

ITEM 1: THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

In this Offering Circular, “*Closet Tailors*” or “*we*”, “*us*” and/or “*our*” all refer to Closet Tailors, LLC, the licensor. “*You*” and “*your*” refer to the person who buys the Closet Tailors franchise. We are a wholly-owned subsidiary of Home Franchise Concepts, Inc. (“*HFC*”). HFC is also the parent company of Budget Blinds, Inc. (“*BBF*”), a franchisor of window coverings businesses.

The principal business address of each of Closet Tailors, HFC, and BBI is 1927 North Glassell Street, Orange, California 92865. The telephone number of all three companies is (714) 637-2100. Closet Tailors’ agents for service of process are listed on Exhibit H.

Closet Tailors was incorporated as a California corporation on January 24, 2006; on May 18, 2006, Closet Tailors converted to a California limited liability company. In the Summer of 2006, we will begin our general offering of franchises for the right to operate a mobile business (the “*Franchised Business*”) offering the design, sale, and installation of organizing units and storage and organizing accessories for closets, pantries, storerooms, utility rooms, basements, attics, and garages (collectively, “*Closet Organizers*”) using a variety of expertise supplied by Closet Tailors (called the “*Closet Tailors System*”).

Closet Tailors has no “predecessors” within the meaning of the UFOC Guidelines. On the date of this Offering Circular, Closet Tailors’ only “affiliate” within the meaning of the UFOC Guidelines (companies under common ownership with Closet Tailors that offer franchises or that provide products or services to Closet Tailors’ franchisees) is BBI. BBI is a California corporation that was incorporated on October 5, 1992. BBI began offering franchise for the right to operate businesses for the mobile sales and installation of window coverings in March 1994 and as of December 31, 2005, BBI had franchised in excess of 1,000 territories in the United States and Canada. In addition, HFC (Closet Tailors’ parent company) contemplates that it may in the future form one or more additional “sister” companies (other companies also owned by HFC) that will engage in franchising of other concepts and other business activities. At this time, HFC contemplates that these sister companies will also offer home-based franchises for home-improvement related businesses (but not including window coverings or Closet Organizers).

Closet Tailors has only limited experience with the design, sale, and installation of Closet Organizers, but Closet Tailors believes that the experience of its affiliate, BBI, in connection with window coverings business will be able to be successfully replicated by Closet Tailors for the business of designing, selling, and installing Closet Organizers. As of the date of this Offering Circular, no Closet Tailors franchisees are in operation, although Closet Tailors has signed a limited number of franchise agreements under its “Friends and Family” program discussed below under “Other Offers”.

Franchises Offered.

As noted above, Closet Tailors franchises the right to operate a mobile sales and installation business offering Closet Organizers using a variety of expertise supplied by CLOSET TAILORS. The Closet Tailors System includes advertising, merchandising, and marketing techniques; operating procedures; product and service quality standards; and business methods

and other expertise. The Franchised Business is identified by Closet Tailors' "Proprietary Marks" (as defined in Item 13, below). You will use a motor vehicle identified with signage specified by Closet Tailors to make sales calls and perform installation work. You will operate the Franchised Business yourself or through a manager.

The Franchised Business is primarily a mobile business. Nonetheless, Closet Tailors may allow you to operate from a fixed retail location identified by Closet Tailors' Proprietary Marks that is within your Territory. If you wish to operate a fixed location, you and Closet Tailors must first agree on terms and conditions governing the location, construction, and operation of the Franchised Business at the fixed retail location, and we may impose additional terms and requirements, among other things, for site selection, design and layout, signage, and lease terms.

Sales leads are generated in many ways, including by "canvassing," from print and electronic media advertising, and from word of mouth. When you place an order for a customer, the product is shipped to you directly from the vendor and then you do the installation. The market for the Franchised Business consists of residences and businesses located within your defined "*Territory*," which is determined by ZIP Codes. You will compete for customers with department and specialty stores and other businesses that sell Closet Organizers.

Closet Tailors does not currently operate any businesses similar to Franchised Businesses but reserves the right to do so at any time. Closet Tailors does not currently do business under any other names, nor do we engage in other business activities, but we expressly reserve the right to do so in the future.

While Closet Tailors has not previously offered subfranchise or master franchise agreements, we reserve the right to do so in the future under a separate Offering Circular. Closet Tailors has not offered franchises in other lines of business. HFC and Closet Tailors can, and expressly reserve the right to, sell their respective assets, their respective proprietary marks, the stock in Closet Tailors, or the Closet Tailors System outright to a third party; recapitalize by public offering of their respective shares of stock; engage in a private placement of some or all of their respective securities; merge with, acquire, or be acquired by another corporation; or undertake a refinancing, recapitalization, leveraged buyout, or other restructuring.

Other Offers.

This Offering Circular describes the terms and conditions on which Closet Tailors currently offers franchises in this state to new franchisees (and to existing franchisees purchasing additional territories). Prior to this offering, Closet Tailors offered franchises initially to friends and family of Closet Tailors' shareholders and BBI franchisees and employees (the "Friends and Family Program"), under more favorable terms and conditions than those offered under this Offering Circular. In the future, Closet Tailors may occasionally offer franchises under different terms and conditions and Closet Tailors retains the legal right to, and may in fact, offer franchises in other states or countries under different terms and conditions.

Additionally, Closet Tailors may occasionally offer special terms and conditions (more favorable than those listed in this Offering Circular) to employees of Closet Tailors, BBI, or HFC or to shareholders of HFC (or relatives of those shareholders). For example, Closet Tailors may waive

the Initial Franchise Fee and/or the Initial Territory Fee (both as described below), or may accept a more favorable promissory note (for instance, lower interest rates or longer payment terms); occasionally, also, these concessions may be partially offset by changing the phase-in period for increased Royalties (as described in Item 6, below).

General Market Conditions.

The market for the design, sale, and installation of organizing units and storage and organizing accessories is very competitive. You will compete not only with locally-based, regional, and national chains that specialize in Closet Organizers, you will also compete with home builders and remodeling firms, with do-it-yourself stores, with specialty stores that feature organization products, and with general department stores that sell pre-fabricated organizing products. There are few barriers to entry into this market, and there may be more competitors in the future.

Government Permits.

Any industry-specific license required by state law for you to operate a Closet Tailors franchise in your state is listed in Exhibit G to this Offering Circular. Some cities or other local government agencies impose local licensing requirements. You should check with local agencies about licensing requirements before beginning business.

ITEM 2: BUSINESS EXPERIENCE

Chief Executive Officer, President: Chad Hallock

Mr. Hallock has been Chief Executive Officer, President of Closet Tailors since its incorporation in January 2006. Mr. Hallock also serves in the same capacities for HFC, and has done so since HFC's incorporation in January 2006.

In addition, Mr. Hallock was one of the founders of BBI and has been employed in various capacities by BBI since 1992. He is currently Chief Executive Officer, President, and a Director of BBI, positions he has held for more than five years.

Executive Vice President: David M. Lewis

Mr. Lewis has been an Executive Vice President of Closet Tailors since its incorporation in January 2006. Mr. Lewis also serves in the same capacities for HFC, and has done so since HFC's incorporation in January 2006.

In addition, Mr. Lewis was one of the founders of BBI and has been employed in various capacities by BBI since 1992. He is currently an Executive Vice President and a Director of BBI, positions he has held for more than five years.

Executive Vice President, Secretary, Chief Operating Officer: Todd A. Jackson

Mr. Jackson has been an Executive Vice President, Secretary, Chief Operating Officer of Closet Tailors since its incorporation in January 2006. Mr. Jackson also serves in the same capacities for HFC, and has done so since HFC's incorporation in January 2006.

In addition, Mr. Jackson was one of the founders of BBI and has been employed in various capacities by BBI since 1992. He is currently an Executive Vice President, Secretary, Chief Operating Officer and a Director of BBI; in January 2003, he became BBI's Chief Operating Officer, and he has held all other positions with BBI for more than five years.

Executive Vice President: Brent Hallock

Mr. Hallock has been an Executive Vice President of Closet Tailors since its incorporation in January 2006. Mr. Hallock also serves in the same capacities for HFC, and has done so since HFC's incorporation in January 2006.

In addition, Mr. Hallock was one of the founders of BBI and has been employed in various capacities by BBI since 1992. He is currently an Executive Vice President and a Director of BBI, positions he has held for more than five years.

Executive Vice President: Tony Forbes

Mr. Forbes has been an Executive Vice President of Closet Tailors since its incorporation in January 2006. Mr. Forbes also serves in the same capacities for HFC, and has done so since HFC's incorporation in January 2006.

In addition, Mr. Forbes was one of the founders of BBI and has been employed in various capacities by BBI since 1992. He is currently an Executive Vice President and a Director of BBI, positions he has held for more than five years.

Chief Financial Officer: Shirin Behzadi

Ms. Behzadi has been Chief Financial Officer of Closet Tailors since its incorporation in January 2006. Ms. Behzadi also serves in the same capacity for HFC, and has done so since its incorporation in January 2006.

In addition, Ms. Behzadi has been employed by BBI since 1999, and she was named BBI's Chief Financial Officer in January 2003. From 1996 to 1999, she was an independent financial consultant.

Franchise Brokers

In certain geographic areas, Closet Tailors utilizes national franchise referral organizations, which employ independent consultants to refer prospective franchise candidates to Closet Tailors for a fee paid by Closet Tailors. Once a consultant has referred a franchise candidate to Closet Tailors, Closet Tailors will coordinate sales activity with the candidate. The consultant does not have the authority to negotiate the sale of, or sell, a Closet Tailors franchise, or make any representations on behalf of Closet Tailors, to any prospective franchise candidate. Information concerning the officers and directors of the referral organizations or individual consultants, as appropriate, are attached as Exhibit "M."

Referrals by Franchisees

Closet Tailors' franchisees are encouraged to pass along to Closet Tailors the names and contact information of persons who express an interest in acquiring a Franchised Business. Closet Tailors' franchisees are *not*, however, authorized to negotiate the sale of Closet Tailors franchise agreements or to make any representations on behalf of Closet Tailors. If a person referred by a Closet Tailors franchisee ultimately purchases a Franchised Business, then Closet Tailors will (where permitted by law) pay a "finders' fee" to the referring franchisee.

ITEM 3: LITIGATION

PENDING LITIGATION:

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

RESOLVED LITIGATION:

Shelby Wilson and Vincent Paglia v. Budget Blinds, Inc., Chad Hallock, Brent Hallock, Todd Jackson, David Lewis, and Tony Forbes, Case No. 03CC06815, California Superior Court (Orange County), filed May 16, 2003 (the "Court Action").

Shelby Wilson v. Budget Blinds, Inc., et al., Case No. 03CC14655, California Superior Court (Orange County) filed December 15, 2003; compelled to arbitration before Judicial Arbitration and Mediation Service (Orange, CA), JAMS Ref. No. 1220031301 (the "Arbitration").

In Re: Shelby Wilson, Case No. RS04-23000, U.S. Bankruptcy Court, Central District of California (Riverside Division), filed December 2, 2004 (the "Bankruptcy Case").

The plaintiffs in the Court Action were former employees of BBI, who received stock in BBI while they were employees. Mr. Wilson's employment by BBI was terminated in December 2002, following which he and Mr. Paglia brought suit against BBI and its directors/officers. Although Mr. Wilson and Mr. Paglia initially asserted a number of claims (including that BBI had committed unfair business practices), demurrers by BBI eliminated all of the claims except a claim for damages based upon an assertion that the individual defendants (as majority shareholders) had breached their fiduciary duties to the plaintiffs individually and as minority shareholders in BBI, and a request for dissolution of the corporation. BBI then filed its answer and counterclaims. In response to the request for dissolution made by Mr. Paglia in the Court Action, BBI exercised its right to request a statutory valuation of Mr. Paglia's shares in the Company, and then completed a buy-out of all of Mr. Paglia's stock in BBI, as a result of which Mr. Paglia is no longer a shareholder of BBI.

While the Court Action proceeded, Mr. Wilson filed a separate lawsuit against BBI alleging that his employment by BBI was wrongfully terminated because of his race and his religion. BBI successfully compelled Mr. Wilson to address that claim in the Arbitration. The court later referred BBI's claims in its cross-complaint in the Court Action also to the Arbitration.

The Arbitrator in the Arbitration granted BBI's motion for summary adjudication, ruling that BBI was entitled to redeem Mr. Wilson's stock in BBI for \$10. As a result of that purchase, Mr. Wilson is no longer a shareholder of BBI. Mr. Wilson then withdrew his wrongful termination action in its entirety, and filed the Bankruptcy Case, which resulted in an automatic stay of all further proceedings in the Arbitration. BBI's motion to dismiss Mr. Wilson's entire Bankruptcy Case (including an unserved adversary action by Mr. Wilson to set aside the outcome of the Arbitration) was granted, and the Bankruptcy Case was dismissed in its entirety.

BBI then settled all remaining claims. In August 2005, BBI paid Mr. Paglia \$100,000 in full settlement of any remaining claims Mr. Paglia may have ever had against BBI and the individual defendants following BBI's repurchase of Mr. Paglia's stock in BBI. On November 18, 2005, BBI and the individual defendants settled all remaining claims by and against Mr. Wilson by signing mutual general releases. Except for the \$10 paid by BBI for his stock, no monies were paid to Mr. Wilson in connection with any of his multiple lawsuits or the settlement.

Other than these three actions, no litigation is required to be disclosed in this Offering Circular.

ITEM 4: BANKRUPTCY

No person previously identified in Items 1 and 2 of this Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item 4.

ITEM 5: INITIAL FRANCHISE FEE

You will pay Closet Tailors an initial franchise fee ("***Initial Franchise Fee***") of \$14,950 at the time you sign the Franchise Agreement with Closet Tailors for your first Territory. If you obtain additional Territories under new Franchise Agreements at a time that you continue to own at least one Franchise Agreement, no additional Initial Franchise Fees will be payable for these additional Territories.

You will also pay an "***Initial Territory Fee***" for the first Territory you obtain, and an "***Additional Territory Fee***" (and enter into a separate franchise agreement) for each additional Territory you acquire. During the first 90 days that Closet Tailors is offering franchises in this state, the Territory Fee is \$25,000 (for a Territory of approximately 32,000 households). Thereafter, the Initial Territory Fee is \$35,000 (for the same size Territory). The Additional Territory Fee will equal the amount we are charging for an Initial Territory Fee at the time that you acquire the additional Territory (which may be higher than the rate we now charge), *except* that after the close of the initial 90-day discount period, if you purchase a second Territory at the same time as you purchase your first Territory, the Additional Territory Fee for the second Territory will \$30,000.

As part of the International Franchise Association's "***VetFran***" program, Closet Tailors grants discounts (as described in this paragraph) off the Initial Franchise Fee, the Initial Territory Fee, and the Additional Territory Fees for honorably-discharged veterans of the United States armed forces. If you qualify for the VetFran program, and pay the fees described above without financing from Closet Tailors (as described in Item 10), Closet Tailors will give you a 10% discount off each of these fees and will waive payment of all monthly fees payable during the

first three months after the “operating date” (the date you must begin operations and paying royalties).

Occasionally, Closet Tailors may make other exceptions to the uniformity of the Initial Franchise Fees and Initial Territory Fees, but generally only in connection with sales of Franchise Agreements to employees of Closet Tailors, BBI, or HFC who are resigning to become a franchisee, or to HFC’s shareholders or relatives of those shareholders.

The Initial Franchise Fee, the Initial Territory Fee, and any Additional Territory Fee(s) are fully earned and non-refundable when you deliver the signed Franchise Agreement(s) to Closet Tailors. The Initial Franchise Fee and the Initial Territory Fee are payable in full (unless you are eligible to finance the Initial Franchise Fee (\$14,950), as described in Item 10, below) and are due when you deliver the signed Franchise Agreement(s) to Closet Tailors. At the time you sign your first Franchise Agreement and pay (or finance) the Initial Franchise Fee, you will receive the Closet Tailors Start-Up Package (listed in Schedule B to the Franchise Agreement). You will not receive a Closet Tailors Start-Up Package when you sign a Franchise Agreement for an additional Territory (without paying an Initial Franchise Fee). There is no requirement to obtain initial inventory, and there are no other payments to Closet Tailors for goods or services required before the Franchise Business opens.

If you are preparing to sign your *first* Closet Tailors Franchise Agreement and you wish to reserve an assigned Territory before you execute the Franchise Agreement, you may do so by signing a Deposit Receipt and paying a deposit of \$10,000 for a single Territory or \$20,000 for two Territories reserved at the same time (the “*Deposit Fee*”). If you already own a Franchise Business, you are not eligible to reserve an additional Territory through payment of a Deposit Fee. Once you pay the Deposit Fee, we will reserve the Territory(ies) for you until you sign your Franchise Agreement or the Deposit Receipt expires (as described below). The balance of the fees described above, less the Deposit Fee, will be payable when you sign your Franchise Agreement.

Generally, the Deposit Receipt will be in the form of Exhibit L and will expire in 60 days. In exceptional circumstances (such as a situation in which you and another prospective franchisee are simultaneously interested in the same Territory), the Deposit Receipt will be in the form of Exhibit L-1 and will have a maximum term that is shorter than 60 days (but consistent with the time identified by you as necessary to obtain funding). In any event, the Deposit Fee paid by you is non-refundable.

Note: Closet Tailors will generally not sell three (or more) Territories to a single franchisee unless the franchisee submits a business plan (adhering to specific policies of Closet Tailors) that shows that the franchisee has the ability to properly service all Territories to be acquired.

ITEM 6: OTHER FEES

In addition to the Initial Franchise Fee and the Initial Territory Fee, you must pay the following recurring or isolated fees or payments to Closet Tailors:

Name of Fee ¹	Amount	Due Date	Remarks
Monthly Royalty ^{2, 3}	<p>\$1,500 per month, subject to "phase-in" during first two years after a Franchise Agreement for the Territory is first signed, as follows:</p> <p style="padding-left: 40px;">\$300 – 1st 6 months \$700 – months 7-12 \$1,100 – 2nd year</p> <p>No phase-in will apply upon renewal.</p>	<p>Payable monthly by the 5th of each month, in advance (e.g., payment for January is due by January 5), beginning the month of the operating date.</p> <p>The "operating date" is the date you must begin operations and paying fees; it is always the first day of a month.</p> <p>Closet Tailors may change the frequency of payment to weekly, and if we do so, the Royalty payment amount will be adjusted accordingly.</p>	<p>If royalty payment is postmarked after the 5th of the month, you will be charged a \$100 late penalty, plus interest at the maximum legal rate.⁴</p> <p>Checks returned for insufficient funds are subject to \$25 penalty.</p> <p>The monthly Royalty may be adjusted upward or downward based on changes in the "Consumer Price Index".</p>
Advertising Fund Payment ^{3, 5}	<p>\$300 to \$1,500 per month, based on the number of Franchise Agreements Closet Tailors has issued:</p> <p style="padding-left: 40px;">\$300 – Fewer than 100 Franchise Agreements \$500 – 101 to 200 Franchise Agreements \$750 – 201 to 500 Franchise Agreements \$1,000 – 501 to 1,000 Franchise Agreements \$1,500 – More than 1,000 Franchise Agreements.</p>	Same as Royalty fee.	<p>Closet Tailors agrees (contractually) to spend an amount equal to the aggregate of all advertising payments by its franchisees on advertising and promotion.</p> <p>Subject to \$100 late payment and \$25 insufficient funds penalties as described above.</p>
Monthly Toll Free Number Use Fee	\$29.50 per month.	Same as Royalty fee.	Subject to \$10 late payment and \$25 insufficient fund penalties as described above.
Initial Training	First two attendees are free; each additional attendee pays our then-current reasonable fee (but not more than \$150 per day).	Fees for additional attendees are due one week before they begin training.	There are no other training fees payable to Closet Tailors.
Additional Territory Fee ⁶	<p>Our then-current Initial Territory Fee except as set forth below;</p> <p style="text-align: center;">or</p> <p>\$30,000 if you acquire a second Territory at the time you sign your first Franchise Agreement with us, and pay \$35,000 for the Initial Territory Fee.</p>	When you elect to purchase available Additional Territories.	The additional Territory must be approved by us and must be available for purchase (not subject to an existing Franchise Agreement or Deposit Receipt, or operated as a "company-owned" Territory by Closet Tailors).

Name of Fee ¹	Amount	Due Date	Remarks
Infringement Fee	Up to 60% of Gross Sales in another franchisee's territory	When you sell Closet Organizers in the territory of another Closet Tailors franchisee	In lieu of termination, Closet Tailors may require you to turn over to the franchisee in whose territory you made an improper sale the value (in Closet Tailors' sole discretion) of those sales, not to exceed 60% of Gross Sales (which may exceed your profits).
Optional Customer Referral Fees ⁷	To be determined – either a flat dollar amount or a percentage of gross sales arising from customer referrals.	Payable monthly by the 5 th of each month, for leads or sales during the preceding month.	Depending on program, fee may be payable solely because you are provided a specific sales lead by Closet Tailors or another franchisee, or may be contingent on whether you sell Closet Tailors-approved products and/or services to that customer.
Web Site Page Fee	Not more than \$600 per year	Annually.	If you choose to have a "Franchisee Page" on Closet Tailors' Internet Web site, we may charge you a fee for that page.
Transfer Fee	Closet Tailors' then-applicable transfer fee; currently \$5,000 for each Territory transferred.	Before transfer.	Payable when you sell your franchise. No charge if your franchise is transferred to a corporation or similar entity that you control.
Lead Referral Fee ⁸	Closet Tailors' then-applicable lead referral fee; currently \$10,000 plus all brokerage fees incurred by Closet Tailors.	Upon a transfer of your Franchise Agreement to a buyer who was already listed in Closet Tailors' sale database at the time you and the buyer began discussing a sale.	Intended (in part) to reimburse Closet Tailors for some of its costs in developing leads who then purchase from existing franchisees instead of from Closet Tailors.
Renewal Fee	\$7,500	When you sign a renewal Franchise Agreement.	

Notes to Table 6:

- (1) All fees are imposed and collected by and payable to Closet Tailors. All fees are non-refundable.
- (2) If you purchase your business from an existing Closet Tailors franchisee, you will initially pay the Continuing Royalty paid by the former franchisee instead of the amount described in this section. Your Continuing Royalty will thereafter increase in accordance with the schedule in this section.

Occasionally, Closet Tailors may alter the phase-in periods in connection with sales to employees of Closet Tailors, HFC, or BBI (who are resigning to become a franchisee) or to HFC's shareholders (or relatives of those shareholders). For instance, if Closet Tailors waives the Initial Franchise Fee or Initial or Additional Territory Fee (as described in Item 5, above), then Closet Tailors may require that the phase-in period for the Continuing Royalty paid by that franchisee will be shorter or will not be as low during some of the period.

- (3) As part of the International Franchise Association's "*VetFran*" program, honorably-discharged veterans of the United States armed forces qualify for the VetFran program. Closet Tailors will waive payment of these fees during

the first three months after the “operating date” (the date you must begin operations and paying royalties) for participants in the VetFran program.

(4) Interest begins from the date of payment was due.

(5) In addition to the Advertising Fees, on a national or regional basis, Closet Tailors may impose an additional assessment on all Closet Tailors franchisees for special advertising or promotional activities if 2/3 of all franchisees of Franchised Businesses (nationally or in the affected region, as appropriate) agree in writing to this additional assessment.

(6) Rights to an additional Territory will be conveyed to you by signing a new Franchise Agreement. If you sign a Franchise Agreement for an additional Territory within six months after the time that you sign your first Franchise Agreement, you must begin operating the Franchised Business in each additional Territory within six months after you began operating in your first Territory. If you buy the additional Territory later, you must begin operating the Franchised Business in the additional Territory immediately. In either event, you must meet and maintain the sales minimums in each Territory; if you do not open or meet the sales minimums in the additional Territory, Closet Tailors may terminate the Franchise Agreement for the additional Territory without affecting your rights under separate Franchise Agreements between us. However, the Initial Territory Fee or Additional Territory Fee is not refundable.

(7) Closet Tailors may develop customer referral programs, such as a “key account” referral program and a Web site referral program, pursuant to which franchisees or third-party operators of Internet Web sites may make customer referrals to franchisees in exchange for a flat dollar payment or a percentage of sales made to the customers referred. At the present time, no customer referral programs are in existence, and the amount of the referral fees is not yet determined. Periodically as Closet Tailors develops customer referral programs, Closet Tailors will notify you of the details of these programs (such as agreed pricing, mandatory service agreements, and mandatory referral fees as a dollar amount or as a percentage of sales to the referred customer), and you may then decide whether to participate. If you decide to participate, and then receive customer referrals through the program, you must pay the agreed referral fee. If you decide not to participate, then Closet Tailors reserves the right, in its sole discretion, to find other means to serve referral customers in your Territory.

(8) Closet Tailors incurs costs to develop leads and to interest prospective franchisees in the CLOSET TAILORS business; some of those prospective franchisees then choose to purchase an existing franchised business. If you transfer your Franchise Agreement to someone listed in Closet Tailors’ lead database, then you must pay this fee, which is currently \$10,000 plus any brokerage fees that Closet Tailors becomes obligated to pay as a result of the transfer. The fee is intended, in part, to compensate Closet Tailors for its costs of generating and cultivating the lead.

ITEM 7: FRANCHISEE’S INITIAL INVESTMENT

The following table sets forth an estimate of your initial start up expenses. These figures are estimates and Closet Tailors cannot guarantee that you will not have additional expenses starting your Franchised Business. Your costs will depend on factors such as: how much you follow our methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for our services; the prevailing wage rate; competition; and the sales level reached during the initial period. Closet Tailors has not yet operated a Closet Organizer business, and so relied on the experience (more than 10 years’ worth) of its affiliate, BBI, in operating and franchising in the window covering business to prepare these estimates. You should review these figures carefully with your business advisor before making a decision to purchase the franchise.

As explained in Item 10, below, under certain circumstances Closet Tailors offers to provide financing for the Initial Franchise Fee (only). In addition, Closet Tailors intends (but as of the effective date of this Offering Circular has not yet applied) to qualify its franchise program for financing pursuant to the Small Business Administration’s “Franchise Registry” program. As a

result, you may be able to obtain financing for all or part of these costs through lenders participating in the SBA program.

	Amount	Method of Payment	When Due	To Whom Payment Is to Be Made
Initial Franchise Fee ¹	\$14,950	Lump sum or financed; non-refundable	When you sign the Franchise Agreement	Closet Tailors
Initial Territory Fee or Additional Territory Fee ²	\$25,000 to \$35,000	Lump sum; non-refundable	When you sign the Franchise Agreement	Closet Tailors
Training Course Meal Expenses ³	\$250 to \$500	As Incurred	During Training	Restaurants
Vehicle ⁴	\$350 to \$35,000	Lease or finance	Upon opening	Vehicle lessor or dealer
MasterCard / VISA terminal ⁵	\$30 to \$500	Lease, finance, or lump sum	Upon opening	Any vendor
Telephone Equipment ⁵	\$60 to \$120	As negotiated	Before opening	Any vendor
Laptop Computer and Related Equipment ⁵	\$1,000 to \$2,000	Lease, finance, or lump sum	Before opening	Any vendor
Auto Insurance ⁵	\$1,000 to \$2,000	Lump sum or monthly installments	Before opening and during the year	Insurance company
Commercial general liability insurance ⁵	\$500 to \$1,000	Lump sum or monthly installments	Before opening	Insurance company
Office/Warehouse Lease ⁷	\$1,000 to \$3,000	Lump sum	Before opening	Landlord
Contractor's License Bond ⁸	\$90 to \$500	Lump Sum	As required by applicable law	Bonding or insurance company
Contractor's License ⁸	\$350 to \$1,000	Lump sum	Before opening	Government authorities
Initial Marketing ⁹	\$0 to \$5,000	As incurred	During first 3 months after opening	Vendors (primarily media outlets)
Additional Tools and Supplies ¹⁰	\$100 to \$500	Lump sum	Before opening	Any vendor
Additional Funds ¹¹	\$10,000 to \$15,000	As incurred	As incurred	See Note 11
TOTAL	\$54,680 to \$116,070			

Notes to Table 7:

(1) If this is your first Franchise Agreement from Closet Tailors, you must pay an Initial Franchise Fee to Closet Tailors. The Initial Franchise Fee is payable in one lump sum to Closet Tailors upon signing the Franchise Agreement (or, if you qualify, may be financed for up to 12 months; see Item 10, below) and is fully earned and non-refundable.

(2) In addition to the Initial Franchise Fee, when you sign a Franchise Agreement with Closet Tailors, you must pay either an Initial Territory Fee or an Additional Territory Fee to Closet Tailors. The Initial Territory Fee is generally \$35,000 (for a Territory of approximately 32,000 households), except that during the first 90 days that Closet Tailors is offering franchises in a state, the Initial Territory Fee will be \$25,000. If you pay the full \$35,000 for the Initial Territory Fee and you also purchase a second Territory at the time you purchase your first Franchise Agreement with us, the Additional Territory Fee for the second Territory will be \$30,000. At any other time that you are a Franchisee, the Additional Territory Fee will be the same as our then-current Initial Territory Fee (which may be different than it is now). The Initial Territory Fee and any Additional Territory Fee(s) are not refundable.

(3) If you purchase your Territory directly from Closet Tailors (*i.e.*, not as a transfer from another franchisee) and the Initial Franchise Fee is not waived (as it will be, for instance, if this is your second or subsequent Franchise Agreement), Closet Tailors will provide your manager (who may be you) with a 10-day training course at our facilities in Orange, California, or at another location that we determine. Subject to space availability, Closet Tailors will allow additional persons associated with you to attend at your request. Closet Tailors does not charge for the initial training for your manager or for the first additional attendee, but may charge a training fee of up to \$100 per day for the second additional attendee and anyone else who attends the training at your request. Closet Tailors will pay up to \$500 for airfare for your manager to attend training. Closet Tailors will also pay the expenses for one hotel room of Closet Tailors' choice for your manager (for 15 nights); if a second person attends the same training, that person may also share the hotel room. Attendees are responsible for airfare for any additional attendees, for any airfare costs in excess of \$500 for the manager, and for car rental, meals, entertainment, and other expenses during training.

(4) This is a new or used white box van or enclosed trailer type vehicle with the minimum dimensions of 14' long, 7' wide and 7' high (ideally, a Chevrolet W4500 or Isuzu NPR "Tilt Master" box van) on which the Closet Tailors Proprietary Marks are placed. The vehicle may be bought or leased. Closet Tailors gives you the logos as part of the start-up package and you will have them installed, at your expense, on your vehicle by a capable vendor of your choosing.

(5) In addition to the items you will receive with the Closet Tailors start-up package, you must purchase or lease additional office equipment and insurance to assist in running the Franchised Business including: (i) a MasterCard/Visa terminal; (ii) insurance to cover the vehicle (you must at all times maintain a policy of comprehensive liability insurance on an occurrence basis with a combined single limit for bodily injury, death, or property damage of not less than \$500,000 with Closet Tailors named as an additional insured) as outlined in the Franchise Agreement, Section 8.01(b); and (iii) the necessary commercial general liability insurance in such types and amounts as are specified in the Confidential Operating Manual. (See Section 8.05 of the Franchise Agreement.)

(6) You will need to obtain a laptop/notebook computer with (a) at least a Pentium P4 1-gigahertz processor; (b) 40 gigabyte (or larger) hard drive; and (c) at least 512 megabytes of RAM. The computer will need to use either the Windows 2000 or Windows XP operating system, and will need to be equipped with the following: (i) Microsoft Internet Explorer (6.0 or later); (ii) Internet access (high speed cable or DSL recommended); and (iii) Microsoft Office software. You may also wish to purchase an ink-jet or laser printer (Closet Tailors recommends a portable ink-jet printer).

(7) While you may operate your Franchised Business from your own home, Closet Tailors recommends that you secure approximately 500 square feet commercial office/warehouse premises (this does not need to be first-class retail space) for a work space and inventory storage. The premises must be in your Territory, unless otherwise approved by Closet Tailors. Closet Tailors is not obligated to provide any assistance to you in the selection of an office/warehouse site. The cost estimate set forth above assumes that you will pay between \$500 and \$1,000 in monthly rent, and that you must pay a deposit (equal to one month's rent) and/or that you prepay the first and last months' rent at the time you sign the lease. Price and availability of commercial office/warehouse premises can vary greatly from place-to-place, and you should confirm these amounts.

(8) You must obtain a bond only in States in which you must obtain a contractor's license. If your State does not, you will not incur this expense. See Exhibit G for the contractor's license law information for your State.

(9) Closet Tailors strongly believes that an introductory local marketing program, primarily focused on media spending (newspaper, direct mail, radio, and cable television advertising) can dramatically improve your chances of success as a new franchisee or as an existing franchisee acquiring an additional Territory.

(10) Before beginning your Franchised Business, you may need to purchase miscellaneous tools and supplies needed to operate the Franchised Business. Closet Organizer units and other Closet Tailors-approved products that you will install are ordered and shipped from the vendor when you place the customer's order. As part of the start-up package, Closet Tailors gives you selected product samples and sample books from selected suppliers at no additional charge when you begin your Franchised Business (depending on availability from the supplier). Additional samples and sample books will not be provided if you are signing your Franchise Agreement to purchase an Additional Territory. If you want to have sample books from other approved suppliers or samples of other products, you must obtain them from the supplier (who may charge you a fee).

(11) The disclosure laws require us to include an estimate of all costs and expenses to operate the Franchised Business during the "initial phase" of the business, which is defined as three months or a longer period if "reasonable for the industry". We are not aware of any established longer "reasonable period" for the initial phase for companies selling Closet Organizers at retail, so our disclosures cover a three-month period. Closet Tailors recommends (but does not require) that you have a minimum working capital of approximately \$15,000 after paying the Initial Franchise Fee and Initial Territory-Fee. This working capital will be used to pay each of the expenses above plus an additional cash reserve available to cover initial operating expenses during the first three months of operation.

The additional funds that you may need varies considerably from one franchisee to the next based on a variety of factors, including whether you choose to have an office outside your home (and, if so, how much rent you pay for it), the number of employees you choose to hire and the salary and other benefits you choose to pay; gasoline purchases and vehicle maintenance expenses; the extent you will be actively involved in operating your business; your skill, experience, and business acumen; local competition; local economic conditions (including rent and wage scales and the cost of supplies); and the actual sales levels that you reach during the initial 3-month period.

The "Additional Funds" category is not the only source of cash, but is *in addition* to cash flow from operations. We cannot estimate your cash flow from operations and encourage you to contact existing franchisees of Closet Tailors to evaluate this on your own.

ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase all Closet Organizers and other Closet Tailors-approved products only from approved suppliers. Additionally, you must obtain any materials containing the Closet Tailors marks only from us or from suppliers we have approved (except that stationery and business cards may be obtained from any supplier whose work meets Closet Tailors' quality standards). Approved suppliers are listed in the Confidential Operations Manual. We approve suppliers after careful review of the quality of the products they provide to Closet Tailors and our franchisees. In deciding whether to approve suppliers, we refer to standards and requirements determined by Closet Tailors in its sole discretion (the "***Standards and Requirements***"), including standards and requirements regarding reputation, product quality, prices, consistency, reliability, financial capability of the supplier, labor and customer relations, frequency and cost of delivery, delivery network capability, standards of service, including prompt attention to complaints, and other criteria. We may also condition approval of suppliers on the willingness of the supplier to provide discounts to Closet Tailors and/or its franchisees, to contribute to advertising costs, or to make other financial concessions.

Closet Tailors' approval of a supplier does not constitute a guarantee that the supplier will meet or exceed the Standards and Requirements, or any of them, or a guarantee that the Standards and

Requirements will not change over time or that Closet Tailors' approval of a supplier will not be revoked in the future. As of the effective date of this Offering Circular, Closet Tailors has approved only one supplier for Closet Organizers and other Closet Tailors-approved products. If you would like us to consider another supplier, you or the supplier must submit to Closet Tailors a written request for approval and you or the supplier must provide us with samples of the supplier's products or work. We will review the supplier and notify you and the supplier whether we will approve it as an additional supplier. We typically complete a review of a proposed new supplier within 30 days after receiving all necessary information and materials. Closet Tailors will furnish the Standards and Requirements, as well as its criteria for supplier approval, to you or suppliers on request, but only on a confidential basis.

The Franchise Agreement requires that you must purchase or lease a motor vehicle before you begin operating the Franchised Business. The vehicle must be a new or used white box van or enclosed trailer type vehicle with minimum dimensions of 14' long, 7' wide and 7' high (ideally, a Chevrolet W4500 or Isuzu NPR "Tilt Master" box van). You must at all times maintain a policy of comprehensive liability insurance on an occurrence basis with a combined single limit for bodily injury, death, or property damage in an amount not less than \$500,000 which names Closet Tailors as an additional insured.

You may operate your Franchised Business from your own home but you will need a minimum area of 500 square feet for a work space and inventory storage and a residential location may make it difficult to receive deliveries. Additionally, local laws or zoning ordinances, or neighborhood association regulations may limit your ability to operate from your residence, or may limit you from parking your required vehicle around your residence. For these reasons, Closet Tailors recommends that you secure commercial office/warehouse premises from which to operate your business. If you do so, the premises must be in your territory, unless otherwise approved by Closet Tailors. Closet Tailors is not obligated to provide any assistance to you in the selection of an office/warehouse site. If you decide you want an office/warehouse site outside your home, there is no time limit for you to find your site. Closet Tailors has final approval of the site selected, which we will not withhold unreasonably.

The Franchised Business is primarily a mobile business. Nonetheless, Closet Tailors may allow you to operate from a fixed retail location identified by Closet Tailors' Proprietary Marks that is within your Territory. If you wish to operate a fixed location, you must sign a Storefront Addendum to Franchise Agreement (Exhibit A-1). You and Closet Tailors must first agree on terms and conditions governing the location, construction, and operation of the Franchised Business at the fixed retail location, and we may impose additional terms and requirements, among other things, for site selection, design and layout, signage, and lease terms.

Closet Tailors recommends that you advertise your CLOSET TAILORS business on the Internet. If you desire to do that, you may do so only through the Closet Tailors Web site or through a site that is linked to the Closet Tailors Web site and approved by Closet Tailors; any other use of Closet Tailors' Proprietary Marks on the Internet is a violation of the Franchise Agreement.

Neither Closet Tailors nor any of Closet Tailors' affiliates currently are approved suppliers of Closet Organizers, storage units, or other materials. Closet Tailors is, however, an approved supplier of advertising and promotional materials using Closet Tailors' marks.

We anticipate materials you must purchase from Closet Tailors or approved suppliers on an ongoing basis will be approximately 30% to 50% of your monthly expenses in operating your Franchised Business. A substantial part of your initial investment (ranging from 47% to 86%; see Item 7 of this circular) involves payments to us.

One of the most important rights you have as a franchisee concerns the strength and validity of the Proprietary Marks and is dependent on all Closet Tailors franchisees following our rules on displaying the Proprietary Marks. Carefully review Article VI of the Franchise Agreement, which provides details of the requirements on usage and display of the Proprietary Marks.

The current approved supplier of Closet Organizers and other Closet Tailors-approved products sells to Closet Tailors franchisees at a discounted price not generally available, and Closet Tailors intends to negotiate similar arrangements with any future approved suppliers. Closet Tailors does not, however, control whether those suppliers provide discounted prices to other retailers. Other than the discount price arrangements for Closet Tailors' franchisees, Closet Tailors is not presently involved in any other purchasing or distribution cooperatives.

Some approved suppliers of Closet Organizers and other Closet Tailors-approved products have agreed to give and/or pay Closet Tailors discounts, purchase rebates, and/or advertising contributions based on purchases by Closet Tailors franchisees. These agreed amounts from approved suppliers range from 0% to 7% of sales by the suppliers to Closet Tailors franchisees and may be used by Closet Tailors for a variety of purposes, including to help offset its costs of administering the National Advertising Fund, for general marketing support and promotion of the Closet Tailors System, or as general income. Because there were no operating Closet Tailors franchisees on the date of this Offering Circular, we have not yet received any money as a result of these agreements.

Unless otherwise authorized in writing by Closet Tailors, you must display Closet Tailors' toll free telephone number in all advertising and promotional materials. Closet Tailors receives revenue from your use of the toll free telephone number in the form of the toll free number use fees paid to it by franchisees.

ITEM 9: FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this Offering Circular.

	Obligation	Section in Franchise Agreement	Item in Offering Circular
a.	Site selection and acquisition/lease	Storefront Addendum (if signed)	8
b.	Pre-opening purchases/leases	8.01, 8.05	7, 8
c.	Site development and other pre-opening requirements	Storefront Addendum (if signed)	7, 11
d.	Initial and ongoing training	1.10, 7.01-7.05	7, 11

	Obligation	Section in Franchise Agreement	Item in Offering Circular
e.	Opening	8.01	11
f.	Fees	4, 5.02(a)(iv), 7.02, 7.03(b), 8.02, 9.02(b)(vii)	5, 6
g.	Compliance with standards and policies/ Operating Manual	6, 8.01, 8.03, 8.08	11
h.	Trademarks and proprietary information	2, 6, 7.05	13, 14
i.	Restrictions on products/services offered	8.01 (a-c), 8.09 (a-b)	16
j.	Warranty and customer service requirements	13.01	N/A
k.	Territorial development and sales quotas	2.03, 8.01(e)	12
l.	Ongoing product/service purchases	8.01(c), 8.04, 8.05	8
m.	Maintenance, appearance and remodeling requirements	Storefront Addendum (if signed)	N/A
n.	Insurance	8.01(b), 8.05	6
o.	Advertising	4.03	6, 11
p.	Indemnification	13.02	N/A
q.	Owner's participation/management/staffing	7.01, 8.01, 9.02	11 (A-6), 15
r.	Records and reports	8.06	6
s.	Inspections and audits	8.06, 8.07	6
t.	Transfer	9	17
u.	Renewal	5.02	17
v.	Post-termination obligations	12.01	17
w.	Non-competition covenants	8.09	17
x.	Dispute resolution	11	17

ITEM 10: FINANCING

Closet Tailors does not generally finance the Initial Territory Fee or Additional Territory Fee, which (as appropriate) you must pay in full when you sign your Franchise Agreement. Additionally, Closet Tailors will generally not finance the Initial Franchise Fee if you paid a discounted Initial Territory Fee or Additional Territory Fee (as described in Item 5).

If you meet our credit standards and did not pay a discounted Initial Territory Fee or Additional Territory Fee, Closet Tailors will, at your request, finance 100% of the Initial Franchise Fee (\$14,950), over a period of 12 months at an APR of 5%. You must sign a Secured Promissory Note and General Security Agreement substantially in the forms which are attached as Exhibits B and C, respectively. Payments begin with the first royalty due date. The note can be prepaid without penalty at any time during its term. The General Security Agreement grants us a security interest in substantially all of your assets to secure your payments under the Secured Promissory Note. You waive your rights to notice of a collection action and to assert any defenses to collection against Closet Tailors.

(3) **Training.** If you purchase the Franchise Agreement directly from Closet Tailors (not as a transfer from an existing franchisee), and this is your first Franchise Agreement from Closet Tailors, then Closet Tailors will train, without charge, you or your manager for the initial Territory for 10 days at Closet Tailors' headquarters in Orange, California, using a training schedule substantially similar to the following (See Section 7.01 of the Franchise Agreement):

Subject	Instructional Material	Hours Of Classroom Training	Hours of On-The-Job Training
Welcome and Business Orientation	Handouts/Manual	7.5	0
Marketing and Canvassing	Handouts/Manual	5.5	2
Sales, Warehouse Set-up, and Installation	Handouts/Manual	7.5	0
Product Knowledge and Installation	Handouts/Manual	7.5	0
Measuring/Pricing and Installation	Handouts/Manual	7.5	0
Installation School	Handouts/Manual	3.5	0
Product Knowledge, Discounts & Multipliers	Handouts/Manual	7.5	0
Office Flow, Daily Procedures, and Installation Specialties	Handouts/ Manual	7.5	0
Advanced Sales Training	Handouts/ Manual	7.5	0
Vendor Alliance	Handouts/ Manual	7.5	0
Graduation, Business Representative Hand-Off	Handouts/ Manual	7.5	0

The majority of our training program is presented by our executives. The backgrounds and qualifications of our executives is presented in Item 2 of this Offering Circular. Our executives are also responsible for supervising the remaining portions of our training program, which are presented by other employees (generally our Department Managers) and representatives of some of our vendors.

For your first Franchise Agreement acquired directly from Closet Tailors (in connection with which you pay an Initial Franchise Fee), Closet Tailors does not charge for this training for one person, and Closet Tailors will also cover the expenses for one hotel room (single/double occupancy for 15 nights) for the trainee, at a hotel selected by Closet Tailors and airfare in the maximum amount of \$500 for attendance at the Initial Training Program. If we have room at a training session, you may send additional persons to training. If you send one additional person (who could be an individual owner or another management employee) to the same training session as the first trainee, we will not charge any additional training fee for that one additional person.

Additional persons (in excess of the first trainee and one additional trainee at the same session) may attend either the same or other training sessions, subject to class availability, by paying a charge of \$100 per person per day. Any additional trainees (including the second person, if any, at the original training session) will not be allowed to participate in field trips or vendor visits. In addition, you must pay for car rental, meals, entertainment, and other expenses for you and your trainees during training, as well as any airfare costs in excess of \$500 for the first trainee and hotel costs in excess of a single room at the original training session.

Your manager must complete the training to Closet Tailors' satisfaction before you begin operating the Franchised Business. At the initial training, we give you proprietary information and related materials for use in training your staff. These materials may include prerecorded media and playback or other devices. The materials we provide remain our sole property. Closet Tailors also may make available to you for purchase prerecorded, third-party materials relevant to the Closet Tailors System and the Franchised Business. Initial training is conducted approximately every other month or otherwise as needed. Following the initial training, Closet Tailors reserves the right to exclude from any further training courses prospective trainees who have not attended Closet Tailors training courses which Closet Tailors believes to be necessary for the trainee to have taken first.

(4) **Storefront.** If you wish to operate a fixed location, we will review and approve the location of your store.

B. During Operation. During the operation of your Franchised Business, Closet Tailors will provide the following services and assistance to you.

(1) **Advertising.** In the aggregate, Closet Tailors will expend an amount equal to the total of the amount paid by all CLOSET TAILORS franchisees as "advertising fees" for local and national advertising, development of marketing support, public relations, Internet marketing, market research, and promotional campaigns designed to promote and enhance the value of the Closet Tailors service marks and their general public recognition and acceptance. The money paid by CLOSET TAILORS franchisees as "advertising fees" will be used primarily for local and national advertising, to enhance the CLOSET TAILORS image, and to develop marketing support.

The amount of your monthly payment of advertising fees will be based on the number of Closet Tailors franchisees nationwide, and will increase as Closet Tailors issues Franchise Agreements. As long as Closet Tailors has fewer than 100 franchises issued nationwide, the contractual contribution level is \$300 per month. The contribution will increase to \$500 once Franchise Agreements for more than 100 Territories are issued, to \$750 once Franchise Agreements for more than 200 Territories are issued, to \$1,000 once Franchise Agreements for more than 500 Territories are issued and to \$1,500 once Franchise Agreements for more than 1,000 Territories are issued.

Businesses owned by Closet Tailors or its shareholders and affiliates are not obligated to pay advertising fees, and may (in Closet Tailors' discretion) contribute at a different rate.

Closet Tailors alone will determine all matters involving advertising, public relations, and promotional campaigns. On a national or regional basis, Closet Tailors may impose an additional assessment on all CLOSET TAILORS franchisees for special advertising or promotional activities if 2/3 of all franchisees of Franchised Businesses (nationally or in the affected region, as appropriate) agree in writing to this additional assessment (see Section 4.04(d) of the Franchise Agreement).

Some local advertising may be funded by Closet Tailors using the payments made as advertising fees. You will also place your own local advertising. Closet Tailors strongly believes that an introductory local marketing program, primarily focused on media spending (newspaper, direct

mail, radio, and cable television advertising) can dramatically improve your chances of success as a new franchisee or as an existing franchisee acquiring an additional Territory. You may purchase advertising materials from Closet Tailors or develop advertising materials for your own use, at your own cost, but we must approve the advertising materials in advance and in writing.

We are not, in any way, obligated to spend any amounts paid by you as advertising fees in your Territory. However, Closet Tailors will spend an amount at least equal to the aggregate of all advertising fees paid by all CLOSET TAILORS franchisees to benefit all CLOSET TAILORS franchisees, generally, including you. If we do not expend during any year an amount at least equal to all advertising fees paid by franchisees for that year, we will retain the remaining monies for future advertising years. Advertising fees are not refundable or rebated. None of the money paid as advertising fees will be used specifically to solicit franchise sales although our general advertising may include a telephone number to call about licensing opportunities. (Concerning advertising fees, also see Items 6, 8 and 9 of this Offering Circular.)

We may deposit amounts paid by franchisees as advertising fees into a separate advertising operating account, or we may deposit it in our general accounts and merely keep track of it separately on our books and records. No interest will be credited for your benefit or paid to you (see Section 4.04(f) of the Franchise Agreement) on the amounts you pay as advertising fees. The aggregate deposit of advertising fees is not in any way to be construed as a "trust," "fiduciary relationship," or any other similar special arrangement.

In the future, Closet Tailors may establish a National Support Services Network providing qualified representatives to handle customer problems. The cost of that service may be reimbursed partially or wholly from the money paid as advertising fees.

The amounts paid by franchisees for advertising fees will not be separately audited. Upon your request, Closet Tailors will provide you with a statement of annual receipts and expenditures of advertising fees during the preceding calendar year on or before each March 31 (see Section 4.04(h) of the Franchise Agreement).

(2) **Toll-Free Number.** Closet Tailors will operate a toll free number to be used by all Closet Tailors franchisees. Your advertising must use only the toll free number unless Closet Tailors has specifically consented to your use of your individual local telephone number as well (See Franchise Agreement Section 8.04).

(3) **Additional Support.** Closet Tailors may provide (under Section 7.04 of the Franchise Agreement) the periodic supervision and assistance we deem appropriate. The nature, frequency, and duration of this assistance will be in our sole discretion. Closet Tailors maintains a toll free number hotline to provide franchisee assistance. In addition to the Confidential Operations Manual, Closet Tailors may provide you with additional materials involving the Franchised Business.

(4) **Meetings and Conventions.** Closet Tailors may conduct mandatory meetings of franchisees, but no attendance fee will be payable to Closet Tailors for you to attend these meetings (Franchise Agreement Section 7.03). Closet Tailors also may make available to your

staff training courses to be held at various locations (Franchise Agreement Section 7.04). See Item 6 of this Offering Circular.

Closet Tailors may hold annual conferences to discuss the Closets industry, sales techniques, personnel training, accounting, performance standards, and advertising programs. Closet Tailors may charge a conference attendance fee, and you must pay all travel and living expenses. Any elective conference will be at locations we designate. (See Franchise Agreement Section 7.03.)

(5) Internet and Intranet. Closet Tailors has established a Web site on the Internet, which will become operational on September 1, 2006. The Web site will provide information about the Closet Tailors System and the products and services that are offered by Closet Tailors and its franchisees, and will identify you and other franchisees of Closet Tailors. Closet Tailors may modify this Web site in the future to, among other things, facilitate orders from you and other franchisees. Closet Tailors may also allow you to customize or post certain information on a page within the Web site that is dedicated solely to you and your business. (See Franchise Agreement Sections 8.10 and 8.11.)

Closet Tailors has established and plans to maintain an “intranet” (a private method of communication for use only by franchisees of Closet Tailors). The Franchise Agreement gives Closet Tailors the right to require you to participate in use of the intranet, according to Closet Tailors’ standards. The Franchise Agreement allows Closet Tailors’ Intranet to be either a “true” intranet (a series of inter-connected computers that use the same type of software as the Internet, but that are not technically part of the Internet and do not use the Internet to transmit material to one another) or an extranet (which transmits information over the Internet, but requires a password to access data on the servers used by Closet Tailors); currently, Closet Tailors uses an extranet. If and to the extent that we require you to participate in an intranet system, you must acquire any computer hardware necessary for that participation. (See Franchise Agreement Section 8.12.)

C. Computer / Cash Register Systems and Software.

You will need to obtain a laptop/notebook computer with (a) at least a Pentium P4 1-gigahertz processor; (b) a 40 gigabyte (or larger) hard drive; and (c) at least 512 megabytes of RAM. The computer will need to use either the Windows 2000 or Windows XP operating system, and will need to be equipped with the following: (i) Microsoft Internet Explorer (6.0 or later); (ii) Internet access (high speed cable or DSL recommended); and (iii) Microsoft Office software. You may also wish to purchase an ink-jet or laser printer (Closet Tailors recommends a portable ink-jet printer).

We will provide to you (without additional charge) one copy of software that will allow you to layout the design of a closet (or other space) in the customer’s home and show the customer what the storage system will look like. If the software is modified in the future, you may need to upgrade or replace your computer to run the modified software. There are no contractual limitations on the frequency or cost of mandated upgrades. Since computer technology is evolving rapidly, it is difficult to predict the extent of mandatory upgrades or your estimated costs.

Closet Tailors will not have independent electronic access to your sales information or any of the other data on this computer.

D. Time to Opening.

The typical length of time between the signing of the Franchise Agreement and beginning operation of the Franchised Business is 60 to 90 days. You must begin operating no more than six months after you sign the Franchise Agreement. Factors that may affect the time between signing the Franchise Agreement and beginning operation include the satisfactory completion of initial training by your manager or other designated attendees and availability of Closet Tailors materials for you to begin operating the Franchised Business.

ITEM 12: TERRITORY

Closet Tailors grants you a Territory in which Closet Tailors will not establish a company-operated or franchised business that both sells and installs Closet Organizers using the Closet Tailors System and Proprietary Marks. On the date of the Franchise Agreement, there will be approximately 32,000 households in the Territory. Your franchise is granted for that Territory but not for a specific site or location in it. Your Territory is determined by United States Postal Service ZIP Codes and is finalized when you sign the Franchise Agreement. The ZIP Codes constituting your Territory will not be adjusted at a later time based on population growth or shrinkage within your Territory, but the boundaries of your Territory will automatically change if the Postal Service changes the ZIP Code boundaries. Your Territory will initially include approximately 32,000 households but will be subject to growth and shrinkage.

You will be responsible for the development of the Franchised Business in your Territory. A customer is considered to be located in your Territory if the structure in which the Closet Organizers or other Closet Tailors-approved products will be installed is located in your Territory. You may solicit business anywhere for the sale and installation of Closet Organizers and other Closet Tailors-approved products for structures located in your Territory.

You are only being provided a franchise to sell and install Closet Organizers and other Closet Tailors-approved products within your assigned Territory and you must seek Closet Tailors' written approval before selling outside your assigned Territory. Generally, Closet Tailors will grant permission for you to sell and install Closet Organizers and other Closet Tailors-approved products for structures that are in an "*unassigned Territory*" (that is, an area that is not part of any other franchisee's Territory and that is not being operated as a "company-owned" Territory by Closet Tailors) until that unassigned Territory is assigned. Your operation in an unassigned territory gives you no right of first refusal or any other rights to the unassigned Territory, and Closet Tailors may sell or assign it at any time, without notice to you. Although we will not grant permission to sell in another franchisee's territory, absent unusual circumstances (such as described below), we cannot guarantee that another franchisee will not violate these requirements and make sales outside their assigned Territory without seeking and obtaining Closet Tailors' written approval.

Closet Tailors may develop various "referral programs" (which may include a "key accounts" program and a Web site referral program). While the details of any such programs have yet to be

finalized, Closet Tailors contemplates that other franchisees or the operators of Internet Web sites may make referrals to you in exchange for a flat dollar payment or a percentage of sales made to the customers referred. At the present time, no referral programs are in existence, and the amount of the referral fees is not yet determined. Periodically as Closet Tailors develops referral programs, Closet Tailors will notify you of the details of these programs (such as agreed pricing, mandatory service agreements, and mandatory referral fees as a dollar amount or as a percentage of sales to the referred customer), and you may then decide whether to participate. If you decide to participate, and then receive referrals through the program, you must pay the agreed referral fee. If you decide not to participate, then Closet Tailors reserves the right, in its sole discretion, to find other means to serve referral customers in your Territory.

You may broaden your Territory only by acquiring an unassigned additional Territory. You may purchase an additional Territory (of approximately 32,000 households) for the then-applicable Additional Territory Fee. If you sign a Franchise Agreement for an additional Territory at the time you sign your first Franchise Agreement from Closet Tailors, the Additional Territory Fee is \$30,000 (except during the first 90 days that Closet Tailors is offering franchises in a state, during which time the Additional Territory Fee is \$20,000). If you purchase an additional Territory at any other time when you remain a Franchisee, you will pay our then-current Initial Territory Fee for the Territory, which may be higher than our current fees.

You must begin operating any additional Territory immediately upon signing the related Franchise Agreement, except that if you acquire an additional Territory at the same time as, or within six months after you buy your first Territory, you may delay operations in the additional Territory until no later than 6 months after you began operations in the first Territory. If you do not begin operations by the deadline, then Closet Tailors may terminate the Franchise Agreement for the additional Territory and your Additional Territory Fee will be forfeited.

Any additional Territory must be available at the time of acquisition (that is, not subject to an existing Franchise Agreement or Deposit Receipt and not operated as a "company-owned" Territory) and generally should be close to your Territory. Furthermore, you must be current in all payments due Closet Tailors under your Franchise Agreement, and not otherwise in default. The additional Territory will be granted to you by signing a new Franchise Agreement.

You must promote, market, and engage in the Franchised Business diligently and effectively, develop to the best of your ability the potential of the Franchised Business within your Territory, and devote and focus your full time attention and efforts to its promotion and development.

Closet Tailors reserves the right to operate businesses similar to the Closet Tailors business, using the same Proprietary Marks you will use and servicing customers in areas not served by any Closet Tailors franchisee. Closet Tailors also reserves the right to allow others to use Closet Tailors' Proprietary Marks, except to establish a business that both sells and installs Closet Organizers and other Closet Tailors-approved products within your Territory using the System; nevertheless, Closet Tailors contemplates that its various referral programs (such as a key accounts program or Web-site referral program) may allow Closet Tailors or another franchisee to fill an order for a customer in your Territory if you choose not to service that customer (see Franchise Agreement Section 2.02). Closet Tailors is not restricted from establishing other franchises or company-owned outlets or other channels of distribution, selling or leasing

different products or services under a different trademark in your Territory, or otherwise selling Closet Organizers and other Closet Tailors-approved products and services through means that do not involve the Closet Tailors System and Proprietary Marks. Closet Tailors has not established and has no present intention of establishing other franchises, company-owned outlets or other channels of distribution that will use the Closet Tailors Proprietary Mark or conduct business similar to your Closet Tailors business under a different trademark in your Territory. However Closet Tailors and its affiliates may (a) manufacture Closet Organizers and other products for sale to other retailers and wholesalers who will sell the Closet Organizers and other products under different trademarks; and (b) sell Closet Organizers and other products on a retail basis (but without custom measuring or installation) under different trademarks.

Closet Tailors may respond to customer complaints in your Territory, which Closet Tailors may resolve in its discretion. Closet Tailors may in the future solicit leads using the Closet Tailors Proprietary Marks through Internet marketing, even if a potential customer solicited in this way is inside your Territory. If Closet Tailors develops a Web site referral program relating to these leads, and you sign an agreement to participate in that Web site referral program, then Closet Tailors will refer these leads to you if your Territory contains the ZIP Code of the customer and you are in good standing. If you do not sign up to participate in the Web site referral program (or sign up but are not in good standing), these leads may be processed by Closet Tailors or referred to a nearby Closet Tailors franchisee that has signed up to participate and is in good standing.

Closet Tailors will not modify your Territory rights during the term of your Franchise Agreement, without your written consent; however, if the Postal Service adjusts the boundaries of the ZIP Codes that constitute your Territory, the boundaries of your Territory will automatically change in the same way. You do not have any options or rights of first refusal or similar rights within your Territory or adjacent Territories. You do not receive the right to acquire additional Closet Tailors franchises anywhere.

Under the Franchise Agreement, your territorial exclusivity does not depend upon the volume of sales generated nor on your penetration of the potential market. However, the Franchise Agreement requires you to maintain a minimum average sales volume of \$10,000 per month (measured over the 12-month period immediately preceding the date of measurement). Closet Tailors retains the right to terminate the Franchise Agreement (as a whole) if you fail to meet that minimum required average monthly sales volume (see Sections 8.01(e) and 10.03 of the Franchise Agreement).

ITEM 13: TRADEMARKS

You are permitted to operate the Franchised Business under the name “Closet Tailors” and to use the Proprietary Marks described below. By “**Proprietary Marks**,” we mean trademarks, trade names, service marks, logos and other proprietary marks Closet Tailors may authorize to identify your Franchised Business.

We have protected Closet Tailors’ trademarks and service marks by applying to register the Proprietary Marks listed below with the United States Trademark Office (“USPTO”) on the Principal Register. **Neither of these Proprietary Marks have yet been registered with the**

United States Trademark Office. By not having a Principal Register federal registration for these Proprietary Marks, Closet Tailors does not have certain presumptive legal rights granted by a registration.

The serial numbers and filing dates for Closet Tailors' Proprietary Marks are as follows:

Serial Number	Mark	Filing Date
78/831159	CLOSET TAILORS	March 7, 2006
78/831163	CLOSET  TAILORS™	March 7, 2006

You must follow our rules when you use our Proprietary Marks. You cannot use all or a recognizable part of our name or Proprietary Marks as all or part of your corporation's actual name or with modifying words, designs or symbols (although you may use the phrase "Closet Tailors of _____" as a trade name). You may not use our Proprietary Marks or name in connection with the sale of unauthorized product or service or in a manner not authorized in writing by Closet Tailors.

No agreements limit our rights to use or franchise the use of our Proprietary Marks.

You must notify Closet Tailors immediately when you learn about an infringement of or challenge to your use of our Proprietary Marks. We will take the action we think appropriate and we will defend you against any claim against your authorized use of our Proprietary Marks except a claim by a earlier user of the name "Closet Tailors".

You must modify or discontinue the use of our Proprietary Marks if Closet Tailors modifies or discontinues them. You must not directly or indirectly contest our right to our Proprietary Marks, trade secrets, or business techniques that are part of our business.

Closet Tailors does not know of any pre-existing rights or infringing uses in your Territory or of any material determinations of the USPTO, Trademark Trial and Appeal Board, trademark administrator of this state, or any court, or any pending infringement, opposition, or cancellation proceeding that could materially affect your use of our Proprietary Marks. There is no known litigation involving Closet Tailors' Proprietary Marks. Closet Tailors cannot prevent anyone who began using the name "Closet Tailors" before Closet Tailors' use of it from continuing their use of that name in the area of earlier use. The name "Closet Tailors" may be in use by other businesses in the United States who are not Closet Tailors franchisees or in any way affiliated with Closet Tailors. The Franchise Agreement gives you the responsibility of determining whether the name "Closet Tailors" is already being used in the Territory and releases Closet Tailors from any liability to you caused by any earlier use of the name "Closet Tailors" by anyone else.

ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Although Closet Tailors has not filed an application for a copyright registration for the Confidential Operations Manual, we claim a copyright in the contents of the Confidential

Operations Manual and the information contained in the Confidential Operations Manual is proprietary. Except for your right to use the manuals, you do not receive the right to use any item covered by a patent or copyright. You must promptly tell us when you learn about unauthorized use of any of our proprietary information. Closet Tailors is not obligated to take any action but will respond to this information as we think appropriate. Closet Tailors will indemnify you for losses recovered by a third party because of claims of infringement or misappropriation of proprietary information, patents, or copyrights based on your authorized use of this information.

ITEM 15: OBLIGATIONS OF THE FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

While the Franchise Agreement does not specifically mandate that you or your principals to participate personally in the direct operation of the Franchised Business, in selecting Closet Tailors franchisees we strongly prefer those prospective franchisees who plan to participate actively in the direct operation and daily affairs of the Franchised Business or whose owners will do so. Closet Tailors is not seeking to franchise persons if the principals are merely seeking a passive investment.

Additionally, as disclosed in Section 8.01(a) of the Franchise Agreement, if you are not an individual who is operating the Franchised Business yourself, you must employ on a full time basis at least one manager for the Franchised Business. The identity of the manager must be disclosed to us and should the identity of the manager change, we must be notified in writing. The manager must complete Closet Tailors' training, devote his or her entire time during normal business hours to the management, operation, and development of the Franchised Business, and must maintain confidentiality of the trade secrets described in Item 14 and agree to conform with the covenants not to compete described in Item 17. There is no requirement that the manager have any interest in the Franchised Business.

If you are not an individual, then you must disclose the identity of your principals in Schedule C to the Franchise Agreement, and each of your principals must sign a Personal Guarantee and Covenant in the form attached to the Franchise Agreement.

ITEM 16: RESTRICTION ON WHAT FRANCHISEE MAY SELL

Closet Tailors requires you to offer and sell in association with Closet Tailors' Proprietary Marks only Closet Organizers and other products and services that Closet Tailors has approved. These goods and services are described in sections 2.01 and 7.01 of the Franchise Agreement.

Closet Tailors has the right to change and/or add additional authorized goods and services that you must offer. There are no limits on Closet Tailors' right to do so except that your investment (for equipment, supplies, and initial inventory) will not exceed \$5,000 per year per Franchise Agreement without your express approval.

In general, you may only sell Closet Tailors-approved products and related services, and only for installation in structures located within your Territory. Closet Tailors suggests, but does not require, you to sell all approved products and services. During the

term of the franchise, you agree not to engage in any other business (anywhere) that is competitive with the Franchised Business (see Franchise Agreement Section 8.09).

ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Offering Circular.

	Provision	Section in Franchise Agreement	Summary
a.	Term of the franchise	5.01	The initial term is 10 years, beginning on the date you are scheduled to start operating (unless you are an assignee of an existing franchisee, in which case your initial term will be the remainder of the term held by existing franchisee).
b.	Renewal or extension of the term	5.02	If you are in good standing, you can add an additional term of 10 years.
c.	Requirements for you to renew or extend	5.02	Sign new agreement; pay renewal fee for each franchise agreement.
d.	Termination by you	None	
e.	Termination by Closet Tailors without cause	None	
f.	Termination by Closet Tailors with cause	10.01	Closet Tailors can terminate (i) if you commit a material default; or (ii) if a condition occurs, the non-occurrence of which was presumed.
g.	“Cause” defined - defaults	10.03	You have 7 days to cure service mark violations (must begin the cure within 24 hours after notice). You have 30 days to cure past due payments to us and any other default not listed in Section 10.02 (including, for example, failure to maintain the minimum average monthly sales volume).

	Provision	Section in Franchise Agreement	Summary
h.	"Cause" defined - defaults that cannot be cured	10.02	Non-curable grounds for termination include: conviction of felony, repeated defaults even if cured, loss of insurance, abandonment, trademark misuse, unapproved transfers, adjudication as a bankrupt in a voluntary bankruptcy, filing of an involuntary bankruptcy petition against you that is not dismissed within 30 days, an assignment for the benefit of your creditors, appointment of a receiver or trustee in a bankruptcy or similar officer for you or your property, a dissolution action is commenced by or against you if you are a corporation or partnership, or a final judgment against you for the lesser of more than \$50,000 or 10% of your Gross Sales for the preceding year.
i.	Your obligations on termination/nonrenewal	12.01	Obligations include removal of Closet Tailors marks and payment of amounts due us. You must assign all telephone numbers relating to the business to us. (see r. below).
j.	Assignment of contracts by Closet Tailors	9.01	No restriction on our right to assign.
k.	"Transfer" by you – definition	9.02	Includes transfer of contract or assets or any ownership change.
l.	Closet Tailors approval of transfer	9.02(b)	Closet Tailors has the right to approve all transfers but will not unreasonably withhold approval.
m.	Conditions for Closet Tailors approval of transfer	9.02(b)(i)-(vii)	New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you, all monies due and owing to Closet Tailors paid by you, and current agreement signed by new franchisee (also see r. below).
n.	Our right of first refusal to acquire your business	9.03	Closet Tailors can match any offer for your Franchised Business.
o.	Our option to purchase	None	
p.	Your death or disability	9.06	Heir or successor must complete initial training.
q.	Non-competition during the term of the franchise	8.09	No involvement in competing business anywhere in U.S. or in any other country (such as Canada) where we have applied to register our trademarks.

	Provision	Section in Franchise Agreement	Summary
r.	Non-competition after the franchise is terminated or expires	12.01	You must totally de-identify when your franchise rights have ended. You cannot engage in any competing business for 2 years within a 25 mile radius of any Closet Tailors territory.
s.	Modification of the agreement	14.02	No modifications generally, but Operating Manual is subject to change.
t.	Integration/merger clause	14.02	Only the terms of the Franchise Agreement and Confidential Operating Manual are binding (subject to state law). Any other promises may not be enforceable.
u.	Dispute resolution by arbitration or mediation	11.01-11.08	Except for certain claims, all disputes must be arbitrated or mediated in Orange County, California.
v.	Choice of forum	11.08	Litigation must be conducted in California.
w.	Choice of law	14.01	Federal law applies to arbitration and trademark issues. The law of your state applies to amendment of your franchise agreement, the maximum rate of interest that can be charged, and post-termination non-competition issues. California law applies to all other issues.

The California Commissioner of Corporations requires the following specific disclosures to be made to prospective California franchisees:

1. California Business and Professions Code sections 20000 through 20043 (the “**Franchise Relations Act**”) provides right to Franchisee concerning the termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the Franchise Relations Act, the Franchise Relations Act will control.
2. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. § 101, et seq.)
3. The Franchise Agreement requires binding arbitration. The arbitration will occur in Orange County, California, with the costs being borne equally by both parties. This provision may not be enforceable under California law.
4. Section 31125 of the California Corporations Code requires Franchisor to give Franchisee disclosure document, in a form and containing such information as the Commissioner of Corporations may by rule or order require, before solicitation of a proposed material modification of an existing franchise.

5. 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.
6. The Franchise Agreement requires franchisee to sign a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provisions of that law or any rule or order thereunder is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§ 31000-31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§ 20000-22043).
7. The Franchise Agreement contains a covenant not to compete that extends beyond the termination of the franchise. This provisions may not be enforceable under California law.
8. The Franchise Agreement contains a liquidated damages clause. Under Civil Code Section 16711 certain liquidated damages clauses are unenforceable.
9. Neither Closet Tailors, nor any person or franchise broker listed in Item 2 of this offering circular is subject to any currently effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, 15 U.S.C. § 78A et seq., suspending or expelling such persons from membership in such association or exchange.

These states have statutes that may supersede the franchise agreement in your relationship with Closet Tailors including the areas of termination and renewal of your franchise: ARKANSAS [Stat. § 70-07], CALIFORNIA [Bus. & Prof. Code §§ 20000-20043], CONNECTICUT [Gen. Stat. § 42-133e, *et seq.*], DELAWARE [Title 6, § 2551, *et seq.*], HAWAII [Rev. Stat. § 482E-1], ILLINOIS [815 Ill. Cons. Stat. § 705/1 through 705/44], INDIANA [Stat. § 23-2-2.7], IOWA [Code §§ 523H.1-523H.17], MICHIGAN [Stat. § 19.854(27)], MINNESOTA [Stat. § 80C.14], MISSISSIPPI [Code § 75-24-51], MISSOURI [Stat. § 407.400], NEBRASKA [Rev. Stat. § 87-401], NEW JERSEY [Stat. § 56:10-1], SOUTH DAKOTA [Codified Laws § 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code § 19.100.180], WISCONSIN [Stat. § 135.03]. These and other states may have court decisions that may supersede the franchise agreement in your relationship with Closet Tailors, including the areas of termination and renewal of your franchise.

ITEM 18: PUBLIC FIGURES

We do not use any public figure for the specific purpose of promoting our franchise. We may, occasionally, use celebrities or other public figures to promote sales of Closet Organizers and other Closet Tailors-approved products and services (which may have an incidental effect of promoting sales of franchises).

ITEM 19: EARNINGS CLAIMS

Closet Tailors has never directly operated a Closets business and the operation of Franchised Businesses by franchisees of Closet Tailors has only recently commenced. Accordingly, Closet Tailors has no experience with which to predict the economic performance of the Franchised Business.

We do not furnish or authorize our salespeople or any employees to furnish any oral or written information concerning the actual or potential sales, costs, income, or profits of a Closet Tailors business. Actual results may vary from Franchised Business to Franchised Business, and Closet Tailors cannot estimate the results of your Franchised Business. You should not rely on unauthorized representations as to earnings, sales, profits, or prospects or chances of success. Closet Tailors does not represent, guarantee or warrant that you will or are likely to earn more than your initial investment in the Franchised Business.

ITEM 20: LISTS OF OUTLETS

Closet Tailors will begin franchising in the Summer of 2006. As of the effective date of this Offering Circular, Closet Tailors has no company-owned locations and has not franchised any Territories. During the last three years, Closet Tailors has not had any franchised businesses in any state, nor have there been any transfers, cancellations, non-renewals, reacquisitions, or other changes of the ownership or operation of any franchised location.

PROJECTED OPENINGS FOR CALENDAR YEAR 2006

State	Franchise Agreements Signed But Business Location Not Open	Projected New Franchised Business Locations in Next Fiscal Year	Projected Closet Tailors- Owned Business Locations Opening In Next Fiscal Year
California	0	10	0
Tennessee	0	2	0
TOTAL	0	12	0

ITEM 21: FINANCIAL STATEMENTS

Attached as Exhibit D is Closet Tailors' audited balance sheet dated May 2, 2006, and unaudited financial statements as of June 30, 2006. Our fiscal year end is December 31.

ITEM 22: CONTRACTS

Included with this Offering Circular (as Exhibit A) is the Franchise Agreement, with 3 Schedules, marked "A" (Description of Territory), "B" (Inventory of Closet Tailors Start Up Package) and "C" (Schedule of Names and Addresses of Sole Proprietor, Shareholders, Partners and/or Principal Officers, As Applicable). The Schedules are for use in this state and are attached to the Franchise Agreement.

Also included with this Offering Circular are the following exhibits:

- Exhibit A-1 Storefront Addendum to Franchise Agreement
- Exhibit A-2 Broker Program Addendum to Franchise Agreement
- Exhibit B Promissory Note
- Exhibit C General Security Agreement
- Exhibit K Consent to Credit Investigation
- Exhibit L Deposit Receipt

There are no other contracts or agreements provided by us to be signed by you.

ITEM 23: RECEIPT

The very last page of this Offering Circular is a detachable document for you to sign and return to Closet Tailors acknowledging receipt of this Offering Circular. The next to the last page is a duplicate receipt to be kept by you. If this page or any other pages or exhibits are missing from your copy, please contact Closet Tailors at the address and phone number on the cover page of this Offering Circular.