

abrakadoodle®

FRANCHISE OFFERING CIRCULAR

For Use In

Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, Washington, D.C., American Samoa, Federated States of Micronesia, Guam, Marshall Islands, North Mariana Islands (including Saipan), Palau, Puerto Rico and Virgin Islands.

INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY FEDERAL TRADE COMMISSION

Abrakadoodle, Inc.
1800 Robert Fulton Drive, Suite 250
Reston, VA 20191
703-871-7356
www.abrakadoodle.com

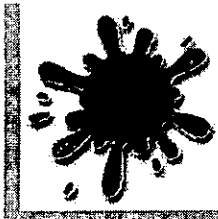
* * * * *

To protect you, we've required your franchisor to give you this information. We haven't checked it, and don't know if it's correct. It should help you make up your mind. Study it carefully. While it includes some information about your contract, don't rely on it alone to understand your contract. Read all of your contract carefully. Buying a franchise is a complicated investment. Take your time to decide. If possible, show your contract and this information to an advisor, like a lawyer or an accountant. If you find anything you think may be wrong or anything important that's been left out, you should let us know about it. It may be against the law. There may also be laws on franchising in your state. Ask your state agencies about them.

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Effective Date:

FRANCHISE OFFERING CIRCULAR



Abrakadoodle, Inc.
1800 Robert Fulton Drive, Suite 250
Reston, VA 20191
703-871-7356
www.abrakadoodle.com

You will operate an ABRAKADOODLE® business which provides arts education programs for 20-month-old to 12-year-old children.

The initial franchise fee is \$32,500 for a standard territory with 60,000 qualifying households. The fee for additional territory, if available, is \$0.35 per qualifying household, but a territory will generally not exceed 120,000 qualifying households. At our option, we may reduce the initial franchise fee by \$3,000 if you already operate a similar business or have been employed for at least 1 year by an ABRAKADOODLE business. The estimated initial investment ranges from \$40,695 to \$72,470.

Risk Factors:

1. YOU MUST ARBITRATE WITH US OR SUE US IN VIRGINIA. OUT-OF-STATE ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST YOU MORE TO ARBITRATE OR LITIGATE WITH US IN VIRGINIA THAN IN YOUR HOME STATE. CERTAIN STATE AND LOCAL LAWS MAY SUPERSEDE THIS REQUIREMENT. PLEASE REFER TO ANY STATE-SPECIFIC ADDENDUM THAT MAY BE IN THE OFFERING CIRCULAR FOR FURTHER DETAILS.
2. VIRGINIA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS. PLEASE REFER TO ANY STATE-SPECIFIC ADDENDUM THAT MAY BE IN THE OFFERING CIRCULAR FOR FURTHER DETAILS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

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

Effective Dates:

Non-Registration States:

California:

Illinois:

Maryland:

Minnesota:

New York:

Rhode Island:

Virginia:

Washington:

Wisconsin:

CALIFORNIA NOTICE

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE OFFERING CIRCULAR.

SEE "CALIFORNIA ADDENDUM TO DISCLOSURE DOCUMENT" FOR MODIFICATIONS TO THIS DISCLOSURE DOCUMENT

PROVISION APPLICABLE TO RHODE ISLAND

ALTHOUGH THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE RHODE ISLAND FRANCHISE LAW, REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIVISION OF SECURITIES THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE, ACCURATE OR NOT MISLEADING.

MICHIGAN NOTICE

The state of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assents to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Law. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
 - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- (h) A provision that requires the franchisee to sell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).
- (i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

FRANCHISE OFFERING CIRCULAR

TABLE OF CONTENTS

| <u>Item</u> | | <u>Page</u> |
|-------------|---|-------------------------|
| 1 | FRANCHISOR, ITS PREDECESSORS AND AFFILIATES | 1 |
| 2 | BUSINESS EXPERIENCE | 2 |
| 3 | LITIGATION..... | 3 |
| 4 | BANKRUPTCY | 3 |
| 5 | INITIAL FEES | 3 |
| 6 | OTHER FEES..... | 4 |
| 7 | INITIAL INVESTMENT | 7 |
| 8 | RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES | 9 |
| 9 | FRANCHISEE'S OBLIGATIONS | 11 |
| 10 | FINANCING..... | 12 |
| 11 | FRANCHISOR'S OBLIGATIONS | 12 |
| 12 | TERRITORY | 19 |
| 13 | TRADEMARKS..... | 21 |
| 14 | PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION | 23 |
| 15 | OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS | 24 |
| 16 | RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL | 25 <u>24</u> |
| 17 | RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION | 25 |
| 18 | PUBLIC FIGURES..... | 29 <u>28</u> |
| 19 | EARNINGS CLAIMS | 30 <u>29</u> |
| 20 | OUTLETS..... | 30 <u>29</u> |

FRANCHISE OFFERING CIRCULAR

TABLE OF CONTENTS

| <u>Item</u> | | <u>Page</u> |
|-------------|---|-------------|
| 21 | FINANCIAL STATEMENTS..... | 31 |
| 22 | CONTRACTS | 31 |
| 23 | RECEIPTS..... | 31 |
| | STATE ADDENDUM <u>ADDENDA</u> TO DISCLOSURE DOCUMENT..... | 32 |
| | (IF REQUIRED) | |

EXHIBITS:

- ~~Exhibit A~~ Agencies/Agents for Service of Process
- ~~Exhibit B~~ Franchise Agreement, **State Riders** and Related Agreements
- ~~Exhibit C~~ Franchisees
- ~~Exhibit D~~ Franchisees Who Have Left the System
- ~~Exhibit E~~ Financial Statements
- ~~Exhibit F~~ **Information on Class Offerings and Class Fees**

G Receipts

#994262**1120820** v3**1** - ABR-Core-020304**021805**

Item 1

FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

The franchisor is Abrakadoodle, Inc. For ease of reference in this disclosure document, Abrakadoodle, Inc. is referred to as "we" or "us," and the person who is considering the franchise is referred to as "you." If you are a corporation, limited liability company, partnership or other legal entity ("legal entity"), certain provisions of the franchise agreement and related agreements will apply to your shareholders, members, partners, officers, managers and directors ("principals").

We are a Virginia corporation formed on October 17, 2003. We do business as ABRAKADOODLE. Our principal business address is 1800 Robert Fulton Drive, Suite 250, Reston, Virginia 20191. We have no predecessors or affiliates. Our agents for service of process are disclosed in Exhibit A.

We offer a franchise model for businesses that provide arts education programs for **20-month-old to 12-year-old** children ages 2 to 12 under the trademark and trade name ABRAKADOODLE®. If you purchase a franchise, you will be the owner of the franchised business, with staff to assist in the teaching and operations of the business. Additional staff may be employed as your business grows.

You will present ABRAKADOODLE® programs at facilities – schools, day care centers, community centers and other host sites – operated by others. You must introduce your programs to the operators of those facilities before presenting programs to children at the facilities. You are not required to operate your own educational facility, although in some instances, you may choose to do so. We have contacted, and intend to continue to contact, national and regional operators of appropriate types of facilities to encourage them to permit programs to be presented at their facilities.

You may also institute programs at host sites to instruct adults about arts education, and you may provide designated curriculum materials to those adults.

You must operate the franchised business according to our standards and specifications, and sign our standard franchise agreement (the "franchise agreement") and related agreements (Exhibit B). You will compete with other local, regional and national companies offering other arts education programs for children. The market for arts education programs for children is developed in some major metropolitan areas but is undeveloped in other areas. Before signing a franchise agreement, you will be expected to survey your market to determine the number of competitors, the number of facilities and children they are likely servicing, and the perceived quality of their programs and materials.

We are not aware of any laws or regulations specific to the operation of arts education programs for children, although you must comply with all local, state and federal laws and regulations applicable to the operation of any business. We urge you to inquire about these laws and regulations.

We have not engaged in any other line of business, have not offered franchises in any other line of business, and began offering franchises in February 2004. Our founder, Mary C. Rogers, has operated a business of the type being franchised since 2002.

Item 2

BUSINESS EXPERIENCE

Chairman of the Board, President/CEO and Director: Mary C. Rogers, B.S., M.Ed.

Mary Rogers has been our Chairman of the Board, President/CEO and Director since November 2003. From August 2002 to November 2003, she was the founder of the ABRAKADOODLE program in McLean, Virginia, and from May 1998 to the present, Mary has been President and CEO of Rogers and Associates in McLean, Virginia. Mary has over 20 years of experience in education and franchising. In 1988, she co-founded ECW Corporation, the franchisor for COMPUTERTOTS, an international computer education franchise. She served as its Chief Operating Officer from 1988 until 1997, when she sold her ownership interest. Mary is a national speaker on topics such as enrichment education and franchising. She has been on the Board of Trustees of the International Franchise Association's Educational Foundation from 1999 to 2004. She has been the President and Executive Director of the Capital Area Franchise Association.

Vice President of Development: Rosemarie H. Hartnett, B.A.

Rosemarie Hartnett has been our Vice President of Development since October 2003. From May 2003 to September 2003, she performed a similar function for the ABRAKADOODLE program operated by Mary Rogers in McLean, Virginia. From April 2002 to February 2003, she was Marketing Manager of Bread & Chocolate in Alexandria, Virginia. From June 2000 to December 2001, she was Vice President of International Development of Tutor Time Learning Systems in Boca Raton, Florida. From August 1999 to May 2000, Rosemarie was Executive Director of The Franchise Talk Network in Washington, DC, and from August 1991 to April 1999, she was Director of International Programs of ECW Corporation in Great Falls, Virginia. Her duties with us include managing training, sales and program development. She has been the President of the Capital Area Franchise Association.

Brokers: FranChoice, Inc.

We receive franchise leads from representatives of FranChoice, Inc.. If you are referred to us by a FranChoice, Inc. representative, and if that representative acts as a broker under applicable law, we will provide you with information on the representative that is similar to the information in Items 2, 3 and 4 of this offering circular.

Periodically, we may also receive franchise leads representatives from other organizations. If you are referred to us by a representative from another organization, and if that representative acts as a broker under applicable law, we will provide you with information on the representative that is similar to the information in Items 2, 3 and 4 of this offering circular.

Item 3

LITIGATION

No litigation must be disclosed in this Item.

Item 4

BANKRUPTCY

No person previously identified in Items 1 or 2 of this disclosure document has been involved as a debtor in proceedings under the U.S. Bankruptcy Code that must be disclosed in this Item.

Item 5

INITIAL FEES

Initial Franchise Fee

You must pay us, on signing the franchise agreement, a ~~\$28,900~~32,500 initial franchise fee for a standard territory. Except as described below, this fee is uniform, is fully earned when the franchise agreement is signed, and is non-refundable, except that we may, at any time before you successfully complete initial training, cancel the franchise agreement and refund the fee, less expenses incurred, if we decide that you should not operate a business. We estimate our expenses will be in the \$4,500 to \$6,000 range.

We may charge an additional initial franchise fee for a territory that is larger than a standard territory (~~as described in~~see Item 12). The additional initial franchise fee is calculated at a rate of \$0.35 per qualifying household above our guidelines for a standard territory. This additional fee is uniform if required, is fully earned when the franchise agreement is signed, and is non-refundable, except that we may, at any time before you successfully complete initial training, cancel the franchise agreement and refund the fee, if we decide that you should not operate a business. We estimate our expenses will be in the \$4,500 to \$6,000 range.

We may choose to proportionally reduce the initial fee for a market that has substantially fewer than 60,000 qualified households within a 30-mile radius.

If we may choose to reduce the initial fee by \$3,000 if you already operate a business that is similar to an ABRAKADOODLE business, or if you have been employed for a period of at least 1 year by an ABRAKADOODLE business, we may reduce your initial franchise fee by \$3,000.

In 2004, we sold 1 smaller-than-standard territory for an initial franchise fee of \$18,900, and we sold 1 territory to a person who had operated a business similar to an ABRAKADOODLE business for an initial franchise fee of \$25,900.

Initial Training

We will provide, at no extra charge to you, initial training and training materials for up to 2 trainees. If you **choose to** send additional people to initial training, ~~we will charge you~~ **you must pay us** a \$3,500 training fee for each additional person. Training fees are uniform and non-refundable. You must pay for all your trainees' travel, meals and lodging. See Item 11 for additional information on training.

Item 6

OTHER FEES

| Fee (1) | Amount | Due Date | Remarks |
|---|--|--|---|
| Continuing franchise fee | Initially, 8% of Gross Sales, subject to \$500 monthly minimum. When; <u>when</u> yearly Gross Sales exceed \$200,000, 6% of Gross Sales, subject to \$500 monthly minimum, for remainder of calendar year (2). | Payable monthly by 10 th day of each month. | <u>The continuing franchise fee is subject to a \$500 monthly minimum.</u> You must sign the Authorization For Automatic Payments (Attachment 6) <u>and allow us to draft these fees each month</u> |
| Advertising and promotional contribution | 1% of Gross Sales | Payable monthly by 10th day of each month <u>Same as continuing franchise fee</u> | We administer a system-wide advertising and promotional fund (see Item 11) |
| Remedial or follow-up training (3) | Currently \$500 per person per day (4) | Before day 1 of training | You or your manager(s) must attend this training if we decide it is necessary |
| Initial training of replacement manager (3) | Currently \$3,500 (4) | Before day 1 of training | No fee if training is required less frequently than every 2 years |
| <u>Abakadoodle Intranet fee (4)</u> | <u>Currently \$20 per month</u> | <u>Same as continuing franchise fee</u> | <u>We collect this fee on behalf of the network hosting company for its service and ongoing support</u> |

| Fee (1) | Amount | Due Date | Remarks |
|---|--|--|---|
| <u>Support fee for required web-based or other class management program (4)</u> | <u>Currently \$25 per month</u> | <u>Same as continuing franchise fee</u> | <u>We collect this fee on behalf of the supplier of the required web-based or other class management program</u> |
| Field assistance | Currently \$500 per day (4), plus expenses | Before 1 st day 4 of scheduled assistance | This fee is for field assistance you need or request |
| Annual conference (3) | Proportionate share of our out-of-pocket costs | Before 1 st day 4 of the conference | You must also pay for travel, meals and lodging |
| Advanced ABRAKADOODLE Training (45) | Varies under circumstances | Before training | Available to existing franchisees who wish to offer additional programs |
| Equipment, supply or supplier testing or inspection | Out-of-pocket expenses, plus the then-current per diem charges for our personnel | 30 days after billing | This fee covers the cost of testing or inspecting, granting or approving, new equipment, supplies or suppliers you propose |
| Transfer | 30% of then-current initial franchise fee for comparable territory, plus our out-of-pocket travel, lodging and meal expenses | Before transfer | Payable when franchise agreement or controlling interest in franchise is transferred; no charge if franchise agreement is transferred to legal entity you control. |
| Transfer involving a broker | Actual broker's fee | Before transfer | If a broker is involved in referring a buyer, you must pay the broker's fee. |
| Renewal | 5% of then-current initial franchise fee for a comparable territory | On signing of renewal franchise agreement | |
| Audit | Cost of inspection or audit | 30 days after billing | Payable only if we find, after an audit, that you have understated any amount owed to us by 3% or more for any 3-month period, or if the examination or audit is made necessary by your failure to furnish required information or documents to us in a timely manner |

| Fee (1) | Amount | Due Date | Remarks |
|---|---|--|---|
| Late fees <u>and</u> <u>interest</u> | \$25, plus lesser of 1.5% per month or highest rate of interest allowed by law | When billed | Payable on all overdue amounts. We may change the late fee up to 1 time each year by giving you 30 days' prior written notice |
| Reimbursements and penalty fees | Will vary under circumstances | When billed | Reimbursements on returned checks, declined charges and similar defaults; penalty fees on those defaults and on unpaid invoices |
| Inspection | Our actual costs, including travel expenses, room, board and compensation of our representative or designee | When billed | Payable if we must make more than 2 inspections due to your repeated or continuing failure to comply with the franchise agreement |
| Deficiencies | Our actual costs | When billed | If you do not satisfy your obligations under the franchise agreement, we may perform your obligations for you. You must reimburse us for our costs in performing your obligations |
| Costs and attorneys' fees | Will vary under circumstances | As incurred | Payable if your noncompliance with the franchise agreement causes us to incur legal expenses |
| Record-keeping software upgrades and support fee (5) | \$25 to \$50 per month (4) | Payable monthly by 10th day of each month | Covers the costs of upgrades and support for our class management software |
| Indemnification | Will vary under circumstances | As incurred | You must reimburse us if we are held liable for claims involving the operation of your franchised business |

Note 1: All fees are imposed by and payable to us. All fees are non-refundable. In addition to fees, you may be required to purchase certain items from us (see Item 8). See Item 9 for references to sections of the franchise agreement on fees.

Note 2: Higher monthly minimums may be established if the territory stated in your franchise agreement is larger than our then-standard territory or if you elect to market additional programs. As of the date of this offering circular, we have not established any higher monthly minimums. "Gross Sales" include all collected receipts of your business, including all class fees (whether for students or for teachers), registration fees, late charges, other amounts received or charged, the value of all services or products

received for services provided or products sold, whether for cash or barter, or on a charge, credit or time basis, excluding excise, sales and use taxes, gross receipts taxes or similar taxes you pay based on sale, if those taxes are separately stated when the client is charged, and also excluding bona fide refunds, allowances or discounts to clients.

Note 3: For all training, you must pay for your travel, lodging and meal expenses and for your trainees' and attendees' salaries and benefits and their travel, lodging and meal expenses. If you request our trainers or if they must travel to give you training, you must pay us the then-current per diem charges for those trainers and must reimburse us for their actual and reasonable travel, lodging and meal expenses.

Note 4: Currently, we collect from you the fee that the network hosting company charges us. The fee may change if the supplier changes its fees. Currently, we also collect from you the monthly fee that the supplier of the class management program charges us, although we pay the initial cost for training and implementation of the class management program. See Item 11 for information about our plans to change to a web-based equivalent of the program. The fee could change if the supplier changes its fees.

Note 5: These fees are subject to change, but not so as to unreasonably increase your obligations. For example, we may develop new training courses that may require fees different from those currently charged.

~~**Note 5:** We will choose a class management software program to assist our franchisees in managing their record keeping for students, sites, teachers and schedules. It is included in the initial packet of materials that you receive at training.~~

Item 7

INITIAL INVESTMENT

| Expenditure (1) | Estimated Amount or Estimated Low-High Range (2) | When Payable | Method of Payment | To Whom Paid |
|--|---|--------------------------------|---|---------------------|
| Initial franchise fee (3) | \$28,900 \$32,500 - 49,900 \$53,500 | On signing franchise agreement | Lump sum by certified or cashiers check | Us |
| 1 laptop computer (per our current specifications for initial laptop computer) | \$1,000 - <u>\$2,000</u> | As incurred | As agreed | Outside suppliers |
| 1 Digital camera | \$200 - <u>\$300</u> | As incurred | As agreed | Outside suppliers |
| 1 Color printer | \$100 - <u>\$200</u> | As incurred | As agreed | Outside suppliers |

| Expenditure (1) | Estimated Amount or Estimated Low-High Range (2) | When Payable | Method of Payment | To Whom Paid |
|---|--|----------------------------|----------------------|--|
| Class materials (paper, paint, frames, brushes, tape, pastels, pencils, etc.) (for 1st 6 months) | \$1,200 - \$ 3,000 | As incurred | As agreed | Us and outside suppliers |
| 1 Telephone answering machine | \$75 - \$ 150 | As incurred | As agreed | Outside suppliers |
| Travel, lodging and meals for initial training (per person) | \$1,500 - \$ 2,500 | As incurred | As agreed | Outside suppliers |
| Initial Training (4) | \$0 - \$3,500 (per person) | Before training | As agreed | Us |
| Supplies (stationery, business cards, brochures, marketing materials, on-line service, paper, etc.) (for 1 st 6 months) | \$500 - \$ 700 | As incurred | As agreed | Outside <u>Us and outside</u> suppliers |
| Business licenses, permits, etc. (for 1 st 6 months) | \$50 - \$ 100 | As incurred | As agreed | Outside suppliers |
| Insurance (4 5) (for 1 st 6 months) | \$300 - 500 \$750 | As incurred | As agreed | Outside suppliers |
| Abrakadoodle Intranet fee (6) (for 1st 6 months) | \$120 | As incurred | As agreed | Us |
| Class Web-based or other class management software program fee (6) (for 1 st 6 months) | \$150—300 | As incurred | As agreed | Us |
| Additional funds (5 7) (for 1 st 6 months) | \$3,000 - 6,000 \$9,000 | As incurred | As agreed | Outside suppliers |
| ESTIMATED INITIAL INVESTMENT ASSUMING NO COMMERCIAL OFFICE (68) | \$36,97540,695-65,650\$72,470 | | | |

Note 1: Neither we nor any affiliate offers direct or indirect financing to you for any expenditure. Except for deposits, all fees are generally non-refundable.

Note 2: These figures are estimates. We recommend that you obtain independent estimates from 3rd party vendors for the costs which would apply to your establishment and operation of a franchised business, or discuss the costs of opening and operating a franchised business with our current and past franchisees. We make no representation that your costs will come within the ranges estimated and cannot guarantee that you will not incur additional expenses starting the franchised business. Your actual costs will depend on: region; the time of year; the number of clients being serviced; sales promotions; how much you follow our methods and procedures; your management skill, experience and acumen; local economic conditions; the local market for our services and

products; the prevailing wage rate; competition; and the sales level that you reach during the initial phase of your franchised business. The estimate does not include any allowance for an owner's draw. The estimated initial investment and other estimates in this offering circular do not take into account your personal living expenses, any debt service needs, ongoing working capital requirements, accounts receivable financing or other costs.

Note 3: At our option, the initial franchise fee may be \$3,000 lower if you already operate a similar business or have been employed for a period of at least 1 year by an ABRAKADOODLE business. At our option, the initial franchise fee may be higher (by \$0.35 per qualifying household above our guidelines for a standard territory) if the territory is larger than a standard territory. The high amount shown is for a territory with 60,000 additional qualifying households above our guidelines for a standard territory. For the initial franchise fee, you receive initial training, complete sets of current curriculum, ~~class management software~~, marketing and promotional materials on CD ROM, 1 teacher startup kit and the loan of all operational manuals. ~~At your option, you may~~

Note 4: The fee for training you and up to 1 other person is included in the initial franchise fee (see Note 3). You may choose to send more than 2 trainees to initial training, if you pay us a training fee of \$3,500 per additional trainee.

Note 45: You must get and maintain insurance according to our specifications. Currently, you must maintain comprehensive general liability insurance with a limit of at least \$1 million. An estimated annual premium for that insurance is \$350 to ~~\$500~~ 750. In addition, you must maintain automobile liability insurance with a \$500,000 combined single limit or a \$250,000/\$500,000 split limit, and worker's compensation or similar insurance as required by law on all employees. Most franchisees already carry automobile liability insurance equaling or exceeding the type required, or ~~are able to~~ can upgrade their insurance to the type required for an estimated annual cost of \$100 to \$400. An estimated annual premium for worker's compensation insurance is \$200 to \$400, based on estimated premium rates of \$.50 to \$1.00 per \$100 of salary paid.

Note 56: These amounts reflect the currently monthly fees for these services. See Items 6 and 11 for more information about the ABRAKADOODLE Intranet and required software and/or web-based programs.

Note 7: You may need these additional funds to operate the franchised business during its 6-month initial phase to cover operating expenses that are in excess of typical start-up revenues. These expenses may include marketing, promotional, travel, office supply, printing and telephone expenses, minimum monthly continuing license fees, advertising and promotional contributions and annual conference. We estimate that you can expect to put additional cash into the business during the initial phase, but we cannot estimate or promise when, or whether, you will achieve positive cash flow or profits. We have not provided for capital or other reserve funds necessary for you to reach "break-even", "positive cash flow" or any other financial position.

Note 68: We have relied on our officers' over ~~45~~ 16 years of experience in the children's education business to compile these estimates. These figures are only

estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

You are not required to lease or purchase a commercial office for the conduct of your business. ~~Under Sections 5.3 and 15 of the franchise agreement~~However, if you choose to maintain a commercial office, we must approve your proposed lease or purchase agreement and the appearance of the proposed office. (see Sections 5.3 and 15 of the franchise agreement). Many variables, including region, neighborhood, condition and size, will affect the cost of a commercial office and we cannot estimate these costs.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase from us upgrades and support for the class management software we choose. The fee for these upgrades and support is \$25 to \$50 a month and is subject to change on an annual basis. certain supplies containing our trademarks, such as our Framedoodle® picture frames. You may purchase from us various marketing materials containing our trademarks (brochures, posters, bulletin boards, etc.), such as pocket folders.

~~You also must purchase from us certain supplies containing our trademarks, such as our Framedoodle picture frames.~~

You must purchase certain Crayola® products for classroom use. We have negotiated a vendor agreement with Binney & Smith, the manufacturers of Crayola products, that allows you to purchase Crayola products directly from the manufacturer's distribution center at a substantial discount. We will receive no revenues from your purchases of Crayola products.

You must purchase or lease certain equipment, materials, supplies and services meeting our specifications. Also, you must purchase or lease initial equipment, materials, supplies and services in amounts that we recommend, to use our experience in the business and to provide proper initial planning, training and record keeping. ~~These~~The initial equipment, materials and supplies include items such as a laptop computer, a digital camera, a color printer for your office, a telephone answering machine, stationery and business cards. See Item 11 for more information about the computer and other items, some of which are acquired from an approved vendor.

Specifications that we have formulated for equipment, materials, supplies and services are in our Operations Manual. We may modify these specifications on reasonable written notice to you. We will consider your written request for a modification of a specification, if you explain the reason for the requested modification (or for the approval of any equipment, material or supply we have not previously approved) and provide us with sufficient technical data to enable us to evaluate your request. We will provide you with notification of approval or disapproval within 60 days after receipt of your request. We will approve a request if we determine that a modified specification is appropriate or that any equipment, material or supply meets our specifications then in

effect. We may perform tests to determine if any equipment or supply meets our specifications. We will charge you a fee to cover our out-of-pocket expenses, plus our then-current per diem charges for our personnel, for any required testing.

To ensure adequate insurance coverage, your insurance policies must meet the specifications in Section 17 of the franchise agreement. See ~~note~~ **Note 5** to Item 7 for additional information.

If you choose to maintain a commercial office for your franchised business, we must approve the purchase or lease agreement for, and the appearance of, the office. All signs, logos, emblems or pictorial materials used for the office must conform to our specifications. Also, at least 1 exterior sign of specified design and size, if permitted by local sign ordinances, must be used for the office.

We currently maintain a list of approved suppliers and criteria for approving suppliers in our Operations Manual. We may modify this list on reasonable written notice to you. You must purchase all products with our trademarks from these suppliers, who generally will be able to provide you with competitive pricing and convenience of ordering. As to products without our trademarks, you may purchase comparable products meeting our specifications from other suppliers. You may request in writing our approval of additional suppliers. We will grant or revoke approvals of suppliers based on the criteria for approving suppliers in our Operations Manual, and based on inspections and performance reviews. We may grant approvals of new suppliers or revoke past approvals of suppliers on reasonable written notice to you. We will provide you with written notification of the approval or disapproval of a supplier you propose within 60 days after receipt of your request. For this approval or disapproval, we may charge you a fee equal to our out-of-pocket expenses, plus the then-current per diem charges for our personnel.

Currently, we have negotiated an agreement with Bargain Printing for you to receive a discount. We do not derive revenue from your purchases from Bargain Printing.

We will derive revenues from supplies you purchase from us, as well as from certain suppliers that sell products to you. These revenues will vary from product to product, but generally will range from 10% to 15% of the product's selling price to you. We will use these revenues to offset our operating expenses.

In ~~During~~ our fiscal year ending December 31, 2003, ~~2004~~, we derived no revenues from ~~had no revenue from suppliers. Our revenue from franchisees'~~ purchases and leases of services and products by our franchisees. ~~from us was \$17,890.78, or 2.6%~~ of our total revenues of \$677,366. These figures were taken from our internal reports and from our audited financial statements.

We estimate that the following purchases and leases of services and products will represent the following percentages of your total purchases and leases of services and products to establish and operate your business:

| | <u>% of Total to Establish</u> | <u>% of Total to Operate</u> |
|---|------------------------------------|----------------------------------|
| Purchases/leases from us | 0 – 5% | 0 – 25% |
| Purchases/leases under our specifications | 0 – 20% | 25 – 40% |
| Purchases/leases from approved suppliers | 0 – 5% | 5 – 25% |

We provide no material benefits to you based on your use of approved suppliers. We have no purchasing or distribution cooperatives. We may, but are not required to, negotiate purchase arrangements with suppliers for your benefit.

If you choose to purchase or lease equipment, materials, supplies or services from us, we will attempt to make a reasonable profit from the sale or lease of those items or services.

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 DISCLOSURE DOCUMENT.

| Obligation | Section of Franchise Agreement | Item in Disclosure Document |
|--|---|--|
| (a) Site selection and acquisition/lease | 5.3 | 7 & 11 |
| (b) Pre-opening purchases/leases | 5.3, 14, 15 & 18.1 | 7 & 8 |
| (c) Site development and other pre-opening requirements | 5.3 & 15 | 7 & 11 |
| (d) Initial and ongoing training | 11 | 11 |
| (e) Opening | 5 | 11 |
| (f) Fees | 9, 11.2, 13.7, 16.1 & 25.2 | 5, 6 & 7 |
| (g) Compliance with standards and policies/Operations Manual | 1, 6, 12, 14 & 15 | 11 |
| (h) Trademarks and proprietary information | 12, 19 & 20 | 13 & 14 |
| (i) Restrictions on products/services offered | 7 | 8, 11 & 16 |
| (j) Warranty and customer service requirements | None | |
| (k) Territorial development and sales quotas | 2 & Attachment 1 | 12 |
| (l) Ongoing product/service purchases | 14 | 8 |
| (m) Maintenance/appearance/remodeling requirements | 14 & 15 | 11 |
| (n) Insurance | 17 | 7 & 8 |
| (o) Advertising | 16 | 6, 7 & 11 |
| (p) Indemnification | 24 | 6 |

| Obligation | Section of Franchise Agreement | Item in Disclosure Document |
|--|--------------------------------|-----------------------------|
| (q) Owner's participation/ management/staffing | 4 | 11 & 15 |
| (r) Records and reports | 13 | |
| (s) Inspections and audits | 13.7 & 22 | 6 |
| (t) Transfer | 25 | 17 |
| (u) Renewal | 3.2 | 17 |
| (v) Post-termination obligations | 27 | 17 |
| (w) Non-competition covenants | 21 & Attachment 5 | 17 |
| (x) Dispute resolution | 32 | 17 |

Item 10

FINANCING

Neither we nor any affiliate offer direct or indirect financing to you, or guarantee your note, lease or obligations.

We do not know whether you will be able to obtain financing for part or all of your investment and, if so, the terms of the financing.

Item 11

FRANCHISOR'S OBLIGATIONS

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

Our Obligations Before Opening

Before you open your business, we will provide you with:

- (1) ~~Class management software, all~~ **All** current curriculum, and other materials for establishing your business. (Section 10.1(a)).
- (2) Initial training for up to 2 individuals, at a location we determine. Currently, this training is held in the Washington D.C. area. This training lasts 5 business days. (Sections 10.1(b) and 11).
- (3) For each individual attending initial training, 1 set of the Operations Manual and other manuals, catalogs and materials, as needed. (Sections 10.1(c) and 10.1(i)). (See "Operations Manual" below).
- (4) Specifications for equipment, materials, supplies and services to be used under the system. (Sections 10.1(e) and 14).

- (5) Samples of initial advertising and marketing materials. (Section 10.1(f)).
- (6) If applicable, design and sign specifications for your commercial office. (Sections 5.3 and 15).

Our Obligations During Operation

During the operation of your business, we will:

- (1) Offer annual regional, national or international conferences designed to encourage the exchange of information and new ideas between us and our franchisees. You must pay fees to us for these conferences based on our out-of-pocket costs to hold the conferences. (Sections 10.1(b) and 11.2(c)).
- (2) Distribute to you reports of improvements in administrative, bookkeeping, accounting, inventory control and general operating procedures, and business merchandising methods (including pricing methods), as they are developed. (Section 10.1(g)).
- (3) Distribute to you revisions of the Operations Manual to incorporate improvements and new developments in our system, including improvements in services and products you offer to your clients, and recommended prices. These revisions may be made at any time, but will not unreasonably increase your obligations. (Section 12.2).
- (4) Provide periodic telephone, electronic mail or other assistance on daily operations, marketing, advertising, financial management, personnel and other operating issues that you encounter. (Section 10.1(h)).
- (5) Make available to you initial training of replacement managers at a location that we determine. For replacements made more frequently than once every 2 years, you must pay training fees. (Sections 10.1(b) and 11.2(b)).
- (6) Make reasonable efforts to negotiate, enter into and maintain, through volume purchasing, contracts for equipment, materials, supplies and services that we make available for your purchase. (Section 14.3)
- (7) Review proposed equipment, material, supply or service contracts to determine if they meet specifications under our system. (Section 14.2).
- (8) Administer a system-wide advertising and promotional fund. (Section 16.2). (See "Advertising and Promotional Fund" below).

Advertising and Promotion

You must participate in a system-wide advertising and promotional fund. The fund may provide advertising in print, direct mail, public relations, posters, brochures, coupons, presentation booklets, the Internet and similar media. The coverage of the media may be local, regional or national. We manage the preparation of advertisements, promotional

materials and publicity in-house, but may use a regional or national advertising agency to produce materials.

All franchisees and all company-owned businesses (if any) will contribute equally to the fund. Contributions are currently 1% of monthly Gross Sales. We will administer the fund and, on your request, make an annual unaudited financial statement available for your review 90 to 120 days following the year-end. We will not use contributions to the fund or any associated earnings for soliciting the sale of franchises. Other than reimbursement for reasonable costs and overhead incurred in activities for the administration or direction of the fund, neither we nor any affiliate will receive any payment for providing services or products to the fund. If we spend more than the contributions accumulated in the fund during any fiscal year, we have the right to receive, on demand, reimbursement in later years to the extent of the excess expenditure.

In our fiscal year ending December 31, ~~2003~~, 2004, we did not collect ~~spend~~ any monies ~~for~~ from the fund for advertising.

We are not required to spend any amount from the fund on advertising or promotions in the territory. If any contributions to the fund, including any associated earnings, are not spent in the fiscal year in which they accrue, they will remain in the fund for use in following years. You will receive periodic accountings of how these contributions are spent. We reserve the right to terminate the fund at any time, but we will not do so until all monies in the fund have been spent for the purposes described in the franchise agreement or returned to contributors on a prorated basis.

~~A council of franchisees advises~~ In 2005, we will establish a Franchise Advisory Council ("FAC") to advise us on advertising and promotional policies. We will appoint the FAC members in 2005. Franchisees will begin to elect the members of the ~~council~~ FAC in 2006. The ~~council is~~ FAC will be advisory and ~~has~~ will have no operational or decision-making power. We may not change or dissolve the ~~council~~ FAC, which ~~operates~~ will operate under its own bylaws.

You may use your own advertising and promotional materials: if they are dignified and conform to specifications in our Operations Manual; and if (a) we have approved the materials in writing before their use, or (b) you have submitted samples to us and we have not disapproved the samples in writing within 10 days after their receipt. You may not have your own web site. We have registered the domain name www.abrakadoodle.com. We will list your business on our corporate web site.

You are not required to spend any amount on advertising in the territory. You are not required to participate in a local or regional advertising cooperative.

See Items 6, 8 and 9 for additional information.

Computer Hardware

~~You must purchase a laptop computer, according to the standards listed in the operations manual, for accounting, marketing, training and record keeping.~~ for

accounting, marketing, training and record keeping. The computer must meet the following minimum requirements:

CPU 2.3 Ghz
CD ROM/DVD
480 RAM
15 inch screen
Microsoft® Windows® 2000 or higher

You must also purchase the following software:

Microsoft Word 2000 or higher
PowerPoint 2000 or higher

On reasonable notice, we may require you to discontinue using, to update and/or to substitute computer hardware at your expense. We estimate that the cost of upgrading and replacing computer hardware is about \$50 to \$2,500 but there are no contractual limitations on the frequency or cost of this obligation. If we modify or impose a requirement, we will notify you in our Manuals or other written communications. You are not required to obtain computer hardware from any particular source.

~~You also must purchase and use art supplies and materials that we specify. You must upgrade or replace these materials as we specify. The annual cost of supplies and materials varies based upon the number of children in your programs, but is estimated to be less than \$5 per student per month.~~

You must use web-based or other class management programs that we periodically designate. Currently, we intend to replace the desktop software used for class management with a web-based program by Kinderstreet, 52 Venture Drive, Suite 2, Ann Arbor, MI 48108. This program includes class management, database, invoicing and scheduling functions. We will pay the initial implementation and training costs for the program. We will provide telephone support to you and the vendor will provide on-going email support to you. We will collect a monthly fee in order to pay the vendor for its support (see Items 6 and 7). The web-based program will have a security device that allows us to deny you access if you fail to pay the required fee or your franchise agreement is terminated. We will have independent access to the data in your computer system. There are no contractual limitations on our right to access your data.

We may assist you in obtaining these items and services, but we are not obligated to do so.

~~You must maintain your monthly record keeping of students, sites, teachers and schedule on class management software of our choice that is included with your initial packet of materials. We charge you a \$25 to \$50 monthly fee for upgrading and supporting the record keeping software. The fee is payable on the 10th day of the month for the preceding month and is subject to change on an annual basis.~~

~~The class management software will generate, and we will collect, accounting and record-keeping information for students, sites, actual receipts, teachers and schedules. There are no contractual limitations on our right to access this data.~~

You must subscribe to an on-line Internet service provider of your choice, which generally costs between \$10 and \$50 dollars per month, allowing you to participate in the ABRAKADOODLE Intranet.

~~You must subscribe to an on-line computer network, which generally costs about \$25 per month. Your subscription to the on-line computer network will permit you participate in the Abrakadoodle Intranet and pay us a monthly fee (see Items 6 and 7). You will use our Intranet to connect on-line with us and other franchisees and our home office to gather information, exchange ideas and transfer data. See Sections 13 and 14 of the franchise agreement for additional information.~~

Operations Manual

We provide you with an Operations Manual which covered the following subjects as of December 31, 2003:**2004:**

| Table of Contents | # of Pages | Remarks |
|------------------------------|------------|---|
| Starting Your Franchise | 20 | Home Office Setup, Business Organization, Communications, Legal Aspects |
| All About ABRAKADOODLE | 22 | Mission Statement, Philosophy, Goals, FAQs, Model, Branding Strategy |
| Education | 15 | Educational Principles, Arts Education, Curriculum |
| Class Structure | 15 | Physical Setup, Class Sequence, Curriculum, Special Programs |
| Marketing I | 30 | Specific Program Types, Sales Process, Time Table, Collateral Materials |
| Marketing II | 15 | Additional Marketing Venues |
| Teacher Training | 100 | Staffing, Teacher Management, Training |
| Business Management | 43 | Basic Accounting Principles, Bookkeeping, Insurance, Payroll, Tax Issues and Benefits, Chart of Accounts, Building Your Business, Time Management, Technology |
| Franchise Owners Obligations | 15 | Use of Trademarks, Compliance, Branding Support |
| Appendix | 3 | Recommended Resources, Glossary, Approved Supplier List, Education Resources |
| TOTAL | 278 | |

Commercial Office Site Selection

You are not required to maintain a commercial office for the operation of the franchised business.

Initially, we approve the territory within which you must promote ABRAKADOODLE programs. The territory is determined on the basis of factors such as population density, traffic patterns, market statistics, day care center and pre-school locations, and community sites. After the territory has been approved, if you choose to open a commercial office site, it must be within the territory. We may, but are not obligated to, assist you in locating an office site. We will approve or disapprove a proposed site (within 60 days after you propose it in writing with appropriate documentation as stated in the Operations Manual) based on such factors as neighborhood, traffic patterns, access, parking, size, layout, length of availability, and the terms of any proposed lease or purchase contract. If we disapprove a site, you must locate another site. If you open an office at an unapproved site, in violation of the franchise agreement, we may issue a notice of default, which may lead to termination of your franchise.

Opening of Franchised Business

You must open the franchised business within 30 days after your successful completion of initial training. Should circumstances beyond your control prevent you from opening within the 30 days, you must provide us with a written request to delay opening. Your request must state: (1) that a delay is anticipated; (2) the reasons that caused the delay; (3) the efforts that you are making to proceed with the opening; and (4) an anticipated opening date. In considering the request, we will not unreasonably withhold our consent to a delay, up to a maximum period of 60 days, if you have been diligently pursuing the opening.

The typical length of time between the signing of a franchise agreement and the opening of a franchised business is 30 to 60 days. Factors that may affect this time period include our training schedule, school year schedules, and ability to obtain business licenses and permits.

Training

We provide training to you as follows:

- (1) You must successfully complete pre-training activities before attending initial training. Pre-training activities include reading designated information, viewing videos, DVDs or other media, setting up your business, meeting with a pre-training counselor on the phone, and performing other tasks.
- (2) You must successfully complete initial training at a location we designate in the Washington, D.C. area. This training generally begins within 30 days after your franchise agreement is signed, and lasts 5 business days. We generally develop training schedules at the beginning of each quarter for that quarter. You may choose to train up to 2 persons without paying a training fee. You must pay \$3,500 for each additional trainee.
- (3) Initial training generally concludes 30 days or less before the projected opening of the franchised business. Franchisees must train employees (other than an original manager) before the opening and during the initial operation of the franchised business.

- (4) Each year, you must attend a regional, national or international seminar we schedule and conduct. The focus of the seminar generally will be discussion and review of new business, marketing and educational ideas and concepts.
- (4) You (or your managing principal) and/or any previously trained managers must attend any refresher or follow-up training that we designate, and you must pay the applicable fees for this training (see Item 6).
- (5) You will not be charged for initial training, but you must pay travel and living expenses for trainees and any compensation or benefits due trainees during any training period. You will be charged for remedial or follow-up training (see Item 6).
- (6) Training for replacement managers or transferees of the franchised business is required and provided on the same terms as the initial training provided for you, except that if there is a replacement of managers more frequently than once every 2 years, there will be a fee for the training (see Item 6). Training for replacement managers and transferees will occur at a time we schedule and may not be available immediately after the replacement manager is hired or the transferee assumes control.

As of December 31, ~~2003~~, 2004, we provided the following pre-training activities and initial training:

PRE-TRAINING ACTIVITIES AND INITIAL TRAINING

| Subject | Hours ¹ of Training | Instructional Materials ² | Instructor | Instructor's ² Years of Experience |
|--------------------------------------|--------------------------------|--------------------------------------|-------------------------------|---|
| Setting Up Your Business | 2.0 <u>2</u> | Operations Manual/Online Training | Pre-Training Self-Instruction | <u>N/A</u> |
| On-Line Review of Arts Education | 2.0 <u>2</u> | Online Training | Pre-Training Self-Instruction | <u>N/A</u> |
| Market Research | 10.0 <u>10</u> | Operations Manual/Online Training | Pre-Training Self-Instruction | <u>N/A</u> |
| Educational Principles | 17.0 <u>17</u> | Operations Manual | Pre-Training Self-Instruction | <u>N/A</u> |
| Marketing | 4.0 <u>4</u> | Operations Manual | Pre-Training Self-Instruction | <u>N/A</u> |
| TOTAL PRE-TRAINING ACTIVITIES | 35.0 | | | |

| Subject | Hours ¹ of Training | Instructional Materials ² | Instructor | Instructor's ² Years of Experience |
|---|--------------------------------|--|--|---|
| All About ABRAKADOODLE | 1.5 | Operations Manual Computer Training | Mary Rogers Rosemarie Hartnett <u>Self-instruction</u> | 20- <u>N</u> / 2 15 / 1 <u>A</u> |
| PRE-TRAINING TOTAL | 36.5 | | | N/A |
| Branding and Co-Branding | 4.0 <u>1</u> | Operations Manual | Mary Rogers | 20 <u>21</u> / 2 <u>3</u> |
| Curriculum | 3.0 <u>3</u> | Operations Manual Computer Training | Rosemarie Hartnett Lori Schue | 15 <u>16</u> / 4 <u>2</u> 40 / 1 <u>11</u> / 2 |
| Class Structure | 2.5 | Operations Manual Computer Training | Rosemarie Hartnett | 15 / 4 <u>2</u> |
| Marketing I | 40.0 <u>10</u> | Operations Manual Computer Training | Rosemarie Hartnett | 15 <u>16</u> / 4 <u>2</u> |
| Marketing II | 2.0 <u>2</u> | Operations Manual Computer Training | Joan <u>Mary</u> McGurren <u>Rogers</u> | 20 <u>21</u> / 4 <u>3</u> |
| Staffing I | 2.0 <u>2</u> | Operations Manual | Rosemarie Hartnett | 15 <u>16</u> / 4 <u>2</u> |
| Staffing II | 8.0 <u>8</u> | Operations Manual Teacher Training Manual <u>Manuals</u> | Rosemarie Hartnett | 15 <u>16</u> / 4 <u>2</u> |
| Technology | 3.0 <u>3</u> | Operations Manual Computer Training | Mary <u>Leah</u> Rogers <u>Cohen</u> | 20 <u>1</u> / 2 <u>1</u> |
| Franchise Role | 4.0 <u>1</u> | Operations Manual | Mary <u>Rosemarie</u> Rogers <u>Hartnett</u> | 20 <u>16</u> / 2 |
| Business Management | 2.5 | Operations Manual | Rosemarie Hartnett | 15 <u>16</u> / 4 <u>2</u> |
| TOTAL INITIAL TRAINING (CLASSROOM) TOTAL | 36.5<u>35</u> | | | |

| Subject | Hours ¹ of Training | Instructional Materials ² | Instructor | Instructor's ² Years of Experience |
|---|--------------------------------|--------------------------------------|------------|---|
| TOTAL PRE-TRAINING ACTIVITIES AND INITIAL TRAINING TOTAL | 71.5 | | | |

Note 1: You must complete pre-training activities before attending initial training. Only initial classroom training is provided. No on-the-job training is provided or required. The hours devoted to each subject are estimates only and may vary substantially based on how quickly trainees grasp the material, their prior experience with the subject, and scheduling.

Note 2: Instructional requirements will also include computer research for selected subjects in pre-training and initial training.

Note 3: The 1st figure given is for the instructor's number of years of experience with the subject. The 2nd figure given is for the instructor's number of years of experience with us. The instructors, and consequently the level of experience of the instructors teaching the subjects, are subject to change at any time.

Item 12

TERRITORY

Territory

We grant you the marketing rights for a protected territory generally defined by 5-digit ZIP codes and/or county boundaries. All areas in the territory must be contiguous. The territory is described in Attachment 1 to your franchise agreement when you sign the agreement.

A standard territory includes up to 60,000 households with incomes of ~~\$60,000~~**75,000** and above. We may charge an additional initial franchise fee for a territory with more than 60,000 qualifying households. The additional initial franchise fee, if required, is calculated at a rate of \$0.35 per qualifying household above 60,000.

When determining the territory, we may take into account the number of children in the territory, the number of potential host sites in the territory and other factors. We may use demographic studies provided by Catalyst Systems of Lake Ridge, Virginia, Market Data Retrieval, of Shelton, Connecticut, or the U.S. Census Bureau.

Sales Quotas

To retain the franchise, during the 12-month period from the 13th month after you complete initial training through the 24th month after you complete initial training, and during

each calendar year ending later than the 24th month after you complete initial training, you must meet a minimum annual Gross Sales Quota specified in Attachment 1 to your franchise agreement (currently \$75,000 for a standard territory). For 2007 and later calendar years, we may increase the minimum annual Gross Sales Quota annually based on increases in the Consumer Price Index.

If the territory is larger than a standard territory, you may be required to meet higher minimum annual Gross Sales Quotas, which will be specified in Attachment 1 to your franchise agreement when you sign it. If you elect to market additional programs that we make available, you may be required to sign an addendum to your franchise agreement specifying higher minimum annual Gross Sales Quotas.

If you fail to achieve a minimum annual Gross Sales Quota, we may terminate the franchise.

Additional Terms

You will provide services and products at host sites in the territory. Students who receive services and products at those sites may reside in or outside of the territory.

In exchange for your marketing rights in the territory, you may not solicit or provide services or products at host sites in other franchisees' territories, and must refer requests for services and products in other franchisees' territories to those franchisees in accordance with procedures stated in the Operations Manual.

Your marketing rights restrict us from operating a company-owned business in the territory that offers the same services and products to ~~2-20-month-old~~ to- 12-year-old children that you offer, and from granting any other person the right to operate a business in the territory that offers the same services and products to ~~2-20-month-old~~ to- 12-year-old children that you offer.

We and our affiliates may contact international, national or regional clients with headquarters or locations in the territory for any purpose, including promoting the use or increased use of ABRAKADOODLE services or products marketed by us or our franchisees.

We and our affiliates may operate, and grant others the right to operate, ABRAKADOODLE businesses anywhere outside of the territory, including in territories adjacent to the territory.

We and our affiliates may sell products under ABRAKADOODLE trademarks to persons in or outside of the territory.

We and our affiliates may sell different services, under the ABRAKADOODLE trademarks or different trademarks, in or outside of the territory. We may offer you marketing rights for these services, subject to terms and conditions.

We and our affiliates may acquire or establish businesses operating under different trademarks in or outside of the territory. We may offer you marketing rights for these services, subject to terms and conditions.

We currently do not operate or franchise, and do not have any plans to operate or franchise, businesses under different trademarks. We do intend to add additional programs in the future that we may make available to qualified franchisees, subject to terms and conditions.

On renewal or transfer of a franchise, the territory may be modified. Depending on the then-current demographics of the territory, and on our then-current standards for territories and quotas, if the territory is larger than our then-current standard territory, we may require you or the transferee to: (a) accept a renewal territory or a transfer territory smaller than the then-current territory, if you or the transferee do not want higher quotas; (b) accept a renewal territory or a transfer territory identical to the then-current territory but with higher quotas; or (c) sign multiple franchise agreements with renewal territories or transfer territories and quotas that more closely match our then-current standards for territories and quotas.

As a franchisee, you do not receive the right to acquire additional territories, but we may permit you to acquire additional territories in our discretion.

Item 13

TRADEMARKS

We grant you the non-exclusive right and obligation to use the trademark, service mark and trade name ABRAKADOODLE, and other trademarks, service marks, trade names, logos, trade dresses, and other commercial symbols ("trademarks") that we may make available to you, for providing services and products under our system in the territory. Except as we permit in writing, you may not use any trademark, any derivation or modified version of any trademark, or any confusingly similar mark or name: as part of your corporate, partnership, firm or other formal business name, web site address, email address, domain name or other identification in any print, electronic or other medium; or with any prefix, suffix or other modifying word, term, symbol or design. You may not use our trademarks for the sale of unauthorized services or products or in any manner we have not authorized in writing. All rights in and good will from the use of our trademarks accrue solely to us.

Federal Registrations and Applications

Our President, Mary C. Rogers, ~~has registered 4 of our principal~~**the following** trademarks ("Marks") on the Principal Register of the U.S. Patent and Trademark Office ("PTO"), ~~as follows:~~

| Mark | Registration Number | Registration Date |
|--------------------|---------------------|-----------------------|
| ABRAKADOODLE | 2,808,698 | January 27, 2004 |
| FRAMEDOODLE | 2,830,640 | April 20, 2004 |

Mary Rogers also has We have applied for registration of another of our the following Marks on the Principal Register of the PTO, as follows:

| Mark | Application Number | Publication Date | Application Date |
|---|--------------------------|-------------------------|---|
| FRAMEDOODLE <u>ABRAKADA</u> <u>ZZLE</u> | 78254172 <u>78439779</u> | <u>January 27, 2004</u> | May 25, 2003 <u>June</u> <u>29, 2004</u> |
| <u>AMERICA'S MOST</u> <u>COLOREFUL FRANCHISE</u> | <u>78450067</u> | | <u>July 21, 2004</u> |

By not having a Principal Register registration for FRAMEDOODLE, we do not have certain presumptive legal rights granted by registration of that Mark.

We intend to file all affidavits and renewals for the Marks when required.

Determinations

There are no currently effective material determinations of the PTO, the Trademark Trial and Appeal Board ("TTAB"), or the trademark administrator of any state or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation, involving the Marks that are relevant to their use by our franchisees. There are no decided infringement, cancellation or opposition proceedings in which we unsuccessfully fought to prevent registration of a trademark to protect the Marks.

Agreements

Mary Rogers has licensed us to use the Marks ABRAKADOODLE and FRAMEDOODLE and to sublicense the use of ~~the~~ those Marks to franchisees throughout the U.S. under an exclusive license agreement. The license is for a perpetual term, and may be canceled or modified only on our default. There are no other agreements currently in effect that significantly limit our rights to use or to license the use to franchisees of the Marks in any manner material to our franchisees. Mary Rogers intends to assign the Marks to us ~~after both of them are registered~~.

Protection of Rights

You must notify us promptly of any use by any person or legal entity other than us or our franchisees, of any of our trademarks or any variation of any of our trademarks.

We will decide the actions to be taken against the use of any of our trademarks by any persons or legal entities other than us or our franchisees. Our current intent is to take strong and progressive actions (that may include bringing litigation) against that use. Any actions that we take will be at our expense.

You must notify us promptly of any litigation brought against you involving any of our trademarks, and you must deliver to us copies of any documents involving the litigation that we request. We will decide whether to settle or defend any trademark litigation brought against you. If we decide to take either action, we will do so at our expense, but you must cooperate with us. If the defense does not involve issues concerning the operation of your

franchised business, we will reimburse you for your out-of-pocket costs. If we decide not to defend or settle any trademark litigation brought against you, you must defend or settle the litigation at your expense.

We will indemnify you to the extent that litigation involves defending against infringement or unfair competition if you are using the trademarks in accordance with the franchise agreement and the Operations Manual and if you give us notice of a claim within 30 days of your learning of that claim.

We may acquire or develop additional trademarks, and may use those trademarks ourselves, make those trademarks available for use by you and other franchisees, or make those trademarks available for use by other persons or entities.

We may modify or provide a substitute for any trademark. If we do, we will be responsible for your cost of compliance. We also may require you to use and display a notice in a form we approve that you are a franchisee under our system using the trademarks under a franchise agreement.

You may not directly or indirectly contest our rights in our trademarks.

Superior Prior Rights and Infringing Uses

We do not know of any superior prior rights or any infringing uses that could materially affect your use of the Marks.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Patents

No patents are material to the franchise.

Copyrights

Various marketing, sales, training, management and curriculum materials that we created are and will be protected under the U.S. Copyright Act, whether or not we have obtained registrations. You may use these copyrighted materials during the term of the franchise, in a manner consistent with our ownership rights, solely for the purpose of promoting your business.

There are no pending copyright applications for our copyrighted materials. There are no currently effective determinations of the U.S. Copyright Office (Library of Congress) or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation, involving the copyrighted materials that are relevant to their use by our franchisees.

There are no agreements currently in effect that significantly limit our right to use or license the use of our copyrighted materials in any manner material to the franchise.

All of the provisions in Item 13 under the heading "Protection of Rights" apply to copyrights as well.

We do not know of any superior rights in or any infringing uses of our copyrighted materials that could materially affect your use of the copyrighted materials.

Proprietary Information

We have a proprietary, copyrighted Operations Manual, and copyrighted curriculum manuals that include guidelines, standards and policies for the operation of the franchised business. Item 11 describes the Operations Manual and the manner in which you are permitted to use them. All documents provided to you, including the Operations Manual, are for your exclusive use during the term of the franchise, and may not be reproduced, lent or shown to any person outside our system.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

We strongly believe that the success of your franchised business will depend to a large extent on your personal and continued efforts, supervision and attention. You (or an equivalently trained manager) must personally manage the franchised business at all times. You and any original manager of the franchised business must attend and successfully complete initial training we provide (see Item 11). Any replacement manager also must successfully complete initial training. An original manager or a replacement manager need not have an equity interest in the franchised business.

You must have any manager, and any instructor, supervisory employee or independent contractor, sign an agreement (Attachment 5 to the franchise agreement) in which he or she acknowledges the confidentiality of our system, agrees not to use any information about the system for his or her own benefit without an appropriate license, and agrees not to compete in certain respects with your business and other franchisees' businesses.

If you are a legal entity, each principal must personally guarantee your obligations under the franchise agreement and also must agree to be personally bound by, and personally liable for breach of, every term of the franchise agreement. This guaranty is included as Attachment 3 to the franchise agreement.

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer for sale and sell only services and products that we have approved or authorized. You may not offer for sale or sell services or products that would detract from or be inconsistent with our system. You may use services or products not purchased from us,

but those services or products must be of comparable quality and must be approved by us in writing before use to ensure maintenance of proper quality standards.

We have the right to change the types of services and products that we approve or authorize, if the services and products are compatible with our system. There are no other limits on our right to make these changes.

You must be open for business each week for minimum hours and days as stated in the Operations Manual.

You may provide services or products to any customers in the territory or in territories not assigned to other franchisees. You may not solicit or provide services or products to customers in territories assigned to other franchisees.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists certain important provisions of the franchise agreement and related agreements. You should read these provisions in the agreements in Exhibit B in this offering circular.

| Provision | Section in Franchise Agreement | Summary |
|---|---------------------------------------|---|
| (a) Term of the franchise | 3.1 | 10 years |
| (b) Renewal or extension of the term | 3.2 | You have the right to renew for successive 10-year renewal terms, if you meet the requirements for renewal. |
| (c) Requirements for you to renew or extend | 3.2 | Notice, solvency, no ceasing to do business, no danger to public, no repeated defaults or misrepresentations to us, timely submission of accurate reports, no felonies or illegal conduct, signing of then-current agreement, renewal fee, broker fees. |
| (d) Termination by you | 26.5 & 26.6 | If with cause, notice, 60-day opportunity for us to cure. If without cause, 60 days notice, payments current, general release. |
| (e) Termination by us without cause | None | None |
| (f) Termination by us with cause | 26.1 to 26.3 | With cause and automatic termination; with cause and notice; with cause, notice and 30 days to cure. |

| Provision | Section in Franchise Agreement | Summary |
|---|--------------------------------|--|
| (g) "Cause" defined – defaults that can be cured | 26.3 & 26.4 | Failure to comply with franchise agreement or Operations Manual, including: failure to pay us or our affiliates any required sum when due; failure to submit any required information when due; failure to maintain any standard, specification or procedure; failure to obtain our prior written acceptance, approval or consent; misuse or unauthorized use of our System or trademarks; failure to pay personal attention to business; failure to maintain records; failure to pay any third party (including any major supplier or taxing or licensing authority) any required sum when due; failure to attain any minimum annual Gross Sales Quota and subsequent failure to meet the next year's minimum annual Gross Sales Quota. |
| (h) "Cause" defined – defaults that cannot be cured | 26.1 | <u>Automatic Termination</u> General assignment for creditors; involuntary bankruptcy petition not dismissed within 60 days; filing of voluntary bankruptcy petition; adjudication of bankruptcy; court-appointed receivership; foreclosure suit not dismissed within 30 days; premises or equipment sold after levy; or conviction of crime involving moral turpitude. |
| | 26.2 | <u>Termination on Notice</u> Insolvency; ceasing to operate franchised business; illegal conduct; danger to public health or safety; repeated defaults within 12 months; material misrepresentation; transfer, or failure to transfer, in violation of franchise agreement; violation of noncompetition or confidentiality provisions; tax lien, levy or enforcement suit; failure to open for business on schedule; underpayment or under-reporting of any amount due us by 5% or more for any 3-month period. |

| Provision | Section in Franchise Agreement | Summary |
|--|---------------------------------------|--|
| (i) Your obligations on termination/non-renewal | 27 | Fulfillment of continuing obligations under franchise agreement; de-identification; no use of system, trademarks, confidential information, materials; return of confidential information, materials; client, instructor, employee and independent contractor lists to us; assignment of telephone number(s) to us; assignment of email address(es), etc. to us; cancellation of any assumed name or equivalent registration; final accounting (see also (r)). |
| (j) Assignment of agreement by us | 25.1 | No restriction on our right to assign. |
| (k) "Transfer" by you – defined | 25.2 | Includes the conveyance or pledge of any interest in you (if you are a legal entity), the franchise or the franchised business. |
| (l) Our approval of transfer by you | 25.2 | We have the right to approve all transfers, our consent not to be unreasonably withheld. |
| (m) Conditions for our approval of transfer | 25.2(b) | Compliance with franchise agreement; transferee qualification; payments current; general release; written transfer agreement; transferee's signing of then-current franchise agreement; transferee's agreement to complete training; transfer fee; no exercise of our right of first refusal; equipment updated to our then-current specifications; our consent to material terms of transfer; subordination of obligations of transferee to transferor; broker fee, if any. |
| (n) Our right of first refusal to acquire your business | 25.5 | We can match any offer. |
| (o) Our option to purchase your business | 25.6 | On your death, disability or dissolution, we have the right (but not the duty), exercisable on written notice to you, to purchase for cash any assets of your business at fair market value, if not transferred within 240 days. |
| (p) Your death or disability | 25.6 | Your interest in the franchise must be transferred to an approved person within 240 days of representative's appointment. |
| (q) Non-competition covenants during the term of the franchise | 21.2, 21.3 & 21.4(a) | No diversion of business, customers or personnel; no involvement in competing business anywhere in the U.S. and abroad. |

| Provision | Section in Franchise Agreement | Summary |
|--|--------------------------------|---|
| (r) Non-competition covenants after the franchise expires or is terminated | 21.3 & 21.4(b) | No diversion of personnel for 1 year; no involvement for 2 years in competing business in the territory or in the territory of any ABRAKADOODLE business operating or in planning at time of expiration or termination. |
| (s) Modification of the agreement | 28.3 | Both parties must agree in writing. |
| (t) Integration/merger clause | 28.1 | Only terms of franchise agreement are binding (subject to state law). Any other promises may not be enforceable. |
| (u) Dispute resolution by arbitration or mediation | 32 | Except for certain claims, all disputes must be arbitrated at AAA office nearest our home office (subject to state law). |
| (v) Choice of forum | 32.7 | Litigation in courts in the county or city in which our home office is located at the time (subject to state law). |
| (w) Choice of law | 29.6 | The Federal Arbitration Act and Virginia law apply, except that Virginia franchise law does not apply if the territory is wholly outside of Virginia (subject to state law). |

Restrictions on Termination or Non-Renewal Under State Laws

These and other states have laws that may supersede the franchise agreement and related agreements in your relationship with us, including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 4-72-201 et seq.], CALIFORNIA [Bus. & Prof. Code Sections 20,000-20,043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code Sections 2551-2556], HAWAII [Rev. Stat. Section 482E-1 et seq.], ILLINOIS [815 ILCS 705/19-20], INDIANA [IC Section 23-2-2.7], IOWA [Code Sections 523H.1-17], MICHIGAN [Stat. Section 445.1527 (MSA 19.854(27))], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-53], MISSOURI [Stat. Section 407.400 et seq.], NEBRASKA [Rev. Stat. Section 87-401 et seq.], NEW JERSEY [Stat. Section 56:10-1 et seq.], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574], WASHINGTON [RCW Section 19.100.180], WISCONSIN [Stat. Section 135.03-04]. These and other states may have court decisions that may supersede the franchise agreement and related agreements in your relationship with us, including the areas of termination and renewal of your franchise.

Reinstatements and Extensions

If any termination or expiration of the term of the franchise would violate any applicable law, we may reinstate or extend the term for the purpose of complying with the laws.

Termination on Bankruptcy

A provision in your franchise agreement that terminates the franchise on your bankruptcy may not be enforceable under Title 11, United States Code Section 101 et seq.

Restrictions on our Post-Termination Rights

These and other states have laws that may limit our ability to restrict your activity after the franchise expires or has been terminated: CALIFORNIA [Bus. & Prof. Code Section 16,600], FLORIDA [Statutes Section 542.33], MICHIGAN [Compiled Laws Section 445.771 et seq.], MONTANA [Codes Section 30-14-201], NORTH DAKOTA [Century Code Section 9-08-06], OKLAHOMA [Statutes Section 15-217-19], and WASHINGTON [RCW Section 19.86.030].

Item 18

PUBLIC FIGURES

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

Item 19

EARNINGS CLAIMS

~~We~~Other than the sample class offering and class fee information in Exhibit F,
we do not furnish or authorize our salespersons to furnish any oral or written information on the actual or potential sales, costs, income or profits of a franchised business. Actual results vary from unit to unit, and we cannot estimate the results of any particular franchised business.

Item 20

OUTLETS

FRANCHISED BUSINESS STATUS SUMMARY
FOR YEARS 2004/2003/2002/2001

| State | Sales | Transfers | Opening | CLOSINGS | | | | | Franchise or Area Grant Businesses Operating at Year End |
|------------|--------|-----------|---------|-------------------------------|-------------------|------------------|-----------------------------------|----------------|--|
| | | | | Cancelled or Terminated By Us | Not Renewed By Us | Reacquired By Us | Left the System for Other Reasons | Total Closings | |
| All states | 01/0/0 | 0/0/0 | 01/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 01/0/0 |
| Total | 02/0/0 | 0/0/0 | 02/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 02/0/0 |
| CO | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| FL | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| GA | 4/0/0 | 0/0/0 | 4/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 4/0/0 |
| IN | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| MA | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| MD | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| NJ | 2/0/0 | 0/0/0 | 2/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 2/0/0 |
| OH | 2/0/0 | 0/0/0 | 2/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 2/0/0 |
| OR | 1/0/0 | 0/0/0 | 1/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 1/0/0 |
| TX | 2/0/0 | 0/0/0 | 2/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 2/0/0 |
| VA | 2/0/0 | 0/0/0 | 2/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 2/0/0 |
| Total | 21/0/0 | 0/0/0 | 21/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 0/0/0 | 21/0/0 |

**COMPANY-OWNED BUSINESS STATUS SUMMARY
FOR YEARS 2004/2003/2002/2001**

| State | Company-Owned Businesses Opened During Year | Company-Owned Businesses Closed During Year | Company-Owned Businesses Operating At Year End |
|---------------|--|---|---|
| Virginia | <u>4/1/0/0/1</u> | 0/0/0 | <u>1/1/01</u> |
| Totals | <u>4/1/0/0/1</u> | 0/0/0 | <u>1/1/01</u> |

**PROJECTED SALES AND OPENINGS
IN YEAR 20042005**

| State | Franchises Sold But Not Opened As of 1/1/04 <u>05</u> | Franchises Projected to be Sold and Opened In <u>2004</u> <u>2005</u> | Company-Owned Businesses Projected to be Opened In <u>2004</u> <u>2005</u> |
|---|---|---|--|
| Arizona | 0 | <u>02</u> | 0 |
| California | 0 | 4 | 0 |
| Colorado | 0 | 2 | 0 |
| Connecticut | <u>01</u> | <u>23</u> | 0 |
| <u>Dist. Of Columbia</u> | <u>0</u> | <u>1</u> | <u>0</u> |
| Florida | 0 | 2 | 0 |
| Georgia | 0 | <u>21</u> | 0 |
| Hawaii <u>Illinois</u> | <u>01</u> | <u>03</u> | 0 |
| Indiana | 0 | 0 | 0 |
| Maryland | 0 | <u>43</u> | 0 |
| Rhode Island <u>Massachus etts</u> | 0 | <u>02</u> | 0 |
| <u>Michigan</u> | <u>0</u> | <u>3</u> | <u>0</u> |
| <u>Nevada</u> | <u>0</u> | <u>1</u> | <u>0</u> |
| <u>New Jersey</u> | <u>0</u> | <u>2</u> | <u>0</u> |
| <u>New Mexico</u> | <u>0</u> | <u>2</u> | <u>0</u> |
| <u>New York</u> | <u>1</u> | <u>3</u> | <u>0</u> |
| <u>North Carolina</u> | <u>1</u> | <u>2</u> | <u>0</u> |
| <u>Ohio</u> | <u>1</u> | <u>2</u> | <u>0</u> |
| <u>Pennsylvania</u> | <u>0</u> | <u>3</u> | <u>0</u> |
| <u>South Carolina</u> | <u>0</u> | <u>2</u> | <u>0</u> |
| <u>Texas</u> | <u>0</u> | <u>2</u> | <u>0</u> |
| Virginia | 0 | <u>43</u> | 0 |
| Totals | <u>05</u> | <u>2048</u> | 0 |

Exhibit C is a list of the names, addresses and telephone numbers of our franchisees as of December 31, 2003 ~~(none)~~ 2004.

Exhibit D is a list of the names and last known home addresses and telephone numbers of our franchisees who had franchises terminated, cancelled or not renewed by us in ~~2003~~2004 (0 franchisees), who otherwise voluntarily or involuntarily ceased to do business under their franchise agreements in ~~2003~~2004 (0 franchisees), or who had not communicated with us within 10 weeks of December 31, ~~2003~~2004 (0 franchisees).

Item 21

FINANCIAL STATEMENTS

Exhibit E includes our audited financial statements~~statements~~ as of December 31, ~~2003~~2003 and December 31, 2004.

Item 22

CONTRACTS

Exhibit B includes the franchise agreement, state riders and all related agreements. ~~The related agreements include:~~ as follows:

Attachment ~~1,~~1 – Development Territory;
Attachment ~~2,~~2 – Legal Entity Information Sheet;
Attachment ~~3,~~3 – Guaranty Agreement;
Attachment ~~4,~~4 – Telephone Listing Agreement;
Attachment ~~5,~~5 – Manager/Supervisor Confidentiality and Noncompetition Agreement;
Attachment ~~6,~~6 – Authorization ~~For~~for Automatic Payments; and
Attachment ~~7,~~7 – Sample General Release.

Item 23

RECEIPTS

Exhibit G includes detachable documents acknowledging your receipt of this offering circular.

CALIFORNIA ADDENDUM TO DISCLOSURE DOCUMENT

1. Item 3 is amended to add the following:

No person named in Item 2 is subject to any currently effective order of any national securities association or national securities exchange as defined in the Securities and Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling that person from membership in the association or exchange.

2. Item 17, Summary column for (c) is amended to add the following:

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or nonrenewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

3. Item 17, Summary column for (f) is amended to add the following:

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or nonrenewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

4. Item 17, Summary column for (h) is amended to add the following:

Our termination of your franchise agreement as a result of your insolvency or bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et seq.).

5. Item 17 of this disclosure document is modified to include the following paragraph under the Summary column of part (m):

You must sign a general release if you transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

6. Item 17, Summary column for (r) is amended to add the following:

The franchise agreement contains a covenant not to compete that extends beyond the termination of the franchise. This provision may not be enforceable under California law.

7. Item 17, Summary column for (s) is amended to add the following:

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

8. Item 17, Summary column for (u) is amended to add the following:

The franchise agreement requires binding arbitration. The arbitration will occur at the offices of the American Arbitration Association nearest our home office, with cost to be paid by the party that does not substantially prevail. You are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the franchise agreement restricting venue to a forum outside the state of California.

9. Item 17, Summary column for (v) is amended to add the following:

The franchise agreement requires any litigation to be filed in Virginia. This provision may not be enforceable under California law.

10. Item 17, Summary column for (w) is amended to add the following:

The franchise agreement requires application of the laws of the state of Virginia. This provision may not be enforceable under California law.

ILLINOIS ADDENDUM TO DISCLOSURE DOCUMENT

Item 17 of this disclosure document is supplemented by the addition of the following paragraphs at the end of the chart:

State Law

The conditions under which you can be terminated and your rights on non-renewal may be affected by Illinois law, 815 ILCS 705/19 and 705/20.

The Illinois Franchise Disclosure Act will govern any Franchise Agreement if it applies to a franchise located in Illinois.

The Franchise Agreement shall become effective on its acceptance and execution by us in the State of Virginia. The Franchise Agreement shall be interpreted and constructed under the substantive laws of Virginia, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C., Sections 1051 et. seq.). However, any condition in the Franchise Agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois, provided that the Franchise Agreement may provide for arbitration in a forum outside of Illinois.

Any action brought by either party in any court, except for claims required to be submitted to arbitration, whether federal or state, shall be brought within the state or federal Court having jurisdiction in the Commonwealth of Virginia. The parties waive all questions of personal jurisdiction or venue. However, any condition in the Franchise Agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois, provided that the Franchise Agreement may provide for arbitration in a forum outside of Illinois.

MARYLAND ADDENDUM TO DISCLOSURE DOCUMENT

1. Item 17 of this disclosure document is modified to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

2. Item 17 of this disclosure document, in the summary column for item (d), is modified to state that the general release required as a condition of termination by you will not apply to any claim arising under the Maryland Franchise Registration and Disclosure Law.

3. Item 17 of this disclosure document, in the summary column of item (h), is modified to state that provisions allowing termination on bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et seq.).

4. Item 17 of this disclosure document, in the summary column for item (m), is modified to state that the general release required as a condition of transfer will not apply to any claim arising under the Maryland Franchise Registration and Disclosure Law.

5. Item 17 of this disclosure document, in the summary column for item (v), is modified to state that the Virginia venue provision will not supersede your right to bring claims under the Maryland Franchise Registration and Disclosure Law in a Maryland court.

MINNESOTA ADDENDUM TO DISCLOSURE DOCUMENT

1. Item 17 of this disclosure document, the summary column for item (m), is modified to include the following language after "general release":

"(for claims except those arising under the Minnesota Franchise Act)."

2. Item 17 of this disclosure document is modified to include the following paragraphs at the end of the chart:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. 80C.14, subds. 3, 4 and 5, which require, except in certain specified cases, that you be given 90 days notice of termination (with 60 days to cure) and 180 days notice for nonrenewal of the franchise agreement.

Minn. Stat. 80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the offering circular or franchise agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

NEW YORK ADDENDUM TO DISCLOSURE DOCUMENT

1. Item 3 is amended to add the following:

Neither we nor any individual listed in Item 2, have pending any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) alleging: a felony; a violation of a franchise, antitrust or securities law; fraud; embezzlement; fraudulent conversion; misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations.

Neither we nor any individual listed in Item 2, have been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, been convicted of a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been the subject of a civil action alleging: violation of a franchise, antitrust or securities law; fraud; embezzlement, fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

Neither we nor any individual listed in Item 2, are subject to any currently effective injunctive or restrictive order or decree relating to franchises or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law resulting from a concluded or pending action or proceeding brought by a public agency; or are subject to any currently effective order of any national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or are subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

2. Item 4 is amended to add the following:

During the 10-year period immediately preceding the date of this offering circular, neither we nor any person identified in Item 2 above, has filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; obtained a discharge of its debts under the bankruptcy code; or was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of the franchisor held this position in the company or partnership.

3. The 5th line of the 1st paragraph in Item 5 and the 7th line of the 2nd paragraph in Item 5 of this disclosure document is modified to replace "if we decide" with "if we decide, in our good faith judgment,".

4. Item 17 of this disclosure document, the summary column of item (j), is modified to include the following sentence:

However, no transfer or assignment will be made except to a person who, in our good faith judgment, is willing and able to assume our obligations under the franchise agreement.

RHODE ISLAND ADDENDUM TO DISCLOSURE DOCUMENT

Item 17 of this disclosure document, in summary columns for items (u), (v) and (w), is modified to state that any provision in the franchise agreement restricting jurisdiction or venue to a forum outside Rhode Island or requiring the application of the laws of a state other than Rhode Island is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.

WASHINGTON ADDENDUM TO DISCLOSURE DOCUMENT

Item 17 of the Disclosure Document is modified to include the following statement:

WASHINGTON STATEMENT

If any of the provisions in the franchise offering circular or franchise agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the franchise offering circular and franchise agreement with regard to any franchise sold in Washington.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.