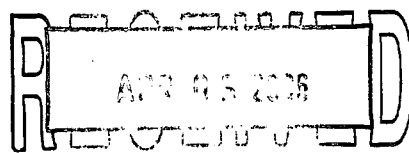


DEPARTMENT OF CORPORATIONS



SACRAMENTO OFFICE



UNIFORM FRANCHISE OFFERING CIRCULAR FOR



KidzArt®

KIDZART TEXAS, LLC

ISSUANCE DATE: MARCH 9, ~~2005~~31, 2006

INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY FEDERAL TRADE COMMISSION

* * * * *

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

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

FEDERAL TRADE COMMISSION
WASHINGTON D.C. 20580



KidzArt Texas, LLC

UNIFORM FRANCHISE OFFERING CIRCULAR

KidzArt Texas, LLC
A Nevada Limited Liability Company
1327 Dime Box Circle
1902 E. Common Street, Suite 400
New Braunfels, TX 78130
830-626-1959
www.kidzart.us.com

The franchisee will provide art instruction and products to children and adults. The initial fee ranges from \$26,000 to \$29,500 (the high end includes a \$3,500 training fee if you have a non-spouse co-owner attend training). You must pay an additional fee (currently \$1,900) for each additional 10,000 people (or less) in your Territory beyond the standard 150,000 people. (See Item 5) 32,700 to \$36,450, including the initial franchise fee of \$31,900 for a standard territory with 60,000 qualifying households and \$800 for an initial inventory of art supplies and marketing materials. The fee for additional territory, if available, is \$0.32 to \$0.35 per qualifying household in that additional territory. The estimated initial investment required for a KidzArt® franchise ranges from \$32,750 37,450 to \$45,000 51,700.

Risk Factors:

THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISAGREEMENTS BE SETTLED BY ARBITRATION IN TEXAS. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN TEXAS THAN IN YOUR HOME STATE.

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

~~SOME STATE FRANCHISE LAWS PROVIDE THAT CONSENT TO JURISDICTION AND CHOICE OF LAW PROVISIONS (OTHER THAN THOSE IN AN ARBITRATION PROVISION) ARE VOID OR SUPERSEDED. YOU MIGHT WANT TO INVESTIGATE WHETHER YOU ARE PROTECTED BY A STATE FRANCHISE LAW. YOU SHOULD REVIEW ANY ADDENDA OR RIDERS ATTACHED TO THIS OFFERING CIRCULAR FOR DISCLOSURES REGARDING STATE FRANCHISE LAWS.~~

THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

KidzArt®

Information comparing franchisors is available. Call your state administrator (if applicable) listed in Exhibit D or your public library for sources of information.

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

The effective dates of this ~~offering circular~~Offering Circular in the states with franchise registration laws are in Exhibit D.

**THE FOLLOWING PROVISIONS APPLY ONLY TO TRANSACTIONS GOVERNED
BY THE MICHIGAN FRANCHISE INVESTMENT LAW**

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

(a) A prohibition on the right of a franchisee to join an association of franchisees.

(b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

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

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

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

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

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

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

Any questions regarding this notice should be directed to:

State of Michigan Consumer Protection Division
Attn: Franchise
670 G. Mennen Williams Building
525 West Ottawa
Lansing, Michigan 48933
(517) 373-7117

Despite subparagraph (f) above, we intend to enforce fully the provisions of the arbitration section contained in our Franchise Agreement. We believe that subparagraph (f) is unconstitutional and cannot preclude us from enforcing our arbitration section. You acknowledge that we will seek to enforce this section as written.

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Exhibits

- A. Financial Statements
- B. Franchise Agreement
- C. Lists of Existing Franchisees/Franchisees Who Have Left System or Not Communicated
- D. State Administrators/Designation of Service of Process/Effective Dates
- D-1 State Addendum and State-Specific Requirements
- E. Operations Manual Table of Contents
- F. Additional Franchise Broker Disclosures

APPLICABLE STATE LAW MIGHT REQUIRE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. THESE ADDITIONAL DISCLOSURES, IF ANY, APPEAR IN EXHIBIT D-1.

ITEM 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Offering Circular, “we,” “us,” or “KidzArt” means KidzArt Texas, LLC, the franchisor. “You” means the person, corporation, partnership or other entity who ~~buys~~acquires the franchise and is the franchisee. If you are a legal entity, your owners must sign our “Guaranty and Assumption of Obligations,” which means that all of our Franchise Agreement’s provisions (Exhibit B) also will apply to your owners. We are a Nevada limited liability company that was formed in July 2002. We do not do business under any other name. Our principal business address is ~~1327 Dime Box Circle,~~1902 E. Common Street, Suite 400, New Braunfels, Texas 78130.

Our agent for service of process in your state (if applicable) is disclosed in Exhibit D of this Offering Circular.

We franchise the operation of what generally are home-based Offices known as KidzArt®, a business which provides art instruction and products to children and adults through a uniform system that includes high standards of service, use of quality products, and the business format we created and developed (the “KidzArt® System”).

KidzArt®

We never have offered franchises in any other line of business. We have no other business activities. KidzArt or its affiliates ~~have since October 1997~~ operated at least 1 KidzArt® location that is similar to the franchise being offered to you from October 1997 until 2005. They no longer operate such locations. (See Item 20)

KidzArt authorizes you to use its trademarks.

The market for KidzArt® services is developing. You will have to compete with other businesses, including franchised operations, national chains and independently owned companies, offering similar or related art services.

KidzArt has been offering KidzArt® franchises since July 2002.

KidzArt is not aware of any laws or regulations specific to our business, but you should check your local jurisdiction. However, since we do work primarily with children, you must submit to a thorough background and credit check. You must comply with laws that apply generally to all businesses. You should investigate these laws.

KidzArt has no predecessors and no affiliates who transact business with its franchisees or offer franchises.

ITEM 2

BUSINESS EXPERIENCE

CEO and Director: Shell M. Herman

~~MrsMs.~~ Herman has been an officer of KidzArt since its inception in October 1997 and after its formation in July 2002. She serves as our Director and Chief Executive Officer. ~~MrsMs.~~ Herman trains and works with each franchisee to ensure smooth operations.

President: Chris Cruikshank

From October 1997 until we were formed in July 2002, Mrs. Cruikshank owned and operated a branch of KidzArt® in Corte Madera, CA. Since then, she has served as our President and Director of Curriculum Development ~~and continues to operate a KidzArt® program in California.~~

Operations Manager: Michael R. Herman

Mr. Herman has been our Operations Manager since December 2003. He was General Manager for CAVCO Industries, located in Seguin, Texas and Phoenix, Arizona, from August 1998 until November 2003.

Franchise Consultant: Richard Houston George

~~Mr. George has been our Franchise Consultant since August 2003. He has held several positions at GlaxoSmithKline in Georgia since March 2000, including his current position of Executive~~

KidzArt®

~~Sales Representative. He was a Senior Sales Representative for Aventis Pharmaceutical in North Carolina from March 1998 until March 2000.~~

Sales and Marketing Representative: Lisa Magit

~~Ms. Magit has been our Sales and Marketing Representative since February 2004. She also has been one of our franchisees in Massachusetts since November 2003. Ms. Magit was Manager, Marketing Strategy for Software Spectrum, located in Garland, Texas, from August 2002 until August 2003; Senior Marketing Manager for Corporate Software, located in Norwood, Massachusetts, from February 2001 until August 2002; Senior Manager Corporate Marketing for Rowecom, located in Westwood, Massachusetts, from March 2000 until February 2001; and Marketing Programs Manager for News Edge, located in Burlington, Massachusetts, from June 1997 until March 2000.~~

Sales and Marketing Representative: Patricia K. Barber

~~Ms. Barber has been our Sales and Marketing Representative since September 2004. She also has been one of our franchisees in New Jersey since April 2004. Ms. Barber was Senior Sales Consultant for Siebel, located in San Mateo, California, from January 2001 until April 2004; Senior Application Consultant for Claris (Epicor), located in Swanee, Georgia, from June 2000 until January 2001; and Sales Engineer for nQuire (Siebel), located in San Mateo, California, from May 1999 until June 2000.~~

~~Ms. Ms. Francis has been our Sales and Marketing Representative for us since March 2005. She also has been one of our franchisees in Arizona since July 2004. Ms. Francis was Coordinator for Action, located in Tempe, Arizona, from August 2003 until August 2004; Operations Manager for Purple Rhino, located in Scottsdale, Arizona, from April 2002 until August 2003; and Branch Manager for Remedy, located in Scottsdale, Arizona, from December 1999 until April 2002.~~

Sales and Marketing Representative: Suzanne Saliba

~~Ms. Saliba has been our Sales and Marketing Representative since March 2005. She also has been one of our franchisees in Georgia since January 2004. Ms. Saliba was Assistant Director for Discovery Point, located in Dacula, Georgia, from September 2003 until December 2003 and After Care Director and Teacher for The First Academy, located in Orlando, Florida, from September 1996 until July 2003.~~

Sales and Marketing Representative: Linda Y. Shaw

~~Ms. Shaw has been our Sales and Marketing Representative for us since March 2005. She also has been one of our franchisees in North Carolina since August 2002. Ms. Shaw was an Administrative Assistant at Okuma America Corporation, located in Charlotte, North Carolina, from 1989 to November 2000.~~

Sales and Marketing Representative: Robert R. Denton

Mr. Denton has been our Sales and Marketing Representative for us since March 2005. He also has been one of our franchisees in Mississippi since May 2004. Mr. Denton held various positions with Federal Express, located in Memphis, Tennessee, from November 1987 until November 2003, the last being Operations Manager from September 2000 until November 2003.

Sales and Marketing Representative: Susan C. Bartman

Ms. Bartman, who is based in Jackson, Michigan, has been a Sales and Marketing Representative for us since March 2006. Ms. Bartman has been self-employed as President of Advantage Cards, located in Jackson, Michigan, since 1999.

Sales and Marketing Representative: Steve Scalzo

Mr. Scalzo, who is based in Scottsdale, Arizona, has been a Sales and Marketing Representative for us since March 2006. Mr. Scalzo was an Account Manager for Dart Container, located in Mason, Michigan, from October 1999 until December 2005.

Exhibit F discloses the names, principal business and employment histories, and litigation histories (if any) of additional franchise brokers operating in your state who represent KidzArt in offering KidzArt franchises and with whom you might have contact if you are interested in a KidzArt franchise.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this offering circular. (Also see California Addendum to this offering circular appearing in Exhibit D-1 and Exhibit F)

ITEM 4

BANKRUPTCY

No person previously identified in Item 1, and no officer previously identified in Item 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.

ITEM 5

INITIAL FRANCHISE FEE

You pay us a ~~\$25,500~~\$31,900 lump sum franchise fee when you sign the franchise agreement, less any deposit you previously paid. We typically request that you pay us a \$2,000 deposit (toward the initial franchise fee) before you sign the franchise agreement to hold your spot in our next training program and your desired territory. No documents are signed when you pay the deposit. If you pay us a deposit, you will pay us the remaining ~~\$23,500~~\$29,900 of the initial franchise fee

KidzArt®

when you sign the franchise agreement. The \$2,000 is refundable if you choose not to sign the franchise agreement. The initial franchise fee otherwise is not refundable once paid. (The initial franchise fee charged during 2005 ranged from \$23,500 to \$28,500.)

We train ~~you up to 2 people~~ for no additional fee. ~~(See Item 11) However, this training is available only to one person. If you want your spouse to attend training too, you must pay us an additional \$2,000. (This fee covers a 4 day training program, including certified instructor training for your spouse.) If you are a legal entity and another owner (other than your spouse) wishes to attend training, you must pay us an additional \$3,500 per person. (This covers a 4 day training program, including certified instructor training for that other owner.)~~ You must pay us \$3,500 for each additional person attending the full initial training program. You must arrange for the training of your certified instructors after you complete the initial training program. Our certified instructor training currently is \$250 for one of your employees. These training fees are not refundable. (See Item 11 for a detailed description of our training program and these fees.)

You also must pay us ~~\$500~~800 when you sign the franchise agreement for an initial inventory of art and marketing materials needed to start operating your Office. This payment is not refundable.

If you want additional territory for your franchise (beyond the standard ~~150,000 people~~60,000 qualifying households), you currently must pay us \$1,900 for each additional 10,000 people (or less)0.32 per qualifying household added to your Territory (although we may increase this fee to ~~\$2,500~~0.35 per qualifying household any time during the franchise term). Our willingness to increase your Territory's size will depend on how well you operate your Office in the Territory after completing training, where other franchises operate, and what is in our and ~~our~~the KidzArt® System's best interests. We have no obligation to allow you to increase your Territory's size. In fact, we are unlikely to do so (if at all) until after you have operated your Office for a significant time period. The additional territory fee is not refundable.

If an existing franchisee refers a prospective franchisee to us who ultimately purchases a franchise, we may pay the referring franchisee up to \$500, although we may stop this practice or change the amount at any time.

ITEM 6

OTHER FEES

Name of Fee	Amount	Due Date	Remarks
Royalty	78% of monthly gross-revenues ¹ <u>Gross Revenues¹ until annual Gross Revenues reach \$180,000; 6% on portion of annual Gross Revenues over \$180,000 per year (minimum monthly royalty of \$200250 during each month of 1st year of franchise term, \$250 during each month of 2nd year of franchise term, \$350 during each month of 3rd and 4th years of franchise term, and \$400 during the 5th and each remaining year of franchise term)</u>	First payment due 1 full month cycle from the end of initial training. Payments are due on 1 st day of each month and considered late if not received by us by 10 th day of each month ²	“Gross Revenues” are defined in footnote 1

¹ Gross Revenues include the total of all receipts derived from services performed and products sold by your Office, even if you do not directly derive all of the receipts. For example, if you conduct classes at locations (including recreation centers, YMCAs, and park districts) that deduct a portion of the amounts paid by participants in your classes in order to be compensated because you conduct classes at those locations or for other reasons, Gross Revenues on which the Royalty Fee is due will be the total amounts paid by participants in your classes before any deduction by those locations. However, Gross Revenues do not include sales taxes collected from customers and paid to the appropriate taxing authority. You are deemed to receive Gross Revenues when the services or products from which they were derived are delivered or rendered or when the relevant sale takes place, whichever occurs first, regardless of when or whether you actually receive payment for these services or products.

² Before or after your Office begins operating, you must sign and deliver documents we require authorizing us to debit your business checking account automatically for the Royalty, Advertising Fund contributions, and other amounts due under the franchise agreement (the “EFT Account”). We will debit the EFT Account for these amounts on their due dates. Funds must be available in the EFT Account to cover our withdrawals. We may require payment other than by automatic debit, and you must comply with our payment instructions.
If you do not report the Office’s Gross Revenues, we may debit the EFT Account for 120% of the last Royalty and Advertising Fund contribution that we debited (together with the late fee). If the amounts we debit are less than the amounts you actually owe us, we will debit the EFT Account for the balance on the day we specify. If the amounts we debit exceed the amounts you actually owe us, we will credit the excess against the amounts due the following month.

Name of Fee	Amount	Due Date	Remarks
Advertising Fund	21% of monthly Gross Revenues but no less than \$3525 per month	Same time as Royalty	We began collecting this fee in March 2005. See Item 11 for a detailed discussion about this Fund
Training	No charge for the first 2 attendees at initial training program; \$3,500 for each additional attendee	Prior to receiving training	See Item 11
Certified Instructor Training for Additional Persons	Currently \$250 per person (1 day) (we may increase to no more than \$750 per person this charge)	2 weeks prior to beginning of training	Also see Item 5
Additional Territory Fee	\$1,900 to 0.32 - \$2,500 for each additional 10,000 people (or less) 0.35 per qualifying household	Before Territory change made effective	Also see Item 5
Additional Assistance	\$200 per day + travel expenses	30 days after billing	For training or assistance beyond what KidzArt typically provides
Transfer	\$500 25% of then -\$2500 ² current initial franchise fee for size and type of Territory you have	Prior to acceptance of transfer	Payable before you sell your franchise. <u>No transfer fee charged if the transferee is a current franchisee of KidzArt</u>
Audit	Cost of audit plus late fee and interest	30 days after billing	Cost of audit payable only if audit shows an understatement of at least 2% of gross <u>Gross revenue</u> <u>Revenues</u>
Indemnification	Will vary under circumstances	As incurred	You must reimburse KidzArt if it incurs costs or is held liable for claims from your Office's operation
Fees for Lost Manuals	Actual Replacement cost	Upon delivery	

² Due only if you sell or transfer your franchise to a 3rd party.

Name of Fee	Amount	Due Date	Remarks
Interest/Late Charges	Late fee equal to greater of 15% of amount due or \$25 for each late payment, plus 1½% interest per month for each payment more than 7 days late (or highest commercial contract interest rate law allows)	30 days after billing	
<u>Dishonored Payments</u>	<u>\$75</u>	<u>As incurred</u>	<u>Due each time a check or an attempted debit from your account is dishonored due to insufficient funds or you take any other action to impede the automatic debiting process</u>
Franchise Renewal Fee	\$05% of then-\$2500³ <u>current initial franchise fee for size and type of Territory you have</u>	30 days prior to renewal	Initial franchise term is 10 years. Renewal term is 10 years
<u>Reimbursement of Inspection Expenses and Corrective Action</u>	<u>Depends on our direct costs</u>	<u>As incurred</u>	<u>Due for follow-up inspection after we determine that you are in default or if we perform your obligations to protect KidzArt® brand</u>
Conference Fee	Depends on our direct costs	Before you attend	See Item 11 — You must pay our annual conference fee whether or not you attend the conference (although attendance is mandatory)
Insurance	Will vary under circumstances	Within 5 days	You must reimburse us if we obtain insurance on your behalf
Attorneys' Fees and Costs	Will vary under circumstances	As incurred	Due when you do not comply with the Franchise Agreement

Except as noted, all fees are imposed and collected by and payable to KidzArt. All fees are non-refundable. There are no advertising cooperatives.

³ To encourage compliance with our operating systems, if you do not have any violations of the franchise agreement, then there is no Renewal Fee. Otherwise, a Renewal Fee of \$2,500 is charged.

ITEM 7

INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Expense	Amount (Low)	Amount (High)	Method of payment	When due	To whom payment is to be made
Initial Franchise Fee ¹	\$25,500 <u>31</u> <u>900</u>	\$25,500 <u>31</u> <u>900</u>	Lump sum	Deposit due before Franchise Agreement signed; balance due when Franchise Agreement signed	KidzArt
Training Fee for the 3 rd and each Additional Owners or Spouse Attendee	\$2,000 <u>0</u>	\$3,500	Lump sum	Before training	KidzArt
Travel and Living Expenses (during training)	\$1,000	\$2,500	As incurred	During training	Airlines, Hotels, Restaurants, etc.
Certified Instructor Training (each person) (including expenses)	\$250	\$3,000	As incurred	As incurred	KidzArt, Contractors, Airlines, Restaurants, Hotels
Rent or Real Estate and Improvements ²	See Note 2	See Note 2			
Initial Inventory of Art Supplies and Marketing Materials	\$500 <u>800</u>	\$500 <u>800</u>	Lump sum	When Franchise Agreement signed	KidzArt
Miscellaneous					

¹ KidzArt will approve or decline your application within 45 days after receipt of the completed application. You typically must pay a \$2,000 deposit before you sign the Franchise Agreement. You must pay the balance of the initial franchise fee when you sign the Franchise Agreement. There are NO REFUNDS UNDER ANY CONDITIONS once you have paid your full Franchise Fee. (The \$2,000 deposit is refundable.) KidzArt does not finance any fee.

² You may operate from your home, but if you choose to operate from a commercial location and you do not own adequate space, you must lease the space for your business. Generally, this will include first and last months' rent, plus a security deposit. Typical locations are less visible, lower cost office space. The typical space contains 200 to 1,000 square feet. Rent is estimated to be between \$4,000 to \$22,000 per year depending on factors such as size, conditions, and location of the leased premises. (See Items 11 and 12)

Expense	Amount (Low)	Amount (High)	Method of payment	When due	To whom payment is to be made
Opening Costs ³	\$2,000	\$4,500	As incurred	Prior to opening	Suppliers, Insurance, Utilities, etc.
Initial Advertising ⁴	\$1,000	\$3,000	As incurred	Prior to opening	Media
Additional Funds ⁵ – 3 months	\$500	\$2,500	As incurred	As incurred	Employees, Suppliers, Utilities
TOTALS⁶	\$32,75037 .450	\$45,00051 .700			

KidzArt relied on its principals' experience in the teaching and art business to compile these estimates. You should review these figures carefully with a business advisor before deciding to purchase the franchise. None of these payments are refundable.

KidzArt does not provide financing arrangements for you. If you obtain financing from others to pay for some of the expenditures necessary to establish and operate the franchise, the cost of financing will depend on your creditworthiness, collateral, lending policies, financial condition of the lender, and regulatory environment.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

KidzArt may offer centralized purchasing to receive the lowest possible price for products and services sold in KidzArt® offices and franchises. KidzArt may derive revenue from your product and/or service purchases. All goods and services you sell must meet the high standards set by KidzArt. KidzArt must approve all services and products you sell. This approval is based upon quality standards and other standards that may be implemented by KidzArt.

~~During 2004, we derived \$16,694 from~~ We received \$6,500 during 2005 for selling initial inventories of training supplies and marketing materials to franchisees for curriculum fees for our Preschool Kindergarten program. ~~(New franchises granted under this Offering Circular need not~~

³ Includes other deposits, utility costs, insurance, equipment (including video camera and tripod), telephone and communications costs, licenses, and legal fees.

⁴ This payment is for your beginning advertising and will vary depending upon your preferences.

⁵ This amount is an estimate of additional funds needed (working capital) for the initial phase of your business (first 3 months) based on figures derived from our first franchises, industry averages, and the current costs of operations. This is only an estimate, and it is possible that you will need additional working capital during the first 3 months you operate your Office and for a longer time period after that. This 3-month period is not intended, and should not be interpreted, to identify a point at which your Office will break even.

⁶ This estimates your initial start up expenses. These expenses do not include payroll costs or any owner's draw. These figures are estimates, and KidzArt cannot guarantee that you will not have additional expenses starting your business. Your expenses will depend on factors such as: how much you follow KidzArt's methods and procedures; your management skill, experience and business acumen; local economic conditions, e.g., the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period.

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~~pay separate curriculum fees.) This is 3. This is approximately 1% of our total 20042005~~
revenue of \$~~569,721. 575,675.~~ This information is from our audited financial statements. There currently are no arrangements in place under which we receive revenue from suppliers on account of their dealings with franchisees (although we have the right to receive this revenue).

To maintain quality and uniformity throughout the KidzArt® ~~system~~System, KidzArt may require that the goods, services, supplies, fixtures, equipment, inventory, computer hardware and software, and Office used to operate your business meet certain standards or specifications. The Manual and our Franchise System Website provide you with these standards or specifications and the names and addresses of designated and recommended vendors, who may or may not be affiliated with KidzArt, with whom you must or may do business. ~~You~~We will provide the art curriculum at no cost. You must use only the art curriculum we provide. We may require you to obtain art products from a designated source. We may also require you to purchase the Computer System (defined in Item 11) from a designated source.

Other than as described above, you currently may purchase from any vendor of your choosing as long as our standards and specifications are followed and approval is obtained (we will give you our decision within 30 days). We condition our approval on the supplier's quality and prices. We do not charge fees for our approval. Except as noted below, KidzArt currently is not an approved or designated supplier of any item that you must buy. KidzArt sells you an initial inventory of art supplies and marketing materials. (See Item 5) KidzArt provides the standard curriculum to you at no cost. You must use only KidzArt® curriculum in operating your Office. Otherwise, KidzArt is not an approved or designated supplier of any item that you must buy. During the franchise term, we may require you on a going-forward basis to obtain products and services that previously could be obtained from any approved or other available supplier only from sources we designate (including and/or limited to us and/or our affiliates).

KidzArt must approve your advertising materials before you use them and will do so within 10 working days after receiving them from you. (See Item 11) You may not create or maintain your own website. Your Office will be included on our Franchise System Website on the conditions described in Item 11. You must have a digital camera and a video camera with a tripod, and we may recommend or require a scanner and color copier.

You must obtain and maintain the ~~computer system~~Computer System necessary to operate the computer software we require you to use. (See Item 11) We communicate any required standards to you in our Operations Manual or other materials.

You must have general liability and product liability insurance for at least \$1 million, automobile liability insurance with a \$500,000 combined single limit or a \$250,000/\$500,000 split limit, property insurance for at least 90% of the property's replacement cost, and workers' compensation insurance as required by law. Premiums depend on the insurance carrier's charges, terms of payment, and your history. We may increase the current insurance limits and require additional types of insurance. All insurance must name us as an additional insured. If you fail to obtain or maintain adequate insurance, we may do so on your behalf and you must reimburse us our costs of obtaining or maintaining the insurance. (See Item 6)

KidzArt may negotiate purchase arrangements with suppliers or vendors to obtain price terms and other benefits of a buying cooperative. However, there currently are no purchasing or distribution cooperatives. We do not provide material benefits to you (for example, renewal or granting additional franchises) for using designated or approved sources.

Collectively, the purchases and leases described above are approximately 40% of your overall purchases and leases in establishing and operating the business.

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	1.1 and 9.19	7, 11, and 12
(b) Pre-opening purchases/leases	3.1, 12.2, 13.1, and 14	5, 7, 8, and 11
(c) Site development and other pre-opening requirements	9.19	11
(d) Initial and ongoing training	8.3	6, 7, and 11
(e) Opening	9.1	11
(f) Fees	2.3, 4, 5, 6, 7, 8, 11.2, 12.2G, 12.4, 14.3, 14.4, and 19.2(c), and 22.3	5, 6, and 7
(g) Compliance with standards and policies/operating manual	10, 11, 12, and 13	8 and 11
(h) Trademarks and proprietary information	15	13 and 14
(i) Restrictions on products/services offered	10 and 12	8, 11, and 12
(j) Warranty and customer service requirements	None	None
(k) Territorial development and sales quotas	1.2	12
(l) Ongoing product/service purchases	12 and 13	6 and 8
(m) Maintenance, appearance and remodeling requirements	None 9.3	None
(n) Insurance	14	7, 7, and 8
(o) Advertising	5	6, 7, 8, and 11
(p) Indemnification	14.4	6

Obligation	Section in Franchise Agreement	Item in Offering Circular
(q) Owner's participation/management/staffing	8.3 and 12.2A	11 and 15
(r) Records/reports	7	None
(s) Inspection/audits	7 and 12.4	6
(t) Transfer	19	17
(u) Renewal	2	17
(v) Post-termination obligations	15, 17, and 18.4 <u>18.7, 18.3</u>	17
(w) Non-competition covenants	17	17
(x) Dispute resolution	22.7, 22.8, and <u>22.11</u>	17

ITEM 10

FINANCING

KidzArt does not offer direct or indirect financing. KidzArt does not guarantee your note, lease, or obligation.

ITEM 11

FRANCHISOR'S OBLIGATIONS

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

Before you begin your business, KidzArt will:

A. Within 60 days after you sign the Franchise Agreement, or any other time as may be mutually agreed upon, ~~train 1 person as follows~~ up to 2 people. You or, if you are a legal entity, an owner you designate to be responsible for overseeing and supervising the Office's operation (the "Managing Owner") must satisfactorily complete the following initial training program (Franchise Agreement – Section 8.3):

Subject	Hours of Classroom Training	Instructional Material	Hours of on the job training	Instructor
Teaching Art	7 Hours	Live instruction, Operations Manual, Forms, Applications	None	KidzArt principal
Policies in Working With Children	2 Hours	Live instruction, Manuals, and Customer Service Forms	None	KidzArt principal

Subject	Hours of Classroom Training	Instructional Material	Hours of on the job training	Instructor
Management	2 Hours	Live instruction, Operations Manual, Control Forms, Quality Control Specifications	None	KidzArt principal
Sales	2 Hours	Live instruction, Sales Manual, Forms, Credit Processing Forms	None	Houston-George <u>KidzArt principal or Contractor</u>
Operating Procedures	8 Hour	Live instruction, Manuals, Forms	None	KidzArt principal
Reporting	1 Hour	Live instruction, Forms	None	KidzArt principal
Support Procedures	2 Hours	Live instruction, Operations Manual, Support Forms	None	KidzArt principal
Accounting	1 Hours	Live instruction, Operations Manual, Software Manual, Accounting Forms	None	KidzArt principal or Contractor

KidzArt does not charge for this training (unless more than ~~1 person is~~ 2 people are attending) (see Item 5), but you must pay the travel and living expenses for you ~~and/or your Managing Owner, your employee(s), and your independent contractors to attend training.~~ All training, except any on-site training, will be held in New Braunfels, Texas. KidzArt typically conducts training once per month. Ms. Shell Herman and Ms. Chris Cruikshank (see Item 2) supervise and conduct the training program. You must complete training before beginning operations.

KidzArt provides you with the initial training program described above. You must arrange for the training of your certified instructors after you return from the initial training program. Your certified instructors will be trained by an authorized trainer. You must pay a training fee for each certified instructor (see Items 5 and 6) and all expenses (including travel, hotel, food, and related expenses) incurred in having this training take place. You must pay for the trainer's expenses of traveling to your Territory to conduct the training, or you must arrange for your certified instructors to travel to the trainer's site for training.

Four months after you complete initial training, we may require you to send us a 1-hour video of you training a KidzArt® class (for evaluation). If we do not believe you are conducting the class properly, we may require you to return to our principal training location (at your expense) for 1 to 2 days of additional training.

Six months after you complete initial training, you must send us another video of you teaching a KidzArt® class so that we can determine whether you are qualified to teach certified instructor

training. If you are not yet qualified to do so, all of your prospective certified instructors must be trained by us or our designated trainers (including existing franchisees) at our then current training fee. (See Item 6) If you are qualified, you may train your own certified instructors. If you do not satisfy our qualification requirements at the 6-month period, you may ask us to re-evaluate you after 1 year.

- B. KidzArt may provide to you, for an additional fee, on-site training as needed. (See Item 6)
- C. Any assistance with respect to pre-opening and opening activities will be conducted as reasonably determined by KidzArt just before and including the first week of operation of your Office.

During the operation of the franchised business, KidzArt will:

- A. Research and possibly develop new services and methods and provide you with information about these developments. (Franchise Agreement - Subsection 8.3G).
- B. ~~Loan~~Give you a ~~copy of~~access to our confidential operating Manual, which contains mandatory and suggested specifications, standards and procedures. The Manual is confidential and remains KidzArt property. KidzArt may modify the Manual from time to time. (Franchise Agreement - Section 11). The current Manual Table of Contents is attached as Exhibit E.
- C. KidzArt will offer you initial and continuing advisory services as it deems necessary or advisable in furthering the trademarks, service marks, and goodwill of KidzArt®.
- D. KidzArt will include your franchise on its website. (Franchise Agreement – Section 8.3J) KidzArt will not approve an individual website for a franchisee.

KidzArt may establish one or more websites to advertise, market, and promote KidzArt® Offices, the services and products they offer and sell, and/or the KidzArt® franchise opportunity (each a “Franchise System Website”). If KidzArt establishes a Franchise System Website, KidzArt may provide you with a webpage on the Franchise System Website that references your Office. You must give KidzArt the information and materials KidzArt requests to develop, update, and modify your webpage. By providing the information and materials to KidzArt, you will be representing that they are accurate and not misleading and do not infringe any third party’s rights. However, KidzArt will own all intellectual property and other rights in the Franchise System Website, your webpage, and all information they contain (including the domain name and URL for your webpage, the log of “hits” by visitors, and any personal or business data that visitors supply).

KidzArt will maintain the Franchise System Website, including your webpage, and may use the Advertising Fund’s assets to develop, maintain and update the Franchise System Website. KidzArt periodically may update and modify the Franchise System Website (including your webpage). At your request, KidzArt will update the information on your webpage or add information that KidzArt approves. You must notify KidzArt whenever any information on your webpage changes or is not accurate. You must pay KidzArt’s then current fee to be on the Franchise System Website or to update or modify your webpage (to the extent the Advertising Fund does not cover these costs). KidzArt has final approval rights over all information on the

Franchise System Website. KidzArt may implement and periodically modify System standards, specifications, and operating procedures for the Franchise System Website.

KidzArt will maintain your webpage on the Franchise System Website, if any, only while you are in full compliance with the Franchise Agreement and all System standards, specifications, and operating procedures (including those for the Franchise System Website). If you are in default of any obligation under the Franchise Agreement or System standards, specifications, and operating procedures, then KidzArt may, in addition to its other remedies, temporarily remove your webpage from the Franchise System Website until you fully cure the default. KidzArt will permanently remove your webpage from the Franchise System Website when the franchise term is over.

E. KidzArt will provide to you toll-free support during the term of the Franchise Agreement.

F. KidzArt will provide to you an information database. (Franchise Agreement – Section 8.3L~~K~~)

G. KidzArt will provide to you visits by its field representative at its discretion. (Franchise Agreement – Section 8.3M~~L~~)

H. KidzArt may hold annual conferences to discuss on-going changes in the industry, operational techniques, product and service developments, personnel training, bookkeeping, accounting, performance standards, advertising programs, and new service procedures. (Franchise Agreement – Section 8.3) You must attend the annual conferences. The conference fee will depend on the direct costs to KidzArt of retaining speakers and other direct expenses associated with the conference. (See Item 6) You must pay all your travel and living expenses. These conferences will be held at our corporate headquarters or at ~~any other~~another location ~~chosen by KidzArt~~we choose.

I. Administer a formal Advertising Fund (the “Fund”) for advertising, marketing, and public relations programs and materials it deems appropriate. KidzArt began operating the Fund in March 2005. You must contribute to the Fund the amounts that KidzArt® periodically requires. (Franchise Agreement – Section 5.3) (See Item 6) KidzArt® offices operated by KidzArt or its affiliates need not contribute to the Fund. Franchisees who joined ~~our system~~the KidzArt® System before the date of this Offering Circular and therefore operate under a different form of Franchise Agreement might not need to contribute to the Fund at all or might contribute at different rates.

KidzArt will direct all programs that the Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Fund may pay for preparing and producing video, audio, and written materials and electronic media; developing, implementing, and maintaining an electronic commerce ~~Website~~website and/or related strategies (like a franchise system intranet or extranet); obtaining and maintaining toll-free numbers for the KidzArt® System; administering regional and multi-regional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising; using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public relations, market research, and

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other advertising, promotion, and marketing activities. The Fund will advertise locally, regionally, and/or nationally in printed materials, on radio or television, and/or on the Internet, whatever KidzArt thinks best. KidzArt and/or a local or regional advertising agency produces all advertising and marketing. The Fund periodically will give you samples of advertising, marketing, and promotional formats and materials at no cost. KidzArt will sell you multiple copies of these materials at its direct cost of producing them, plus any related shipping, handling, and storage charges.

KidzArt will account for the Fund separately from its other funds and not use the Fund for its general operating expenses. However, KidzArt may use the Fund to pay the reasonable salaries and benefits of personnel who manage and administer the Fund, the Fund's other administrative costs, travel expenses of personnel while they are on Fund business, meeting costs, overhead relating to Fund business, and other expenses that KidzArt incurs in activities reasonably related to administering or directing the Fund and its programs, including conducting market research; public relations; preparing advertising, promotion, and marketing materials; and collecting and accounting for Fund contributions. During the 2005 calendar year, Fund spending was as follows: 17% on media placement (including press releases), 71.8% on production (including marketing materials and website enhancements), 8.4% on conference, and 2.7% on administrative expenses.

The Fund will not be KidzArt's asset. The Fund also will not be a trust. KidzArt will have a contractual obligation to hold all Fund contributions for the benefit of the contributors and to use contributions only for their permitted purposes (described above). KidzArt has no fiduciary obligation to you for administering the Fund. The Fund may spend in any fiscal year more or less than the total Fund contributions in that year, borrow from KidzArt or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. KidzArt will use interest earned on Fund contributions to pay costs before spending the Fund's other assets. KidzArt will not use Fund contributions for advertising that principally is a solicitation for the sale of franchises. KidzArt will prepare an annual, unaudited statement of Fund collections and expenses and give it to you upon written request. KidzArt may have the Fund audited annually, at the Fund's expense, by an independent certified public accountant. KidzArt may incorporate the Fund or operate it through a separate entity when it thinks best. The successor entity will have all of the rights and duties described here. ~~The Fund was not yet operational in 2004.~~

The Fund is to maximize recognition of the Markstrademarks and patronage of KidzArt® businesses. Although KidzArt will try to use the Fund to develop advertising and marketing materials and programs, and to place advertising and marketing, that will benefit all KidzArt® businesses, KidzArt need not ensure that Fund expenditures in or affecting any geographic area are proportionate or equivalent to Fund contributions by KidzArt® businesses operating in that geographic area or that any KidzArt® business benefits directly or in proportion to its Fund contribution from the development of advertising and marketing materials or the placement of advertising. KidzArt may use collection agents and institute legal proceedings to collect Fund contributions at the Fund's expense. KidzArt also may forgive, waive, settle, and compromise all claims by or against the Fund. KidzArt assumes no other direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Fund.

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KidzArt may at any time defer or reduce a franchisee's Fund contributions and, upon 30 days' prior written notice to you, reduce or suspend Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Fund. If KidzArt terminates the Fund, it will distribute all unspent monies to franchisees in proportion to their respective contributions during the preceding 12-month period. (Franchise Agreement – Section 5.3.)

Other Advertising

KidzArt may provide advertising and promotional materials and services to you that are prepared by its advertising agency and used by KidzArt, its affiliates, and other franchisees. Materials provided may include video and audiotapes, business card templates, and miscellaneous point-of-sale items. Some materials will be accessible to you via ~~Internet~~internet and can be sent directly to our printer once customized. KidzArt may use both outside advertising and marketing agencies and internal staff to create advertising.

You may develop advertising materials for your own use that are consistent with our branding at your own cost. KidzArt must approve the advertising materials in advance and in writing. KidzArt will approve or disapprove your advertising material within 10 days from receipt.

At the present time, advertising placement is done on a local basis, typically by the individual franchisee and local advertising agencies it hires. However, KidzArt reserves the right to advertise nationally and regionally.

There are no franchisee advertising councils or advertising cooperatives in the ~~KidzArt-system®~~System. However, we have established a National Advisory Council, made up of the chairperson from each of 5 current Regional Advisory Councils, to review plans and discuss other matters of common interest. The National Advisory Council serves in an advisory capacity only and does not have operational or decision-making power. We may change or dissolve the National Advisory Council. The members of each Regional Advisory Council are all of the franchisees in good standing in the particular region. These franchisees nominate the Chairperson, Vice-Chairperson, and Secretary of the Regional Advisory Council.

Territory Selection

You select your business territory before signing the Franchise Agreement, subject to KidzArt's approval. (See Item 12) KidzArt assists in territory selection by using factors that have been considered for other KidzArt® locations. We expect that you will operate your ~~office~~Office from your home, so there should be no required site selection activities.

~~You should be able to begin operating your Office as soon as training is completed (typically 1 to 3 months after you sign a franchise agreement). The factors that affect this time are the ability to obtain licenses or bonds, if required. If you do not make reasonable efforts to open your home-based office by the end of six months, KidzArt may terminate the Franchise Agreement and retain all monies received.~~

Nevertheless, you may choose to operate your Office from a commercial site. In that case, you must (a) locate a site for the Office within the Territory and obtain our prior written approval of

the site; (b) obtain our prior written approval of any lease or purchase agreement for the site; (c) conform the site to applicable building code requirements and our specifications; (d) secure all permits and licenses for the site; (e) obtain our prior written approval of any construction and other plans for the site (and any deviations) so that we can ensure that the site's appearance meets our desired standards for KidzArt® locations; and (f) obtain our prior written approval of any outdoor sign and its proposed installation (see below). You may not change your commercial office design or appearance without our prior written consent and must, at your own expense, maintain and periodically renovate the Office's interior and exterior as we require to maintain the KidzArt® System's design and appearance requirements. You agree to buy or lease, and to display at your commercial site (whether attached to a building or free-standing), only signs, emblems, logos, lettering and other materials that comply with our specifications. We periodically may revise these specifications, and you must comply with these revisions at your own expense.

You may not open your Office until we confirm that all class preparation items have been satisfactorily completed, you or your Managing Owner have been trained, the location (home-based or leased) is ready for opening in all other respects, and the initial franchise fee has been paid in full. Subject to these conditions, you must begin operating the Office within 30 days after you or your Managing Owner satisfactorily completes initial training (typically 1 to 3 months after you sign the Franchise Agreement).

Computer System

You must obtain and use any integrated computer hardware and software that we specify, including hardware components, dedicated telephone and power lines, modems, printers, and other computer-related accessories and peripheral equipment (the "Computer System"). We may modify specifications for and components of the Computer System. You also must maintain a functioning e-mail address. Our modification of specifications for the Computer System, and/or other technological developments or events, might require you to purchase, lease, and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System. Although we cannot estimate the future costs of the Computer System or required service or support, and although these costs might not be fully amortizable over the franchise term, you must incur the costs of obtaining the computer hardware and software comprising the Computer System (or additions and modifications) and required service or support. Within 30 days after you receive notice from us, you must obtain the Computer System components we designate and ensure that your Computer System, as modified, is functioning properly. We have no obligation to reimburse you for any Computer System costs.

We may condition any license of proprietary software to you, your use of technology that we develop or maintain (whether on our own or by working with third parties), and your use of required software and computer programs for the Office on your signing the software license agreement or similar document we require to regulate your use of, and our, a designated third party's, and your respective rights and responsibilities with, the software or technology. We may charge you fees, whether payable to us or third parties we designate, for any software or technology that we license, or arrange to be licensed, to you and for other maintenance and support services provided during the franchise term.

You have sole and complete responsibility for: (1) acquisition, operation, maintenance, and upgrading of the Computer System; (2) the manner in which your Computer System interfaces with our and any third party's computer system; and (3) any and all consequences if the Computer System is not properly operated, maintained and upgraded. The Computer System must permit unlimited electronic communications between you and us, including your access to the internet and our then current intranet or extranet (if applicable) and our independent access to information and records regarding the Office's operation that we specify.

You must use MS Publisher, the current version of QuickBooks (2003 or newer), and Microsoft Office Suite (latest version), and Thriva LLC's management software system. This software is proprietary to its developers and owners. Thriva's address is 19125 North Creek Parkway, Bothell, Washington 98011, (877) 996-2267. These third parties have no obligation to provide ongoing maintenance, repairs, upgrades, or updates unless you pay for them. We have not yet approved a compatible equivalent program/programs. We do not require you to obtain any particular computer hardware as long as it can run the required software. We have been using this the basic software since 2003-2003 and Thriva's management software since March 2006. We may require you to obtain new computer software during the franchise term. There are no contractual limitations on the frequency and cost of the obligation. The basic computer software enables you to print out marketing materials from our website, submit royalty payments, and submit required annual financial statements. We do not have independent access to your computer system. Thriva's management software enables you to accept online registrations and purchases for classes you conduct and otherwise to maintain data for your Office's operation.

ITEM 12

TERRITORY

You will receive an exclusive Territory with a population of approximately ~~150,000~~ 60,000 qualifying households. (You might have the right to expand your Territory by paying us for each increment of 10,000 ~~people~~ from \$0.32 to \$0.35 per additional qualifying household.) (See Items 5 and 6) ~~Your Territory~~ will be delineated by counties, zip codes, boundary streets and/or highways, and the precise size will depend to some extent on the number of schools and facilities available to teach KidzArt® classes. You maintain rights to your area even though the population increases.

You will operate from one location within your Territory approved by KidzArt (typically your home) and must receive KidzArt's permission before relocating. KidzArt will approve any relocation as long as the new location meets the general standards then in effect and does not encroach on another franchise. During the franchise term, and except as provided below with certain potential retail sites in the Territory, KidzArt will not operate or license others to operate another KidzArt® Office within your Territory as long as your Office's annual Gross Revenues (calculated each year during the franchise term) exceed a minimum level. If your Office fails to satisfy this minimum annual Gross Revenues requirement, we may elect (as we deem best), effective upon delivery of notice to you, either (a) to eliminate the exclusivity of your right to operate a KidzArt® Office within the Territory during the remaining franchise term or (b) to reduce unilaterally the geographic scope of the Territory in which you will have the exclusive right to operate your KidzArt® Office. If we choose either of these options, which we are free to

do, there will be no limitations at all upon the activities in which we (and our affiliates) may engage and allow others to engage during the remaining franchise term in the portion of the Territory in which you no longer have exclusive rights (which might be the entire Territory).

~~The Office's minimum annual Gross Revenues requirement is \$50,000 during the first year of the franchise term. During each successive year of the franchise term, the Office's minimum annual Gross Revenues requirement will be 110% of the Office's actual Gross Revenues during the immediately preceding year of the franchise term. However, the minimum annual Gross Revenues requirement for a particular year during the franchise term will never be less than the sum of \$50,000 plus a 10% increment for each successive year during the franchise term after the first year (regardless of the Office's actual Gross Revenues during the preceding year). (For example, the minimum Gross Revenues requirement for the second year of the franchise term will be the greater of \$55,000 or 110% of the Office's actual Gross Revenues during the first year of the franchise term; the minimum Gross Revenues requirement for the third year of the franchise term will be the greater of \$60,500 or 110% of the Office's actual Gross Revenues during the second year of the franchise term; the minimum Gross Revenues requirement for the fourth year of the franchise term will be the greater of \$66,550 or 110% of the Office's actual Gross Revenues during the third year of the franchise term; and so on.)~~

Your Territory will not be deemed to include, and always will be deemed to exclude, any fixed retail site (not including a personal residence) located within the Territory at which KidzArt® classes, workshops, and camps will be regularly offered to the public and conducted on a retail basis in association, combination, or conjunction with other types of family-style activities, services, and events – different from KidzArt® services – that likewise will be regularly offered and conducted at the fixed retail site. If we negotiate and develop the opportunity with the operator of a fixed retail site to offer KidzArt® classes, workshops, and camps at the site in association, combination or conjunction with other types of family-style activities, services and events, we will offer you the first opportunity to provide these services at the fixed site as part of your franchise on the reasonable terms and conditions and for the consideration (including a separate fee) that we determine at that time to be appropriate (which may be based, in part, on terms dictated by the operator of the fixed retail site). If you are unable or choose not to provide KidzArt® services at the fixed retail site on the terms and conditions that we offer, we may ourselves provide, or may allow another franchisee or licensee to provide, these services at the fixed retail site on the terms and conditions we deem appropriate (as long as these terms are no better than those first offered to you).

The Office's minimum annual Gross Revenues requirement is \$75,000 during each 12-month period of the franchise term, with the first 12-month period beginning with the 13th month after you complete initial training and running through the 24th month after you complete initial training. Each subsequent 12-month period will run on a calendar year basis, with the first of these subsequent 12-month periods ending on December 31 of the year in which the first 12-month period specified above ends (that is, the year in which falls the 24th month after you complete initial training). [As an example, if you complete initial training in June of a particular year, the first 12-month period of the franchise term during which you must satisfy the minimum annual Gross Revenues requirements would begin in July of the following year and end in June of the year after that. The second 12-month period effectively begins in January of that same year and then ends on December 31. So, part of the second 12-month period will include a

portion of the first 12-month period. All 12-month periods after that remain on a January 1 through December 31 basis.] We may increase the \$75,000 minimum Gross Revenues number each calendar year during the franchise term, beginning with the second 12-month period during which we calculate the Office's minimum Gross Revenues, based on increases in the Consumer Price Index ("CPI") from the beginning of the first calendar year during which we began to calculate the Office's minimum Gross Revenues for purposes of determining your right to retain territory exclusivity (subject to our rights described above). The annual adjustment of the minimum Gross Revenues number will be applied on January 1 of each calendar year based on CPI increases since the previous January 1. "CPI" means the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor, U.S. City Average, All Items, and Major Group Figures for all Urban Consumers (CPI-U 1982-84=100), or by a successor publication.

Even while you retain your exclusive rights within the Territory (as described and subject to the limitations above), KidzArt may offer and sell to customers located in your Territory, through any distribution channels (including the Internet) other than a KidzArt® Office, products and services bearing the Marks ~~(KidzArt® trademarks or other trademarks)~~ that are identical or similar to (or different from) the products and services offered by your Office. Except when advertising cooperatively with appropriate franchisees, you cannot advertise or solicit orders within another franchisee's territory. ~~You also may not operate your Office or offer the services covered by the franchise outside your Territory.~~ You may not advertise independently on the Internet or World Wide Web. KidzArt® web pages will be maintained by us.

You may not provide the services authorized and covered by the franchise outside the Territory. You may provide services only at host sites and other locations within the Territory (although students at those locations may reside outside the Territory). You may not solicit clients or promote KidzArt® programs outside the Territory. You must reasonably restrict your Office's advertising, promotion, and marketing activities to the markets in your Territory. If you receive a request to provide services at a location in another franchisee's territory, you must refer the request to the other franchisee in the manner we specify. If you receive a request to provide services anywhere outside your Territory, but not within another franchisee's territory, you may not provide these services without our prior approval, which we may grant or deny as we deem best or on any conditions we deem appropriate.

You have no options, rights of first refusal, or similar rights to acquire additional franchises within contiguous territories. Although we have the right to do so, we do not intend to establish other franchises or company-owned outlets or another distribution channel selling or leasing similar products or services under a different trademark.

Except as described above, we may not alter your Territory during the franchise term. (See Item 6 regarding the minimum royalty we charge. We may terminate your franchise if you do not pay the minimum royalty and cure the default within the required timeframe. (See Item 17))

ITEM 13

TRADEMARKS

KidzArt grants you the right to operate a business under the name KidzArt®. You may also use our other current or future trademarks to operate your business. By trademark, KidzArt means trade names, trademarks, service marks, commercial symbols, and logos used to identify your business. You must indicate, as required in the Franchise Agreement, that you are an independent operator of the Office and shall use the appropriate trademark and copyright designations indicated by KidzArt indicates.

The following trademark is registered on the Supplemental Register of the United States Patent and Trademark Office (“USPTO”). No affidavits of use or renewal filings are due.

Mark	International Classification	Registration Date	Registration Number
KIDZART®	41	September 18, 2001	2,491,627

Registration of this ~~mark~~trademark on the PTO’s Principal Register is pending. An application was filed on March 17, 2004 in international classes 35 (advertising and business services) and 41 (education and entertainment services) and was examined and approved by the PTO for publication on November 3, 2004. By not yet having a Principal Register federal registration for this ~~mark~~trademark, we do not have certain presumptive legal rights granted by a Principal Register registration.

We use the “KIDZART®” name together with the following design:



We have not applied to register this design mark with the PTO. By not having a Principal Register federal registration for this mark, we do not have certain presumptive legal rights granted by a Principal Register registration.

You must follow our rules when you use the ~~Marks~~KidzArt® trademarks, including giving proper notices of trademark and service mark registration and obtaining fictitious or assumed name registrations required by law. You may not use any ~~Mark~~KidzArt® trademark in your corporate or legal business name; with modifying words, terms, designs, or symbols (except for those we license to you); in selling any unauthorized services or products; or as part of any domain name, homepage, electronic address, or otherwise ~~in connection with a website~~ (unless it

is a Franchise System Website). If we discover your unauthorized use of the ~~Marks~~any KidzArt® trademark, we may require you to destroy all offending items reflecting that unauthorized use.

Although the KIDZART® trademark is registered on the USPTO's Supplemental Register and is in the process of being converted to a Principal Register registration (for which we applied), a Notice of Opposition (No. 91166639, filed September 21, 2005) and a Petition for Cancellation (No. 92045114, filed November 4, 2005) were filed with the Trademark Trial and Appeal Board of the USPTO, challenging our ownership of and right to use the KIDZART® trademark. The party filing the petition is "Kidsart, Inc.", the alleged owner of a substantially similar mark used in certain market areas of California and Washington. The Petition for Cancellation alleges that the petitioner has superior rights in its "Kidsart" mark that bars our use of KIDZART®. After Petitioner filed a Motion for Summary Judgment on December 16, 2005, we responded by filing a Cross-Motion for Summary Judgment on January 25, 2006. The case remains pending in the USPTO, and no rulings have been issued. If our defense of this challenge is unsuccessful after the USPTO considers all of the evidence and arguments, we and our franchisees might be required to change the principal trademark we use, KIDZART®, in certain parts of the United States or throughout the United States.

~~There~~Other than as described above, there are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, and no pending infringement, opposition, or cancellation proceedings or material litigation, involving the principal ~~Mark~~trademarks. No agreement limits our right to use or license the Marks. ~~We currently are aware of certain arguably pre-existing uses (that is, used before our application for federal registration) of a substantially similar mark in certain market areas of California and Washington that might result in our not being able to use or license the KIDZART® mark in those market~~trademarks. Except as provided above, we do not actually know of either superior prior rights or infringing uses that could materially affect your use of the trademarks in any state. We will advise you of any pre-existing uses of a substantially similar mark of which we actually are aware if we believe those uses will interfere with your ability to operate a KIDZART® franchise in your desired market area. Otherwise, we do not actually know of either superior prior rights or infringing uses that could materially affect your use of the Marks in any state.

You must notify us immediately of any apparent infringement or challenge to your use of any ~~Mark~~KidzArt® trademark, or of any person's claim of any rights in any ~~Mark~~KidzArt® trademark, and you may not communicate with any person other than us and our attorneys, and your attorneys, regarding any infringement, challenge, or claim. We may take the action we deem appropriate (including no action) and control exclusively any litigation, USPTO proceeding, or other administrative proceeding arising from any infringement, challenge, or claim. You must assist us in protecting and maintaining our interests in any litigation or USPTO or other proceeding. We will reimburse you for your costs of taking any action that we ask you to take.

If it becomes advisable at any time for us and/or you to modify, discontinue using, and/or replace any ~~Mark~~KidzArt® trademark and/or to use one or more additional, substitute, or replacement trade or service marks together with or instead of any previously designated ~~Mark~~KidzArt®

KidzArt®

trademark, you must comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your direct expenses of changing the Office's signs, for any loss of revenue due to any modified or discontinued MarkKidzArt® trademark, or for your expenses of promoting a modified or substitute trademark or service mark.

We will reimburse you for all damages and expenses that you incur in any trademark infringement proceeding disputing your authorized use of any MarkKidzArt® trademark under the Franchise Agreement if you have timely notified us of, and comply with our directions in responding to, the proceeding. At our option, we may defend and control the defense of any proceeding arising from your use of any MarkKidzArt® trademark.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents are material to the franchise. KidzArt claims copyrights in the Manual (which contains its trade secrets), advertising and marketing materials, teaching programs and designs, and similar items used in operating KidzArt® offices. KidzArt has not registered those copyrights with the United States Registrar of Copyrights but need not do so in order to protect them. You may use these items only as we specify while operating your office (and must stop using them if we so direct you).

There currently are no effective adverse determinations of the USPTO, the Copyright Office (Library of Congress), or any court regarding the copyrighted materials. No agreement limits our right to use or allow others to use the copyrighted materials. We do not actually know of any infringing uses of our copyrights that could materially affect your use of the copyrighted materials in any state.

We need not protect or defend copyrights, although we intend to do so if such action is in ~~our~~ the KidzArt® System's best interests. We may control any action we choose to bring, even if you voluntarily bring the matter to our attention. We need not participate in your defense and/or indemnify you for damages or expenses in a proceeding involving a copyright.

Our Manual and other materials contain our confidential information (some of which constitutes trade secrets under applicable law). You may not use our confidential information in an unauthorized manner. You must take reasonable steps to prevent its improper disclosure to others.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

KidzArt requires that you personally ~~If you are an individual, you or a manager trained in the KidzArt® System must directly supervise the franchised business. If you are an entity, your Managing Owner must oversee and supervise the Office's operation. You may not change the~~

Managing Owner without our prior written approval, which we may condition on that person's attending and satisfactorily completing our franchisee training program. (See Item 11)

Each individual who owns a 5% or greater interest in your franchise must sign a guarantee agreement assuming and agreeing to discharge all of your obligations under the Franchise Agreement. Those individuals will be personally liable for all contractual obligations. If you wish to hire certified instructors to help provide your services, they must complete all required training. (See Items 5, 6, and 11)

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may offer for sale to the public only those types of products and services that are authorized and approved by KidzArt.

You must offer all goods and services that KidzArt designates as required for all franchises. KidzArt periodically may change required and/or authorized products and services. There are no limits on its right to do so. However, KidzArt will not ~~require a new product or service for you if you demonstrate that it involves a substantial capital improvement you did not contemplate resulting in a material hardship to you and a material reduction in sales or profitability would result. KidzArt also will not impose such a~~ impose this requirement unless it requires compliance by all offices operating in the market nearest your Office.

You are not restricted in the customers to whom you may sell your services. (See Item 12 for territorial restrictions)

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 Franchise	2	10 years
(b) Renewal or extension of term	2	If you are in good standing, you may renew the franchise for 1 successive 10-year period
(c) Requirements for you to renew or extend	2	Sign new agreement (all of the terms of which may differ materially from those contained in your initial agreement), be current in payments, upgrade your business, and sign release (if state law allows)
(d) Termination by you	18.1	Default by KidzArt and failure to

Provision	Section in Franchise Agreement	Summary
(e) Termination by KidzArt without cause	None	cure KidzArt does not have this right
(f) Termination by KidzArt with cause	18	KidzArt can terminate if you violate agreement
(g) "Cause" defined — defaults which can be cured	18	You have 30 days to cure: non-payment of fees; non-submission of reports; operational defaults; your loss of right to occupy the location of your Office and any other default not listed in (h) below; 10 days to cure monetary defaults and failure to maintain required insurance; 72 hours to cure violations of laws, ordinances, or regulations
(h) "Cause" defined — defaults which cannot be cured	18.2, 21	Non-curable defaults: <u>material misrepresentation or omission in acquiring franchise or operating Office; failure to begin operating Office within applicable time period; failure to satisfactorily complete training; abandonment; unapproved transfers; felony conviction; dishonest or unethical conduct; unauthorized use of Manual or other trade secrets or confidential information of KidzArt; failure to pay taxes; understatements of Gross Revenue; blocked assets, property or interests under anti-terrorism laws; repeated defaults even if cured; abandonment; trademark misuses; unapproved transfers; and bankruptcy</u>
(i) Your obligations on termination/ nonrenewal	15.9, 18.4-18.7	Obligations include complete deidentification, non-competition and payment of amounts due, <u>return to us all materials containing any of our trademarks, and assign telephone numbers (also see (r) and (o) below)</u>
(j) Assignment of contract by KidzArt	19.7	No restriction on our right to assign
(k) "Transfer" by you — definition	19	Includes transfer of contract or assets or ownership change

Provision	Section in Franchise Agreement	Summary
(l) KidzArt approval of transfer by franchisee	19	KidzArt has the right to approve all transfers but will not unreasonably withhold approval
(m) Conditions for KidzArt's approval of transfer	19.2	No pending default; new franchisee qualifies; transfer fee paid; purchase agreement approved; training arranged; release signed by you <u>(if state law allows)</u> ; and current agreement signed by new franchisee (all of the terms of which may differ materially from those contained in your agreement); <u>transferee's owners (if transferee is an entity) sign guaranty</u>
(n) KidzArt right of first refusal to acquire your business	20	KidzArt can match any offer for your business
(o) KidzArt option to purchase your business	20	KidzArt may purchase your inventory and equipment at fair market value if franchise expires or is terminated for any reason
(p) Your death or disability	19.4	Franchise must be assigned to <u>approved party within 120 days</u>
(q) Non-competition covenants during the term of franchise	17	No involvement in competing business anywhere (defined as business providing art or drawing instruction or similar creative services); you may not employ or interfere with the employment relationship of any person employed by us or <u>no diverting business; no activity that might injure the goodwill of the KidzArt® trademarks or the KidzArt® System; no recruiting or hiring employees of us or any other franchisee without prior permission</u>
(r) Non-competition covenants after the franchise is terminated or expires	17	No <u>For 2 years, no</u> involvement in competing business operating within Territory or within 25 miles of any KidzArt® Office
(s) Modification of agreement	22.5	No modifications generally, but operating manual <u>and system standards, specifications and</u>

Provision	Section in Franchise Agreement	Summary
		<u>operating procedures subject to change</u>
(t) Integration/merger clause	22.5	Only the terms of the franchise agreement are binding (subject to state law). Any other promises may not be enforceable
(u) Dispute resolution by arbitration or mediation	22.8	Except for certain claims, all disputes must be arbitrated in a <u>suitable location chosen by arbitrator within 10 miles of our then-current principal business address (currently New Braunfels, Texas)</u>
(v) Choice of forum	22.7	Litigation may be in the State of Texas (for all claims not subject to arbitration) <u>Subject to arbitration requirements, litigation may be in state or federal court of general jurisdiction closest to our then current principal business address (currently New Braunfels, Texas)</u>
(w) Choice of law	22.7	Except for federal law, Texas law applies (subject to laws of state law) <u>in which Office is located governs</u>

(Also see California Addendum to this offering circular appearing in Exhibit D-1)

These states have statutes that might supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise: ARKANSAS [Ark. Code Sections 4-72-201 to 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000 to 20043], CONNECTICUT [Gen. Stat. Sections 42-133e to 42-133h], DELAWARE [Code Sections 2551 to 2556], HAWAII [Rev. Stat. Section 482E-6], IDAHO [Code Section 29-110], ILLINOIS [~~815 ILCS Sections 705/19 and 705/201-44~~], INDIANA [Code Section 23-2-2.7], IOWA [Code Section 537A.10], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Sections 75-24-51 to 75-24-63], MISSOURI [Rev. Stat. Sections 407.400 to 407.410], NEBRASKA [Rev. Stat. Sections 87-401 to 87-410], NEW JERSEY [Rev. Stat. Sections 56:10-1 to 56:10-12], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code Section 13.1-557 to 13.1-574], WASHINGTON [Code Section 19.100.180], and WISCONSIN [Stat. Sections 135.01 and 135.07]. These and other states might have court decisions that supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

In addition to the provisions noted in the chart above, the Franchise Agreement contains a number of provisions that may affect your legal rights, including a waiver of a right to a jury trial and waiver of punitive or exemplary damages. (Franchise Agreement – Section 22.11). We

recommend that you carefully review all of these provisions, and each of the contracts attached to this offering circular in their entirety, with a lawyer.

Applicable state law might require additional disclosures related to the information contained in this Item 17. These additional disclosures, if any, appear in Exhibit D-1.

ITEM 18

PUBLIC FIGURES

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

ITEM 19

EARNINGS CLAIMS

KidzArt does not furnish or authorize its salespersons (including officers and directors) to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a KidzArt® franchise. Actual results vary from unit to unit, and KidzArt cannot estimate the results of any particular franchise.

ITEM 20

LIST OF LOCATIONS

**FRANCHISED
LOCATIONS STATUS SUMMARY
FOR YEARS 2005/2004/2003/2002**

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired by Franchisor	Left the system-other	Total from left columns	Franchises operating at year end
Alabama	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	5/2/0/0
California	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	7/3/4/3
Colorado	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/2/2/0
Florida	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	5/4/0/0
Georgia	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/4/3/0
Illinois	0/0/0	0/1/0/0	0/0/0	0/0/0	0/0/0	0/1/0/0	1/1/2/1
Indiana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Maryland	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Massachusetts	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/1/2
Mississippi	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Minnesota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0
Missouri	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired by Franchisor	Left the system-other	Total from left columns	Franchises operating at year end
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
New Hampshire	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
New Jersey	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
North Carolina	0/0/0	0/1/0	0/0/0	0/0/0	0/0/0	0/1/0	3/3/4/2
Ohio	0/0/0	0/1/0	0/0/0	0/0/0	0/1/0	1/0/1/0	1/2/1/2
Pennsylvania	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0/1
Rhode Island	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Saskatchewan (Canada) Rhode Island	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0
Texas South Carolina	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/2/0/0
Virginia Texas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	14/04/0/2
Virginia	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0	1/1/0
Washington	0/0/0	0/1/0	0/0/0	0/0/0	0/0/0	0/1/0	1/1/2/0
Wisconsin	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/1/0
TOTALS	01/0/0	*41/05/0	0/0/0	0/0/0	01/0/0	43/05/0	52/42/27/9

* All terminated by mutual consent of parties.

All numbers in this chart are as of December 31 for each year. The names, addresses and telephone numbers of all franchisees are listed in Exhibit C. Exhibit C also lists the franchise owners (1) whose franchised businesses were terminated, cancelled, or not renewed, or who otherwise voluntarily or involuntarily ceased to do business under our franchise agreement, during 2004, 2005, or (2) who otherwise have not communicated with us within 10 weeks of the application date.

**STATUS OF COMPANY OWNED LOCATIONS
FOR YEARS 2005/2004/2003/2002
(Operated by current owners of KidzArt)**

State	Offices Closed During year	Offices Opened During Year	Total Offices Operating At Year End
Texas	0/0/1/0	0/0/0	0/0/1/0
California	0/1/0/0	0/0/0	1/0/1/1
TOTALS	0/1/0/1	0/0/0	0/1/1/2

All numbers in this chart are as of December 31 for each year. Our principals closed the KidzArt® offices in Texas and California during 2003 and 2005, respectively, in order to devote full-time efforts to operating the franchise system KidzArt® System.

PROJECTED SYSTEM WIDE OFFICE OPENINGS FOR 20052006

State	Franchise Agreements Signed as of December 31, 2005 But Office Not Open as of December 31, 20042005	Projected New Franchised Locations In 20052006 (not including those in previous column)	Projected New Company Owned Locations in 20052006
Arizona	0	2	0
California	0	4	0
Connecticut	0	1	0
Colorado	0	31	0
Florida	0	43	0
Georgia	0	21	0
Illinois	0	32	0
Massachusetts	0	21	0
Minnesota		1	
New Jersey		1	
Nevada		1	
North Carolina	0	32	0
Ohio	0	2	0
Texas	0	32	0
TOTALS	0	2924	0

ITEM 21

FINANCIAL STATEMENTS

Our audited financial statements as of December 31, 2005, ~~December 31, 2004, December 31, 2003,~~ and December 31, 20022003 are attached to this offering circular as Exhibit A. We were formed in July 2002 and had no operations before then.

ITEM 22

CONTRACTS

A copy of the Franchise Agreement (with Guaranty) is Exhibit B. The state-specific Riders to our Franchise Agreement and the form of our current General Release are in Exhibit D-1.

ITEM 23

RECEIPT

Our and your copies of the Uniform Franchise Offering Circular Receipt are located at the last 2 pages of this offering circular.