate one EQ3 Store Franchised Business in a defined territory at an approved premises. The typical territory granted to a franchisee will be determined by city within a state or by state, depending on the population and demographics. You will have no right to relocate your EQ3 Store, and if you wish to do so, you must receive our permission before relocating your EQ3 Store. During the term of your Franchise Agreement, as long as you are in compliance with the Franchise Agreement, any other franchise agreement you may have and all other agreements with us or our Related Parties, and the Franchise Agreement has not been terminated or expired, we will not grant a franchise to operate another EQ3 Store in the Territory to any person or entity other than you or an entity you own and control. We may grant you rights to open and operate additional EQ3 Stores in a larger Option Territory as provided in an Additional Outlets Rider attached to your Franchise Agreement (**Schedule C** of the Franchise Agreement).

Under the Additional Outlet Rider, you may be granted an exclusive option to purchase additional franchises in the Option Territory within a certain period of time. If an option is available, but not exercised, the exclusivity of the option will be replaced with a right of first offer for the establishment of all new EQ3 Store franchises in the Option Territory. These rights, if any, and the criteria for additional openings are in the Additional Outlets Rider. If you do not exercise your option rights or first offer rights, we will be entitled to offer a franchise to any other person to open and operate another EQ3 Store in the Option Territory, as long as it is outside the Territory of your existing EQ3 stores.

Your Territory will be determined as follows: we will do a market analysis of city and state populations and demographics. Once the Territory is determined, it can be modified by mutual agreement. If you are offered and execute an Additional Outlet Rider, your Option Territory will be for a market area like a city or county. In lesser populated areas, we may consider granting Option Territories for entire states.

We and our Related Parties reserve all rights not specifically granted to you. We and our Related Parties will have the right to:

- use or license the EQ3 Store Program and Trademarks or to engage in or license any business activity, including franchising retail furniture store businesses under the Trademarks at any location outside your Territory;
- operate EQ3 Stores and other retail store businesses under the Trademarks using the EQ3 Store Program and selling EQ3 Products within or outside your Territory;

- operate and/or franchise retail furniture store businesses under any other trade name, trademark, or service mark now or later owned by or licensed to EQ3FH or its Related Parties at any location inside or outside your Territory;
- sell EQ3 Products in any channel of distribution, including catalog sales or the Internet, either directly or through an affiliate or third party; and/or
- operate any business other than a retail furniture store under any name or mark, including the Trademarks, inside or outside the Territory.

PFL and the Related Parties will not be limited in their right to offer for sale and sell furniture and any goods and services other than EQ3 Products in any channel of distribution and under any marks, including Palliser, within and outside the Territory.

The Franchise Agreement defines "EQ3 Distributors" as retailers other than franchisees of EQ3FH that carry EQ3 Products in an EQ3 In-Store Gallery, and that means floor space on a retail furniture store, department store or multi-line retailer dedicated to certain EQ3 Products under a product supply agreement with PFL. Your rights in your Territory will also be subject to:

- PLF's right to continue with current product placement arrangements with EQ3 Distributors in your Territory, if any;
- PFL's and the Related Parties' right to establish new product placement arrangements with current or new EQ3 Distributors on the condition that the location of the product placement is more than 5 miles from franchised EQ3 Stores existing on the date of establishment, and at least 45 days' notice is provided to us. We will provide you 30 days notice if the location is in your Territory. The 5 mile stipulation will be decided in our sole discretion and will be based on distance given population densities, traffic patterns, shopping patterns, and market variation;
- If you subsequently establish a franchised EQ3 Store within 30 miles of an existing EQ3 Distributor, PFL's right to continue with its current product placement arrangements will apply;
- PLF's and the Related Parties' right to establish company-owned EQ3 Stores inside and outside your Territory; and
- The rights PLF and its Related Parties have reserved regarding Internet sales.

Neither we nor any companies under common ownership currently own or operate a corporate EQ3 Store within your Territory nor any other store or franchise that distributes similar products or services under a different trademark, service mark, trade name or logo other than EQ3 distributors with In-Store Galleries. PFL and PFC do distribute furniture to retailers under the Palliser™ trademark. However Palliser™ furniture and the EQ3 Products are not similar in their design. There are three EQ3 dealers set up by PFL that are currently operating. (See Item 1.)

In the future, PFL or the Related Parties may establish an entity to operate corporate EQ3 Stores within and outside your Territory.

The exclusive right to offer EQ3 Products for retail sale online in the United States will be controlled by us or one of our affiliates. Your web page (if any) promoting EQ3 Product, and all revisions thereto, will be subject to our prior written approval, with information limited to information identifying you, your location and an area location map with directions to the user to access the EQ3 Store Web Site for EQ3 Product descriptions. Your approved page must be linked to the EQ3 website operated by us or one of our affiliates.

If we engage in retail sales online, we may centrally fill online orders or we may provide you with the opportunity to fulfill orders for EQ3 Products to online purchasers and to provide after sale services on our behalf in exchange for compensation we set. Any arrangement is in our discretion and will be done in accordance with rules we establish and include in the EQ3 Operations Manual.

Under the Franchise Agreement, after the first year of operation, if the annual Gross Revenues of the EQ3 Store are less than 85% of the annual Gross Revenues for the prior year, we will have the right to terminate the Franchise Agreement. However, while the Franchise Agreement is in place, the failure to meet this requirement will not impact your franchise exclusivity rights in your Franchise Territory. There are no circumstances under which we can modify your rights in your Territory.

### Item 13 TRADEMARKS

We grant you the nonexclusive right to use our principal trademark EQ3™ (the “Principal Trademark”) and related trademarks, trade names, copyrights, designs, logos, color schemes and other commercial symbols we authorize for use with the EQ3 Store Program (collectively, the “Trademarks”) in the operation of your EQ3 Store Franchised Business. The Principal Trademark is owned by PFL. PFL has provided EQ3FH through Holdings-US the right to use the Principal Trademark in association with the EQ3 franchise system in the United States.

PFL’s application for registration of our Principal Trademark is pending on the Principal Register of the USPTO, as follows:

<u>Mark</u>	<u>Serial Number</u>	<u>Application Date</u>
EQ3™	76/497393	March 14, 2003

PFL obtained a registration of our Principal Trademark EQ3™ in the State of Georgia:

<u>Mark</u>	<u>Registration Number</u>	<u>Registration Date</u>
EQ3™	T-21490	July 23, 2004
EQ3™	S-21626	September 8, 2004

By not having a Principal Register federal registration for the Principal Trademark, PFL does not have certain presumptive legal rights granted by a registration. The Franchise

Agreement does not require us or the Related Parties to take affirmative action when notified of conflicting uses or claims regarding the Trademarks or to indemnify you for expenses or damages if you are involved in an administrative or judicial proceeding involving the Trademarks.

PFL claims common law rights to the Principal Trademark EQ3. PFL and EQ3FH also claim common law rights to their respective designs, logos and trade dress items, including color schemes and appearance, but there have not been judicial determinations of the existence, validity or extent of any of those rights. PFL and EQ3FH claim and intend to rely on common law trademark, trade secret and unfair competition protection of materials and information you are granted the right to use under the Franchise Agreement.

We may modify the Trademarks and we also have the right to adopt and modify new Trademarks. You will be required to adopt, use, and display any new, modified, or changed trade names or trademarks within the period of time specified by EQ3FH. Subject to the exception noted above, any action by you will be at your cost.

If PFL is required to change or modify any Trademark to permit its use in any jurisdiction of the United States, PFL or Holdings-US will reimburse EQ3FH and you for all costs incurred with modifying or abandoning any Trademark, including reasonable costs of new signage, stationary and other items that display the Trademark and promotional costs incurred with the change. Otherwise, EQ3FH and its Related Parties make no representation or warranty as to validity or non-infringement. EQ3FH and its Related Parties will have sole discretion and the exclusive right to take action and to control any litigation affecting the Trademarks or their validity or ownership. EQ3FH is not obligated to defend you or indemnify you for expenses or damages if you are made a party to proceeding involving the Trademarks.

You must follow our rules when you use the Principal Trademark and any other Trademarks we license to you. You cannot use any of the Trademarks as part of a corporate name or with modifying words, designs or symbols except as instructed by us.

Our right to use and license the Trademarks is controlled by a License Agreement with Holdings-US ("License Agreement"), dated July 30, 2004, which limits the right to the licensing of franchises in the United States and to the supply of EQ3 Products to our franchisees. While we have the right to use and sublicense the Trademarks for franchising purposes in the United States, PFL and the Related Parties have the right to continue product placement in the United States to dealers with EQ3 Stores and EQ3 Distributors with in-store galleries. Holdings-US has reserved the right to establish corporate EQ3 Stores inside and outside of your Territory and the right to make Internet sales is reserved for us or one of our affiliates. (See Item 12.)

EQ3FH has a non-exclusive right and license to use and sublicense the use of the Trademarks and the PFL Format for use in a franchise system for retail stores selling EQ3 brand furniture and other products. The initial term of the License Agreement is for 20 years. EQ3FH has the right to renew the license agreement for an unlimited number of consecutive additional 20 year terms if it is substantially in compliance with all of the provisions of the License Agreement during the term before renewal. If the License Agreement ends while your Franchise Agreement is still in effect, you will be able to complete the then current term of your Franchise

Agreement using the Trademarks and PFL format, but you will not be able to use the Trademarks afterward even if you are able to renew your Franchise Agreement under any renewal provision in that Franchise Agreement.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or of any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation involving the Principal Trademark. There are no agreements currently in effect which significantly limit our right to use, or to license the use of, our Trademarks in a manner material to the franchise. There are no other agreements that limit EQ3FH's right to use or license the Principal Trademark. However, a secured lender of PFL's as well as the Province of Manitoba, Canada each hold a security interest in the Trademarks. There are no actually known uses by those with superior prior rights which would interfere with your use of the principal Trademark.

You must acknowledge our and our Related Parties' right, title and interest to the Trademarks. All use of the Trademarks by you, and any and all goodwill established by your use of the Trademarks, will be the exclusive property of EQ3FH and our Related Parties.

You must notify us immediately when you learn about an infringement of or challenge to your use of the Trademarks. We or our Related Parties will take the action we think appropriate.

You must discontinue the use of any of the Trademarks that we discontinue. You must not directly or indirectly contest our right to the Trademarks or any future trademarks, as well as the trade secrets or business techniques that are part of our business.

PFL, Holdings-US and our other Related Parties are third party beneficiaries of the trademark article of the Franchise Agreement and can independently enforce its provisions. (Franchise Agreement §7.6.)

#### **Item 14**

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

No patents are material to this franchise.

Although no registrations have been applied for or obtained, we and our Related Parties claim copyright protection and other common law proprietary rights for all materials and information developed by and used within the EQ3 Franchise System and the EQ3FH Store Program, including the EQ3 Operations Manual, our training manuals, training and advertising materials, sales and marketing materials, technical reports, and communication pieces. Under the Franchise Agreement, you, your shareholders and your employees must only use these materials and the information in performance of your appropriate and authorized activities in the Territory and that you strictly observe the confidentiality of these materials as may be appropriate. (See Franchise Agreement, Article 14.) You must not make any mechanical, electronic or other copies of those materials unless we authorize you in advance in writing.

You and the principals will have access to and become acquainted with certain of our trade secrets, consisting of the EQ3 Operations Manual, sale techniques, policies, procedures,

system, compilations of information, records and specifications that we own or control and that are regularly used in the operation of EQ3 Stores and information concerning our and our Related Parties' advertising plans, cost figures, client lists, names and addresses of suppliers and customers and contractual relationships. You and the principals must agree that you and they will not disclose any of these trade secrets directly or indirectly, or use them in any way not authorized by the Franchise Agreement during and after its term. You will also agree that all files, records, documents, drawings, specifications, promotional and tracking materials, equipment and similar items, including all data and information shared in or retrieved or generated from the systems, software programs affecting us or you, will remain our exclusive property.

Our right to use these materials or to license you to use these materials is not materially limited by any agreement or known infringing use. Additional information concerning the EQ3 Operations Manual is disclosed in Item 11.

You must promptly tell us when you learn about unauthorized use of the EQ3 Operations Manual and any other proprietary information you obtain from us. EQ3FH is not obligated to take any action but will respond to this information as we think appropriate. We will indemnify you for all claims arising out of misleading in-store POP materials and advertisements we provide to you. Otherwise, we have no obligation to indemnify you for any claims related to our trade secrets or copyrighted material.

**Item 15**  
**OBLIGATION TO PARTICIPATE IN THE**  
**ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

Unless we agree otherwise in our sole discretion, at least one of your principals must participate personally in the active direct management and operation of the EQ3 Store Franchised Business. The principal you designate as responsible for the Store must satisfactorily complete our initial training (see Item 11). Each of your principals must sign an acknowledgement of his or her obligations under the Franchise Agreement and will personally guarantee your obligations to us. (See Items 9 and 10.) We do not have any requirement as to the amount of equity interest that your managing principal must have. Also see Item 17 regarding the rights and obligations of your principals (and you) and issues of renewal, termination, transfer and dispute resolution.

**Item 16**  
**RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must sell EQ3 Products only at and from your EQ3 Store. We require you to offer and sell only EQ3 Products, Related Products and Authorized Products. You must advertise and market and promote your EQ3 Store only in the Territory or the Area of Dominant Influence in which your EQ3 Store is located, whichever is greater.

You must offer all products that we designate as required for all franchisees. We have the right to revise our designations of required products. There are no limits on our right to do so.

These designations will be based on factors like acceptance of the products by the marketplace and the size of the EQ3 Store. (See Item 8.)

All EQ3 Products shall be marketed by you at retail to the general public through operations of your EQ3 Store in the ordinary and usual course of business. You may not sell, assign, transfer or otherwise distribute EQ3 Products to any person or entity in a wholesale manner or in any other manner that would facilitate distribution or resale regarding the business of the acquiror.

You will have no right to sell EQ3 Products over the Internet. We and our Related Parties will have the exclusive right to control and offer EQ3 Products for retail sale on the Internet in the United States and into the Territory. If we do so, we may provide you the opportunity to fulfill orders for EQ3 Products to online purchasers and provide after-sales services on our behalf for compensation we set, or if we in our sole discretion decide to centrally fulfill these online orders, we may pay you a commission for online sales generated from your Territory as we set. We will establish and will have the right to change rules regarding your participation in Internet sales, if any, and your compensation if any, in the Operations Manual.

If, in any year of the Franchise Agreement, the Annual Gross Revenues of your EQ3 Store are less than 85% of the Annual Gross Revenues for the prior year, that will be a default under your Franchise Agreement and grounds for termination of your franchise. (See Items 9, 12 and 17.)

#### Item 17

### RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

The following table lists important provisions of the Franchise Agreement and ancillary documents. Franchisee should read these provisions in the agreements attached to this Offering Circular:

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
a. Term of the franchise	§4.1 of the Franchise Agreement; § 3 of Product Supply Agreement	Initial Term is 5 years.
b. Renewal or extension of the term	§4.2 and <b>Schedule L</b> of the Franchise Agreement	If you meet the requirements for renewal, you can renew the Franchise Agreement for 2 successive additional 5 year periods.
c. Requirements for Franchisee to renew or extend	§4.2 and <b>Schedule L</b> of the Franchise Agreement	Timely notice of intent to renew; in good standing; pay renewal fee of \$3500 for first renewal and \$5000 for second renewal; sign the Renewal Rider ( <b>Schedule L</b> to the Franchise Agreement); sign general release ( <b>Exhibit O</b> ); execute new Franchise Agreement or, at our option, amendment to existing Franchise Agreement.

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
d. Termination by Franchisee	§5.5 of the Franchise Agreement	No agreement on acceptable store location within 150 days of execution of Franchise Agreement. (Note 1.)
e. Termination by EQ3FH without cause	None	No agreement on acceptable store location within 150 days of execution of Franchise Agreement. (Note 1.) See also subsection "o" of this table.
f. Termination by EQ3FH with cause	§§8.4, 13.1 of the Franchise Agreement; §9 of the Product Supply Agreement	Except as disclosed in Note 1 and subsection "o" of this table, we can only terminate the Franchise Agreement if you default, and to the extent applicable, you fail to cure the default within the time period allowed. We may terminate the Product Supply Agreement if you default, and to the extent applicable, you fail to cure default. We will also have the right to exercise our rights under the Security Agreement. (Note 2)
	§8.12 of Security Agreement	The Security Agreement continues until the Franchise Agreements have been terminated.
g. "Cause" defined - defaults which can be cured	§§8.4, 13.1, 16.3 and 16.18 of the Franchise Agreement	Filing of bankruptcy petition against you or any shareholder (7 days from filing to discharge or dispute petition); breach of insurance obligation (7 days to cure); performance of conduct that is detrimental to us or our interests (7 days to cure); false representation made in any report to EQ3FH (15 days to cure); unauthorized transfer (15 days to cure); non-performance of required services (15 days to cure); non-payment of required fees or other amounts (7 days to cure); termination of your EQ3 Store lease or other loss of possession of the Premises (3 days to cure); breach of any other material term or failure to perform any other material obligation of the Franchise Agreement or a Related Document and fail to cure within the specified cure period. Breach of any other obligation or agreement that you or a Related Party of yours has with EQ3FH or any of its Related Parties (30 days to cure).  If event of force majeure delays your performance over 120 days, we may terminate the Franchise Agreement or require you to move to a new location we approve within another 120 days.  All agreements between us will cross-default.
	§§9.2 and 9.3 of the Product Supply Agreement	Failure to pay amounts due under Product Supply Agreement; willful deceit of customers regarding EQ3 Products; failure to willingly and professionally perform your service requirements

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
h. "Cause" defined – defaults which cannot be cured.	§13.1 of the Franchise Agreement	under the EQ3FH warranty; breach of any other material covenant or failure to perform any obligation imposed by the Product Supply Agreement. If default is curable, you will have 15 days to do so.
	§9.7 of the Product Supply Agreement	Termination of Franchise Agreement; filing of bankruptcy, or similar proceeding by or against you; the appointment of a receiver, trust, or other officer or execution or levy against your property (10 day right to cure).
	§1.3 of Security Agreement	Default is your failure to perform any agreement or covenant contained in the Security Agreement, Franchise Agreement or Product Supply Agreement.
i. Franchisee's obligations on termination/non-renewal	Sections 7.3(b) and (e), 13.2, 13.3, 13.7, 13.8 and 13.9 of the Franchise Agreement; <b>Schedule F and F-1</b> to Franchise Agreement. (Note 4)	Obligations include complete de-identification as an EQ3 Store Franchise, return of all Confidential Information and payments of amounts due, transfer of telephone number and Internet domain name, and assign lease (at our option). Obligations may vary if EQ3FH exercises its option to purchase under §13.3. Also see (o) and (r) below.
	§9.4 of the Product Supply Agreement	Immediate payment of all amounts due EQ3FH under Product Supply Agreement with interest, cancellation of your outstanding orders at our option.
	§§5.2 and 5.3 of Security Agreement	After we notify you that you are in default, you must at our request assemble the collateral and all records, and give us access to the premises where the collateral or records are located to take possession of the collateral. You also grant us a license to use, without charge, your intellectual property rights, customer lists and other property pertaining to the collateral.

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
j. Assignment of contract by EQ3FH	§13.4(a) of the Franchise Agreement	No restriction on EQ3FH's right to assign.
k. "Transfer" by Franchisee – definition	§13.4(c) of the Franchise Agreement	Includes transfer of franchise agreement, encumbering of assets and transfer of assets of franchisee or ownership change.
	§10.11 of Product Supply Agreement	Transfer of Agreement.
l. EQ3's approval of transfer by Franchisee	§13.4(c) of the Franchise Agreement	No right of transfer without our consent. Franchisee can transfer its rights under the Franchise Agreement to a controlled corporation if not in breach.
	Schedule F to Franchise Agreement	We require your lease to provide that you cannot transfer without our prior written approval.
	§10.11 of the Product Supply Agreement	No assignment without our consent.
	§8.8 of Security Agreement	You cannot assign your rights or delegate your duties without our prior written consent.
m. Conditions for EQ3FH's approval of transfer	§13.4(c) of the Franchise Agreement	Notice; no existing breaches; settlement of all outstanding obligations; general release signed by franchisee and its Principals ( <b>Exhibit O</b> ); transfer fee paid; new franchise agreement entered into by transferee; and payment of prorated transfer fee. Also see (r) below.
	§10.11 of Product Supply Agreement	None.
n. EQ3FH's right of first refusal to acquire Franchisee's business	§13.4(e) of the Franchise Agreement	If you or one of your principals proposes to make a transfer other than to an entity owned by you or your principals, we have a right for 30 days after you give us information to exercise a right of first refusal and substitute ourselves for the proposed transferee. If we do not exercise the right, and you then change the terms of the proposed transaction, we have another 15 days to exercise the right of first refusal. If we exercise the right, we have 90 days to close and we can substitute other consideration.
o. EQ3FH's option to purchase Franchisee's business	13.3(c) and 13.4(b) of the Franchise Agreement	For 60 days following expiration or termination, we can purchase your equipment and other assets used in the Franchised Business at their fair market value. If we exercise this option, we can enter the premises to manage the business until the closing. After the first 10 years of the franchise, upon mutual agreement of the parties, we can, upon 180 days

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
		notice, purchase your EQ3 Store Franchise (excluding certain assets and liabilities). The purchase price will be calculated by one of the two methods in the Franchise Agreement at our election.
p. Death or disability of Franchisee	§13.6 of the Franchise Agreement	Within 120 days of the death or disability of the last shareholder of Franchisee, the EQ3 Store Franchise and the property and assets used in the operation of the EQ3 Store Franchise (including the lease) must be assigned by estate to buyer approved by EQ3FH.
q. Non-competition covenants during the term of the franchise	§§13.7, 13.8 and 13.9 of the Franchise Agreement	No involvement with competing business anywhere in the world; no solicitation of other EQ3 Store's employees.
r. Non-competition covenants after the franchise is terminated or expires	§§13.7, 13.8 and 13.9 of the Franchise Agreement	During 2 year period after expiration or termination of Agreement, neither Franchisee nor its Principals, officers, directors, shareholders, members or general partners shall have any involvement with competing business within the Territory or 10 miles of existing EQ3 Stores. No solicitation of or attempt to induce employees to discontinue employment anywhere in North America for 1 year after the expiration or termination of the Franchise Agreement.
s. Modification of the agreement	§§4.2(e), 13.7(c), 16.7 and 16.24 of the Franchise Agreement	No modifications during term except by mutual agreement, but policies and procedures and the EQ3 Operations Manual are subject to changes by us. Agreement may be modified as condition of renewal. Invalid provisions will be deemed modified to extent required to render them valid under applicable law.
	§§10.5 and 10.12 of Product Supply Agreement	Only by writing signed by both parties.
	§6.1 of Security Agreement	Only by writing signed by both parties.
	§§9 and 11 of Guaranty	Irrevocable by principal while obligations remain.
t. Integration/ merger clause	§16.24 of the Franchise Agreement; §10.12 of the Product Supply Agreement; §14 of the Guaranty; §8.13 of Security Agreement	Subject to applicable federal and state law, only the terms of the Franchise Agreement (and the ancillary documents) between the parties are binding. Any other promises may not be enforceable.
u. Dispute resolution by arbitration or mediation	§§15.1, 15.2 and 15.3 of the Franchise Agreement; §10.1 of the Product Supply Agreement	Except for certain identified exceptions, all disputes are subject to non-binding mediation. (Note 5)

<u>Provision</u>	<u>Section in Franchise Agreement or Other Agreement</u>	<u>Summary</u>
v. Choice of forum	§§15.1 and 15.2 of the Franchise Agreement	North Carolina for mediation. We may sue in the state or federal court in North Carolina for court actions. See State Addenda.
	§10.1 of Product Supply Agreement	Same.
	§14 of the Guaranty	We may sue in the state or federal court in North Carolina. (Note 6)
	§8.14 of the Security Agreement	We may sue in the state or federal court in North Carolina.
w. Choice of law	§16.10 of the Franchise Agreement	The laws of North Carolina will govern unless superseded by applicable federal or state law. See State Addenda.
	§10.8 of the Product Supply Agreement; §13 of the Guaranty	North Carolina.
	§§1.2 and 14 of the Security Agreement	The definitions of the U.C.C. in your jurisdiction apply. Otherwise, North Carolina law applies.

**Notes:**

1. This option to terminate is also provided to EQ3FH in §3.5 of the Franchise Agreement. However, you will have an additional 30 days after we give you notice of termination to reach an agreement with EQ3FH over the site for the EQ3 Store.
2. We may terminate the Product Supply Agreement upon 15 days notice to you after a default of that agreement. However, if the default is one which can be cured, you will have 15 days to cure the default. Under certain circumstances the Product Supply Agreement will be automatically terminated without any notice requirement. (See §9 of the Product Supply Agreement.) Also, we may suspend or terminate the supply of EQ3 Products as a result of events beyond our reasonable control, in which case, the Franchise Agreement will be amended to the extent required to permit you to replace EQ3 Products with Authorized Products.
3. A default under Product Supply Agreement or the Franchise Agreement is also a default under the Security Agreement. (See §1.3 of the Security Agreement, which sets forth the Events of Default for that agreement.) The Security Agreement does not provide a right to cure defaults of that agreement.
4. Although a default under the Security Agreement will not result in its termination, it will result in various remedies being made available to us. (See §§6 and 7 of the Security Agreement.)
5. The Franchise Agreement and the Product Supply Agreement contain provisions disclaiming and limiting certain warranties and damages.
6. The principals will submit to an action under the Guaranty being brought in the state courts of North Carolina or the federal courts for the Middle District of North Carolina.

There are state specific addenda attached as **Exhibit S** for the states of California, Hawaii, Illinois, Maryland, Minnesota, New York, North Carolina, North Dakota, Rhode Island and Washington. The Michigan Addendum is attached following the cover page.

These states have statutes which may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise. ARKANSAS (Ark. Code of 1987 Anno. §§4-72-201 to 4-72-210); CALIFORNIA (Cal. Bus. & Prof. Code Sections 20000-20043); CONNECTICUT (Conn. Gen. Stat. Sections 42-133e to 42-133h); DELAWARE (Dela. Code Sections 2551 - 2556); HAWAII (Haw. Rev. Stat. Section 482E-6); ILLINOIS (815 ILCS 705/19, 705/20); INDIANA (Ind. Code Section 23-2-2.7, Sections 1 to 7); IOWA (Iowa Code Sections 523H.1 - 523H.17, 537A.10); LOUISIANA (La. Rev. Stats., tit. 12, ch. 13, Section 1042 and tit. 23, ch. 9, Section 921); MICHIGAN (MCL Rev. Stats., tit. 12, ch. 13, Section 1042 and tit. 23, ch. 9, Section 921); MINNESOTA (Minn. Stat. 1996 Section 80C.14), Section 445.1527; MSA Section 19.854(27)); MISSISSIPPI (Miss. Code Sections 75-24-51 to 75-24-63); MISSOURI (Mo. Rev. Stat. Sections 407.400 to 407.420); NEBRASKA (Neb. Rev. Stat. Sections 87-401 to 87-410); NEW JERSEY (N.J. Rev. Stat. Sections 56:10-1 to 56:10-29); SOUTH DAKOTA (S.D. Codified Laws Section 37-5A-51); VIRGINIA (Va. Code Sections 13.1-557 to 574, 13.1-564); WASHINGTON (Wash. Rev. Code Sections 19.100.180 and 19:100.190); and WISCONSIN (Wis. Stat. Sections 135.01 to 137.07). These statutes and other state court decisions may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

#### **Item 18 PUBLIC FIGURES**

We do not use any public figure to promote our franchise.

#### **Item 19 EARNINGS CLAIMS**

We do not furnish or authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of any EQ3 Store franchise. Actual results vary from store to store and we cannot estimate the results of any particular franchise.

We have specifically instructed salespersons, agents, employees and officers that they are not permitted to make claims or statements as to earnings, sales or profits or prospects or chances of success, nor are they authorized to represent or estimate dollar figures as to any particular EQ3 Franchised Business.

**Item 20  
LIST OF OUTLETS**

**Franchised Businesses  
Status Summary  
For Years 2005/2004/2003<sup>(1)</sup>**

State	Transfers	Cancelled Or Terminated	Not Renewed	Reacquired By Us	Left The System Other	Total From Left Columns <sup>(2)</sup>	Franchises Operating At Year End
All States	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
<b>Totals</b>	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0

**Notes:**

- (1) All numbers are set forth as of December 31 of each year. We began selling franchises in August, 2004.
- (2) The number in the "totals" column may exceed the number of units affected because several events may have affected the same unit in the same fiscal year or during the three disclosed fiscal years.

**Status of Company Owned Businesses  
For Years Ended 2005/2004/2003<sup>(1)</sup>**

State	Company-owned Businesses Opened During Year	Company-owned Businesses Closed During Year	Total Company-owned Businesses Operating At Year End
California	0/0/0	0/0/0	1/1/1
<b>Totals</b>	0/0/0	0/0/0	1/1/1

**NOTES:**

- (1) All numbers are set forth as of December 31 of each year. We do not operate company owned businesses, but one of our affiliates opened a store in Burbank, California that is now being managed by a dealer.

**Projected Franchise Openings  
For Calendar Year 2006**

State	Franchise Agreements Signed But Business Not Open	Projected New Franchised Businesses In Calendar Year 2006	Projected Company Owned Businesses In Calendar Year 2006
Arizona		1	
California		2	

State	Franchise Agreements Signed But Business Not Open	Projected New Franchised Businesses In Calendar Year 2006	Projected Company Owned Businesses In Calendar Year 2006
North Carolina		1	
Virginia		2	
<b>Totals</b>	0	6	0

Attached as **Exhibit P** is a list of the names of all franchisees, the number of franchises each franchisee owns and their addresses and telephone number of all their units as of December 31, 2005. We began selling franchises in August, 2004.

Attached as **Exhibit Q** is a list of the name and last known home address and telephone number of every franchisee who, in our most recent full fiscal year end: (1) had a unit terminated by us; (2) had a unit not renewed by us; (3) otherwise voluntary or involuntarily ceased to do business under the Franchise Agreement; or (4) has not communicated with us within 10 weeks of the date we prepared and filed this Offering Circular.

#### Item 21 FINANCIAL STATEMENTS

Attached as **Exhibit R** are the audited financial statements of EQ3FH as of December 31, 2005 and December 31, 2004.

#### Item 22 CONTRACTS

The following agreements are attached to this Offering Circular:

- (a) Confidentiality Agreement - **Exhibit E**
- (b) Franchise Agreement and its Schedules - **Exhibit F**
- (c) Additional Outlets Rider - **Schedule C to Franchise Agreement (Exhibit F)**
- (d) Guaranty and Indemnification Covenant - **Schedule I to Franchise Agreement (Exhibit F)**
- (e) Appointment of Agent/Power of Attorney - **Schedule J to Franchise Agreement (Exhibit F)**
- (f) Conditional Assignment of Telephone Listings and Internet Presence - **Schedule K to Franchise Agreement (Exhibit F)**
- (g) Renewal Rider - **Schedule L to Franchise Agreement (Exhibit F)**

- (h) State Specific Amendments to Franchise Agreements for franchisees in Illinois, Maryland, Minnesota, New York, North Dakota and Washington - **Exhibit G**
- (i) Product Supply Agreement and current form of Purchase Order Form - **Exhibit H**
- (j) Security Agreement and UCC-1 Financing Statement - **Exhibit I**
- (k) Citifinancial Retail Services Dealer Agreement - **Exhibit M**
- (l) General Release - **Exhibit O**

**Item 23**  
**RECEIPTS**

The last 2 pages of this Offering Circular are receipt pages. You need to sign and return one copy to us to reflect that you received this Offering Circular and the date you received it. You should keep the other copy for your records.