

| Materials | Description |
|-------------------|---|
| Cooperative Guide | Guidelines for establishing and operating an Advertising Cooperative. |
| Transfer Guide | Guidelines for completing a store transfer. |

Certain vendors also may provide instruction and hands-on training at your Center, prior to the Initial Training Program. The time spent during any such vendor training is not reflected in the chart above.

Training for Area Franchisees

Prior to acting as an Area Franchisee, you (or, if you are a corporation or partnership, your principal) and, at your discretion, up to two of your employees, must complete our training program for Area Franchisees, which will take place at our corporate headquarters in Denver, Colorado. We will provide training, instructors, the Area Franchise Manual, and other materials without charge. You will be responsible for all other expenses, including travel, lodging, and meal costs of you or your principal and your employee(s). This training will take place at times that we designate, and will cover network expansion and store development. The training will last approximately 3 to 5 days, and is held as needed.

You must also successfully attend and complete our annual certification training program each year at the time and place that we designate. We will provide training, instructors, and materials for this program without charge. You will be responsible for all expenses you incur in attending this training, including travel, lodging, and meal costs. You and your employees, as we may designate, must also attend and complete, at your expense and to our satisfaction, any other additional training programs that we may periodically require.

The subjects covered in Area Franchisee training are described below.

Area Franchisee Training Program Summary

| SUBJECT | NUMBER OF HOURS OF CLASSROOM TRAINING |
|---------------------------------|--|
| Store Development | |
| Site Selection | 2 |
| Lease Negotiation | 1.5 |
| Store Layout & Design | 1.5 |
| Store Construction | 1 |
| Development Coordination | 1 |
| Training | 2 |
| Store Visits | 1 |
| Local/Regional Advertising Plan | 2 |
| Local Store Support | 2 |

| SUBJECT | NUMBER OF HOURS OF CLASSROOM TRAINING |
|----------------------------------|---------------------------------------|
| Network Expansion | |
| Generating Inquiries | 2 |
| Responding to Inquiries | 1 |
| Qualifying Franchisee Candidates | 1 |
| Presenting the PostNet System | 2 |
| Total Hours Training | 20 |

Instructional materials for the Area Franchisee training programs consist of various PostNet Manuals, vendors' manuals, guides and instructions (i.e., overnight delivery services, computer hardware and software, etc.), domestic mail manuals, spreadsheets, checklists, and various forms.

Training for Developers

We do not provide a training program for Developers.

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All Franchisee and Area Franchisee training will be under the general supervision of Mr. Brian Spindel, our Executive Vice President and a Director. Mr. Spindel's biography appears in Item 2 of this offering circular. Mr. Spindel has participated in the development of over 1,000 postal, business, and communications centers, and has personally trained over 100 owners of these businesses.

Site Selection

The Center must be located at the Approved Location. If we have not approved a location for the Center at the time you sign the Franchise Agreement, you must get our approval before you later lease or otherwise acquire a location. We typically approve or disapprove your proposed site within 7 days after your request for an approval. (Franchise Agreement Sections 1.2 and 5.9)

We will assist you, as we deem reasonable and necessary, in selecting a site for the Approved Location. (Franchise Agreement Section 4.1) Typically, our assistance provides a demographic review and evaluation of the proposed premises for the Center, including population density, foot traffic, vehicle traffic, average household income, and a review of the physical attributes of the proposed location, including access, visibility, parking convenience, location of competition, and other factors that may be relevant to your market. If, within one year after you have signed the Franchise Agreement, you have not secured an Approved Location or received our approval of your lease for your Center's premises, you and we have the right to terminate the Franchise Agreement. (Franchise Agreement Section 13.4)

You acknowledge and agree that our approval of a site for your Center is not and will not be construed as a guarantee or assurance that the Center will be profitable or successful.

Once the site has been selected, we will assist you in negotiating a lease agreement with the landlord, by developing an offer to lease proposal covering all the basic business terms and conditions of the lease. (Franchise Agreement Section 4.1) We recommend that you also retain your own attorney to assist in finalizing the lease agreement.

The typical time between signing a Franchise Agreement and the opening of a Center is 90 to 180 days. Factors such as the ability to obtain a lease, construction of required improvements to the site, and obtaining financing affect the time it takes to open a Center. If the Center will be newly constructed rather than renovated, it is likely that more than 180 days will be required.

We do not provide site selection assistance to Area Franchisees, Developers, or Conversion Owners.

Advertising by Franchisees

Your advertising contribution to the PostNet National Advertising Fund (“Fund”) is 2% of the Center’s Gross Sales each week and, as of the date of this offering circular, must be made through an electronic funds transfer. (Franchise Agreement Section 9.1)

Each Center that we or an affiliate own also will contribute 2% of its weekly Gross Sales to the Fund. (Franchise Agreement Section 9.2)

The Fund

We previously established the Fund, and have the right, in our discretion, to maintain and administer the Fund.

The Fund, all contributions to the Fund, and any earnings on amounts in the Fund, must be used exclusively to meet all costs of maintaining, administering, directing, conducting, and preparing advertising, marketing, public relations, and/or promotional programs and materials, and any other activities which we believe will benefit the System, including, the costs of preparing and conducting advertising campaigns in various media; preparing direct mail advertising; market research; employing advertising and/or public relations agencies to assist in our advertising efforts; purchasing promotional items; conducting and administering Center promotions; providing promotional and other marketing materials and services to the businesses operating under the System, and point-of-purchase materials. The Fund is not a trust fund, and we do not have any fiduciary duty to you with respect to the Fund’s administration, activities, or expenditures. (Franchise Agreement Section 9.3.1)

We typically disseminate advertising in print media. We direct all advertising and promotional programs. All creative concepts, materials, and media used in these programs and

their placement and allocation are the sole creation of our in-house advertising department. We are not obligated to make expenditures from the Fund that are equivalent or proportionate to your contribution, or to ensure that you or any other particular franchisee benefits directly or *pro rata* from the advertising or promotion that we conduct under the Fund. (Franchise Agreement Section 9.3.2) We will provide you with an accounting of receipts and disbursements. Of the monies expended in FY 05, the Fund spent 10% on media placement and creative services, 27% on printing/production, 41% on our national free standing media inserts program, locator systems, and related mailings, and 22% on advertising cooperative payments and payouts.

We maintain all sums paid to the Fund in an account separate from our other monies, and will not use the advertising contribution to defray any of our expenses, except for reasonable costs and overhead, if any, we may incur in activities reasonably related to the administration of the Fund, including, costs of personnel for creating and implementing advertising, promotional, and marketing programs. If we do not use all of the fees in the Fund in the year in which they accrue, they will be the first monies expended in the next year. The Fund and earnings on the Fund will not otherwise benefit us. (Franchise Agreement Section 9.3.3) We do not use any money from the Fund for advertising that is principally a solicitation for the sale of franchises. Neither we nor an affiliate receives any payment for providing goods or services to the Fund. We maintain separate bookkeeping accounts for the Fund.

Annually, we will prepare a statement of the operations of the Fund as shown on the books of the Fund and furnish the statement to you. (Franchise Agreement Section 9.3.4)

PostNet franchisees will have the right to periodically adjust the amount of the required contribution to the Fund, subject to the following conditions: (i) any adjustment must be approved by at least a majority of all franchisees as well as 2/3 of the franchisees who vote; (ii) each franchisee will have one vote for each of its open and operating Centers; (iii) the required Fund contribution will never be less than 2%; (iv) each adjustment will be for a period of not less than one year; and (v) we will develop the mechanisms and procedures for recommending, considering, and voting on any proposed adjustment. (Franchise Agreement Section 9.7)

Local Advertising

Prior to opening your Center and at the same time you pay your Center Development Fee, you also must deposit \$7,500 with us. We will use this money to conduct a grand opening promotional program, and to oversee, during the first year of your Center's operations, your local marketing and promotional activities. This will include the development and implementation, ourselves and/or by third parties, of appropriate local advertising and promotional activities for your Center. We expect that these activities will include programs such as newspaper inserts, marriage direct mail, and other similar promotional activities offered by third party vendors, but we reserve the right to provide services ourselves or through an affiliate, or use other types of programs, which in our judgment are appropriate for your Center. Within 30 days after the conclusion of the 12-month period, we will refund to you any monies remaining from your original deposit. At your request, we will provide you with reasonable documentation to substantiate all expenditures. (Franchise Agreement Sections 4.9 and 9.8)

As long as you operate the Center, you must actively and continuously engage in local promotional activities (in addition to those activities described elsewhere in this Item 11) that are designed to increase business for the Center. We will specify in the Manual or otherwise in writing the types of promotional activities needed, as well as the minimum monthly time commitment that must be made to local promotional activities. There is, however, no required minimum financial expenditure other than for the telephone directory listings discussed below. (Franchise Agreement Section 5.12)

All local advertising and promotion by you must be conducted in a dignified manner, and conform to the standards set forth in the Manual or otherwise in writing. (Franchise Agreement Section 9.4) You may not use any advertising or promotional plans or materials, including any website on the Internet which you may wish to establish, until we have approved it, following the procedure described in the following paragraph. (Franchise Agreement Section 9.4)

You must submit samples of all advertising and promotional plans and materials to us, before their use. You may begin to use the plans or materials 7 days after we receive them, unless, before then, we prohibited their use in a written notice furnished to you. We also can prohibit their continued use, effective when you receive our written notice that you must stop using the plans and materials.

The current Franchise Agreement does not contain any provisions with respect to advertising cooperatives. Therefore, the Franchise Agreement does not grant us the power to require that advertising cooperatives be formed, changed, dissolved, or merged. If, however, franchisees located in the same market area voluntarily form their own marketing cooperative, we will work together with the cooperative and may, in our discretion, support the cooperative with monies from the Fund and/or permit members of the cooperative to direct a portion of their Fund contributions to the cooperative in lieu of the Fund. You are not obligated to join any cooperative that may be formed by other store owners in your market area.

In addition to your other required advertising contributions and expenditures, you must, at your expense and in accordance with standards established in the Manual, obtain advertisements in the white and yellow pages of the Bell (utility) telephone directory serving the market in which your Center is located. If we, in our discretion, determine that the Center's market is served by more than one directory and that the Center might benefit from placing advertisements in other directories, then we can require you to also advertise in these other directories, up to a maximum of 3 other individual directories. This expenditure must be not less than the cost of a "Trademark Ad" based on rates published by the Yellow Pages Publisher's Association (or comparable successor organization). If more than one Center is located within the market served by the principal telephone directory, you must join with other Centers (whether franchised or owned by us or an affiliate) in shared directory advertisements of all Centers, and pay your *pro rata* share of the cost of the advertising. If there are 2 Centers, then the 2 franchisees must mutually agree on the size and other features of the advertisement(s); if there are more than 2 Centers, the size and other features of the advertisement(s) will be decided by a plurality of the franchisees of these Centers. In the event that the franchisees are unable to agree, then we will make the final determination on the size and other features of the advertisement(s). (Franchise Agreement Section 9.5)

You must not establish any computer website including Internet and World Wide Web home pages, without our prior written approval. Any website must comply with standards specified in the manual or otherwise in writing. We may require you to establish your website as part of any website established by us, and/or require you to utilize our website.

Advertising by Area Franchisees

Area Franchisees do not contribute to any Fund, but must advertise PostNet franchises through sales presentations and other means (such as local seminars and franchise expositions, and local newspapers) and spend at least the minimum amounts (to range between \$500 and \$3,000 per month) which we specify. (Area Franchise Agreement Section 5.2.1). You also must use the Proprietary Marks only in ways that conform to the standards set out in the Manual or the Area Franchise Manual. (Area Franchise Agreement Section 8). Please refer to the Section "Advertising by Franchisees" in this Item with respect to any Franchise Agreement signed by an Area Franchisee.

Advertising by Developers

Developers make no marketing contributions and have no marketing obligations. Please refer to the Section "Advertising by Franchisees" in this Item with respect to any Franchise Agreement signed by a Developer.

Advisory Council

We have established a PostNet National Franchisees Advisory Council ("PNFAC") which serves in an advisory capacity only with respect to a variety of issues, one of which is to advise on advertising and promotional activities. The PNFAC is governed by by-laws. The purpose of the PNFAC is to promote communications between us and all franchise owners. The PNFAC has 9 members. In each of the 4 regions, we and the region's Store Owners each select one member. We also appoint one Area Franchisee to the Council.

We do not have a separate advisory council for either Area Franchisees or Developers.

Computer System

You must, at your expense, purchase or lease, and thereafter maintain, computer hardware (including laptops), software, and firmware, required dedicated telephone and power lines, modem(s), printer(s), and other computer-related accessories or peripheral equipment as we specify in the Manual or otherwise in writing. The system we include in the store development package meets these requirements when properly connected and configured. Your computer systems must have the capacity to electronically exchange information, messages, and other data with other computers, by such means (including but not limited to the Internet), and using such protocols (e.g., TCP/IP), as we may reasonably prescribe in the Manual or otherwise in writing. We have the unlimited right to retrieve data and information from your computer system and use it for any purpose both during and after the term of your Franchise Agreement.

You must keep your computer system in good maintenance and repair and, at your expense, promptly install such additions, changes, modifications, substitutions, and/or replacements to the computer hardware, software, firmware, telephone and power lines, and other computer-related facilities, as we direct. You must not update, modify, enhance, or upgrade any computer hardware or software without our prior written consent. You also may not establish any computer web site including Internet and World Wide Web home pages, without PostNet's prior written approval. Any web site must comply with standards specified in the Manual or otherwise in writing. We may require you to establish your web site as part of any web site established by us.

As part of our Center Development Package, we will provide you, at our expense, with the following computer systems which, when properly connected and configured, satisfy your initial requirements:

POS Front Counter System:

Hardware

- CPU – AMD 3100+ Tower, 80 GIG HD, 512M RAM, 52X CDRW, V.92 Modem, 8 ports (3 parallel, 4 USB, 1 serial), Network Enabled, Optical Mouse
- 15" LCD Flat Panel Monitor
- Magnetic Swipe Keyboard
- Surge Protector
- HP Color Report Printer
- Thermal Receipt Printer
- Electronic Steel Cash Drawer
- 150# Electronic Scale w/ Postal Upgrade
- Barcode Scanner
- 1 Scale Cable, and 3 printer cables (1 usb, 2 parallel)
- 5 Rolls Thermal Receipt Paper

Software

- Windows XP Pro
- ReSource Partner POS
- UPS WorldShip
- Anti-virus Protection (including 1 year of updates)
- Remote Data Backup (including 1 year of service by RDB)
- POS Based postage printing (with 60 days of service from Endicia)
- ReSource Web Assist Technical Support
- Credit Card Processing Software (single user)

Backroom System:

Hardware

- CPU – AMD 2800+ Tower, 80 GIG HD, 512M RAM, 52X CD Rom, 3.5” Floppy Drive, V.92 Modem, 8 ports (3 parallel, 4 USB, 1 serial), Network Enabled, Optical Mouse
- 104 Key Keyboard
- 15” LCD Flat Panel Monitor
- Power Strip

Software

- Windows XP Pro
- ReSource Partner POS as Client
- UPS WorldShip as Client
- Anti-virus Protection (including 1 year of updates)

This system is for use by you in connection with operational and management tasks of the Center business. When configured properly, it allows us to receive information concerning your Center’s sales, inventory, and financial performance, and provides you with detailed information necessary to manage retail transactions, and to provide for management of sales data.

Rental Computer Station:

Hardware

- CPU – AMD 2800+ Tower, 80 GIG HD, 512M RAM, DVD-RW drive , 3.5” Floppy Drive, V.92 Modem, 6 ports (1 parallel, 4 USB, 1 serial), Network Enabled, Speakers, Optical Mouse
- 19” LCD Flat Panel Monitor
- 104 Key Keyboard
- Power Strip

Software

- Windows XP Pro
- Microsoft Office Professional
- Adobe Photo Shop Elements 4.0
- Anti-virus Protection (including 1 year of updates)

Network

- Network Security Firewall Router: 4 port with DMZ
- 4 port Expansion Switch
- (3) 15 ft network patch cables to go from each computer to wall jack.
- (2) 25 ft network patch cables to go from each copier
- ReSource Multi-machine License
- Complete setup and testing

Hardware Warranty

The warranty on all hardware provided to new Centers with the exception of the report printer is 2 years. The report printer has a 1 year warranty.

The Rental Computer Station is for use by customers of the Center.

You will be responsible for the maintenance of the computer hardware and software. In addition, you must obtain a service contract from ReSource, Inc. to cover upgrades and updates, enhancements, and telephone support and assistance using ReSource's 800 telephone number for the WinPos software. The current annual cost of this service contract ranges from \$485 to \$600. The cost to upgrade the hardware and maintain or upgrade the software depends on the PostNet System's future needs, as well as technological developments, none of which we can predict at this time. You also should be prepared to upgrade your computer hardware every two to three years due to improvements in the software, advances in technology, and memory requirements. There is no limitation on the frequency or cost of this obligation.

Please refer to the subsection entitled "Local Advertising" in this Item 11 with respect to a computer website for your Center.

The Area Franchise Agreement does not require an Area Franchisee to own or use a computer system.

The Development Agreement does not require a Developer to own or use a computer system.

Manual Knowledge Base

Our Manual is currently electronic, and available on our Franchisee Web, a password-protected extranet. Our Manual contains mandatory specifications, standards, and operating procedures. (Franchise Agreement Section 4.2) This Manual is confidential and remains our property. We may modify the Manual, but the modifications will not alter your status and rights under the Franchise Agreement. Exhibit F contains the table of contents from the Manual.

Area Franchise Manual

Our Area Franchise Manual is currently composed of 1 volume. At our option, we may provide it (and any revisions to it) to you in either an electronic or paper version. We will provide you, on loan, one copy of our Area Franchise Manual, which contains mandatory specifications, standards, and operating procedures. (Area Franchise Agreement Section 3.3.5) The Area Franchise Manual is confidential and remains our property. We may modify the Area Franchise Manual, but the modifications will not alter your status and rights under the Area Franchise Agreement. Exhibit F contains the table of contents from the Area Franchise Manual.

Developer Manual

We do not have a Manual for Developers.

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We may, in the future, substitute an electronic version of our Area Franchise Manual for any paper versions.

ITEM 12 TERRITORY

Franchise Agreement

The Franchise Agreement designates the Approved Location for the Center. If no Approved Location has been selected when you sign the Franchise Agreement, we will describe the Approved Location in a site approval letter sent to you after you locate the Approved Location. You may not relocate the Center without our prior written consent.

During the term of the Franchise Agreement, neither we nor any affiliate will establish or operate, or franchise any entity to establish or operate, a business using the Proprietary Marks and System at any location within the area described in the Franchise Agreement (“**Protected Territory**”). The size of the Protected Territory will likely differ among franchisees, and will be determined by the demographics of the area in which the Center is situated. As a general rule, the area will be approximately one-half mile from your Approved Location for an urban area, approximately one mile from your Approved Location for a suburban area, and approximately one and one-half miles from your Approved Location for a rural area. There are no restrictions on you regarding soliciting or accepting orders from outside of your Protected Territory.

You do not receive the right to acquire additional Centers within the Protected Territory. You are, however, given the right to sign additional Franchise Agreements and your additional franchise may be in your Protected Territory. Other than as set forth above, the franchise is non-exclusive, and we retain the right, for ourselves and our affiliates, on any terms we deem advisable, and without granting you any rights:

1. to own, acquire, establish and/or operate, and license others to establish and operate, Centers outside the Protected Territory, regardless of their proximity to the Approved Location or their impact on your existing or potential customers;
2. to own, acquire, establish and/or operate, and license others to establish and operate, businesses using other proprietary marks or other systems, including (i) businesses which provide products and/or services similar to those provided by a Center; and/or (ii) a PostNet Express business, at any location within or outside the Protected Territory, regardless, in either circumstance, of its proximity to the Approved Location or their impact on your existing or potential customers; and

3. to sell or distribute through any distribution channel such as computerized and other remote-entry ordering systems (i.e., the Internet) capable of accepting orders placed within or outside the Protected Territory, direct mail, mail order catalogues and telemarketing, at retail or wholesale, directly or indirectly, or license others to sell or distribute, any products which bear any proprietary marks, including the Proprietary Marks, whether within or outside the Protected Territory, regardless of their proximity to the Approved Location or their impact on your existing or potential customers.

Continuation of the Protected Territory is not dependent upon your achievement of a certain sales volume, market penetration, or other contingency.

Area Franchise Agreement

If you become an Area Franchisee, you will be assigned a Territory for which only you will be authorized to solicit, evaluate, and screen individuals seeking to open a franchised Center. In the event you receive any inquiries regarding the establishment of a Center outside of the Territory, you must refer the inquiry to us. In the event we receive any inquiry regarding the establishment of a Center within the Territory, we must refer the inquiry to you. Neither we nor anyone licensed by us will promote the sale of franchised Centers or train, assist, support, or monitor the performance of franchised Centers within your Territory. However, your territorial protections and your rights and obligations as an Area Franchisee have the following exceptions and limitations: (i) franchised Centers located outside of the Territory; (ii) franchised Centers in business prior to the date that you become an Area Franchisee; (iii) franchisees of any other franchise system with which we or any affiliate may now or subsequently have any interest or affiliation; (iv) businesses which convert to a franchised Center except those who do so through your efforts; and (v) franchised Centers with whom you or any of your officers, directors, members, partners, or shareholders have any legal or equitable interest. You will not have any territorial protection or rights or obligations with respect to any of the five above-described types of businesses.

The sizes of Territories may vary, and we have no minimum area. Factors we use to determine a Territory size include county limits, population, demographics, your ability to service and monitor PostNet franchisees in the Territory in accordance with the Area Franchise Agreement, and similar factors.

Your right to remain an Area Franchisee under the Area Franchise Agreement is contingent on your compliance with the Development Schedule. Failure to do so may result in termination of the Area Franchise Agreement. We also have the right, but not the obligation, in lieu of terminating the Area Franchise Agreement, to assume ourselves or delegate to a third-party, all future Servicing Responsibilities, in which event, you will not receive a percentage of any franchisees' royalty payments whose Servicing Responsibilities have been transferred.

Development Agreement

The Development Agreement will describe your Development Area. We determine Development Area boundaries by your development capabilities, population, political boundaries, and the number of Centers desired. Each Franchise Agreement for a Center developed under the Development Agreement will have its own Protected Territory, as described in this Item 12 under the caption "Franchise Agreement." The Protected Territory for each Center will be a smaller part of the Development Area.

During the term of the Development Agreement, we will not establish or operate, or franchise other persons to establish or operate, a Center which is located within your Development Area. Except as specifically provided in the preceding sentence, your rights under the Development Agreement are not exclusive, and we retain the same rights within the Development Area that are described above in subparagraphs (1) through (3) under the subheading "Franchise Agreement."

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As indicated in Item 1, as of January 1, 2006, we have a total of 16 PostNet Express locations in Pennsylvania and Nevada, and may open additional units during 2006 if appropriate opportunities arise. If a PostNet Express is established within the Protected Territory of any franchisee or the Development Area of any Developer, it likely will compete with your Center. Except as described in this paragraph, we have not established or presently intend to establish other franchises or company-owned outlets selling similar products or services under a different trade name or trademark. However, we have retained the right to do so and currently monitor and explore opportunities that arise from time to time on this subject.

ITEM 13
TRADEMARKS

The Franchise Agreement grants you the non-exclusive right and license to use the System, which System includes the use of the Proprietary Marks and any other proprietary marks that we may use during the term of the Franchise Agreement in operating the System. Your use of the Proprietary Marks is limited solely to the operation of the Center at the Approved Location and only in accordance with the System.

We own the following service mark registration on the principal register of the United States Patent and Trademark Office:

| Mark | Registration Number | Registration Date |
|-------------|----------------------------|--------------------------|
| PostNet | 1,801,313 | October 26, 1993 |

All required affidavits have been filed.

There are no currently effective material determinations of the Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of this state, or any court; no pending infringement, opposition, or cancellation proceedings; nor any pending material litigation involving the Proprietary Marks. There are no agreements currently in effect that significantly limit our rights to use, or license the use of, any of the Proprietary Marks in a manner material to the franchised business.

There are no infringing uses either actually known to us or of which we are aware that could materially affect your use of the Proprietary Marks in this state or in the state in which the Center is located. We are not obligated by the Franchise Agreement or otherwise to protect any rights granted to you to use any Proprietary Marks. You must promptly notify us of any suspected unauthorized use of or challenge to the validity of the Proprietary Marks. We have the sole right to direct and control any administrative proceeding or litigation involving the Proprietary Marks, including any settlement of the action. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Proprietary Marks.

We will defend you against any third-party claim, suit, or demand arising out of your use of the Proprietary Marks. If we, in our discretion, determine that you have used the Proprietary Marks in accordance with the Franchise Agreement, we will bear the cost of defending you, including the cost of any judgment or settlement. If we, in our discretion, determine that you have not used the Proprietary Marks in accordance with the Franchise Agreement, you must bear the cost of the defense, including the cost of any judgment or settlement. If there is litigation concerning your use of the Proprietary Marks, you must execute all documents and do any acts that we believe are necessary to carry out the defense or prosecution, including becoming a nominal party to any legal action. Except to the extent that the litigation resulted from your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, we agree to reimburse you for your out-of-pocket litigation costs in cooperating with us on the litigation.

We reserve the right to substitute different proprietary marks for use in identifying the System and the businesses operating under the System if the Proprietary Marks no longer can be used, or if we, in our discretion, determine that substitution of different proprietary marks will be beneficial to the System. The Franchise Agreement will govern the use of the substituted proprietary marks. We will not compensate you for the substitution, but if we are required to substitute a Proprietary Mark because of a court finding that it infringes on another trademark, we will bear only the costs of modifying your signs and advertising materials to conform to our new proprietary marks.

The Development Agreement does not give Developers any right to use our Proprietary Marks.

ITEM 14
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any right in or to any patents or copyrights that are material to the franchise. We do, however, claim common law copyright protection for our literature, marketing materials, and our Manuals.

Confidential Operating Manual

You must operate the Center (or the Area Franchise, if you become an Area Franchisee) in accordance with the standards, methods, policies, and procedures specified in the Manual (or the Area Franchise Manual), as we may revise it. You must treat the Manual (or the Area Franchise Manual), and the information contained in it, as confidential, and use all reasonable efforts to maintain the information as secret and confidential. You must not at any time copy, duplicate, record, or otherwise reproduce any materials in the Manual (or the Area Franchise Manual), or otherwise make the material available to any unauthorized person. The Manual (or the Area Franchise Manual) will at all times remain our sole property, and you must ensure that access to the Manual (or Area Franchise Manual) is restricted to authorized persons.

Confidential Information

You must not, during or after the term of the Franchise Agreement (or the Area Franchise Agreement), communicate, divulge, or use for the benefit of any other person, persons, partnership, association, or corporation, any confidential information, knowledge, or know-how concerning the methods of operation of the Center (or the Area Franchise) which we may communicate to you or which you may be apprised by virtue of your operation under the Franchise Agreement (or the Area Franchise Agreement). You may divulge confidential information only to those employees who must have access to it in order to perform their employment responsibilities. All matters, information, knowledge, know-how, and techniques which we designate as confidential will be deemed confidential for purposes of the Franchise Agreement (or the Area Franchise Agreement) unless and until you demonstrate that the information has become public knowledge.

Certain individuals associated with you, such as shareholders, officers and directors (and their respective spouses and adult children), and all employees who may have access to our confidential information must sign covenants that they will maintain the confidentiality of information they receive during their association with you. The current form of covenant is attached to this offering circular at Exhibit G. We require that your Guarantors sign these covenants at the time you sign the Franchise Agreement and/or Area Development Agreement, and also require that certain other individuals sign these covenants as part of their association with you.

ITEM 15
OBLIGATION TO PARTICIPATE IN
THE ACTUAL OPERATION OF THE CENTER

Franchisees

Unless we otherwise approve in writing, you or your designated Center manager, must devote full-time and best efforts to the management and operation of the Center. You or your Center manager and other employees you may designate are required to attend and satisfactorily complete our Classroom Training Program and our Initial Training Program before opening the Center for business. You or your Center manager and other employees you may designate, also must attend and satisfactorily complete refresher training courses at our reasonable request. You are not obligated to grant an equity interest to any employee. You must inform us of the identity of the Center manager, but we do not have the right to disapprove the manager. Your store manager must possess the ability to operate your Center professionally and in compliance with the System and Manuals. We require you to obtain signed covenants of confidentiality and non-competition from certain persons associated with you. For a description of the covenants and the persons from whom the covenants are required, see Items 14 and 17.

Area Franchisees

You, or a manager that we approve in writing, must devote enough time to operating as an Area Franchisee in order to fulfill your development obligations under the Area Franchise Agreement. We require you to obtain signed covenants of confidentiality and non-competition from certain persons associated with you. For a description of the covenants and the persons from whom the covenants are required, see Items 14 and 17.

In addition to performing your responsibilities as an Area Franchisee, you also must simultaneously own and operate a Center. To satisfy this requirement, you must (i) possess at least a 51% legal and equitable ownership interest in a PostNet franchise; and (ii) be personally present at your franchised Center's premises a minimum of 60 hours per month.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell only products and services that we have expressly approved for sale in the Manual or otherwise in writing. You must discontinue selling and offering for sale any products or services which we may, in our discretion, disapprove in writing at any time. You must not offer any unapproved products or services.

See Item 8 for a description of certain restrictions and controls over the purchase of items which you may use or sell.

Except as described in this Item 16, you are not restricted by the Franchise Agreement or any of our practices or customs regarding the products or services you offer for sale or to whom you may sell.

You must comply with all reasonable requirements if we supplement, improve, or modify the System, including offering and selling new or different services and products that we specify. We have the right to change the types of authorized goods and services, and there are no limits on our right to make changes.

If you are an Area Franchisee, your right to solicit prospective franchisees and/or service existing franchisees is limited to those located or to be located within your Territory. You must forward any inquiries regarding the establishment of PostNet franchises outside of your Territory to us.

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

Franchise Agreement

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|--|---------------------------------------|--|
| a. Term of Franchise | § 2 | 15 years |
| b. Renewal or extension of the term | § 2 | If you satisfy requirements, you may renew for consecutive terms of 15 years each |
| c. Requirements for you to renew or extend | § 2 | Give timely written notice, make repairs/renovations as needed, not be in default, be current in debt obligations, sign new Franchise Agreement, at our option sign with us a mutual general release of claims, pay renewal fee of 15% of then current initial franchise fee |
| d. Termination by you | § 13.4 | By written notice to us, you may terminate if there is no Approved Location, or we have not approved your proposed lease for the Center premises, one year after executing Franchise Agreement |
| e. Termination by us without cause | None | |
| f. Termination by us with cause | § 13 | We may terminate the Franchise Agreement for cause. In certain cases you will be given time to cure the default constituting cause; in other cases we may terminate the Franchise Agreement immediately without giving you an opportunity to cure |
| g. "Cause" defined - defaults which can be cured | § 13.3 | All defaults not specified in Sections 13.1 and 13.2; curable within 30 days of written notice from us |

| Provision | Section in Franchise Agreement | Summary |
|--|---------------------------------------|---|
| h. "Cause" defined - defaults which cannot be cured | § 13 | Bankruptcy; failure to open Center; abandonment of Center; certain breaches of the Franchise Agreement; material misrepresentations; repeated defaults after cure; trademark misuse; unapproved transfers; nonpayment of fees and debts; failure to sign covenants; nonrenewal of lease; commission of a crime, offense or other morally offensive conduct; false books and records; no insurance; 5% understatement of payments or 2 understatements in 2 years, unless we determine otherwise; failure to secure an Approved Location within one year; and others. Termination upon bankruptcy may not be enforceable under federal bankruptcy law 11 U.S.C. Section 101 <i>et seq.</i> |
| i. Your obligations on termination/nonrenewal | § 14 | Cease operation of Center and use of Proprietary Marks and Manual; de-identification of Center, payment of amounts due, return Manual, covenant not to compete and other covenants described in Section 15; and others |
| j. Assignment of contract by us | § 12.1 | No restriction on our right to assign |
| k. "Transfer" by you – definition | § 12.2 | Includes transfer of your rights under Franchise Agreement, transfers that change your ownership, and transfers of Center assets |
| l. Our approval of transfer by you | § 12.2.1 | We have the right to approve all transfers and will not unreasonably withhold consent if you satisfy Section 12.2.1 requirements |
| m. Conditions for our approval of transfer | § 12.2.1 | You are not in default under agreements with us; all monetary obligations are satisfied; at our option, sign with us a mutual release of claims; transferee signs our then-current form of franchise agreement for the seller's remaining term; transferee satisfies our conditions for franchisee; transferee completes training and upgrades Center, and you pay a transfer fee |
| n. Our right of first refusal to acquire your business | § 12.6 | We have the right only in the context of an assignment under the United States Bankruptcy Code |
| o. Our option to purchase your business | None | |
| p. Your death or disability | § 12.4 | Your interest must be transferred within 6 months to a third party approved by us. If your heir or beneficiary cannot satisfy our conditions, your executor or administrator has a reasonable time to transfer |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|---|--|--|
| q. Non-competition covenants during the term of the franchise | § 15.2; Confidentiality and Non-Competition Covenant | Prohibition against owning, operating, advising, working in, being associated with, and making loans to a business that provides similar products and services. Certain individuals also must sign the Confidentiality and Non-Competition Covenant (Exhibit G) at the time you sign the Franchise Agreement |
| r. Non-competition covenants after the franchise is terminated or expires | §§ 15.3 and 15.4; Confidentiality and Non-Competition Covenant | Prohibition for one year on engaging in similar business and related activities at Approved Location or within 10 miles of the Approved Location, or any other location at which a Center is open or under construction at the time you sign the Franchise Agreement. Exception if you are less than a 5% owner of certain companies registered with the Securities and Exchange Commission. Certain individuals also must sign the Confidentiality and Non-Competition Covenant (Exhibit G) at the time you sign the Franchise Agreement, which contains similar restrictions |
| s. Modification of the agreement | § 20 | Must be in writing signed by both parties |
| t. Integration/merger clause | § 20 | Only the terms of the Franchise Agreement are binding (subject to state law). Any other promises may not be enforceable |
| u. Dispute resolution by arbitration or mediation | § 22 | Except as provided in Section 22.4, you must arbitrate all disputes under the rules of the American Arbitration Association. Before arbitration may begin, you must first mediate disputes |
| v. Choice of forum | § 22 | Where we have our principal place of business at the time when the mediation, arbitration or litigation commences. As of the date of this offering circular, our principal place of business is Denver, Colorado |
| w. Choice of law | § 22 | Colorado law applies (subject to state law) |

Area Franchise Agreement

| <u>Provision</u> | <u>Section in Area Franchise Agreement</u> | <u>Summary</u> |
|-------------------------------------|--|---|
| a. Term of Franchise | § 2 | 15 years |
| b. Renewal or extension of the term | § 2 | If you satisfy requirements, you may renew for 2 consecutive terms of 15 years each |

| <u>Provision</u> | <u>Section in Area Franchise Agreement</u> | <u>Summary</u> |
|---|--|---|
| c. Requirements for you to renew or extend | § 2 | Give timely written notice, not be in default, agree upon development schedule, pay a renewal fee, sign then-current form of agreement |
| d. Termination by you | None | |
| e. Termination by us without cause | None | |
| f. Termination by us with cause | § 11.2 | We may terminate the Area Franchise Agreement for cause. In certain cases you will be given time to cure the default constituting cause; in other cases we may terminate the Area Franchise Agreement immediately without giving you an opportunity to cure |
| g. "Cause" defined - defaults which can be cured | § 11.3 | All defaults not specified in Sections 11.1 and 11.2; curable within 30 days of written notice from us |
| h. "Cause" defined - defaults which cannot be cured | § 11.2 | Bankruptcy; commission of a crime, offense or other morally offensive conduct; repeated defaults under the Area Franchise Agreement; default under the Franchise Agreement; attempt to transfer without our prior written consent; failure to simultaneously own and operate a Center; and others. Termination upon bankruptcy may not be enforceable under federal bankruptcy law 11 U.S.C. Section 101 <i>et seq.</i> |
| i. Your obligations on termination/nonrenewal | § 12 | Cease to perform duties under the Agreement; payment of amounts due, return Area Franchise Manual and other information |
| j. Assignment of contract by us | § 10.2 | No restriction on our right to assign |
| k. "Transfer" by you – definition | § 10.1 | Assignment of all or any part of your rights and/or obligations under the Area Franchise Agreement |
| l. Our approval of transfer by you | § 10.1 | You may not transfer your rights or obligations under the Area Franchise Agreement without our prior written consent, and we may withhold our consent in our sole discretion, with or without cause |
| m. Conditions for our approval of transfer | None | |
| n. Our right of first refusal to acquire your business | None | |
| o. Our option to purchase your business | None | |
| p. Your death or disability | None | |
| q. Non-competition covenants during the term of the franchise | None | |

| <u>Provision</u> | <u>Section in Area Franchise Agreement</u> | <u>Summary</u> |
|---|--|--|
| r. Non-competition covenants after the franchise is terminated or expires | None | |
| s. Modification of the agreement | § 16 | Must be in writing signed by both parties |
| t. Integration/merger clause | § 16 | Only the terms of the Area Franchise Agreement are binding (subject to state law). Any other promises may not be enforceable |
| u. Dispute resolution by arbitration or mediation | § 18 | Except as provided in Section 18.4, you must arbitrate all disputes under the rules of the American Arbitration Association. Before arbitration may begin, you must first mediate disputes |
| v. Choice of forum | § 18 | Where we have our principal place of business at the time when the mediation, arbitration or litigation commences. As of the date of this offering circular, our principal place of business is Denver, Colorado |
| w. Choice of law | § 18 | Colorado law applies (subject to state law) |

Development Agreement

| <u>Provision</u> | <u>Section in Development Agreement</u> | <u>Summary</u> |
|--|---|---|
| a. Term of Agreement | § 4 and Attachment A | Date set in the Development Schedule as the date by which the Franchise Agreement for the final Center must be signed |
| b. Renewal or extension of the term | None | |
| c. Requirements for you to renew or extend | None | |
| d. Termination by you | None | |
| e. Termination by us without cause | None | |
| f. Termination by us with cause | § 7 | We may terminate the Development Agreement for cause. In certain cases you will be given time to cure the default constituting cause; in other cases we may terminate the Development Agreement immediately without giving you an opportunity to cure |
| g. "Cause" defined – defaults which can be cured | § 7.2 | All other defaults not specified in § 7.1 of Development Agreement |

| <u>Provision</u> | <u>Section in Development Agreement</u> | <u>Summary</u> |
|---|---|---|
| h. "Cause" defined – defaults which cannot be cured | § 7.1 | Bankruptcy; commission of a crime, offense or other morally offensive conduct; and others; see §§ 7.1.1 - 7.1.9. Termination upon bankruptcy may not be enforceable under federal bankruptcy law 11 U.S.C. Section 101 <i>et seq.</i> |
| i. Your obligations on termination/ nonrenewal | § 8 | You may not establish or operate any Center for which you have not signed a Franchise Agreement; resell existing Centers to us at our request, return materials; and others |
| j. Assignment of contract by us | § 6.1 | There are no limits on our assignment rights |
| k. "Transfer" by you – definition | § 6.2 | Assignment of all or any part of your rights and/or obligations under the Development Agreement |
| l. Our approval of transfer by you | § 7.2 | You may not transfer your rights or obligations under the Development Agreement without our prior written consent, and we may withhold our consent in our sole discretion, with or without cause |
| m. Conditions for our approval of transfer | None | |
| n. Our right of first refusal to acquire your business | None | |
| o. Our option to purchase your business | § 8.3 | We can purchase your interest in any or all Centers and terminate all of your existing Franchise Agreements if the Development Agreement is terminated because of a default by you. |
| p. Your death or disability | None | |
| q. Non-competition covenants during the term of the Agreement | § 5.2 | Includes prohibition on association with any business which offers the same or similar products or services as those offered by a Center or diverting business from a Center, without our approval. Certain individuals also must sign the Confidentiality and Non-Competition Covenant (Exhibit G) at the time you sign the Development Agreement. |

| <u>Provision</u> | <u>Section in Development Agreement</u> | <u>Summary</u> |
|---|---|--|
| r. Non-competition covenants after the Agreement is terminated or expires | § 5.3 | Includes one-year prohibition for any association with a business which offers the same or similar products or services as those offered by the Center and related activities and which is located in or within 10 miles of the Development Area. Certain individuals also must sign the Confidentiality and Non-Competition Covenant (Exhibit G) at the time you sign the Development Agreement, which contains similar restrictions. |
| s. Modification of the agreement | § 12.1 | Must be in writing signed by both parties |
| t. Integration/merger clause | § 12.1 | Only the terms of the Development Agreement are binding |
| u. Dispute resolution by arbitration or mediation | §§ 14.3 and 14.4 | Except as provided in Section 14.4, you must arbitrate all disputes under the rules of the American Arbitration Association. Before arbitration may begin, you must first mediate disputes |
| v. Choice of forum | § 14.2 | Where we have our principal place of business at the time when the mediation, arbitration or litigation commences. As of the date of this offering circular, our principal place of business is Denver, Colorado |
| w. Choice of law | § 14.1 | Colorado law applies (subject to state law) |

[These states have statutes which may supersede the franchise agreement in your relationship with us including the areas of termination and renewal of your franchise: ARKANSAS [Ark. Code Sections 4-72-201 to 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000 to 20043], CONNECTICUT [Gen. Stat. Sections 42-133e to 42-133h], DELAWARE [Code Sections 2551 to 2556], HAWAII [Rev. Stat. Section 482E-6], ILLINOIS [815 ILCS 705/1-705/44], INDIANA [Stat. Sections 23-2.5.1-23-25.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51 to 75-24-64], MISSOURI [Rev. Stat. Section 407.400 to 407.410], NEBRASKA [Rev. Stat. Section 87-401 to 87-410], NEW JERSEY [Stat. Section 56:10-1 to 56:10-12], RHODE ISLAND [Stat. Section 19-28.1-14], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.01]. These and other states may have other statutes and court decisions which may supersede the franchise agreement in your relationship with us including the areas of termination and renewal of your franchise.]

The following notice is required to be inserted in this offering circular by the state of California.

Our website, www.postnet.com, has not been reviewed or approved by the California Department of Corporations. Any complaints concerning the content of the website may be directed to the California Department of Corporations at www.corp.ca.gov.

California Business and Professions Code § 20000 through § 20043 provides rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. § 101, et seq.).

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

The Franchise Agreement requires binding arbitration. The arbitration will occur at the location at which we have our principal place of business at the time the arbitration proceeding begins, with the costs being borne by the party against whom the arbitration award is made. This provision may be enforceable under California law. Franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The Franchise Agreement requires application of the laws of Colorado. This provision may not be enforceable under California law.

California Corporations Code § 31125, requires the franchisor to give the franchisee a disclosure document, approved by the Department of Corporations, before soliciting a proposed material modification of an existing franchise.

The Franchise Agreement states that you may be asked to sign a general release if you transfer your franchise. California Corporations Code § 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§ 31000 - 31516). Business and Professions Code § 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§ 20000 - 20043).

The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the offering circular.

In addition to the provisions noted in the preceding tables, the Franchise Agreement, Area Franchise Agreement, and Development Agreement contain a number of provisions that may affect your and our legal rights in the event of a dispute between us, such as a mutual waiver of a jury trial, a mutual waiver of punitive or exemplary damages, and a reduced time frame within which either of us may initiate proceedings against the other. See Franchise Agreement

Section 22.8, Area Franchise Agreement Section 18.8, and Development Agreement Section 14.8. We recommend that you carefully review all of these provisions, and the entire contracts, with a lawyer.

ITEM 18
PUBLIC FIGURES

We do not use any public figures to promote PostNet franchises.

ITEM 19
EARNINGS CLAIMS

We do not furnish or authorize our salespersons to furnish to you any oral or written information concerning the actual, average, projected, forecasted, or potential sales, costs, income, or profits of a Center or an Area Franchise. Actual results vary from franchise to franchise, and we cannot estimate the results of a particular franchise.

ITEM 20
LIST OF OUTLETS

FRANCHISED CENTER STATUS SUMMARY
FOR FISCAL YEARS 2005/2004/2003

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Franchises Operating at Year End | | |
|----------------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|----------------------------------|----|----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Alabama | | | | | | | | | | | | | | | | | | | 4 | 4 | 3 |
| Alaska | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Arizona | 8 | 2 | 3 | 1 | | 1 | | | | | | | | 2 | | 9 | 4 | 4 | 36 | 29 | 29 |
| Arkansas | | | | | | | | | | | | | | | 1 | | | 1 | 8 | 8 | 6 |
| California | 8 | 3 | 2 | 10 | 7 | 4 | | | | | | | | | | 12 | 10 | 6 | 92 | 77 | 55 |
| Colorado | 2 | 1 | 5 | 2 | 2 | 3 | | | | | | | 7 | 2 | 1 | 11 | 5 | 9 | 21 | 29 | 27 |
| Connecticut | | | | | | | | | | | | | 1 | | | 1 | | | 1 | 1 | 1 |
| Delaware | | | | 1 | | | | | | | | | | | | 1 | | | 2 | 3 | 3 |
| District of Columbia | | | | | 1 | | | | | | | | | | | | 1 | | 0 | 0 | 1 |
| Florida | 4 | 4 | 4 | 1 | 4 | 1 | | | | | | | | | 2 | 5 | 8 | 7 | 31 | 30 | 32 |
| Georgia | 1 | | 1 | | 3 | 1 | | | | | | | | 3 | | 1 | 6 | 2 | 10 | 10 | 14 |
| Hawaii | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Idaho | | | | | | | | | | | | | | | | | | | 2 | 1 | 0 |
| Illinois | 1 | | 1 | | 1 | | | | | | | | 3 | 1 | 1 | 4 | 2 | 2 | 15 | 17 | 13 |
| Indiana | | | | | | 1 | | | | | | | | 1 | | | 1 | 1 | 6 | 6 | 7 |

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Franchises Operating at Year End | | |
|----------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|----------------------------------|----|----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Iowa | | | | | | | | | | | | | | | | | | | 2 | 1 | 1 |
| Kansas | | | | | | | | | | | | | 1 | | | 1 | | | 1 | 1 | 1 |
| Kentucky | | | | | | | | | | | | | | 1 | | | 1 | | 1 | 1 | |
| Louisiana | 1 | | | | 1 | | | | | | | | 1 | | | 2 | 1 | | 2 | 3 | 4 |
| Maryland | | | | | | | 1 | | | | | | | | 1 | 1 | | 1 | 2 | 2 | 2 |
| Michigan | | | | | | 1 | | | | | | | | | | | 1 | 5 | 3 | 3 | |
| Minnesota | 2 | 1 | | | | | | | | | | | | | | 2 | 1 | | 10 | 8 | 8 |
| Missouri | | | | | | | | | | | | | 1 | 1 | | 1 | 1 | | 5 | 4 | 5 |
| Montana | | | | | | | | | | | | | | | | | | | 4 | 5 | 5 |
| Nebraska | | | | | | | | | | | | | | 3 | | 3 | | | | 3 | 2 |
| Nevada | 8 | 10 | 8 | 2 | 3 | 2 | | | | | | | | 1 | 1 | 10 | 14 | 11 | 47 | 44 | 46 |
| New Hampshire | | | | | | | | | | | | | | | 1 | | | 1 | | | |
| New Jersey | 1 | 1 | | | 1 | | | | | | | | 1 | | 1 | 2 | 2 | 1 | 10 | 9 | 9 |
| New Mexico | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| New York | | 1 | | | 1 | 2 | | 1 | | | | | | | 1 | | 3 | 3 | 9 | 7 | 7 |
| North Carolina | 2 | 1 | 1 | 1 | 1 | | 3 | | | | | | | 3 | | 6 | 5 | 1 | 23 | 25 | 26 |
| Ohio | 1 | 1 | 2 | | | | | | | | | | 1 | | | 2 | 1 | 2 | 13 | 15 | 13 |
| Oklahoma | | | | | | | | | | | | | | | 1 | | | 1 | 4 | 4 | 3 |
| Oregon | 1 | | 1 | 1 | | | | | | | | | | 1 | | 2 | 1 | 1 | 7 | 8 | 8 |
| Pennsylvania | | | | 1 | | 2 | | 2 | | | | | 1 | | 1 | 2 | 2 | 3 | 8 | 11 | 12 |
| South Carolina | | | 1 | 1 | | | | | | | | | | 1 | | 1 | 1 | 1 | 5 | 6 | 6 |
| South Dakota | | | | | | | | | | | | | | 1 | | | 1 | | 1 | | 1 |
| Tennessee | | 1 | | | | | | | | | | | | 1 | 1 | | 2 | 1 | 1 | 1 | 2 |
| Texas | 2 | 3 | 12 | 2 | 4 | | 1 | | | | | | 5 | | 2 | 10 | 7 | 14 | 60 | 61 | 51 |
| Utah | | | | | | | | 1 | | | | | 1 | | | 1 | | 1 | 8 | 8 | 8 |
| Virginia | | 1 | | | 1 | 1 | | | | | | | | | 1 | | 2 | 2 | 12 | 11 | 9 |
| West Virginia | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Washington | 1 | 1 | 4 | | 1 | 1 | | | | | | | 1 | | | 2 | 2 | 5 | 18 | 19 | 17 |

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Franchises Operating at Year End | | |
|-------------------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|----------------------------------|-----|-----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Wisconsin | | | 1 | 1 | | | | | | | | | | | | 1 | | 1 | 7 | 6 | 5 |
| Domestic Totals | 43 | 31 | 46 | 24 | 31 | 20 | 5 | 3 | 1 | 0 | 0 | 0 | 27 | 18 | 17 | 93 | 83 | 84 | 497 | 485 | 449 |
| Guam and Puerto Rico | 3 | | | | | | | | | | | | | 3 | 30 | 3 | 3 | 30 | 11 | 11 | 13 |
| International | | | | | | | | | | | | | | | | | | | 343 | 323 | 334 |
| Total Franchises | | | | | | | | | | | | | | | | | | | 851 | 819 | 796 |

NOTES:

- 1) The numbers in the "Total" column may exceed the number of Centers affected because several events may have affected the same Center. For example, the same Center may have had multiple owners, and a transferred franchise would also appear as a terminated franchise.
- 2) We did not have any franchisees during the past 3 years in any state not listed in the table.

**STATUS SUMMARY OF AREA FRANCHISEES
FOR FISCAL YEARS 2005/2004/2003**

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Area Franchises Operating at Year End | | |
|----------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|---------------------------------------|----|----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Alabama | | | | | | | | | | | | | | | | | | | 1 | 0 | 0 |
| Arkansas | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Arizona | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| California | | | | | | | | | | | | | | | | | | | 3 | 2 | 1 |
| Colorado | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Florida | | | | 1 | 2 | | | | | | | | | | | 1 | 2 | | 0 | 1 | 3 |
| Illinois | | | | | | | | | | | | | | | | | | | 1 | 0 | 0 |
| Minnesota | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Nebraska | | | | 1 | | | | | | | | | | | | 1 | | | 0 | 1 | 1 |
| New Jersey | | | | | | | | | | | | | | | | | | | 1 | 0 | 0 |
| North Carolina | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Oklahoma | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Area Franchises Operating at Year End | | |
|------------------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|---------------------------------------|----|----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Pennsylvania | | | | | | | | | | | | | | | | | | | 1 | 2 | 1 |
| Texas | | | | | | | | | | | | | | | | | | | 2 | 2 | 1 |
| Virginia | | | | | | | | | | | | | | | | | | | 1 | 0 | 0 |
| Wisconsin | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Domestic Totals | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 0 | 17 | 14 | 14 |
| Puerto Rico | | | | | | | | | | | | | | | | | | | 1 | 1 | 1 |
| Total Area Franchisees | 0 | 0 | 0 | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 2 | 0 | 18 | 15 | 15 |

**STATUS SUMMARY OF DEVELOPERS
FOR FISCAL YEARS 2005/2004/2003**

| State | Transfers | | | Canceled or Terminated | | | Not Renewed | | | Reacquired by Franchisor | | | Otherwise Left the System | | | Total from Left Columns | | | Developers Operating at Year End | | |
|---------------------|-----------|----|----|------------------------|----|----|-------------|----|----|--------------------------|----|----|---------------------------|----|----|-------------------------|----|----|----------------------------------|----|----|
| | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 | 05 | 04 | 03 |
| Colorado | | | | | | | | | | | | | | | | | | | 1 | 1 | 0 |
| Texas ^{2/} | | | | | | | | | | | | | | | 1 | | | 1 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 0 |

NOTES:

- 1) We did not have any Area Franchisees or Developers during the past 3 years in any state not listed in the tables.
- 2) If an Area Franchisee has a Territory that encompasses more than one state, the Area Franchisee is listed only in the state where it maintains its principal place of business.
- 3) The Developer completed its development obligations, but continues to operate, as a Store Owner, Centers opened under the Development Agreement.

* * *

We did not operate any company-owned Centers during the past 3 years.

* * *

PROJECTED FRANCHISED CENTER OPENINGS IN 2006

| STATE | PROJECTED FRANCHISED CENTERS TO BE OPENED | FRANCHISE AGREEMENT SIGNED BUT CENTER NOT YET OPENED |
|----------------|--|---|
| Alabama | 1 | 0 |
| Alaska | 1 | 0 |
| Arizona | 4 | 2 |
| Arkansas | 0 | 2 |
| California | 2 | 20 |
| Colorado | 4 | 0 |
| Florida | 4 | 0 |
| Georgia | 2 | 0 |
| Hawaii | 1 | 0 |
| Idaho | 1 | 1 |
| Illinois | 2 | 1 |
| Indiana | 1 | 0 |
| Kansas | 1 | 0 |
| Maryland | 1 | 0 |
| Massachusetts | 1 | 0 |
| Michigan | 1 | 2 |
| Minnesota | 4 | 2 |
| Missouri | 1 | 0 |
| Nevada | 2 | 7 |
| New Jersey | 1 | 1 |
| New York | 2 | 1 |
| North Carolina | 2 | 2 |
| Ohio | 1 | 0 |
| Oklahoma | 1 | 0 |
| Oregon | 2 | 0 |
| Pennsylvania | 1 | 0 |
| South Carolina | 1 | 1 |
| Texas | 2 | 6 |
| Utah | 1 | 0 |
| Virginia | 1 | 4 |
| Washington | 2 | 0 |

| STATE | PROJECTED FRANCHISED CENTERS TO BE OPENED | FRANCHISE AGREEMENT SIGNED BUT CENTER NOT YET OPENED |
|---------------|--|---|
| Wisconsin | 1 | 2 |
| International | 20 | 0 |
| Total | 72 | 53 |

We do not intend to open any franchised Center in any state not listed in this table.

We have no current plans to enter into any Area Franchise Agreements or Development Agreements, or open any company-owned Centers, in 2006, but we reserve the right to do so if an acceptable opportunity arises.

The names, addresses and telephone numbers of our current Store Owners and Area Franchisees are attached to this offering circular as Exhibit D. We no longer have any Developers.

The name and last known address and telephone number of every Store Owner, Area Franchisee, and Developer who had a Center terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under our Franchise Agreement, Area Franchise Agreement, or Development Agreement during the one-year period ending December 31, 2005, or who has not communicated with us within 10 weeks of the date of this offering circular is set forth in Exhibit D.

ITEM 21 **FINANCIAL STATEMENTS**

Our audited financial statement dated January 26, 2006 for the years ended December 31, 2005, December 31, 2004, and December 31, 2003 appears in Exhibit E to this offering circular.

ITEM 22 **CONTRACTS**

The following agreements are attached as exhibits to this offering circular, as indicated:

1. Franchise Agreement and Attachments (Exhibit A)
2. Area Franchise Agreement and Attachments (Exhibit B)
3. Development Agreement (Exhibit C)
4. Confidentiality and Non-Competition Covenants (Exhibit G)
5. Music Service Agreement (Exhibit H)

ITEM 23
RECEIPT

The last page of this offering circular is a detachable document, in duplicate. Please detach, sign, date and return 1 copy of the Receipt to us, acknowledging that you received this offering circular. Please keep the second copy for your records.