



Number: _____

FRANCHISE OFFERING CIRCULAR

PARTY AMERICA FRANCHISING, INC.

A Minnesota Corporation
980 Atlantic Avenue
Suite 103
Alameda, California 94501
Telephone: (510) 747-1800
Fax: (510) 747-1810
www.partyamerica.com

RECEIVED
JUN 18 2004
Department of Corporations
Los Angeles

The franchisee will own and operate a PARTY AMERICA® Store from which the franchisee will sell specialty retail party supplies, related season merchandise, greeting cards, balloons and paper products.

The Initial Fee is \$25,000. You also may purchase an initial supply and interior sign package from the franchisor or an affiliate, ranging in cost from \$8,000 to \$13,000. The estimated initial investment required ranges from \$250,800 to \$491,500, depending on square footage. If you sign an area development agreement, you pay a nonrefundable territory fee of \$5,000 multiplied by the number of stores you agree to develop.

RISK FACTORS:

1. THE FRANCHISE AGREEMENT AND AREA DEVELOPMENT AGREEMENT PERMIT YOU TO SUE OR ARBITRATE WITH PARTY AMERICA FRANCHISING ONLY IN THE STATE OF CALIFORNIA. OUT OF STATE LITIGATION OR ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO SUE OR ARBITRATE WITH PARTY AMERICA FRANCHISING IN CALIFORNIA THAN IN YOUR HOME STATE.

2. CERTAIN STATES REQUIRE US TO MAKE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. IF APPLICABLE, THESE ADDITIONAL DISCLOSURES WILL BE FURNISHED TO YOU IN THE ADDENDA INCLUDED AS EXHIBIT H TO THIS OFFERING CIRCULAR. PLEASE REFER TO THE ADDENDUM FOR YOUR STATE, IF ANY.

3. THE FRANCHISE AGREEMENT FOR A SINGLE STORE DOES NOT PROVIDE AN EXCLUSIVE TERRITORY FOR YOUR PARTY AMERICA STORE. PARTY AMERICA FRANCHISING AND OUR PARENT, PA ACQUISITION CORP., MAY ESTABLISH OTHER FRANCHISED OR COMPANY OWNED LOCATIONS AND OTHER CHANNELS OF DISTRIBUTION AND MAY SELL OR DISTRIBUTE ANY PRODUCT OR SERVICE TO THE GENERAL PUBLIC IN COMPETITION WITH YOUR PARTY AMERICA STORE.

4. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

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

The Effective Date of this Offering Circular is listed on Exhibit G.

Number: _____

PARTY AMERICA FRANCHISING, INC.

980 Atlantic Avenue, Suite 103

Alameda, California 94501

Telephone: (510) 747-1800

**INFORMATION FOR PROSPECTIVE FRANCHISEES REQUIRED BY
FEDERAL TRADE COMMISSION**

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

There may also be laws on franchising in your state. Ask your state agencies about them.

FEDERAL TRADE COMMISSION,
Washington, D.C.

NOTICE REQUIRED
BY
STATE OF MICHIGAN

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.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (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.

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, 670 Williams Building, Lansing, Michigan 48913, telephone (517) 373-7117.

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EXHIBITS

- A - List of Operational Franchise Stores
- B - List of Terminated and Reacquired Franchises
- C - PA Acquisition Corp. and Subsidiaries Consolidated Financial Statements
- D - Franchise Agreement (including Schedules)
- E - Area Development Agreement
- F - Franchisee Personal Profile Form
- G - List of State Agents/Effective Dates
- H - State Specific Addenda
- I - Receipt

Item 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Offering Circular, “PAF” or “we” means Party America Franchising, Inc., the franchisor. “You” means the person who buys the franchise. If the franchisee is a corporation, partnership, or other entity, “you” may also refer to its owners.

PAF was incorporated as “Paper Warehouse Franchising, Inc.” under the laws of the State of Minnesota on July 28, 1987. The name change to Party America Franchising, Inc. occurred on September 29, 2003. PAF’s principal business address is 980 Atlantic Avenue, Suite 103, Alameda, California 94501; telephone: (510) 747-1800; website: www.partyamerica.com. PAF generally conducts business under the name “Party America.” PAF’s agents for service of process are disclosed in Exhibit G.

PAF’s parent corporation is PA Acquisition Corp., a Delaware corporation (“PA Corp.”). PA Corp. is also considered an affiliate of PAF. PA Corp.’s address is the same as PAF’s address.

PA Corp. acquired PAF as part of an Asset Purchase Agreement with Paper Warehouse, Inc. (“PWI”), dated August 6, 2003. This acquisition was done through the bankruptcy proceedings of PWI, as further noted in Item 4. PWI had been located at 7630 Excelsior Boulevard, Minneapolis, Minnesota. PAF was previously located at that same Minneapolis address until PAF was acquired by PA Corp. PWI operated PAPER WAREHOUSE® Stores from August 1983 to August 2003. It did not offer franchises in any line of business.

Franchise Offered

PAF franchises specialty retail party products stores (sometimes referred to as a “Store”) under the terms of the Franchise Agreement in the form included in this Offering Circular as Exhibit D (the “Franchise Agreement”). A Store is a specialty retail store selling party supplies, related seasonal merchandise, greeting cards, balloons and paper products for home, office and commercial use using the trademark and trade name PARTY AMERICA®. The typical square footage for a Store ranges from 8,000 to 10,000 square feet.

The customers for the products sold at your Store include all consumers of party and paper products and greeting cards. The market is developing as consumers increasingly demand disposable products. Business tends to be seasonal with increased sales activity during certain holiday seasons (Halloween, Christmas, Graduation and Weddings).

PAF has developed a marketing system that creates, in the minds of customers, a certain image that our franchised Stores offer a wide assortment of party and paper products at a competitive price. PAF also has developed a business strategy for attracting and retaining customers, and an operations system designed to maintain high quality standards in services offered at the Stores. PAF has developed all of these as part of the business system (the “Business System”), which you will receive the right to use. PAF uses and licenses certain service marks and trademarks, logos, trade dress and other commercial symbols, including the service mark PARTY AMERICA (the “Trademark”). PAF may, in the future, modify or enhance the

Trademark as well as add new trademarks, service marks, logos, trade dress and other commercial symbols.

The purchase of a PARTY AMERICA franchise permits you: (i) to use PAF's recognized Trademarks; (ii) to obtain access to the distinctive operational and management attributes of the Business System, including a confidential manual describing guidelines for the operation of a Store (the "Operations Manual"); (iii) to take advantage of the combined purchasing power of all Stores to obtain supplies and inventory at a competitive price; and (iv) to receive the benefits of association with a franchise system, including various forms of opening and operational assistance from PAF (see Item 11). You must comply with all of PAF's requirements described in the Franchise Agreement.

You must comply with all laws, rules and regulations governing the operation of the Store, and obtain all permits and licenses necessary to operate the Store. In addition to laws and regulations that apply to businesses generally, your Store may be subject to various federal, state and local government regulations relating to site location and zoning.

If qualified, you may enter into an Area Development Agreement for the development of a prescribed number of PARTY AMERICA Stores in a designated geographic area called the "Territory." Under this arrangement, you must develop a specified number of PARTY AMERICA Stores in the Territory within a given period of time, depending upon the population of the area and its market potential. You must sign a separate Franchise Agreement for each Store you open under the Area Development Agreement.

Competition

There are a growing number of direct competitors in this business. You will likely compete with other regional and national party retail stores. You will also compete with grocery stores, drug stores, discount stores, gift shops and greeting card shops. In addition, PA Corp. may acquire an existing business or franchise system. The stores in the existing business or franchise system may compete with you. As described below, PA Corp. also sells products through its partyamerica.com web site.

Franchisor's Predecessors and Affiliates

As of January 31, 2004, PA Corp. operated 37 Stores under the PARTY AMERICA trademark and 26 Stores under the PAPER WAREHOUSE trademark. Most or all of these 26 Stores will be converted to PARTY AMERICA Stores over the next 12 months. PA Corp. also offers supplies and services to you for your Store (see Items 8 and 11). PA Corp. has never offered franchises for Stores under any trademark and has not offered franchises in any other line of business.

PA Corp. owns www.partyamerica.com, a web site that provides visitors with party planning ideas, costumes, personalized invitations and other party supplies and merchandise. Visitors also are able to purchase party and paper products from PA Corp. by placing orders through the web site. Partyamerica.com also includes a locator map that allows visitors to obtain a listing of PARTY AMERICA Stores within each state and directions to each store.

Franchise Activities

PAF's sole business is the administration of its franchise system. PAF does not directly operate any PARTY AMERICA Stores. As noted above, prior to its name change on September 29, 2003, PAF operated under the name Paper Warehouse Franchising, Inc. It offered franchises under the PAPER WAREHOUSE trademark since October 1987 and the PARTY UNIVERSE trademark since 1995. As of October 2003, PAF only offers franchises under the PARTY AMERICA trademark. PAF has not offered franchises in any other line of business.

Item 2

BUSINESS EXPERIENCE

Marty Allen – Chief Executive Officer, President and Director

Marty has been PAF's CEO and President and a PAF Director since August 2003. He also is the CEO and President of PA Corp. and has been since 1996. Prior to that, he was President of California Closets, based in California, from January 1991 to August 1995.

Matthew Kahn – Director

Matthew has been a PAF Director since August 2003. He has been President of GB Palladin Capital, based in Boston, Massachusetts, since January 1998. Previously, he ran GB Asset Advisors, also based in Boston, Massachusetts, from August 1995 to December 1997. Matthew also is a Certified Public Accountant.

Claude Hagopian – Director of Franchise Development

Claude has been PAF's Director of Franchise Development since September 2003. He worked in Business Development for UPS, based in Oakland, California, from February 2002 to September 2003. From November 2000 to July 2001, he was the Business Development Manager for Aztec Software, based in Santa Clara, California. Prior to that, he worked in Channel Sales and Partner Alliances for Managemark, based in Sunnyvale, California, from August 1999 to October 2000. From January 1997 to August 1999, he worked in North American Sales for Avant! Corporation based in Fremont, California.

Item 3

LITIGATION

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

Item 4**BANKRUPTCY**

Paper Warehouse, Inc. filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code on June 2, 2003. (*In re Paper Warehouse, Inc.*, Case No. 03-44030, U.S. Bankruptcy Court, District of Minnesota.) At the time it filed its Chapter 11 case, Paper Warehouse, Inc. was the sole shareholder of PAF (then known as Paper Warehouse Franchising, Inc.). PA Corp. acquired all of the outstanding shares of stock in PAF from Paper Warehouse, Inc. pursuant to an asset purchase agreement that was approved by the U.S. Bankruptcy Court on August 7, 2003. PAF did not file a case under the U.S. Bankruptcy Code. Other than the Paper Warehouse, Inc. Chapter 11 case, no person previously identified in Items 1 or 2 of this Offering Circular has been involved as a debtor in a case under the U.S. Bankruptcy Code required to be disclosed in this Item.

Item 5**INITIAL FRANCHISE FEE**

Initial Fee. You must pay to PAF an "Initial Fee." The total amount of your Initial Fee will depend on whether you are opening your first or a subsequent PARTY AMERICA Store. The amount of the Initial Fee for your Store is currently as follows:

Store Number	Initial Fee
Your First Store	\$25,000
Your Second Store	\$20,000
Your Third Store or Subsequent Store	\$10,000

You must pay \$5,000 of the Initial Fee when you sign the Franchise Agreement. If you cannot secure a suitable location or obtain the necessary financing within 6 months after you sign the Franchise Agreement, PAF will refund to you the \$5,000 less PAF's out-of-pocket expenses related to site location and evaluation, loan portfolio development, market research, selling costs and similar services. In addition to these out-of-pocket expenses, PAF will deduct fees (at \$75 per hour) from the \$5,000 for providing these services to you. The amount PAF will deduct from the \$5,000 for out-of-pocket expenses and other fees generally ranges from \$1,000 to \$3,000. After this 6-month period expires, the \$5,000 is nonrefundable. You must pay the balance of the Initial Fee in full when you sign a lease for your Store or otherwise secure a suitable location.

If PAF terminates the Franchise Agreement before you open your Store (because you failed to successfully complete the training program or provided false or incomplete information to PAF), PAF will refund the Initial Fee less \$2,000 as well as all expenses PAF incurred in

processing your application, training, travel expenses, long distance telephone calls, attorneys' fees, accountants' fees and other related costs. The Initial Fee is not otherwise refundable. The amount PAF will deduct from the Initial Fee for expenses may range from \$0 to \$3,000.

Supplies and Interior Signs. You likely will purchase an initial supply and interior sign package from PA Corp., although you are not required to do so. This supply and signs package currently costs \$8,000 - \$13,000. This amount is nonrefundable.

Territory Fee. If you are an Area Developer, you must pay PAF a nonrefundable Territory Fee equal to \$5,000 multiplied by the number of PARTY AMERICA Stores you will develop in the Territory PAF grants to you. You must pay the Territory Fee when you sign the Area Development Agreement. The Territory Fee is nonrefundable and is not credited toward the amount of the Initial Fee you will pay for each Store. PAF and you will determine the number of Stores you will develop in the Territory before you sign the Area Development Agreement. If you do not already own and operate at least one PARTY AMERICA Store before signing the Area Development Agreement, you must also sign a Franchise Agreement for your first PARTY AMERICA Store when you sign the Area Development Agreement. You must sign a separate Franchise Agreement for each additional PARTY AMERICA Store you open. In addition to the Territory Fee, you will pay an Initial Fee for each Store when you sign a Franchise Agreement for that Store as set forth in the chart under the Initial Fee section above.

Item 6

OTHER FEES

Name of Fee	Amount (See Note 1)	Due Date	Remarks
Continuing Fee	4% of Gross Sales up to \$2,000,000 and 2% for Gross Sales over \$2,000,000 for each Store in a twelve-month period (February through January)	On or before the seventh business day of each month for the previous month	See Note 2
Local Advertising Expenses	Minimum annual amount, when combined with cooperative advertising expenses, is 4% of your Gross Sales or \$30,000, whichever is greater	Minimum amount must be spent during each calendar year	See Note 3
Cooperative Advertising Fee	Amount your coop agrees to contribute	Established by franchisees in your area	See Note 4

Name of Fee	Amount (See Note 1)	Due Date	Remarks
Yellow Page Advertising	Will vary depending on area and type of listing	When incurred	Must be placed in the primary yellow page directory serving your area
Transfer Fee for Franchise Agreement	10% of then-current Initial Fee	Before completion of transfer	You pay the transfer fee when you transfer the Franchise Agreement or substantial portion of the assets of the Store or any controlling interest
Transfer Fee for Area Development Agreement	\$5,000	Before completion of transfer	You pay the transfer fee when you transfer the Development Agreement or any controlling interest
Audit Expenses	\$500 - \$1,500	After inspection or audit	You pay audit expenses only if under-statement is greater than 2%
Renewal Fee	10% of then-current Initial Fee	Before you renew the Franchise Agreement	
Remodeling Expenses	Will vary under circumstances	Before you renew the Franchise Agreement	See Note 5
Insurance	Will vary under certain circumstances	When PAF requests reimbursement	You pay to PAF if you do not pay insurance premium and PAF pays it for you
Interest Expenses	Lesser of 15% per year or maximum rate permitted by law	When due	You pay if Continuing Fee, Advertising Fees or other amounts due PAF are not timely paid
Costs and Attorneys' Fees	Will vary under circumstances	When incurred	PAF may recover costs and reasonable attorneys fees if you lose in a dispute with PAF

Name of Fee	Amount (See Note 1)	Due Date	Remarks
Relocation/Expansion Fee	\$1,500	When incurred	You pay this fee to PAF if you relocate or expand your Store
New Store Manager Training Fee	Currently \$1,000	Before training	You pay this fee if you hire a new Store Manager after the opening of your Store
Store Set-Up Fee (due under Area Development Agreement only)	First three stores are free of charge. Additional Stores: currently \$1,000 plus expenses See Note 6	When optional service requested	This is an optional service provided by PAF under the Area Development Agreement
Store Manager Training Fee (due under Area Development Agreement only)	Currently \$1,000 for each Store Manager after the first three See Note 7	Before training	If you develop your own program to train Store Managers, then you will not incur this fee

Notes:

- (1) Except where otherwise noted, all fees are payable to PAF and are nonrefundable.
- (2) “Gross Sales” means the gross revenue you receive from the sale of goods and services at or through the Store, less sales taxes, customer refunds and promotional discounts. You will begin paying Continuing Fees of 4% of Gross Sales to PAF when your Store opens. Subsequently, for purposes of calculating Gross Sales, the “twelve-month period” will begin each February and will run through the following January. If you reach \$2,000,000 in Gross Sales within the twelve-month period, you will pay 2% of Gross Sales over \$2,000,000 for the remainder of the twelve-month period. Beginning each February, you will resume paying Continuing Fees of 4% of Gross Sales until and unless you reach \$2,000,000 in Gross Sales within the twelve-month period.
- (3) To the extent your annual expenditures for advertising are less than 4% of your Store’s Gross Sales or \$30,000 (whichever amount is greater), you must conduct additional advertising and promotional activities in your local geographic area. The amount you spend on advertising may depend on the size of your market in terms of households and flyer distribution. If you choose to distribute the maximum number of flyers offered during the year, with an insertion of an average of 30,000 flyers per time, your advertising expenditure can be as high as \$38,000 per year. Therefore, you should expect that your

advertising expenditure will be somewhere between \$30,000 and \$45,000 per year. Your local advertising activities, however, will not eliminate your obligations to contribute to cooperative advertising programs. If you do not spend at least 4% of Store Gross Sales or \$30,000, whichever is greater, for the calendar year for cooperative or local advertising, you must pay to PAF the difference between what you should have spent for advertising during the calendar year and what you actually spent. PAF may, on 60 days' notice, require that you pay a separate "Advertising Fee" equal to 1% of your Store Gross Sales. If PAF imposes this requirement, the Advertising Fee will be deposited in an "Advertising Fund" which PAF will manage (see Item 11). Any amounts you pay in the future for Advertising Fees will not count towards your minimum required local advertising expenses.

- (4) PAF may establish a regional advertising cooperative in your area. The advertising cooperative in your regional market will establish the amount of Cooperative Advertising Fees; however, PAF will establish the cooperative's bylaws and other rules that will govern the cooperative. Each company-owned (or affiliate-owned) Store (63 total) will have voting power equal to that of each franchised Store. Stores owned by PA Corp. currently have controlling voting power in the Kansas City, Oklahoma City, Tucson and Tulsa marketing areas.
- (5) You must modernize your Store as a condition to renewing your Franchise Agreement. The modernization must conform to the standards that PAF requires at that time for similarly situated new Stores. The scope of modernization may range from simply repainting the Store to completely refurbishing the entire Store, including remodeling, redecorating and replacing fixtures, signs, supplies and equipment. PAF cannot estimate the current costs for a modernization project because PAF has no history on which to base an estimate of these costs. You may make these payments in whole or in part to third parties. Before you modernize your Store, you must submit your modernization plans to PAF for our approval.
- (6) If you are an Area Developer, PAF will provide Store set-up services to you for the first three PARTY AMERICA Stores opened in the Territory free of charge. If you open any additional Stores in the Territory, you may request Store set-up services from PAF. If you request Store set-up services, you must pay PAF the then-current Store set-up fees PAF charges.
- (7) If you are an Area Developer, PAF will provide training free of charge for your Senior Executive, Supervisors and first three Store Managers. After your first three Store Managers successfully complete training, you may develop a training program, certified by PAF, for training of all your additional Store Managers. If you do not develop a Manager training program, PAF will provide training to your new Store Managers for \$1,000 each.

Item 7**INITIAL INVESTMENT**

EXPENDITURES	ESTIMATED AMOUNT OR ESTIMATED LOW-HIGH RANGE (See Note 1)	METHOD OF PAYMENT	WHEN PAYABLE	TO WHOM PAYMENT IS TO BE MADE
INITIAL FEE	\$25,000 (See Note 2)	2 installments	\$5,000 when you sign the Franchise Agreement, balance due when you sign a lease for your Store or secure a site	PAF
REAL ESTATE AND LEASEHOLD IMPROVEMENTS	\$0 to \$45,000 (See Note 3)	As incurred	Before opening	Third-party contractors and architects
EQUIPMENT AND FIXTURES	\$29,000 to \$86,000 (See Note 4)	Lump sum	Before opening	Third-party suppliers and PA Corp.
SIGNS	\$8,000 to \$13,000 (See Note 5)	Lump sum	At Store opening	Third-party suppliers
COMPUTER HARDWARE/ SOFTWARE SYSTEM	\$15,000 to \$25,000 (See Note 6)	Lump sum or can be leased	At or before Store opening	Third-party suppliers
DEPOSITS AND BUSINESS LICENSES	\$3,800 to \$12,500 (See Note 7)	Lump sum	Before opening	Landlord, utility companies and government agencies
GRAND OPENING PROMOTION	\$5,000 (See Note 8)	As incurred	Before and at opening	Third-party suppliers
OPENING INVENTORY	\$125,000 to \$200,000 (See Note 9)	Varies-vendor will determine	Before opening	Third-party supplier(s), and PA Corp.

EXPENDITURES	ESTIMATED AMOUNT OR ESTIMATED LOW-HIGH RANGE (See Note 1)	METHOD OF PAYMENT	WHEN PAYABLE	TO WHOM PAYMENT IS TO BE MADE
ADDITIONAL FUNDS – 3 MONTHS	\$40,000 to \$80,000 (See Note 10)	Varies-vendor will determine	Before opening and as incurred	PAF, employees, third- party suppliers
TOTAL (See Note 11)	\$250,800 to \$491,500			

Notes:

- (1) Except where otherwise noted, all fees that you pay to PAF are nonrefundable. Third-party lessors, contractors, and suppliers will decide if payments to them are refundable.
- (2) The Initial Fee for additional Stores is stated in the “Initial Fee” chart in Item 5. See Item 5 for the conditions when this fee is partially refundable.
- (3) You will need to lease the premises for your Store. The low end of the estimate in the table will apply if the cost of the leasehold improvement is included in your monthly rent. Typical locations for your Store are retail power centers and smaller freestanding locations. The amount of space that you will need for your Store will vary depending on the layout of the premises and other factors. The approximate size, however, varies from 4,500 square feet to 10,000 square fee. Although most franchisees do not directly pay for leasehold improvements (the cost of improvements are often figured in the base rent cost), you may need to make certain leasehold improvements to the lease premises for your Store to comply with PAF’s approved plans and specifications. PAF estimates that the monthly gross rent for your Store premises will range from \$10,000 to \$20,000 or more. If you do directly pay for leasehold improvements, the maximum estimated cost of leasehold improvements includes flooring, lighting, electrical, plumbing, painting, doors, windows, sprinkler system and HVAC. The exact cost will depend on several factors, including the size and condition of the premises, whether you elect to do more than the minimum required renovations, the landlord’s agreement to reimburse you for certain improvements and other economic factors.
- (4) Your investment in equipment and fixtures necessary to operate the Store is highly variable. Your exact investment depends on several factors, including the size and location of the proposed Store, local labor costs, current prices charged by suppliers, discretionary expenditures, inflation, financing costs and similar factors beyond PAF’s or your control. The cost will increase as the number of square feet increases.

- (5) This item is for indoor and outdoor signs for the Store. The signs must meet PAF's standards and specifications and comply with any local government regulations.
- (6) PAF requires that you use a computerized point-of-sale system (the POS System) in your Store, including hardware and certain software, which meets established computer industry standards and meets PAF's operating specifications. (See Item 11.)
- (7) This amount includes utility deposits, your security deposits for the lease (which likely will equal one month's rent) and business licenses. Deposits are generally refundable, but license fees are not.
- (8) You must obtain PAF's approval before conducting your grand opening promotion and advertising. If you open your Store during a scheduled system-wide promotion, you must participate in the promotion but do not otherwise need to comply with the minimum promotion requirement. Amounts you spend for grand opening promotion and advertising do not count toward your minimum required local advertising expenses. (See Item 6).
- (9) You must purchase the initial product inventory PAF recommends to commence Store operations. The maximum amount reflects the larger amount of initial product inventory you will need should you open your Store during any period before certain holidays (Halloween, Christmas and Graduation). The estimated low amount of the range does not include the additional \$15,000 necessary if you choose to include greeting cards in your product inventory. The estimated amount does not reflect amounts needed to replenish inventory during the initial stage of operation.
- (10) This amount estimates your initial pre-opening expenses not otherwise mentioned in the Table and expenses you will incur during the first 3 months of Store operations, including lodging, meals and travel expense for you and, if applicable, your Store Manager to attend the initial training program, initial wages and fringe benefits, rent, insurance premiums, advertising, taxes, office, paper and cleaning supplies, and telephone hook-up. It does not include inventory costs beyond the opening inventory costs identified in the Table. The amounts are estimates, and PAF cannot guarantee that you will not incur additional expenses in starting the business. Your costs will depend on factors such as how closely you follow PAF's systems and procedures, your management skills and experience, local economic conditions, the local market for PARTY AMERICA Stores, the prevailing wage rate, competition and the sales level reached during the initial period.
- (11) This total is an estimate of your initial investment and is based on PAF's estimate of average costs and prevailing market conditions, the experience of Stores PA Corp. owns, and PAF's 17 years of experience in the business. You should review this amount carefully with a business advisor before making any decision to purchase the franchise. These figures are estimates only and PAF cannot guarantee that you will not have additional expenses starting your PARTY AMERICA business.

If you are an Area Developer, you will pay a Territory Fee equal to \$5,000 times the number of PARTY AMERICA Stores you will open, and the Initial Fees you pay PAF will be in the

amounts described in Item 5. The balance of your initial investment requirements for your first Store is described in the above table. As described in Item 5, you will incur additional Initial Fees for each Franchised Location, together with other additional costs and expenses during the term of the Area Development Agreement to open the remaining number of PARTY AMERICA Stores you must develop. Those additional costs of development may increase over the term of the Area Development Agreement, based on inflation and other economic factors.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

To insure a uniform image and quality of products and services throughout the PARTY AMERICA system, you must maintain PAF's quality standards. Although you are not required to lease real estate from PAF, PAF must consent to the location of your Store (see Item 11). You must comply with PAF's then-current approved specifications and standards in constructing and equipping your Store. In addition to meeting PAF's design specifications and standards, it is your responsibility to insure that your building plans comply with the Americans With Disabilities Act and all other federal, state and local laws. You also must use equipment (including hardware and software for a point-of-sale system), signage, fixtures, furnishings, products, supplies and advertising materials that meet our specifications and standards, which PAF may modify.

PAF requires that you sell or use in your Store only those products and services that PAF approves. Approved products and services must meet specifications and standards that PAF develops. PAF will provide you a list identifying the approved products and services, including the merchandise assortment for resale to customers ("Approved Merchandise List"). PAF may periodically update and alter the Approved Merchandise List and modify the specifications and standards. PAF also provides you with a list of approved vendors, suppliers and distributors ("Approved Suppliers List"). From time to time PAF, an affiliate or a third party vendor or supplier may be the only approved supplier for certain merchandise and other products. PAF will publish the Approved Merchandise List and Approved Suppliers List in a book provided to you ("Vendor Book").

You must obtain our prior written approval prior to purchasing merchandise that is not listed on the Approved Merchandise List. You also must obtain our prior written approval prior to purchasing items from a vendor not listed on the Approved Suppliers List. Generally, PAF's approval or non-approval of merchandise or vendors is issued within 7 business days after receiving the request. Although it currently does not do so, PAF reserves the right to charge you a fee to evaluate an item or vendor that is outside the Approved Merchandise List or Approved Suppliers List.

PAF's affiliate, PA Corp. is an "approved" supplier for certain products used in your Store. The products include advertising and sales promotion materials, supplies, certain product inventory such as Halloween costumes and other seasonal items, and other classes of products and supplies that you may use in operating your Store. In addition, PA Corp. has negotiated programs for the merchandise assortment, including price terms, with a number of manufacturers

and suppliers so that franchisees can benefit from volume purchasing. To the extent PA Corp. purchases inventory from manufacturers or suppliers under a volume purchasing program for the assortment, PA Corp. may collect an administrative fee of these purchases you make. This administrative fee is intended to offset PA Corp.'s administrative expenses related to these volume purchasing programs. PA Corp. otherwise will pass on to you all supplier discounts for the assortment. Neither PAF nor PA Corp. is the only approved supplier of any goods, services, supplies, fixtures, equipment, inventory or real estate you need to establish and operate your Store. Since PA Corp. just recently acquired PAF, PA Corp. has not derived any revenue from the sale of products and supplies to franchisees.

PAF and PA Corp. reserve the right to receive rebates or other consideration from suppliers in connection with the System-wide purchase of goods, products and services as described in this Item 8. Some of these payments are calculated on an amount based on products sold to Stores in the System and some are paid in a lump sum. PAF will retain and use such payments for advertising production, signage and promotional material, or otherwise as PAF deems appropriate or as required by the vendor. For its fiscal year ended January 31, 2004, PA Corp. received revenues of approximately \$783,237 from approved vendors supplying to company owned stores, which equaled approximately 1.3% of its total sales of \$59,148,633.

You must purchase and maintain, at your expense, comprehensive public and product liability insurance with minimum limits of \$1,000,000 per person and \$1,000,000 per occurrence, "All Risk" insurance on stock, equipment and leasehold improvements of at least 90% of replacement costs, business interruption insurance, and other types of insurance that PAF may periodically designate. All insurance policies must expressly protect both you, PAF and PA Corp. and require the insurer to defend you, PAF and PA Corp. in any action.

PAF negotiates prices for numerous products for the benefit of the System but not on behalf of individual franchisees. PAF is not currently aware of any purchasing or distribution cooperatives in the System that offer to you certain products used in your Store. PAF will try to receive volume discounts for the System. PAF does not provide material benefits to you because of your use of approved suppliers.

PAF estimates that the purchase or lease of equipment, signs, fixtures, furnishings, products, supplies, and advertising and sales promotion materials (see Item 11 for information on advertising and sales promotion materials) that meet PAF's specifications and standards will represent approximately 65% to 90% of the cost to establish your Store and 55% to 75% of the cost to operate your Store.

Item 9

FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT AND THE AREA DEVELOPMENT AGREEMENT. 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 Agreement	Item in Offering Circular
a.	Site selection and acquisition/lease	Sections 7(A) and 8(O) of Franchise Agreement	Item 11
b.	Pre-opening purchases/lease	Sections 6(D) and 8(E) and (O) of Franchise Agreement	Items 5, 7, and 8
c.	Site development and other pre-opening requirements	Section 8(B) of Franchise Agreement	Items 5, 7, and 11
d.	Initial and ongoing training	Sections 7(D) and 8(P) of Franchise Agreement	Items 7 and 11
e.	Opening	Section 6(D) of Franchise Agreement	Items 5 and 11
f.	Fees	Sections 1(B), 2(B)(5), 4, 5, 6 and 14(D) of Franchise Agreement and Sections 3 and 4.8 of Area Development Agreement	Items 5, 6 and 7
g.	Compliance with standards and policies/Operating Manual	Sections 8(D), (J) and (N) of Franchise Agreement and Section 5 of Area Development Agreement	Items 11 and 16
h.	Trademarks and proprietary information	Sections 3 and 9 of Franchise Agreement and Section 5 of Area Development Agreement	Items 13 and 14
i.	Restrictions on products/services offered	Sections 1 and 8(E) of Franchise Agreement	Items 8, 11 and 16
j.	Warranty and customer service requirements	None	None
k.	Territorial development and sales quotas	Section 3 of Area Development Agreement	Item 12
l.	Ongoing product/service purchases	Section 8(E) of Franchise Agreement	Items 8 and 11
m.	Maintenance, appearance and remodeling requirements	Sections 2(B)(4) and 8(B) and (F) of Franchise Agreement	Item 11
n.	Insurance	Section 10 of Franchise Agreement	Items 6 and 8
o.	Advertising	Section 6 of Franchise Agreement and Sections 4.5 and 4.6 of Area Development Agreement	Items 6, 7 and 11

Obligation		Section in Agreement	Item in Offering Circular
p.	Indemnification	Section 11(B) of Franchise Agreement and Section 9.2 of Area Development Agreement	None
q.	Owner's participation/management/staffing	Sections 7(D) and 8(A) and (K) of Franchise Agreement and Section 4.2 of Area Development Agreement	Items 11 and 15
r.	Records/reports	Sections 12(A) and (B) of Franchise Agreement	Item 6
s.	Inspections/audits	Section 12(C) of Franchise Agreement	Item 6
t.	Transfer	Sections 13 and 14 of Franchise Agreement and Section 10 of Area Development Agreement	Items 6 and 17
u.	Renewal	Section 2(B) of Franchise Agreement and Section 2 of Area Development Agreement	Items 6 and 17
v.	Post-termination obligations	Section 17 of Franchise Agreement and Section 7 of Area Development Agreement	Item 17
w.	Non-competition covenants	Section 18 of Franchise Agreement and Section 8 of Area Development Agreement	Item 17
x.	Dispute resolution	Section 19 of Franchise Agreement and Section 11 of Area Development Agreement	Item 17

Item 10**FINANCING**

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

Item 11**FRANCHISOR'S OBLIGATIONS**

Except as listed below, PAF need not provide any assistance to you under the Franchise Agreement or Area Development Agreement.

Pre-opening Assistance. Before you open your Store, PAF will:

- (1) Provide assistance in your evaluation of a site for the Store and leasing issues related to the Store site (Franchise Agreement - Section 7(A)).
- (2) Provide you with drawings and specifications for the design, color scheme and motif used in your Store (Franchise Agreement - Section 7(B)).
- (3) Provide you with a list of the standard fixtures, equipment, supplies and initial inventory to be used in the Store, as well as a list of approved products (Franchise Agreement - Section 7(C)).
- (4) Provide the mandatory training program described below (Franchise Agreement - Section 7(D)).
- (5) Furnish you with a copy of the confidential Operations Manual and Vendor Book. You must keep the Operations Manual and Vendor Book confidential and return it when the Franchise Agreement terminates (Franchise Agreement - Section 7(F)).
- (6) Provide Store opening assistance for at least 3-5 days to assist you immediately before and during the initial opening of your Store. PAF is not liable for damages arising out of your failure to open your Store by a particular date (Franchise Agreement - Section 7(E)).
- (7) Provide you with certain advertisement materials and public relations materials for your Store opening (Franchise Agreement - Section 7(E)).
- (8) Grant you rights to establish a specific number of Stores at locations PAF evaluates within the Territory if you sign an Area Development Agreement (Area Development Agreement - Section 1).
- (9) Provide the mandatory training program for your Senior Executive, Supervisors and first three Store Managers (Area Development Agreement - Section 4.2).
- (10) Provide Store set-up services for the first three stores you open in the Territory if you sign an Area Development Agreement (Area Development Agreement - Section 4.8).

Ongoing Assistance. During the operation of your Store, PAF will:

- (1) Make available to you PAF's accounting business procedures (Franchise Agreement - Section 7(H)).

- (2) Conduct an audit at your Store periodically to ensure that you are meeting PAF's uniform requirements and quality standards (Franchise Agreement - Section 7(H)).
- (3) Provide, at your written request, advisory services relating to Store operations (Franchise Agreement - Section 7(H)).
- (4) Periodically make available all changes and additions to the Business System generally made available to all franchisees (Franchise Agreement - Section 7(H)).
- (5) Periodically furnish you with updated and revised material for your confidential Operations Manual (Franchise Agreement - Section 7(H)).
- (6) Sponsor periodic merchandise and promotion meetings for all franchisees (Franchise Agreement - Section 7(H)).
- (7) Periodically provide you with updated information respecting suppliers, pricing and inventory assortment, which information you will need to purchase future inventory (Franchise Agreement - Section 7(H)).

Advertising Programs. PAF establishes and conducts the following advertising programs. These programs will apply to each franchisee under a Franchise Agreement, whether the Franchise Agreement relates to a single Store or is entered into under the terms of an Area Development Agreement.

You must participate in and contribute to a local advertising cooperative established in the Designated Market Area (DMA) where your Store is located. The amount of your contribution to the local advertising cooperative is described in Item 6.

PAF will establish the written governing documents for any advertising cooperative. A copy of the governing documents of the cooperative (if one has been established) for your market area is available upon request. Each cooperative may determine its own voting procedures so long as those procedures are consistent with the general operating rules that PAF has established. The members of the local cooperative and their elected officials are responsible for administering the local cooperative. PAF recommends, but does not require, that advertising cooperatives prepare annual financial statements and make those financial statements available to all franchisees in that advertising cooperative. PAF has the power to establish, modify, dissolve or merge advertising cooperatives and establish or modify the rules under which regional advertising cooperatives will operate.

PAF reserves the right to establish an "Advertising Fund." If this Advertising Fund is established, you must contribute the amounts described in Item 6. PAF would likely use the Advertising Fund to provide advertising and promotional materials and services to you as well as conduct advertising or promotional campaigns. Because the Advertising Fund has not yet been established, PAF cannot determine with certainty the intended use of funds in the Advertising Fund, although PAF will not use advertising funds to directly sell franchises. PAF will

administer the Advertising Fund and will, at your request, provide you with an annual unaudited statement of the receipts and disbursements of the Advertising Fund. If the Advertising Fund is established, PAF will not be obligated to spend any amount on advertising in the area or territory where you are located. If the Advertising Fund is established, PAF will require you to pay an Advertising Fee of up to 1% of Gross Sales as described in Item 6. All franchisees will pay the same Advertising Fee. If the Advertising Fund is established, PAF likely will receive an administrative fee to cover related sales promotion, marketing and administrative expenses. If the Advertising Fund is established, PAF will have no fiduciary duty to you with respect to the collection or expenditure of Advertising Fees, and any Advertising Fund will not be a trust or escrow account.

No franchisee advisory council or advertising committee has been established to date. As the PAF system grows, however, PAF may form a franchisee advisory council that will, in part, provide advice on advertising and promotional activities to PAF. PAF will likely retain the power to form, change or dissolve any franchisee advisory council established in the future.

You may develop advertisement materials for your own use, at your own cost, if your materials are factually correct and accurately depict the Trademarks. PAF must approve the advertising materials in advance and in writing.

POS System You must purchase, install and maintain a point-of-sale ("POS") system at your store, as PAF designates. If you are opening a new PARTY AMERICA store, you must purchase a new Retail.Net JPOS system from PAF or from Tomax Corporation.

The Retail.Net JPOS system is a comprehensive system with full inventory and financial management system that PAF has been using since 1997. Its principal functions are to collect and manage information about the nature of sales transactions in your Store and provide a permanent financial record of those transactions. The types of information that it will collect and generate are sales by product, category and item, daily cash receipt and credit data, maintenance of product pricing information and various other financial information reports.

Currently, the software is sourced and supported through Tomax Corporation and Tomax Corporation is the only designated supplier of the Retail.Net JPOS system. The business address and telephone number for Tomax Corporation is 224 South 200 West, Salt Lake City, Utah 84101 (telephone: 801-990-0909).

All hardware components must be on the supported hardware vendor list. Hardware not purchased through PAF must go through a JPOS certification and installation process in order to receive technical support from PAF.

You are contractually required to make periodic upgrades and updates to the JPOS system software that PAF makes available for your Store. There are no contractual limitations on the frequency and cost of this requirement.

As part of the integrated credit card processing and loyalty programs, you will need to purchase and maintain a monthly subscription for high-speed internet services from a provider that has the capability to work with the Retail.Net JPOS system.

PAF has the right to electronically and manually access the information generated by your JPOS system and other required computer systems, and you must cooperate with PAF to allow such access. As part of this requirement, you must install and maintain one DSL or cable modem dedicated to the JPOS IP communication devices. These additional communication lines and devices must be permanently connected to your JPOS system. In addition, PAF may require you to install and maintain a virtual private network (VPN) or other communication devices or software. The cost to implement and maintain the VPN will be your responsibility. You also must insure that your JPOS system is continuously operational. There are no contractual limitations on PAF's right to access the information generated by your JPOS system.

Computer Systems In addition to the JPOS System, PAF requires that you install computer systems, including both hardware and software, or other existing or future communication or data storage systems (collectively "Computer Systems"), meeting PAF's standards, as modified from time to time in response to business, operations and marketing conditions. The Computer Systems may include hardware and software components and require you to attend training, purchase on-going support and perform periodic upgrades. The Computer Systems will be used to assist you in the operation of your PARTY AMERICA Store and may allow you to perform such functions as preparing reports, organizing inventory, e-training and accessing the Internet. You will be responsible for all costs associated with any Computer Systems PAF requires you to install, including those relating to software licenses, training, on-going support and upgrades.

As of March 1, 2004, the hardware and software standards for your Computer System are as follows:

Required Hardware (Minimum Standards, not older than one year):

Office Server:

- Windows XP operating system
- Intel P4 1.8GHZ Processor
- 40 Gig Hard Drive
- 256 MB RAM
- 52/32 CDRW
- 1.44 Floppy
- 2 – Integrated LAN
- PS2 Keyboard
- Mouse
- PowerVar ABCE 350-11 Uninterruptible Power Manager, Server
- 17" Monitor
- Norton Antivirus
- Wireless Access Point

Receiving Server:

- Windows XP operating system
- Intel P4 1.8GHZ Processor
- 40 Gig Hard Drive

256 MB RAM
 52/32 CDRW
 1.44 Floppy
 2 – Integrated LAN
 PS2 Keyboard
 Mouse
 PowerVar ABCE 350-11 Uninterruptible Power Manager, Server
 17" Monitor
 Norton Antivirus
 Receiving Scanner
 Wireless Adapter
 Radio Frequency Portable Device

JPOS Register: Need one configuration per cash wrap.

Windows XP operating system
 15" Flat Panel LCD Monitor Touch Screen
 Keyboard with Magstripe Reader
 Customer Display
 Intel P4 1.8GHZ Processor
 40 Gig Hard Drive
 Integrated LAN
 256 MB RAM
 Cash Drawer w/Additional Insert
 Receipt Printer w/Power Supply
 PowerVar ABC 100-11 Power Filter, Terminal
 Wireless Adapter
 Symbol LS9100 Scanner

Site Selection. If you already have a potential site for a PARTY AMERICA Store, you may propose the location to PAF. PAF may consent to the site after it has independently evaluated it. If you do not have a proposed site, PAF agrees to provide you certain site selection and evaluation assistance. (Franchise Agreement, Section 7(A).) You are solely responsible, however, for locating and obtaining a site which meets PAF's standards and criteria and that is acceptable to PAF. It is also your sole responsibility to determine that the proposed site meets all zoning and other applicable government requirements, and that you have obtained all required government permits.

You must obtain PAF's consent to the proposed site for your Store. The general site selection and evaluation criteria which you should consider include traffic patterns, parking, layout of the facility, population of the surrounding area, demographic surveys and buyer behavior information, size and rental cost of property and similar factors. Generally, PAF will notify you of our approval or non-approval of the proposed site for your Store within 10 business days after receiving the necessary information from you and a PAF representative's visit to the proposed site. PAF's evaluation of a site for the Store does not constitute a recommendation or guarantee as to the success of the site. If PAF does not approve the site you propose, PAF will permit you to examine alternative areas for your site. The Franchise Agreement does not have

any provision that addresses termination if you do not select a site within a prescribed time period.

If you enter into an Area Development Agreement, PAF and you will have agreed to a Territory in which additional stores may be opened. PAF will evaluate a location and deliver a Franchise Agreement for an additional store if, at the time of your request, the proposed site for the Store is within the Territory and PAF consents to the site after evaluating the criteria described above.

Development Time. The typical length of time between PAF's acceptance of the Franchise Agreement or the Area Development Agreement and the opening of your business varies from 3 to 6 months. This period can be longer or shorter depending on the time of year, availability of financing, local construction delays, how soon you can attend training or other factors. If you enter into an Area Development Agreement, the development time will likely vary from 3 to 6 months as you will sign a Franchise Agreement to develop your first Store at the same time you sign the Area Development Agreement.

Training. PAF will provide you and your Store Manager with a one-week training program at PAF's headquarters in Alameda, California. The training program is intended to educate and familiarize you and your Store Manager with the business of operating a PARTY AMERICA Store. This training program will include instruction on basic operating skills, sales and marketing, and other topics PAF selects. You may not open your Store unless you and your Store Manager (if any) successfully complete the training program.

Training Program

Subject	Time	Instructional Materials(1)	Hours of Classroom Training	Hours of "On-the-Job" Training	Instructor (2)
Responsibility of Franchisee	2 hours	See below	2	0	See Note (2)
Store Operations	24 hours	See below	2	22	See Note (2)
Human Resources	2 hours	See below	2	0	See Note (2)
Signing & Display	1 hour	See below	1	0	See Note (2)
Owners Information/Forms/ Accounting	4 hours	See below	4	0	See Note (2)
Inventory Management	16 hours	See below	6	10	See Note (2)
Advertising & Promotions	2 hour	See below	2	0	See Note (2)
TOTALS	51 hours		19 hours	32 hours	

- (1) The instructional materials for each subject include the Operations Manual, lecture, classroom discussion, hands-on demonstration and practice at PAF's headquarters.
- (2) Claude Hagopian oversees PAF's training. Claude's background is described in Item 2. Tony Oliver, PAF's VP of Operations, assists with training store managers and has been involved with training for PAF since September 1999. John Williams also assists with training for the POS system. John is PAF's CIO and has been involved with training in this field since August 2003.

PAF does not charge a fee for the training program. You must pay, however, for travel and living expenses that you and your Store Manager incur while attending the training program. PAF currently charges a \$1,000 fee for training a new Store Manager, if you hire a new Store Manager after your Store opens for business. If you are opening your second or subsequent PARTY AMERICA Store, you and your Store Manager will not need to complete PAF's training program. PAF does not require that you attend any additional or remedial training programs during the term of your Franchise Agreement. (See Item 7 for additional information on travel and living expenses.)

If you are an Area Developer, you must designate one full-time Senior Executive to be responsible for day-to-day business activities and to manage each of your Supervisors. You must employ at least one Supervisor for each seven Stores open and operating in your Territory. Your Supervisor will be responsible for the supervision of all Managers and assistant Managers of the Stores in your Territory. Your Senior Executive, Supervisors and first three Store Managers must attend and successfully complete PAF's training program. PAF does not charge a fee for its training program. You must pay, however, for travel and living expenses that your Senior Executive, Supervisors and Store Managers incur during training. After your first three Store Managers successfully complete PAF's training program, you may develop a training program, certified by PAF, for the training of all your additional Store Managers. If you do not develop a Manager training program, PAF currently charges a \$1,000 fee for training each new Store Manager. None of your Store Managers, Supervisors and Senior Executive may begin performing his or her responsibilities until he or she has successfully completed PAF's training program or, in the case of your Store Managers, a training program approved by PAF.

Operations Manual. PAF will allow you to view the Operations Manual prior to your purchase of the franchise, subject to your agreement to keep all information in the Operations Manual confidential.

Item 12

TERRITORY

You are granted the right to operate a PARTY AMERICA Store at an authorized location only, unless you are an Area Developer for the development of more than one Store. PAF must consent to your Store location. PAF will not during the term of your Franchise Agreement operate or grant others to operate another PARTY AMERICA Store within your Designated Area as further explained below and as more fully set forth in the Franchise Agreement. Your Designated Area will be described in the Franchise Agreement, but generally it will be an area

that has a radius of two to four miles, as PAF designates, from the front door of your authorized location with certain modifications to take into account any natural boundaries in the Designated Area.

You will not receive a development territory unless you sign an Area Development Agreement. PAF and our parent, PA Corp., reserve the right to establish (i) another franchise or company-owned PARTY AMERICA Store anywhere outside your Designated Area or (ii) a similar business under a different trademark that may compete with your location within the Designated Area. In addition, as noted in Item 1, PA Corp. may acquire an existing business or franchise system, and the stores in that system may or may not convert to the PARTY AMERICA Trademark depending on the acquisition.

PAF and PA Corp. may also distribute products and services through alternative channels of distribution (other than through PARTY AMERICA retail stores) selling similar products or services under the PARTY AMERICA Trademark or other trademarks within or outside your Designated Area. As of the date of this Offering Circular, PA Corp. is in the business of advertising, offering for sale and selling under the Trademarks and other names some or all of the products and services which you will be selling from your PARTY AMERICA Store to persons residing or engaging in business in proximity to your Store or in your Designated Area or Territory (for Area Developers). PA Corp. conducts this business through a web site (www.partyamerica.com).

PAF does not impose any territorial or customer restrictions on your sales; however, you are prohibited from selling party supplies, related seasonal merchandise, greeting cards, balloons and paper products through the Internet or other on-line communication. You are not required to compensate, or entitled to receive compensation from, PAF or other franchisees due to any territorial or customer sales restrictions. You may relocate your Store only with PAF's written consent, which PAF will not unreasonably withhold.

If you are an Area Developer, you will receive a "Territory" within which you will have certain rights to develop more than one Store. The Territory will vary in size, depending on the number of Stores you intend to open, the population density, and the demographics in the area in which you desire to operate. Generally, the Territory will be a county, city or portion of a metropolitan area and have a minimum population of 50,000 persons for each Store you will develop. Generally, PAF obtains population data from the most recent information available from the United States Census Bureau. PAF cannot establish another franchise or company-owned PARTY AMERICA Store in the Territory so long as you meet the minimum development schedule and comply with all other provisions described in the Area Development Agreement and you otherwise comply with the provisions of each related Franchise Agreement. As described above, however, PAF reserves certain limited rights under the Area Development Agreement and the Franchise Agreement to distribute products using the PARTY AMERICA Trademark or other trademarks in the Territory through alternative channels of distribution including the internet and the partyamerica.com web site.

Unless you are an Area Developer, PAF generally will not grant to you any options, rights of first refusal or similar rights to acquire additional franchises within a particular territory.

Item 13**TRADEMARKS**

The Franchise Agreement licenses you to operate a Store under the name PARTY AMERICA, which is a federally registered trademark. You must also use other trademarks, service marks, trade names and commercial symbols (collectively, the "Trademarks") that PAF develops or requires to identify your Store and its goods and services. PA Corp. claims common law trademark rights for all of the Trademarks. PA Corp. or PAF has filed or intends to file all required affidavits and renewals for the Trademarks listed below.

Principal Trademarks	U.S. Reg. No.	Principal/ Supplemental Register	Date of Registration
PARTY AMERICA	2,228,444	Principal	4/2/99

PA Corp. has licensed us the perpetual right to use the Marks and to sublicense the use of the Marks for the operation of retail stores under a license agreement effective October 30, 2003. The license agreement contains no limitations. PA Corp. may terminate the license agreement if either PAF or any franchisee misuses the Marks in a way as to materially impair the goodwill associated with the Marks or if PAF is dissolved, becomes insolvent or (except for our right to sublicense the Marks to franchisees) assigns the rights under the license agreement without our PA Corp.'s consent. The license agreement contains no other limitations.

Your use of the Trademarks and any goodwill is to PAF's and PA Corp.'s exclusive benefit and you retain no rights in the Trademarks. You retain no rights in the Trademarks upon termination or expiration of the Franchise Agreement. You are not permitted to make any changes or substitutions of any kind in or to the use of the Trademarks unless PAF directs in writing.

There are no currently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving the Trademarks. There are currently no agreements in effect that significantly limit PAF's rights to use or license the use of any Trademarks listed in this Item 13 in any manner material to the franchise. PAF is unaware of any superior rights or infringing uses that could materially affect your use of the Trademarks.

PAF is not required to protect you against infringement or unfair competition claims arising out of your use of the Trademarks, or to participate in your defense or indemnify you. PAF reserves the right to control any trademark litigation and will take the action PA Corp. or PAF believes appropriate if a third party infringes PAF's Trademarks. You must notify PAF promptly if you become aware of any infringement or unauthorized use of the Trademarks and cooperate with any action that PAF takes. If any party claims that its rights to use any of the Trademarks are superior and PAF confirms that claim, you must, at your expense, immediately make the changes and use the substitutions to the Trademarks as PAF requires.

Item 14**PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

There are no patents or copyrights currently registered which are material to the franchise offered, although PAF does claim copyright protection for the Operations Manual, Vendor Book, web site and various sales promotional and other materials periodically published. You must keep confidential during and after the term of the Franchise Agreement all information contained in the Operations Manual and Vendor Book. You cannot duplicate or provide any information contained in the Operations Manual or Vendor Book to any party other than, during the term of the Franchise Agreement, those of your employees who need to know that information. When the Franchise Agreement terminates, you must return to PAF all copies of the Operations Manual, Vendor Book and all other material PAF has copyrighted.

PAF does not contract with individual franchisees to protect the copyrights, to protect individual franchisees against infringement or unfair competition claims arising out of the franchisee's use of the copyrights, or to participate in the franchisee's defense or indemnify the franchisee. PAF reserves the right to control any copyright litigation and will be the sole judge as to whether any suit will be brought or settled when any person or entity infringes PAF's copyrights.

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

You must personally manage and operate the Store unless you receive PAF's prior written consent to delegate your authority to a Store Manager. If the Store is managed and operated through a Store Manager, you must remain active in the overall management of the Store. PAF does not require that the Store Manager own an interest in the franchise entity. If you are an Area Developer, you must designate a Senior Executive responsible for the overall management of your Stores, employ a Supervisor for the management of each seven Stores open in your Territory and employ a Store Manager for each Store. You, your Store Manager(s), your Senior Executive and your Supervisor(s) must attend and complete the training program described in Item 11.

Each individual or entity who owns a 10% or greater interest in the franchisee entity is considered a principal owner and must sign the Personal Guaranty attached to the Franchise Agreement and Area Development Agreement. These people, together with any Senior Executive, Supervisor and Store Manager, agree to discharge all obligations of the franchisee under the Franchise Agreement and Area Development Agreement and are bound by all its provisions, including maintaining the confidentiality of proprietary information described in Item 14 and complying with the noncompete covenants described in Item 17. In addition, all of your employees who have managerial duties at the Store, as well as all corporate officers and directors of a corporate franchisee entity (all partners in a partnership), must sign a written agreement to maintain the confidentiality of PAF's trade secrets described in Item 14.

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

You must offer and sell only those goods and services that PAF has approved (see Items 8 and 9). You also must offer all goods and services that PAF designates as required for all franchisees. PAF may, at its discretion, add new goods and services, based on its evaluation of various factors, including customer demands, the geographic location of your Store and any other factor which PAF considers important to the operation of your Store. PAF's right to modify the approved list of goods and services you will sell at a Store is not limited. You must not sell or offer for sale party supplies, related seasonal merchandise, greeting cards, balloons and paper products through the internet or other on-line communication without our consent.

Item 17**RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

This table lists important provisions of the Franchise Agreement and the Area Development Agreement. You should read these provisions in the Franchise Agreement and the Area Development Agreement attached to this Offering Circular.

Provision		Section in Agreements	Summary
A.	Term of the franchise	Section 2(A) of the Franchise Agreement	10 years.
		Section 2.1 of the Area Development Agreement	Generally 2 to 8 years, depending upon the number of Stores you agree to develop.
b.	Renewal or extension of the term	Section 2(B) of the Franchise Agreement	If you are in good standing, you can renew the Franchise Agreement for additional 10 year period(s).
		Section 2.2 of the Area Development Agreement	You do not have a right to extend the term of the Area Development Agreement, but you do have a right of first refusal to acquire PAF's proposal to develop the Territory.
c.	Requirements for you to renew or extend	Section 2(B) of the Franchise Agreement	Provide advance notice, be in compliance with current Franchise Agreement, pay all monetary obligations due PAF, remodel, pay renewal fee, sign new Franchise Agreement and secure extension of lease.
		Section 2.2 of the Area Development Agreement	Accept PAF's written proposal to develop the Territory within 30 days.
d.	Termination by you	Section 16	If PAF does not cure a material default within 30 days after written notice.

Provision		Section in Agreements	Summary
e.	Termination by PAF without cause	None	
f.	Termination by PAF with cause	Sections 15(A) and (D) of the Franchise Agreement	PAF can terminate the Franchise Agreement only if you default or fail to comply with your obligations.
		Section 6.1 of the Area Development Agreement	PAF can terminate the Area Development Agreement only if you default or fail to comply with your obligations.
g.	"Cause" defined - defaults which can be cured	Sections 15(A) and (D) of the Franchise Agreement	You have 30 days to cure if you: fail to open the Store within 6 months after you sign the Franchise Agreement; violate any material provision of the Franchise Agreement; fail to pay amounts owed to PAF or any applicable local advertising cooperative; fail to abide by PAF's standards and requirements in operating the Store; make an assignment of assets to creditors, fail to purchase and pay for equipment, fixtures or supplies necessary for Store operations; or abandon the Store.
		Sections 3.6 and 6.1 of the Area Development Agreement	You have 30 days to cure if you: fail to comply with the development schedule; violate any material provision; fail to conform to the Business System; fail to pay any uncontested fee to anyone; are determined to be insolvent; make an assignment for the benefit of creditors; issue any check which is dishonored; have a Franchise Agreement terminated by PAF or wrongfully terminated by you; fail to pay any obligation due to PAF; are convicted of any law relating to your PARTY AMERICA Stores or a felony; or abandon the Territory.
h.	"Cause" defined - defaults which cannot be cured	Sections 15(D) of the Franchise Agreement	Three defaults, even if cured, within 18 months; defaults which cannot be cured; repeatedly deceives Store customers; conviction of felony or violation of a statute which harms the Store's reputation; insolvency; defaults which harms the goodwill associated with the Trademarks and intentionally falsify any information provided to PAF.
		Section 6.4 of the Area Development Agreement	Three defaults, even if cured, within 18 months; defaults which cannot be cured; repeatedly deceive Store customers; you are convicted of any law relating to any of your PARTY AMERICA Stores or a felony; you abandon the Territory; or your conduct materially impairs PAF's Trademarks or Business System and you fail to correct such conduct within 24 hours of written notice.

Provision		Section in Agreements	Summary
i.	Your obligations on termination/non-renewal	Section 17 of the Franchise Agreement	Pay all amounts due PAF, return manuals and other materials to PAF, redecorate the Store premises, cancel all assumed name filings, notify vendors of Franchise Agreement termination and remove franchise signs (also see r, below).
		Section 7 of the Area Development Agreement	Pay what you owe PAF under the Area Development Agreement or any Franchise Agreement; your rights under the Area Development Agreement revert back to PAF.
j.	Assignment of contract by PAF	Section 14(A) of the Franchise Agreement	Assignee must fulfill PAF's Franchise Agreement obligations.
		Section 10.1 of the Area Development Agreement	Assignee must fulfill PAF's Area Development Agreement obligations.
k.	"Transfer" by you - definition	Section 14(C) of the Franchise Agreement	Includes any transfer of the Store, or its assets, your interest in the Franchise Agreement or any significant ("controlling interest") ownership change.
		Sections 10.2 and 10.3 of the Area Development Agreement	Assignment of your rights under the Area Development Agreement.
l.	PAF's approval of transfer by franchisee	Section 14(C) of the Franchise Agreement	PAF has the right to approve any transfer of the Franchise Agreement but will not unreasonably withhold consent.
		Section 10.4 of the Area Development Agreement	PAF has the right to approve any transfer of the Area Development Agreement but will not unreasonably withhold consent.
m.	Conditions for PAF's approval of transfer	Sections 14(C) and (D) of the Franchise Agreement	New franchisee must qualify and complete training, pay transfer fee and remodel Store, you must pay all amounts owed to PAF and be in good standing, new franchisee assumes existing Agreement or (at PAF's option) signs then-current Franchise Agreement, and you agree to observe all post-termination obligations under Franchise Agreement (also see r, below).

Provision		Section in Agreements	Summary
		Section 10.4 of the Area Development Agreement	You pay all money owed to PAF; complete a written agreement satisfactory to PAF; transferee's shareholders agree to be personally bound to the Area Development Agreement; transferee meets PAF's standards; you pay the transfer fee; you agree to observe all post-termination obligations under the Area Development Agreement, and PAF may require you to remain liable for obligations of the transferee franchisee for a period of time if the transferee franchisee does not meet PAF's net worth requirements.
n.	PAF's right of first refusal to acquire your business	Section 13 of the Franchise Agreement	PAF can match any offer for your business.
		Section 10.8 of the Area Development Agreement	PAF can match any offer for your business.
o.	PAF's option to purchase your business	None	
p.	Your death or disability	Section 13(B) of the Franchise Agreement	You can transfer stock to other shareholders without offering PAF a right of first refusal; if assignee is your spouse or child, no transfer fee is required.
		Sections 10.3 and 10.8 of the Area Development Agreement	You can transfer your interest in the Franchisee to other holders of similar interests without offering PAF a right of first refusal.
q.	Non-competition covenants during the term of the franchise	Section 18(A) of the Franchise Agreement	No direct or indirect involvement in any paper or party products business other than one authorized in Franchise Agreement.
		Section 8.2 of the Area Development Agreement	You may not participate in any business that competes with PARTY AMERICA, PAPER WAREHOUSE or PARTY UNIVERSE Stores.
r.	Non-competition covenants after the franchise is terminated or expires	Section 18(B) of the Franchise Agreement	No competing business for 2 years within 10 miles of the Store or any other PARTY AMERICA, PAPER WAREHOUSE or PARTY UNIVERSE Stores.
		Section 8.3 of the Area Development Agreement	You may not for a period of two years after termination of your Area Development Agreement participate in any business that competes with or that is within ten miles of any PARTY AMERICA, PAPER WAREHOUSE or PARTY UNIVERSE Store or seek to employ any person who at that time is employed by a PARTY AMERICA, PAPER WAREHOUSE or PARTY UNIVERSE franchisee.

Provision		Section in Agreements	Summary
s.	Modification of the agreement	Sections 3(C), 8(N) and 20(C) and (D) of the Franchise Agreement	No modifications generally, but Operations Manual, list of authorized Trademarks and required goods subject to change.
		Section 12.11 of the Area Development Agreement	Any modification must be in writing and signed by both you and PAF.
t.	Integration/merger clause	Section 20(G) of the Franchise Agreement	The Franchise Agreement is the entire agreement between you and PAF.
		Section 12.8 of the Area Development Agreement	The Area Development Agreement is the entire agreement between you and PAF.
u.	Dispute resolution by arbitration or mediation	Section 19 of the Franchise Agreement	Except for certain claims, disputes must be submitted to arbitration in Alameda, California.
		Section 11 of the Area Development Agreement	Except for certain claims, disputes must be submitted to arbitration in Alameda, California.
v.	Choice of forum	Section 19(A) and 20(A) of the Franchise Agreement	Arbitration and litigation must be in Alameda County, California, subject to state law.
		Sections 11.1 and 12.1 of the Area Development Agreement	Arbitration and litigation must be in Alameda County, California, subject to state law.
w.	Choice of law	Section 20(A) of the Franchise Agreement	Apply law of the state where the Store is located.
		Section 16 of the Area Development Agreement	Apply law of the state where the Store is located.

*Unless otherwise noted, Section references are to the Franchise Agreement.

These states have statutes, which if applicable to the Franchise Agreement or Area Development Agreement, may supersede the Franchise Agreement or Area Development Agreement in your relationship with us including the areas of termination, renewal of your franchise, and choice of law: ALASKA [Stat. Sections 45.45.700 – 45.45.790], ARKANSAS [Code Sections 4-72-201 – 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Sections 42-133e-42-133h], DELAWARE [Code Sections 2551 – 2556] HAWAII [Rev. Stat. Section 482E-6], IDAHO [Code Section 29-110], ILLINOIS [815 ILCS Sections 705/4 and 705/17-705/20], INDIANA [Code Sections 23-2-2.7-1 – 23-2-2.7-7], IOWA [Code Sections 523H.1 - 523H.17 and 537A.10], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Sections 80C.14 and 80C.21], MISSISSIPPI [Code Sections 75-24-51 – 75-24-63], MISSOURI [Rev. Stat. Sections 407.400 – 407.413 and 407.420], NEBRASKA [Rev. Stat. Sections 87-401 – 87-410], NEW JERSEY [Rev. Stat. Sections 56:10-1 – 56:10-12], RHODE ISLAND [Stat. Sections 19-28.1-14 – 19-28.1-16; Section 19-28.1-14 of

the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim enforceable under this Act”, SOUTH DAKOTA [SDCL Sections 37-5A-51 and 37-5A-51.1], VIRGINIA [Code Sections 13.1-557 – 13.1-574], WASHINGTON [Rev. Code Section 19.100.180], WISCONSIN [Stat. Sections 135.01 – 135.07]. These and other states may have court decisions, which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise. Further, the provision in the Franchise Agreement and Area Development Agreement which provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law.

Item 18

PUBLIC FIGURES

PAF currently does not use any public figure to promote its franchise, although PAF reserves the right to engage a public figure for endorsements in the future. No public figure is involved in the actual management or control of PAF.

Item 19

EARNINGS CLAIM

Except as stated below, we do not furnish or authorize our salespersons (or anyone else) to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a PARTY AMERICA franchise. Actual results will vary from franchise to franchise and we cannot estimate the results of any particular franchise. Your financial results may differ from the information disclosed in this Item 19. Substantiation of all data illustrated in this Item 19 will be made available to you upon reasonable demand.

SCHEDULE OF AVERAGE SALES, EXPENSES AND STORE PROFITS (EBITDA)

The following Schedule of sales, expenses and store profits (EBITDA) is based upon automated data polled from the Point of Sale (“POS”) system used in the company-owned stores operating under the PARTY AMERICA trademark and from profit and loss statements of the 34 company-owned PARTY AMERICA stores included in the Schedule for store operations. We have not audited the data polled from the POS system or the stores’ profit and loss statements for purposes of this Schedule. Also, please review the “WARNINGS” noted below as they are important items to consider and understand as you review this Item 19 information.

The sales, expenses and store profit information included in this Schedule is for the 34 company-owned PARTY AMERICA stores that were open for business at least 12 full months under company ownership for our fiscal year of February 2, 2003, through January 31, 2004 (“Schedule Period”). For stores considered as part of this Schedule, we have not included any of (i) our franchised stores, all of which were acquired less than a year ago (August 2003) as noted in Item

1; (ii) our 26 corporate stores operating under the PAPER WAREHOUSE trademark and acquired in August 2003; or (iii) our 3 PARTY AMERICA stores opened less than 12 months.

The expense information is based on the percentage amounts for these 34 PARTY AMERICA stores as determined by the unaudited store profit and loss statements. Expense percentage amounts included in the Schedule for expenses were the weighted average (weighted by gross sales of the respective store) of the accounting periods. The corresponding expense amounts were computed by multiplying the average gross sales for the group by the respective weighted average expense percentage.

For purposes of this Schedule, the following definitions apply:

1. **Sales.** Gross sales less sales taxes and discounts.
2. **Cost of Sales.** The cost of the sales that are sold to consumers. The costs include cost of merchandise, freight, inventory write-off and unknown inventory shrink. Because this Schedule is based on unaudited profit and loss statements that do not identify each item included in the store's cost of sales, we cannot identify the specific items that each store actually included in its cost of sales calculation.
3. **Occupancy Expenses.** The sum of all general occupancy expenses, such as base rent, applicable percentage rent, common area maintenance charges, property taxes, city and business taxes and business licenses.
4. **Store Operating Expenses.** The sum of all expenses related to store operations, such as utilities, repairs and maintenance, insurance, office supplies, store supplies (other than inventory), trash and recycling, bank charges (other than debt service) and marketing and promotional expenses.
5. **Cost of Payroll.** The sum of employee labor wages, manager's salary and other compensation, and related taxes, benefits and workers compensation.
6. **EBITDA.** Earnings before income taxes, depreciation and amortization.

WARNINGS:

A. YOU ARE LIKELY TO ACHIEVE RESULTS THAT ARE DIFFERENT, POSSIBLY SIGNIFICANTLY AND ADVERSELY, FROM THE RESULTS SHOWN BELOW. MANY FACTORS, INCLUDING LOCATION, MANAGEMENT CAPABILITIES, LOCAL MARKET CONDITIONS AND OTHER FACTORS ARE UNIQUE TO EACH STORE AND MAY SIGNIFICANTLY IMPACT THE FINANCIAL PERFORMANCE OF YOUR STORE.

NEITHER WE NOR ANY OF OUR AFFILIATES MAKE ANY PROMISES OR REPRESENTATIONS OF ANY KIND THAT YOU WILL ACHIEVE ANY

PARTICULAR RESULTS OR LEVEL OF SALES OR PROFITABILITY OR EVEN ACHIEVE BREAK-EVEN RESULTS IN ANY PARTICULAR YEAR OF OPERATION.

B. YOU ARE RESPONSIBLE FOR DEVELOPING YOUR OWN BUSINESS PLAN FOR YOUR PARTY AMERICA STORE, INCLUDING CAPITAL BUDGETS, FINANCIAL STATEMENTS, PROJECTIONS AND OTHER ELEMENTS APPROPRIATE TO YOUR PARTICULAR CIRCUMSTANCES. THE EXPENSES IDENTIFIED IN THIS STATEMENT ARE NOT THE ONLY EXPENSES THAT YOU WILL INCUR IN CONNECTION WITH THE OPERATION OF YOUR PARTY AMERICA STORE. ADDITIONAL EXPENSES THAT YOU MAY INCUR INCLUDE CONTINUING FEES PAID TO US, INTEREST ON DEBT SERVICE, INSURANCE ABOVE OUR REQUIREMENTS, LEGAL AND ACCOUNTING CHARGES, AND DEPRECIATION/AMORTIZATION. WE ENCOURAGE YOU TO CONSULT WITH YOUR OWN ACCOUNTING, BUSINESS, AND LEGAL ADVISORS TO ASSIST YOU TO IDENTIFY THE EXPENSES YOU LIKELY WILL INCUR IN CONNECTION WITH YOUR STORE, TO PREPARE YOUR BUDGETS, AND TO ASSESS THE LIKELY OR POTENTIAL FINANCIAL PERFORMANCE OF YOUR STORE. WE ALSO ENCOURAGE YOU TO CONTACT ALL EXISTING PARTY AMERICA STORE OPERATORS TO DISCUSS THE PARTY AMERICA STORE BUSINESS.

IN DEVELOPING THE BUSINESS PLAN FOR YOUR STORE, YOU ARE CAUTIONED TO MAKE NECESSARY ALLOWANCE FOR CHANGES IN FINANCIAL RESULTS TO INCOME, EXPENSES, OR BOTH, THAT MAY RESULT FROM OPERATION OF YOUR STORE DURING PERIODS OF, OR IN GEOGRAPHIC AREAS SUFFERING FROM, ECONOMIC DOWNTURNS, INFLATION, UNEMPLOYMENT, OR OTHER NEGATIVE ECONOMIC INFLUENCES.

C. HISTORICAL COSTS DO NOT NECESSARILY CORRESPOND TO FUTURE COSTS BECAUSE OF FACTORS SUCH AS INFLATION, CHANGES IN MINIMUM WAGE LAWS, LOCATION, FINANCING, CONSTRUCTION COSTS, LEASE-RELATED COSTS, AND OTHER VARIABLES. FOR EXAMPLE, COSTS SUCH AS RENT, CAM CHARGES, TAXES, INTEREST, INSURANCE AND UTILITIES VARY FROM STORE TO STORE AND REGION TO REGION. ALL INFORMATION SHOULD BE EVALUATED IN LIGHT OF CURRENT MARKET CONDITIONS INCLUDING SUCH COST AND PRICE INFORMATION AS MAY THEN BE AVAILABLE.

YOU MUST RECOGNIZE AND UNDERSTAND THE POTENTIAL VARIATIONS IN COSTS. FOR EXAMPLE, PRODUCT COSTS MAY HAVE REGIONAL VARIATIONS AND MAY OR MAY NOT HAVE HIGHER TRANSPORTATION/FREIGHT COSTS DEPENDING ON YOUR LOCATION. ALSO, STORE OCCUPANCY EXPENSES MAY BE HIGHER OR LOWER FOR STORES LOCATED IN CALIFORNIA, COLORADO AND UTAH AS COMPARED TO OTHER REGIONS.

D. THE STORE PERFORMANCE RESULTS INCLUDED IN THIS STATEMENT RELATE TO PERFORMANCE RESULTS FOR THE SPECIFIC STORES INCLUDED IN THIS STATEMENT. THESE RESULTS STATED HERE SHOULD NOT BE CONSIDERED AS THE ACTUAL OR PROBABLE PERFORMANCE RESULTS THAT YOU SHOULD EXPECT TO ACHIEVE THROUGH THE OPERATION OF YOUR STORE. YOU MUST BEAR IN MIND THAT A NEWLY OPENED BUSINESS SHOULD NOT BE EXPECTED TO ACHIEVE SALES VOLUMES OR MAINTAIN EXPENSES SIMILAR TO THOSE OF AN ESTABLISHED BUSINESS.

PARTY AMERICA Company-Owned Stores

**Unaudited Schedule of Sales, Expenses and Store Profits
For the period January 31, 2003 to January 31, 2004**

	ALL COMPANY-OWNED STORES (34 stores)		
	Average Dollar Amount	Average % of Gross	# Stores Exceeding Average
Average Sales	\$1,346,359		17
Average Cost of Sales and Occupancy	\$762,963	56.7%	
Average Total Operating Expenses (Payroll and other)	\$361,983	26.9%	
EBITDA	\$221,503	16.4%	16

As stated previously, other than as described above, we do not furnish, or authorize our salespersons (or anyone else) to furnish, and you should not rely on, any oral or written information concerning the actual or potential sales, costs, income or profits of a PARTY AMERICA store. We have not suggested, and we certainly cannot guarantee, that you will succeed in the operation of your Store, because the most important factors in the success of any PARTY AMERICA store, including the one to be operated by you, are your personal business, marketing, management, judgment and other skills and your willingness to work hard and follow the System. Actual results vary from store to store, area to area, and market to market. We cannot estimate or project the results for any particular PARTY AMERICA store.

Item 20**LIST OF FRANCHISED OUTLETS****FRANCHISED STORE(1) STATUS SUMMARY
FOR YEARS 2003/2002/2001⁽²⁾**

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired By Franchisor	Left The System Other	Total From Left Columns(3)	Franchises Operating At Year End
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Colorado	0/0/1	0/0/0	0/0/0	0/0/0	1/1/1	1/1/2	4/4/5
Florida	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Georgia	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Illinois	0/0/0	1/0/1	0/0/0	0/0/0	0/0/0	0/0/1	0/1/1
Iowa	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/2/2
Kansas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/2
Kentucky(4)	0/0/0	1/0/0	0/0/0	0/0/0	0/1/0	0/1/0	0/1/1
Louisiana	0/0/0	4/0/0	0/0/0	0/0/0	0/0/1	0/0/1	0/4/4
Maryland	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Massachusetts	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Michigan	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Minnesota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	19/1/1
Mississippi	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/1
Missouri	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/2
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/3/3
Nebraska	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/3/3
Nevada	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/3/2
North Dakota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/4/4
South Dakota	0/0/0	0/0/0	0/0/0	0/0/0	2/2/0	2/2/0	3/3/5
Tennessee	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	0/0/0
Texas	0/0/0	3/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/7/7
Wisconsin	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Wyoming	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/2
TOTALS	0/0/1	11/0/1	0/0/0	0/0/0	3/4/3	3/4/5	58/49/51

- (1) All Stores in the above chart operate under either the PAPER WAREHOUSE or PARTY UNIVERSE Trademark, as further detailed Item 1 and Exhibit A. A number of these Stores will convert to the PARTY AMERICA trademark. Further, as of October 2003, PAF only offers franchises under the PARTY AMERICA trademark.
- (2) All numbers are as of PAF's fiscal year end for each of the last 3 years (January 31, 2004, January 31, 2003 and February 2, 2002).
- (3) The numbers in the "Total" column may exceed the number of Stores affected because several events may have affected the same Store. For example, the same Store may have had multiple owners.

- (4) One PAPER WAREHOUSE Store opened and subsequently closed in Louisville, Kentucky during our 2002 fiscal year.

**STATUS OF COMPANY-OWNED STORES
OPERATING UNDER PAPER WAREHOUSE TRADEMARK
FOR YEARS 2003/2002/2001(1)**

State	Stores Closed During Year	Stores Opened During Year	Total Stores Operating at Year End
Arizona	1/0/0	0/0/0	3/4/4
Colorado	11/0/0	0/0/0	3/14/14
Iowa	5/0/3	0/0/0	0/5/5
Kansas	3/0/0	0/0/0	4/8/8
Minnesota	29/0/0	0/0/0	0/29/29
Missouri	4/0/0	0/0/0	7/10/10
Nebraska	2/0/0	0/0/0	0/2/2
Oklahoma	5/0/0	0/0/0	9/14/14
Washington	0/13/0	0/0/0	0/0/13
Wisconsin	1/0/1	0/0/0	0/1/1
Total	61/13/4	0/0/0	26/87/100

- (1) All numbers are as of PAF's fiscal year end for each of the last 3 years (January 31, 2004, January 31, 2003 and February 1, 2002).

**STATUS OF COMPANY-OWNED STORES
OPERATING UNDER PARTY AMERICA TRADEMARK
FOR YEARS 2003/2002/2001(1)**

State	Stores Closed During Year	Stores Opened During Year	Total Stores Operating at Year End
California	0/0/2	1/2/3	30/29/27
Colorado	0/0/0	1/0/0	6/5/5
Utah	0/0/0	0/0/0	1/1/1
Total	0/0/2	2/2/3	37/35/33

- (1) All numbers are as of PAF's fiscal year end for each of the last 3 years (January 31, 2004, January 31, 2003 and February 1, 2002).

PROJECTED OPENINGS AS OF JANUARY 31, 2004

State	Franchise Agreements Signed But Store Not Open	Projected Franchise New Stores In The Next Fiscal Year	Projected Company Owned Openings In Next Fiscal Year
California	0	2	5
Florida	0	1	0
Illinois	0	0	0
Iowa	0	0	0
Maryland	0	1	0
Massachusetts	0	1	0
Michigan	0	1	0
Minnesota	0	0	0
Missouri	0	1	0
Montana	0	0	0
New York	0	1	0
Nevada	0	1	0
Ohio	1	1	0
Pennsylvania	0	1	0
Texas	1	1	0
Utah	0	0	1
Washington	0	0	0
TOTALS	2	12	6

A list of all operational franchises is included in this Offering Circular as Exhibit A.

A list of the names, last known addresses and telephone numbers of every franchisee under a Franchise Agreement with PAF whose franchise has, within the one-year period immediately preceding January 31, 2004, been terminated, canceled, not renewed, or who has, during the same period, otherwise voluntarily or involuntarily ceased to do business pursuant to the Franchise Agreement, or who has not communicated with PAF within ten weeks of the date of this Offering Circular is attached as Exhibit B.

Item 21**FINANCIAL STATEMENTS**

The following audited consolidated financial statements of PA Acquisition Corp. and its subsidiaries are included in this Offering Circular as Exhibit C: (i) the balance sheet as of January 1, 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year ended January 31, 2004, together with the report of independent certified public accountants, and (ii) the balance sheets as of February 1, 2003 and January 26, 2002, and the related statements of operations, stockholders' equity, and cash flows for each of the fiscal years in the two-year period ended February 1, 2003 and January 26, 2002, together with the report of independent auditors. We also have included a copy of the unaudited balance sheet and income statement as of March 27, 2004. PAF's separate financial statements are not included in this Offering Circular. Should PAF fail to fulfill our obligations to our franchisees, however, PA Corp. unconditionally guarantees to fulfill the obligations. In states

where PAF has registered this franchise offering, a copy of the written guarantee is on file in the office of the administrator of the state franchise law.

Item 22

CONTRACTS

The Franchise Agreement and Personal Guaranty are attached to this Offering Circular as Exhibit D. The Area Development Agreement and Personal Guaranty is attached to this Offering Circular as Exhibit E.

Item 23

RECEIPT

A detachable acknowledgment of receipt is attached to this Offering Circular as Exhibit I.