



Franchise Offering Circular

**POWELL'S SWEET SHOPPE USA, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
762 McClelland Drive
Windsor, California 95492
707-836-0808
www.powellssweetshoppe.com**

The franchise offered is for the operation of a retail candy store under the name "Powell's Sweet Shoppe." The initial franchise fee is \$30,000 for a single store. You must also pay us or our designated supplier between \$6,000 and \$8,000 to prepare space plans for your Powell's Sweet Shoppe™ store. The estimated initial investment required for a Powell's Sweet Shoppe™ store ranges from \$370,000 to \$440,000.

Risk Factors:

1. THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISAGREEMENTS BE SETTLED BY ARBITRATION IN CALIFORNIA. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE WITH THE FRANCHISOR IN CALIFORNIA THAN IN YOUR HOME STATE.
2. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit 4 or your public library for sources of information.

Registration of this franchise with the state does not mean that the state recommends it or has verified the information in this Offering Circular. If you learn that anything in this Offering Circular is untrue, contact the Federal Trade Commission and the state authority listed in Exhibit 4.

The Effective Date of this Offering Circular is printed on page (ii) of this Offering Circular.

FTC STATES
EFFECTIVE: September 11, 2006

ALABAMA	MONTANA
ALASKA	NEVADA
ARIZONA	NEW HAMPSHIRE
ARKANSAS	NEW JERSEY
COLORADO	NEW MEXICO
DELAWARE	OHIO
DISTRICT OF COLUMBIA	OKLAHOMA
IDAHO	OREGON
IOWA	PENNSYLVANIA
KANSAS	TENNESSEE
MASSACHUSETTS	VERMONT
MISSISSIPPI	WEST VIRGINIA
MISSOURI	WYOMING

FRANCHISE REGISTRATION STATES
EFFECTIVE DATES

CALIFORNIA _____, 2006

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Windsor, California 95492
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**INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY THE 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.

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

EFFECTIVE DATE: See Effective Date on Page (ii) Above.

**FEDERAL TRADE COMMISSION
WASHINGTON, DC 20580**

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EXHIBITS

<u>Exhibit 1</u>	Financial Statements
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Item 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

The Franchisor is POWELL'S SWEET SHOPPE USA, LLC. For ease of reference, the franchisor will be referred to as "we," "us," "our," or "Powell's Sweet Shoppe USA" in this Offering Circular. We will refer to the person or entity who buys the franchise as "you" and "your" throughout the Offering Circular. Franchisees may be individuals, partnerships, corporations or other entities. If you are a corporation or partnership, certain provisions of the franchise agreement apply to all of your owners/partners. Those provisions have been noted specifically when they are applicable.

The Franchisor

We are a California limited liability company, formed on December 28, 2004. We do business as "Powell's Sweet Shoppe USA." Our principal business address is 762 McClelland Drive, Windsor, CA 95492. We operate and sell franchises for the operation of a retail candy store known as "POWELL'S SWEET SHOPPE" (the "Store").

Our agents for service of process are disclosed in Exhibit 4.

Our Business Experience and Predecessor

The first Powell's Sweet Shoppe™ Store was established in September 2003 in Windsor, California. It continues to do business today. The operating corporation is Powell's Sweet Shoppe, Inc., a California corporation. Michael Powell, our chairman and CEO, is also the majority shareholder in Powell's Sweet Shoppe, Inc. To the extent that Powell's Sweet Shoppe, Inc. is the operating entity of the first Store, it may be considered our predecessor. Other than Powell's Sweet Shoppe, Inc., we have no other predecessors or affiliates.

Franchise Offered

The Powell's Sweet Shoppe™ franchise that we offer is a retail candy store and specialty gifts business that sells pre-packaged and bulk candy, counter (or "tray") confections (such as fudges and truffles), assorted gelatos, bottled non-alcoholic carbonated beverages, and candy-themed gifts and other specialty items (the "Store"). Potential customers include the general public as well as corporations.

We offer a Franchise Agreement for the development and operation of a single Store at a specified location. Currently, we do not offer area development franchises, but we may do so in the future.

A Powell's Sweet Shoppe™ franchise is characterized by a distinctive exterior and interior design, trade dress, décor and color scheme; uniform guidelines, specifications, and procedures for operations; procedures for quality control and risk management; training and ongoing operational assistance; the "Marks" (as defined below); and advertising and promotional programs (the "System"), all of which we may change and improve periodically.

The System is identified by means of certain trade names, service marks, trademarks, slogans, logos, emblems, and indicia of origin including "Powell's Sweet Shoppe" (collectively the "Marks").

Market and Competition

The customer base for the sale of candy and related products is very well-developed and includes a broad range of age groups and socio-economic backgrounds. You will be competing with other stores which offer similar products and services. In most areas, the market is competitive but highly fragmented – meaning that there may be a large number of candy retailers in your market but they vary widely in size and selection. Other candy retailers often specialize in or prominently feature a single type or brand of candy. Pre-packaged mass-marketed candy is commonly sold at convenience stores, gas stations, drugstores, big box retailers (like Target and Wal-Mart), grocery stores, and other chain and independent retailers. We are not aware of a large number of candy retailers, however, that feature a selection of 3,000 candies and gifts like a Powell's Sweet Shoppe™ Store.

Applicable Laws and Regulations

Regulations specific to the operation of a Powell's Sweet Shoppe™ Store are as follows:

- You must obtain the proper food and beverage licenses (as necessary) from the proper licensing agencies. Among other licenses and permits, the California Weights and Measures Department verifies the accuracy of our weight scales.
- You also must comply with all local, state, and federal laws in the operation of your Store that generally apply to retail businesses. There may be other laws and codes applicable to your Store and we urge you to make further inquiries about those laws and codes.
- Since each Store will display copyrighted movies and provide themed background music, you also must obtain appropriate umbrella motion picture and music licenses.

We have offered Powell's Sweet Shoppe™ franchises since April 2005. We have not offered franchises in other lines of business.

We do not engage in any business other than the offer of Powell's Sweet Shoppe franchises and the ongoing support and improvement of the System.

Item 2

BUSINESS EXPERIENCE

Chairman and Chief Executive Officer: Michael Powell

Michael Powell came up with the idea for a Powell's Sweet Shoppe™ Store in 2002 while considering a career change from wholesale manufacturer to retail proprietor. He opened the first Powell's Sweet Shoppe™ Store the following year. Michael has always looked at the world in classic entrepreneurial terms. In 1992, Michael started Fridge Fun, Inc., a multi-million dollar manufacturing company. Fridge Fun started as a wholesale novelty magnet company and experienced rapid growth with the introduction of its wildly popular line of poetic refrigerator word magnets. Fridge Fun maintained cutting-edge success through the continuous release of innovative and trendy gift products as well as the acquisition of other, smaller wholesale manufacturers. In 2000, Fridge Fun began to diversify its product offerings and changed its name to MainStreet Sonoma. In 2002, to simplify his life and spend more time with his son, Michael delegated day-to-day management at MainStreet Sonoma to his CEO and decided to turn his attention to a community-based retail concept. To devote 100% of his attention to franchising the Powell's Sweet Shoppe™ concept, Michael closed the doors on Mainstreet Sonoma in March, 2006.

Powell's Sweet Shoppe™ franchise is the result of that attention and its success has moved Michael in the direction of franchising. Michael holds a Bachelor of Arts degree from The University of California, Berkeley.

Director of Operations: Print Cates

Print Cates has been in the retail industry for 26 years. Since inception, Print has been working as General Manager of the original flagship Powell's Sweet Shoppe™ Store. Now, he will spearhead the training of franchisees and will oversee the store openings and field support as well as the implementation of cutting edge merchandising and product mix for the Powell's enterprise. Prior to joining Powell's, Print held retail management and regional training coordinator positions with Homebase and Home Depot. During his tenure with these companies, he opened numerous stores throughout the Northwestern United States. Print is experienced in inventory management, merchandising, purchasing, P & L analysis, and human resource management with an extra emphasis on training.

Director of Franchise Development: Gary A. Finnan

Born in Scotland, Mr. Finnan was raised in Rhodesia and South Africa. He has over 20 years of experience in Interior Architectural Design, Project Management, and Business Development. He has specialized in the design and development of strategic architectural and facilities solutions for varied clientele in diverse industries and locations worldwide. From 1989-1999, he was Principal and CEO of Bel Geddes Design in Johannesburg, South Africa, where he was primarily responsible for the development and execution of multiple projects, including an international roll out of a customer service retail concept in several central African countries for one of Africa's largest television studios. After relocating with his wife and two daughters from South Africa to Healdsburg, California in 1999, Gary was Director of Business Development for San Francisco-based Paragon General Contractors until 2001. He established Santa Rosa-based Kyoob Design Group in January 2001 with Marian Morioka. As a principal in and CEO of Kyoob, Gary has succeeded in developing well-recognized high-end commercial designs, nationally and throughout the greater Bay Area. Michael Powell hired Kyoob to design the flagship Powell's Sweet Shoppe™ Store in Windsor. Gary's education includes a B.A. Interior Design, a National Construction Management Diploma from BIFSA, a Project Management Diploma from the Damlin Management School, a Graduate School of Business Management Diploma from WITS, and completion of the Sonoma State University Advanced Marketing Program. Also, Gary and his wife Eva became the first Powell's franchisees when they opened their store in Healdsburg in February, 2006.

Item 3

LITIGATION

As of the date of this offering circular, there is no litigation, existing or pending, against us, our predecessors or our affiliates.

Item 4

BANKRUPTCY

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

Item 5

INITIAL FRANCHISE FEE

You must pay an initial franchise fee of \$30,000 for a franchise when you sign the Franchise Agreement (the "Initial Franchise Fee"). The Initial Franchise Fee is uniform for all franchisees. Except as provided below, the Initial Franchise Fee is fully earned and non-refundable upon payment.

If we and you cannot agree on a site for the Store within 90 days after signing the Franchise Agreement, we may terminate the Franchise Agreement and will refund 50% of the Initial Franchise Fee.

You must also pay to us or our designated supplier to prepare a recommended space plan based on your Store site. The current fee for the space plan is between \$6,000 and \$8,000.

Item 6

OTHER FEES

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Royalty	6% of Gross Revenues See Note 2	Payable weekly by electronic funds transfer on Friday of each week for the previous week	You must pay a royalty based on your Gross Revenues for the previous week (Friday through Thursday).
Income and Sales Taxes	We may collect from you the cost of all taxes arising from our licensing of intellectual property to you in the state where your Store is located, as well as any assessment on fees and any other income we receive from you.	Payable weekly by electronic funds transfer at same time as Royalty Fee	Only imposed if state collects these taxes or assessments.
National Marketing Fund	Up to 2% of Gross Revenues	Payable weekly by electronic funds transfer on Friday of each week for the previous week	You must pay the required contribution based on your Gross Revenues for the previous week (Friday through Thursday).
Local Advertising and Promotions	Minimum of 1% of Gross Revenues	Minimum amount must be spent in the aggregate quarterly (in addition to grand opening event)	You must spend at least 1% of Gross Revenues on local advertising and promotion. The form and substance of the promotion must comply with our standards (see Item 11).
Advertising Cooperative Contributions	Amount determined by local cooperative but cannot exceed 1% of Gross Revenues	Established by us or franchisees	Contributions to Advertising Cooperative are used for regional and local advertising and are credited to your obligation to spend a minimum of 1% of Gross Revenues on local advertising.

Grand Opening Event	\$7,500 or more	Payable to third parties, us or our designees	See Item 11
Renewal Fee	\$2,500	On renewal of the franchise agreement	You may renew for 2 consecutive 5-year terms, subject to certain conditions (see Item 17 below).
Technology Fee	\$2,000 per year	Payable 60 days prior to the anniversary date of the Franchise Agreement	See Item 11
Relocation Fee	One-third of then-current Initial Franchise Fee	Payable before we review the proposed new Store site	Payable if you desire to change the location of the Store
Transfer Fee See Note 3	30% of the then-current Initial Franchise Fee	Payable to us upon your transfer of a controlling interest in the franchised business (i.e. your Store)	
Interest See Note 4	1.5% per month	As incurred	Payable when any payment is overdue
Audit	Cost of audit plus amounts due including 1.5% interest per month from due date	On demand	Payable only if audit shows an understatement equal to or greater than 2% of your Gross Revenues, if the audit was necessary because you failed to timely provide us with required information, or if you failed to spend the minimum amount required for local store marketing.
Special On-Site Training, Additional Training or Operational Assistance	Then-current fee (currently \$750 per day) plus expenses	When you request special assistance or we determine special assistance is necessary	You must pay all travel and per diem expenses in addition to the fee.
Refurbishing Costs See Note 5	Varies according to Store	As incurred	See Note 5
Insurance Costs	Actual cost plus our then-current administrative fee	As incurred	Payable only if you fail to obtain the required insurance and we obtain it for you (see Items 7 and 8 below).
Store Management Services	Compensation, travel, and living expenses of manager, currently estimated to be \$5,000-\$7,000 per month	As incurred	Payable only if we appoint a manager to operate your Store following the death or disability of the principal owner(s) or if your Store is not operated by a Certified Manager (see Item 15).
Additional Initial Training Program Participant Fee	\$2,500 per person, after the first three trainees enrolled in the program	Lump Sum	Paid only if you wish to include more than three people in the initial training program, or if one of your initial 3 participants fails and you elect to subsequently re-enroll them or replace them. In addition to the training fee, you are responsible for all travel, lodging, and meal expenses associated with the training.
Legal Costs and Attorney's Fees	Varies	As incurred	We may recover costs and reasonable attorneys' fees if you lose in a dispute with us.

Indemnification	Varies	As incurred	You must indemnify us and hold us harmless from any claims, damages, costs and expenses that we may incur as a result of your acts or failure to act.
Advisory Council Fee	No more than \$200 per year	Lump Sum	If we establish an advisory council, you may be required to pay us up to \$200 per year to participate. See Item 11.

Notes:

- (1) Fees are non-refundable, uniformly imposed on all franchisees and payable to us unless otherwise noted. Fees are not imposed or collected on behalf of any third party unless otherwise noted.
- (2) "Gross Revenues" generally include all revenue from the sale of all products and performance of all services from the Store, whether for cash or credit, and income of every kind and nature related to the Store. Gross Revenues, however, does not include revenues from sales taxes or other taxes you collect from customers or the amount of cash refunds to and coupons used by customers.
- (3) Except in the case of a transfer to a legal entity wholly-owned by you, and in addition to the conditions imposed on transfer as described in Item 17, you must pay a transfer fee to us equal to 30% of the then-current Initial Franchise Fee. In the case of a transfer to an existing Powell's Sweet Shoppe™ franchisee or one of your Certified Managers (as described in Item 15), we will charge you a transfer fee of twenty percent (20%) of the then-current Initial Franchise Fee.
- (4) If any payment due to us is overdue, you must pay interest on the overdue amount from the date it was due until it is paid at the lesser of 1.5% per month or the maximum rate permitted by law. We are entitled to interest in addition to any other remedies at law that we may have.
- (5) We may require that you refurbish the Store, at your expense, to conform to building design, trade dress, color schemes, and presentation of the Marks consistent with our then-current standards and public image. Required refurbishment can include structural changes, remodeling, redecoration, modifications to existing improvements, and/or upgrades to or replacement of equipment. The costs of refurbishing your Store must be paid directly to contractors or service providers and will not be uniform for all franchisees.

ITEM 7

INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

EXPENDITURES (See Note 1)	ESTIMATED AMOUNT OR ESTIMATED LOW-HIGH RANGE (See Note 2)	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS MADE
Initial Franchise Fee See Note 3	\$30,000 See Note 3	Lump Sum	When you sign the Franchise Agreement	Us

EXPENDITURES (See Note 1)	ESTIMATED AMOUNT OR ESTIMATED LOW-HIGH RANGE (See Note 2)	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS MADE
Real Estate See Note 4	See Note 4	See Note 4	See Note 4	See Note 4
Leasehold Improvements See Note 5	\$148,000 to \$185,000	As Agreed Upon	As Incurred	Landlord, Various Third Parties
Signs	\$12,000 to \$14,000	As Agreed Upon	Before Opening	Various Suppliers
Inventory See Note 6	\$60,000 to \$70,000	As Agreed Upon	As Ordered	Us and Various Suppliers
Miscellaneous Supplies See Note 7	\$8,500 to \$10,500	As Incurred	Before Opening	Various Suppliers
Prepaid Expenses and Deposits See Note 8	\$6,000 to \$9,250	As Incurred	Before Opening	Various Third Parties
Computer, Technology and Communications System See Note 9	\$34,500 to \$40,500	Lump Sum	Before Opening	Us and Various Suppliers
Miscellaneous Pre-opening Expenses See Note 10	\$2,500 to \$5,000	As Incurred	Before Opening	Various Third Parties
Grand Opening Advertising and Promotion See Note 11	\$7,500	As Incurred	As Ordered	Third Party Advertising Service Venders
Architectural Fees	\$35,000 to \$40,250	As Incurred	Before Opening	Third Party
Store/Site Development Fees (including space plan) See Note 12	\$6,000 to \$8,000	As Incurred	Before Opening	Us and a Designated Third Party
Additional Funds (working capital) - 3 months See Note 13	\$20,000	As Incurred	As Incurred	Employees Suppliers
TOTAL See Note 13	\$370,000 to \$440,000			

Notes:

- (1) The typical size of a Powell's Sweet Shoppe™ Store ranges from 1,500 to 2,500 square feet. For several items discussed below, your cost will increase as the number of square feet increases. The size of the premises of your Store is principally determined by requirements or restrictions that your landlord and appropriate municipality or zoning boards may impose, and availability and cost of leasable space. This table reflects your estimated initial investment for a single Store

operated under a Franchise Agreement. This information assumes that you will lease the premises for your Store.

- (2) Except where otherwise noted, all fees that you pay to us are non-refundable. Third party lessors, contractors and suppliers will decide if payments to them are refundable.
- (3) The Initial Franchise Fee paid is paid to us and is more fully described in Item 5.
- (4) Although most franchisees lease the premises for their Store, a small number of franchisees will purchase the land and construct the building for their Store. The cost of purchasing unimproved land will vary depending on location, availability of utilities and other factors and cannot be estimated by us. The construction costs for the building also will vary significantly depending on many of the same factors mentioned above as well as the size of the building and the availability of financing. Due to these many factors and a lack of historical information on which to base an estimate, we cannot estimate the cost of the building.
- (5) Typical locations for your Store are smaller free-standing, multiple use locations. Assuming that you will lease the premises for your Store, you will need to make certain leasehold improvements to the leased premises to comply with our approved plans and specifications. Leasehold improvements includes lighting, flooring, partition walls, furniture and fixtures, including custom millwork, cabinets and counters. We anticipate that you will negotiate the cost of leasehold improvements as part of your rental expense. The exact cost or impact on your rental expense will depend on several factors, including the 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, the size and location of the premises for your Store and other economic factors. Although we do not recommend that you purchase the land and building for your Store, you will incur significantly greater costs in developing your Store if you choose to do so. All construction materials and fixtures must comply with our specifications. Although we estimate that you will need to lease premises of approximately 1,500 to 2,500 square feet for a Store, you may need a larger premises in some situations. The exact amount of rental expense will vary greatly, depending on the location of the Store premises, the portion of rent representing the value of leasehold improvements at the Store premises, local market conditions and other factors. You will incur greater start-up costs if you cannot negotiate the cost of leasehold improvements as part of your rental expense.
- (6) The cost of the inventory depends on the size of the premises and the season in which the Store opens. You will need to purchase opening inventory that comply with our specifications and are purchased from approved suppliers. We or our affiliate may be an approved supplier (see Item 8). This amount does not reflect amounts needed to replenish inventory during the initial stage of operation.
- (7) You will need to purchase supplies and materials that comply with our specifications and are purchased from approved suppliers. We or our affiliate may be an approved supplier (see Item 8).
- (8) Prepaid insurance, the lease deposit and utility deposits may vary considerably, depending on the size and location of your Store. Deposits are generally refundable, but prepaid insurance payments are not.
- (9) You must purchase the approved Computer, Technology and Communications Systems which we have selected for use in the Store. These include the hardware and software for the Computer

System and the back-office inventory management system, audio/visual equipment, plasma television, sound system, security and alarm system, local and long-distance service, and high speed internet access (see Item 11).

- (10) Miscellaneous expenses include local permit and license fees, legal and accounting fees and lodging, meals and travel expenses for one person attending the initial training program. In addition, at least one Certified Manager (as described in Item 15) of your Store must (under applicable law) complete a food service certification program before opening your Store. The cost for food service certification varies from state to state.
- (11) Within 60 days after opening your Store, we require that you host a one-day "Grand Opening Event". The purpose of the event is to promote your Store within the community. The event will feature entertainment, special promotions, giveaways, and other activities for customers. The cost of the event is estimated to be \$7,500, including giveaways, entertainment costs, and expenses necessary to advertise the event locally. We will send a field service representative to assist you with the Grand Opening Event. The representative will be onsite for up to three days, including the date of the event.
- (12) You must pay us or a designated third party for space plans based on your Store site (see Item 6).
- (13) This amount estimates the expenses you will incur during the first three months of Store operations, including initial wages and fringe benefits, insurance premiums, rent, taxes, Store supplies and interest payments on any business loans. It does not include inventory costs beyond the opening inventory costs identified in the table and does not include your compensation during this three month period. These amounts are estimates, and we cannot guarantee that you will not incur additional expenses in starting your Store. Your costs will depend on factors such as how much you follow our systems and procedures, your management skills and experience, local economic conditions, the local market for Powell's Sweet Shoppe™ products and services, the prevailing wage rate, competition, the amount of the initial investment you decide to finance, and the sales level reached during the initial period.
- (14) This total is an estimate of your pre-opening initial investment and the expenses you will incur during the first three months of Store operations. This total is based on our estimate of nationwide average costs and prevailing market conditions and our (including our predecessor's) 3 years of experience in the business. You should review this amount carefully with a business advisor before deciding to purchase the franchise. These figures are estimates only and we cannot guarantee that you will not have additional expenses in starting or operating your Store.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

General Operations

You must operate your Store consistent with the Powell's Sweet Shoppe™ Operating Manual ("Manual"). To protect our reputation and goodwill and to maintain high standards of operation and service under our Marks, you must, at your own expense, comply with all applicable federal laws, ordinances, and regulations, as well as those of the municipality, county, and state in which your Store is located.

You also must purchase or lease and install, at your expense, all fixtures, furnishings, signs, and equipment we require in the Manual or otherwise in writing. You must refrain from installing or permitting to be installed on or about the Store premises, without our prior written consent, any fixtures, furnishings, signs, equipment, or other improvements not previously approved as meeting our standards and specifications.

You must maintain your Store in excellent repair and condition consistent with all maintenance and operations standards described in the Manual, and must make the additions, alterations, repairs and replacements required for that purpose, including periodic repainting, repairing, or replacing of obsolete signs, fixtures, and furnishings (see Item 6). You must require your employees to wear clean uniforms as we specify at all times while working at the Store.

Products and Services

You must purchase or lease the following goods or services from us or from sources we designate:

- inventory
- exterior and interior signage
- point-of-sale equipment and software
- inventory management software
- computer equipment
- security cameras
- Plexiglas® and laminate Store fixtures
- furniture
- custom millwork and cabinetry
- display cases
- refrigerated gelato display cases
- specified light fixtures
- real estate lease review services, and
- detailed space plan layout drawings based on your actual approved Store site.

We may require that you purchase or lease some or all of these products and services from one or more specified approved suppliers, which may include us or our affiliates.

You must maintain in sufficient supply, and use at all times, only products, materials, supplies, and methods of service that meet our specifications, and you cannot use nonconforming items or methods without our prior written consent. You must sell, distribute, or deliver only those products meeting our standards of quality and quantity, and that we have expressly approved in writing. You must discontinue selling and offering for sale any items, products, or services that we, in our discretion, may disapprove, whether or not the items, products, or services were previously approved.

At any reasonable time, you must permit us and our agents to remove from your Store samples of items in amounts necessary for testing by us or an independent laboratory to determine whether the items meet our then-current standards and specifications. In addition to any other remedies that we have under the Franchise Agreement, we may require you to bear the cost of this testing if we have not previously approved the supplier(s) of the item(s) or if the item(s) tested fails to meet our specifications.

Suppliers

We may require that you purchase certain equipment, fixtures, furnishings, signs, supplies, and other products and materials required to operate the Store solely from suppliers (including manufacturers, distributors and other sources) who demonstrate, to our satisfaction, the ability to meet our then-current specifications for those items; who possess adequate quality controls and capacity to supply your needs promptly and reliably, and who we have first approved in writing and not subsequently disapproved.

A list of approved suppliers from whom products, equipment, furniture, fixtures, supplies, and services may be purchased is provided in our Manual or in other written communication from us. We may change the list of approved suppliers from time to time and without notice. Currently you are not required to buy any product directly from us although you may be required to buy product from us or our affiliates in the future. All of our products are purchased directly through third-party manufacturers or distributors.

We may attempt to negotiate purchasing discounts with approved suppliers on behalf of our franchisees. If we are able to negotiate a discount, we currently pass the entire value of the discount onto our franchisees and do not retain any portion of it. We currently do not benefit financially, directly or indirectly, from your purchase of products from approved suppliers. We are not aware of any purchasing or distribution cooperative in the System.

We estimate that the purchase or lease of equipment (including the Computer System hardware and software), signs, fixtures, furnishings, supplies, candy and candy-related products, and advertising and sales promotions materials which meet our specifications will represent approximately 60% to 85% of the cost to develop the Store and 50% to 85% of the cost to operate your Store.

If you want to purchase any construction and decorating materials, fixtures, equipment, furniture, lighting fixtures, signs or supplies, products, or other goods or services that are not approved by us or from an unapproved supplier, you must first submit a written request to us for approval and the supplier must sign our standard vendor agreement. We may require submission of sufficient specifications, photographs, drawings, and/or other information or samples to determine whether the proposed items and/or suppliers meet our specifications. We may require that our representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, at our option, either to us or to an independent, certified laboratory we designate for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test must be paid by either you or the supplier. We also may require that the supplier comply with any other reasonable requirements that we consider appropriate, including payment of reasonable continuing inspection fees and administrative costs. We may, at our option, re-inspect the facilities and products of any approved supplier and to revoke our approval on the supplier's failure to continue to meet any of our then-current criteria.

We approve products for sale based on timeliness of production and delivery, quality, price, and available of discounts for volume purchases. The time required for us to evaluate and approve or reject new products and/or suppliers is typically 4 to 6 weeks.

Real Estate Lease

If you will occupy premises of a Store under a lease, you must submit the proposed lease to us for approval before it is signed. We have the option to require that the lease contain the following terms and conditions:

- (1) the premises will be used only for the Store and you may only offer for sale at the premises only the candies and other products we approve;
- (2) you construct the premises and display the Marks under our specifications;
- (3) we will be granted the right (but not the duty) to take possession of the Store premises and assume the lease if the Franchise Agreement is terminated or if the lease may be terminated;
- (4) the landlord will provide us written notice of your default and give us the right, but not the obligation to cure the default within thirty (30) days; and
- (5) upon vacating the Store premises or termination of the Franchise Agreement or the lease for the Store premises, you must remove all signs and materials bearing the name "Powell's Sweet Shoppe" and other Marks.

Before you sign the lease, we recommend that you use an attorney or consultant to review your lease. We estimate that the fee for this review will be \$2,500.

Marketing/Advertising/Promotion

All marketing and promotion by you in any manner or medium must be conducted in a professional and dignified manner and must comply with our specified standards. You must submit to us for our prior approval (except with respect to prices to be charged) samples of all advertising or promotional plans and materials that you desire to use and that have not been prepared or previously approved by us. If you do not receive written disapproval from us within 5 days, your request is deemed approved. You may not use any marketing or promotional materials that we have expressly disapproved.

You must display the Marks in the manner we require on all signs and other advertising and promotional materials used regarding the Store.

Point-of-Sale, Inventory Management, and Accounting Systems

You must, at your expense, install and use specific point-of-sale, inventory management, and accounting equipment and software as we designate to operate the Store. See Items 7 and 11 for more information.

Insurance

You must procure and maintain insurance as required by the Franchise Agreement and Manual. All policies must be written by an insurance company rated A or better by Best Insurance Ratings Service and meet our specifications described in the Manual or otherwise in writing. Currently, the initial minimum insurance requirements (except as additional coverages and higher policy limits may reasonably be specified by us) are the following:

- a. Commercial General Liability Insurance, to include bodily injury and property damage:
 - i. For each occurrence - At least \$ 1,000,000
 - ii. General aggregate -- At least \$2,000,000
- b. Property insurance to cover furniture, fixtures and equipment in the Store on an all-risk, replacement cost (at the time of loss) basis.
- c. Employer's Liability and Worker's Compensation Insurance, as follows:
 - i. Bodily injury by accident - \$500,000 each accident
 - ii. Bodily injury by disease - \$500,000 policy limit
 - iii. Bodily injury by disease - \$500,000 each employee
- d. Business Interruption Insurance
- e. During any construction, renovation, refurbishment, or remodeling of the Store, you must maintain, or cause the general contractor to maintain:
 - i. commercial general liability insurance (including builder's risk, private liability, and independent contractors coverage) in at least the amount of \$1,000,000
 - ii. all-risk completed value builder's risk insurance in at least the amount of the total cost of constructing, renovating, refurbishing, and/or remodeling the Store
 - iii. Workers compensation and employer's liability insurance as may be required by law.

We must be named as an additional insured on all policies of insurance. You must deliver to us certificates of insurance evidencing the proper coverage with limits at least those required in the Manual. All certificates must provide that no less than 30 days' prior written notice will be given to us if there is material alteration to, or cancellation of, the coverage evidenced by the certificates. We may, at our option, procure the required insurance if you fail to do so, and you must pay the cost of the insurance and a reasonable administrative fee to cover our expenses in so acting.

Item 9

FRANCHISEE'S OBLIGATIONS

The following table lists your principal obligations under the franchise agreement. It will help you find more detailed information about your obligations in the franchise agreement in other items of this offering circular.

Obligation	Section(s) in Franchise Agreement	Item(s) in Offering Circular
(a) Site selection and acquisition/lease	2(A) and 4(A)	7 and 11
(b) Pre-opening purchases/leases	4	8
(c) Site development and other pre-opening requirements	4	6, 7 and 11
(d) Initial and ongoing training	5	11
(e) Opening	4(E) and (F)	11

(f) Fees	3(B), 4(F), 4(G), 9, 11 and 15(C)	5, 6, and 7
(g) Compliance with standards & policies; operating manual	5(G) and 10	11
(h) Trademarks and proprietary information	1(A) (B), 6 and 7	13 and 14
(i) Restrictions on products/services offered	10(C) and (E)	11 and 16
(j) Warranty and Customer Service Requirements	10(F), (G), (H) and (M)	
(k) Territorial development and sales quotas	2(A) and (B)	12
(l) On-going product/service purchases	4 and 10	8
(m) Maintenance, appearance, and remodeling requirements	3(B), 4(C) and 10	11
(n) Insurance	10(J)	7 and 8
(o) Advertising	4(F) and 11	6, 7, and 11
(p) Indemnification	8(B)	6
(q) Owner's participation/management/staffing	10(D) and (I)	11 and 15
(r) Records and reports	12	11
(s) Inspections and audits	13	6
(t) Transfer	15	17
(u) Renewal	3(B)	17
(v) Post-termination obligations	14 and 18	17
(w) Non-competition covenants	14	17
(x) Dispute resolution	19, 20(D) and (E)	17
(y) Personal Guaranty	15(B) and Exhibit B of Franchise Agreement	15

Item 10

FINANCING

We do not currently offer, directly or indirectly, any financing arrangements to you. Also, we will not guarantee your loans, lease, or any other obligation.

Item 11

FRANCHISOR'S OBLIGATIONS

The Franchise Agreement requires us to provide the following assistance to you. Except as listed below, we are not required to provide any assistance to you.

Before you open your Store, we will:

- (1) Review and consent to the site of the Store if we feel, in our sole and absolute discretion, that the proposed site meets or exceeds our standards (see Franchise Agreement, Sections 2(A) and 5(A)).
- (2) Review and approve the negotiated lease for the Store premises (see Franchise Agreement, Section 4(A)).
- (3) Furnish a recommended space plan layout, with a corresponding list of fixtures, and finishes for the Store at the actual accepted location (see Franchise Agreement, Sections 4(B) and 4(C)). There is an additional fee for this service (see Item 7).
- (4) Provide you with specifications for all equipment, interior design and trade dress, interior signage, furnishings, and fixtures (see Franchise Agreement, Section 4(C)).
- (5) Offer an initial training program designed to assist you and your managers with the operation of the Store (see Franchise Agreement, Section 5(C)).
- (6) Loan to you during the term of the Franchise Agreement one copy of the Manual for the operation of the Store. The Manual contains mandatory and optional specifications, and operating standards and procedures required by us, as well as information relative to your other obligations under the Franchise Agreement. We have the right to add to, and otherwise modify, the Manual to reflect changes in authorized products and services, as well as changes in specifications, standards, and operating procedures of a Store. You must keep the Manual confidential and current, and may not copy any part of the Manual. The Manual Table of Contents is attached to this Offering Circular as Exhibit 6 (see Franchise Agreement, Section 5(G)).
- (7) Provide you with operating specifications and standards, and provide general guidance about the operation of a Powell's Sweet Shoppe™ Store, as we deem appropriate (see Franchise Agreement, Section 5(F)).
- (8) Review and comment upon any business plan that you prepare (see Franchise Agreement, Section 5(B)).
- (9) Deliver to you the required opening inventory list(s) and list of approved suppliers (see Franchise Agreement, Section 10(E)).
- (10) Provide Store opening assistance to you (see Franchise Agreement, Section 5(E)).
- (11) Provide Grand Opening Event preparation and on-site assistance to you (see Franchise Agreement, Section 4(F)).

During the term of your Franchise Agreement, we may:

- (1) Provide to you and your personnel continuing education activities in venues and at times we designate (see Franchise Agreement, Section 5(C)).
- (2) Conduct a periodic franchisee convention in a location place we designate.

- (3) Periodically visit your Store, generally once a year, to advise you about Powell's Sweet Shoppe™ products, operations, sales, and other matters (see Franchise Agreement, Section 5(F)).
- (4) Approve or disapprove samples of all local advertising and promotional materials not prepared or previously approved by us which you submit (see Franchise Agreement, Section 11(E)).
- (5) Provide additional training as you request or as we require (see Franchise Agreement, Section 5(B)).

National Marketing Fund

We reserve the right to establish, maintain, and administer a National Marketing Fund ("the Fund") to pay for advertising, promotional, and/or public relations programs designed to promote the Store. We will direct all programs of the Fund, and will determine the creative concepts, materials, and endorsements and media used in such programs, and the placement or allocation of such programs. We reserve the right to determine the composition of all geographic territories and market areas for the implementation and development of such programs (see Franchise Agreement, Section 11(A)).

If we elect to institute the Fund, all franchises and company-owned Stores must contribute up to 2% of Gross Revenues. All contributions will be payable on the Friday following the week in which the sales are made (Friday through Thursday), for as long as the Fund remains in operation. Stores owned by us also will participate in the Fund in the same manner as a majority of our franchisees.

The fund contributions are uniform for all franchisees and are not refundable. The contributions we collect are not collected on behalf of any third parties, except to the extent such fees may be paid to third party advertising agencies, media sources and other sources of advertising selected consistent with the Franchise Agreement.

The Fund will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as we may incur in activities related to the administration of the Fund and its programs, including conducting market research, website design and maintenance, preparing advertising, promotion and marketing materials and collecting and accounting for contributions to the Fund. The media in which advertisements may be disseminated include print ads, radio, television, and the Internet and may be conducted on a regional or national basis.

We may use an advertising agency to create and place advertising. We may spend, on behalf of the Fund, in any fiscal year an amount greater or less than the aggregate contribution of all Stores in that year, and the Fund may borrow from us or others to cover deficits or invest any surplus for future use. All interest earned on monies contributed to the Fund will be used to pay advertising costs before other assets of the Fund are expended.

The Fund has not been established as of the date of this offering. Once the Fund is established, we will prepare an annual unaudited statement of monies collected and costs incurred by the Fund in the most recent calendar year, and furnish it to you following a written request. The prior year's statement will be available by January 31 of the following year.

We do not have any obligation to ensure that expenditures from the Fund in or affecting any geographic area are proportionate or equivalent to contributions to the Fund by Stores operating in that geographic

area, or that you or your Store will benefit directly or in proportion to your contribution to the Fund. Neither we nor the Fund will be liable to you for the maintenance, direction, or administration of the Fund, including contributions, expenditures, investments, or borrowings, with the exception of acts in violation of the Franchise Agreement.

During our 2005 fiscal year, we did not spend any Fund proceeds as we have not yet established the Fund.

Local Advertising Requirement

At least as often as each calendar quarter of operation, you must spend at least 1% of your Gross Revenues on local advertising and promotion. This is in addition to any contributions that may be required to the Fund. You also must maintain a listing in both the white and yellow pages of the principal telephone directories in your primary trading area. You may develop advertising materials for your own use, at your own cost, if your materials are factually correct, accurately depict the Marks, and communicate the brand position and character that we have established for Powell's Sweet Shoppe™ Stores. If you develop advertisement materials, you must provide a copy of the materials to us for our review and approval (in writing) before you use the advertising materials. You may use proposed advertising materials that otherwise comply with the Franchise Agreement if we do not respond within 5 days after we receive your proposed materials. If we later determine that your marketing materials do not satisfy our then-current advertising and promotional standards, you must immediately cease using those materials upon written notice from us.

Advertising Cooperative

You also must participate in and contribute to any local or regional advertising cooperative (the "Cooperative") established in the area where your Store is located. We or a majority of franchisees (with our approval) may form a local or regional advertising Cooperative in your area. If a Cooperative is established, you must contribute an amount determined by the Cooperative, up to 1% of your Store Gross Revenues each calendar year. The Cooperative will use contributions to fund local and regional advertising and promotional campaigns and activities that we recommend or approve for use by the Cooperative. Contributions to the Cooperative are credited to your local advertising obligation described above. Each Cooperative must adopt written governing documents in the form we direct. A copy of the governing documents of the Cooperative (if one has been established) for your market area is available upon request. Each Cooperative will determine its own voting procedures so long as those procedures are consistent with the general operating rules we have established. Members of the Cooperative and their elected officials are responsible for administering the local Cooperative. We recommend, but do not require, that each Cooperative prepare annual financial statements and make those financial statements available to all franchisees in the Cooperative. We have the power to establish advertising cooperatives and the rules under which regional and local advertising cooperatives will operate.

Grand Opening Event

You must conduct a Grand Opening Event within 60 days after your Store opens. You must spend a minimum of \$7,500 on activities and materials acceptable to us. We will send a representative to your Store for no more than 3 days to assist in the Grand Opening Event. You must provide us with an accounting of the Grand Opening Event.

Before Opening

We estimate that there will be an interval of 120 to 180 days between the signing of the Franchise Agreement and the opening of your Store. The factors that may affect this length of time include locating

and securing a satisfactory site, constructing and/or remodeling/decorating the Store, and obtaining acceptable financing arrangements.

Training

Before opening your Store, you (and if you are an entity, a Principal Owner, as defined in Section 15) and up to two other individuals (the “Trainees”) must attend a management training program at our company headquarters in Windsor, California (the “initial training program”). The initial training program is free of charge to the Trainees, except that you are responsible for costs associated with attending the program such as travel, lodging, meals and entertainment. If you wish to include more than three persons in the initial training, we will charge an additional training fee of \$2,500 per additional person.

If we determine as a result of training and/or operations review that one of the Trainees is not qualified to manage the Store, we will notify you, and you must select and enroll a substitute Trainee in a future training program. If, during the initial training program, we determine, in our sole discretion, that you (or if you are an entity, a Principal Owner) are not qualified to manage the Store, we have the right to terminate the Franchise Agreement.

The following is a general outline of the initial training program we provide.

SUBJECT(1)	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	INSTRUCTOR(2)
History of Candy; Store Zones (Scavenger Hunt)	4	0	Training Instructor
Store Opening Procedures (Merchandising)	0	1.5	Training Instructor
Seasonal Rotations (Timing, Displays, Ordering)	0	2	Training Instructor
Store Floor Training (POS Orientation, Counter Service)	0	3	Training Instructor
Retail Anywhere Training (POS, Inventory Management, Back Office)	10	0	Training Instructor
Store Closing Procedures	0	2	Training Instructor
In-Store Training (Various)	0	4.5	Training Instructor
Retail Anywhere Powell’s USA User Group Training	4	0	Training Instructor
Accounting and Financial Management; HR Practices	3	0	Training Instructor
In-Store Training (Various)	0	5	Training Instructor
Planning for the Opening of your Store; Creating an Effective Marketing Plan for your Area	3	0	Training Instructor
In-Store Training (Reinforcement of Key Procedures)	0	6	Training Instructor

SUBJECT (1)	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	INSTRUCTOR(2)
Testing; Certification; Q&A	4	0	Training Instructor
TOTALS	28	24	

- (1) The instructional materials includes the Manual, handouts and visual aids, and will include lecture, classroom discussion, hands-on demonstration and/or practice training at a Store.
- (2) Print Cates oversees all aspects of training. Mr. Cates' background is disclosed in Item 2.

After you open your Store, we will provide training to any new manager or other key personnel of your Store for the training fee disclosed in Item 6. In addition, we may require that you (or if you are an entity, a Principal Owner) and any manager(s), assistant manager(s), and/or other key personnel complete supplemental and refresher training programs during the term of the Franchise Agreement, to be furnished at our headquarters in Windsor, California, or in other venues we determine. There may be a registration fee associated with the supplemental and refresher training programs, and you are responsible for expenses associated with attending such as travel, lodging, meals, and entertainment.

After you open your Store, we may provide to you and your personnel continuing education in venues we designate, including online education via the Internet. We may require that you or a Certified Manager (as defined in Item 15) attend these programs. There may be a registration fee associated with these programs and you will be responsible for expenses associated with attending such as travel, lodging, meals, and entertainment. We may conduct a periodic franchisee convention at a location we designate. You may be required to pay a registration fee to us for each participant and you will be responsible for other expenses associated with attending the convention such as travel, lodging, meals, and entertainment.

Computer System

You must use in your Store a computerized multi-purpose system ("Computer System") that we have selected for use in Stores. You must install and activate Retail Anywhere™ Point-of-Sale and inventory management software and compatible hardware, and Quick Books Accounting and Business software. We have not approved any other software for use in the Computer System. Depending on the retail square footage of your Store, you need to install either two or three Point-of-Sale terminals. You also must install one "back-office" computer. In addition, you must install the required equipment for and activate a DSL internet connection. You are responsible for all costs of hardware, software, computer equipment, installation, setup, and assistance provided by approved third parties (see Item 7). As part of the initial training program, we will provide training on how to use the Computer System effectively.

None of the equipment, hardware, or software that we require is proprietary to us or our affiliates.

We may require that you periodically upgrade or update the equipment, hardware, and software. You must at all times keep the required computer equipment, hardware, and software in good maintenance and repair. There are no contractual limitations on the frequency and cost of this obligation.

We may access the required software to monitor inventory levels within your Store to automate certain inventory purchasing and accounting features, to effect the electronic transfer of funds between you and us and between you and our inventory suppliers, and to monitor Store sales performance and other benchmarks. We do have independent access to information about the performance of your Store.

Site Selection

If you already have a potential site for a Store, you may propose the location to us. We may consent to the site after we have independently evaluated it. The site for the Store will be identified in Exhibit A to the Franchise Agreement. If you do not have a proposed site, you will sign Alternative Exhibit A to the Franchise Agreement and will have 90 days following the date of the Franchise Agreement to identify a Store site acceptable to us. We will provide you with our general site selection and evaluation criteria. You are solely responsible, however, for locating and obtaining a site which meets our standards and criteria and that is acceptable to us. If we and you cannot agree on a site, we can terminate your Franchise Agreement. If we terminate your Franchise Agreement because we and you cannot agree on a site for your Store, we will refund 50% of the Initial Franchise Fee.

You must submit to us information that we may reasonably require regarding the proposed Store site. The general site and evaluation criteria which you should consider include demographic characteristics of the proposed location, traffic patterns, parking, the predominant character of the neighborhood, the proximity to other businesses (including other Powell's Sweet Shoppe™ Stores), and other commercial characteristics, and the proposed location, size of premises, appearance and other physical characteristics. We will notify you in writing within 30 days after we receive materials we request whether the proposed site satisfies our site selection criteria. Our review of a site for the Store does not represent any recommendation or guaranty as to the success of the proposed site.

Advisory Council

We may establish an "Advisory Council" consisting of Powell's Sweet Shoppe™ franchisees. If established, the Advisory Council would provide advice to us but we would retain the authority to establish the System, policy and procedures. The Advisory Council would operate under bylaws we establish.

Item 12

TERRITORY

You will receive a "Protected Area" that is currently a 2.5-mile radius surrounding the location of your Store when you sign the Franchise Agreement. The location of the Store and the Protected Area will be identified in Exhibit A to the Franchise Agreement. If you do not have a site for your Store when you sign the Franchise Agreement, you will sign Alternative Exhibit A to the Franchise Agreement and will have 90 days after the date of the Franchise Agreement to find a site for the Store (acceptable to us) within the designated geographic area. Once we approve a location within the geographic area established in Alternative Exhibit A, we and you will then sign Exhibit A (which identifies the Protected Area for your Store). During the term of the Franchise Agreement, if you are complying with the provisions of the Franchise Agreement, we will not establish any other franchised or company-owned Powell's Sweet Shoppe™ Store in the Protected Area. We (for ourselves and our affiliates) reserve the right to sell any products and services in your Protected Area under the Marks through dissimilar channels of distribution (i.e., other than the operation of full-service Stores), including by electronic means such as the Internet and websites we establish. We also reserve the right to sell any products or services in your Protected Area under trademarks other than the Marks through similar or dissimilar channels of distribution, including by electronic means such as the Internet and by websites we establish. We may advertise the System on the Internet and may create, operate, change or discontinue the use of a website using the Marks. We may grant franchises anywhere outside your Protected Area. We may sell anywhere at both wholesale and retail all products and services which are not a part of the System. We

also may operate and franchise others to operate retail stores using different trademarks even if these stores compete with the Stores.

You may relocate your Store only with our written consent, which we will not unreasonably withhold. If we permit you to relocate your Store, you will pay us a relocation fee equal to one-third of the Initial Franchise Fee for services we will provide in assisting you in relocating your Store. In addition, you will need to build out your Store consistent with our then-current standards for new Powell's Sweet Shoppe™ Stores.

Item 13

TRADEMARKS

We grant you the right to operate your Store under the name "Powell's Sweet Shoppe" and other Marks. The following schedule lists the principal Marks that you are licensed to use. We have filed all required affidavits and registrations for those Marks listed below.

PRINCIPAL TRADEMARKS	U.S. REGISTRATION OR SERIAL NO.	REGISTRATION OR APPLICATION DATE	COMMENT
POWELL'S SWEET SHOPPE and Design	78/964,653	Application Date: August 31, 2006	Application Pending

*** By not having a federal registration on the Principal Register for these marks, we do not have certain presumptive legal rights granted by a registration.**

We have the right to periodically change the list of Marks. Your use of the Marks and any goodwill is to our exclusive benefit and you retain no rights in the Marks. You also retain no rights in the Marks when the Franchise Agreement expires or terminates. You are not permitted to make any changes or substitutions respecting the Marks unless we direct in writing. You may not use any Mark or portion of any Mark as part of any corporate or any trade name, or any modified form or in the sale of any unauthorized product or service, or in any unauthorized manner. You may not use any Mark or portion of any Mark on any website without our prior written approval.

There are currently no effective material determinations by the U.S. 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 Marks that are relevant to your use in any state. There are currently no agreements in effect that significantly limit our rights to use or license the use of any Marks in any manner material to the franchise.

You must immediately notify us of any apparent infringement of or challenge to your use of any Marks, and we have sole discretion to take any action we deem appropriate. We are unaware of any infringing uses or superior rights that could materially affect your use of the Marks.

We are not obligated to protect you against infringement or unfair competition claims arising out of your use of the Marks, or to participate in your defense or indemnify you. We reserve the right to control any litigation relating to the Marks and we will have the sole right to decide to pursue or settle any infringement actions relating to the Marks. You must notify us promptly of any infringement or unauthorized use of the Marks of which you become aware. If we determine that a trademark infringement

action requires changes or substitutions to the Marks, you will make these changes or substitutions at your own expense.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

There are no patents or copyrights currently registered that are material to the franchise. We do claim copyright ownership and protection for the Manual and for certain other written materials we provide to assist you in operating your Store.

We own certain proprietary or confidential information relating to the operation of Stores, including information in the Manual ("Confidential Information"). You must keep confidential during and after the term of the Franchise Agreement the Confidential Information. When your Franchise Agreement expires or terminates, you must return to us all Confidential Information and all other copyright material. You must notify us immediately if you learn of an unauthorized use of the Confidential Information. We are not obligated to take any action and we will have the sole right to decide the appropriate response to any unauthorized use of the Confidential Information. You must comply with all changes to the Manual at your cost.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

The Franchise Agreement provides that your Store must at all times be under the direct, day-to-day, full-time supervision of two managers who have completed our required training ("Certified Managers"). One of the Certified Managers may be a Principal Owner. A "Principal Owner" is an individual who owns 10% or greater interest in the franchisee entity. You and the Certified Manager must use his or her best efforts to operate your Store under the specifications, standards, and procedures established in the Manual and other related materials. If at any time at least two Certified Managers do not manage the Store, we immediately may appoint a manager to manage the Store for you and charge you a reasonable fee for these management services.

If you are an entity, each Principal Owner must:

- (1) personally guarantee your obligations under the Franchise Agreement; and
- (2) agree to be personally bound by, and personally liable for the breach of, every provision of the Franchise Agreement; and
- (3) agree to be bound by the confidentiality provisions and non-competition provisions of the Franchise Agreement; and
- (4) agree to certain restrictions on their ownership interests.

The required guaranty is attached to the Franchise Agreement as Exhibit B (see Exhibit 2).

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell in your Store only those candies and candy-related products and services that we have approved (see Item 8). You must at all times maintain an inventory of approved candies and candy-

related products and equipment in such quantities and variety that we direct. We may add new products or services that you must offer at your Store. Our right to modify the approved list of goods and services to be offered at a Store is not limited.

We may conduct market research and testing to determine consumer trends regarding new candy and candy-related products and services. You must participate in our market research programs, test market new products and services in the Store and provide us with timely reports and other relevant information regarding market research. We may require that you purchase a reasonable quantity of the tested products and promote and make a reasonable effort to sell these products.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

PROVISION	FRANCHISE AGREEMENT	SUMMARY
Term of the franchise	Section 3	10 years
Renewal or extension of the term	Section 3	Two additional 5-year terms, as long as you meet certain conditions.
Requirements for you to renew	Section 3	At least 180 days prior written notice, full compliance with the Franchise Agreement, maintain possession of the Store, modernize the Store, attend additional training, sign then current form of Franchise Agreement, pay renewal fee, and sign release.
Termination by you	Section 17	If we have materially failed to comply with terms of the Franchise Agreement. You must give us written notice and allow us 60 days to cure before termination.
Termination by us without cause	None	
Termination by us with cause	Section 16	We may terminate the Franchise Agreement only if you default.
"Cause" defined and which cannot be cured	Sections 16(A) and (B)	You have 30 days to cure failure to open Store when required, failure to complete training, failure to comply with System standards, failure to pay amounts due us or any creditors, fail to renew or maintain Store lease, and a violation of any material provision of the Agreement.

PROMISION	FRANCHISE AGREEMENT	SUMMARY
"Cause" defined, defaults that can be cured	Sections 16(A) and (B)	Failure on 3 or more occasions in any 12 months to comply with any provision, default which is not curable, repeatedly deceive Store customers, conviction of or proof that you have committed a felony or other crime which harms the Store's reputation, insolvency, an assignment of assets to creditors, Store abandonment, defaults which injures the goodwill associated with the Marks, use of unapproved website or other unauthorized conduct on the internet, unauthorized assignment of agreement or interest, and intentionally falsify any information provided to us.
Your obligations on termination/renewal	Section 18	Cease operating franchised business; cease use of confidential information and Marks and return to us; cancel assumed or similar name registrations; pay outstanding amounts and damages; assign phone numbers; comply with covenants.
Assignment of contract by us	Section 15(A)	Assignee must fulfill our obligations under the Franchise Agreement.
"Transfer" by you—Definition of	Section 15(C)	Includes transfer of Store or its assets, or your interest in agreement or any significant ("controlling interest") ownership change.
Our approval of transfer by you	Sections 11.2(a), 15(B), (C), and (D)	We have the right to approve all transfers by you.
Conditions of our approval of transfer	Section 15(C)	New franchisee qualifies and completes training, all amounts owed us or our affiliates are paid, and you are in good standing, new franchisee assumes existing Agreement or (at our option) signs then-current agreement, we approve transfer agreement, transfer fee paid, lease assigned (if applicable), you sign non-compete agreement and general release. No transfer fee for transfer to immediate family member.
Our right of first refusal to acquire your Store	Section 15(F)	We can match any offer for your business.
Our option to purchase your Store upon termination or non-renewal	Sections 18(C) and (D)	When the Franchise Agreement expires or terminates, we may purchase assets or proprietary products at book value.

PROMISION	FRANCHISE AGREEMENT	SUMMARY
Your death or disability	Section 15(D)	Franchise must be assigned by estate to an approved buyer within reasonable time not exceeding 12 months.
Non-compete covenants during the term of the Franchise Agreement	Section 14(B)	No involvement in wholesale or retail candy-related product business or other competing business (including any e-commerce business).
Non-compete covenants after the franchise is terminated (but not upon expiration)	Section 14(C)	No wholesale or retail candy-related products business or any other competing business for two years within 10 miles of your location or within 10 miles of another Store. Also, no e-commerce business that solicits customers within 10 mile radius of any Store.
Modifications to the franchise agreement and business system	Sections 1(B), 15(G), 10(E), and 20(F)	No modifications generally, except in writing. We may modify Manual, Marks, System and goods/services to be offered to your Store.
Integration/merger clause	Section 20(L)	Only the terms of the Franchise Agreement (including exhibits) and the Disclosure Acknowledgement Agreement are binding (subject to state law). Any other promises may not be enforceable.
Dispute resolution by mediation/arbitration	Section 19	Except for actions we bring for monies owed, injunctive or extraordinary relief, or actions involving real estate, all disputes first will be subject to non-binding mediation at our headquarters in Windsor, California, then (if not resolved) to binding arbitration in San Francisco, California.
Choice of forum	Section 20(D)	Litigation not subject to arbitration must be brought in San Francisco County, California (subject to state law).
Choice of law	Section 20(E)	Apply law of the state in which your Store is located.

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: 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], FLORIDA [Stat. Section 542.335], HAWAII [Rev. Stat. Section 482E-6], IDAHO [Code Section 29-110], ILLINOIS [815 ILCS Sections 705/1 – 44], 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], NORTH

CAROLINA [Gen. Stat. Section 22B-3], 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.

Item 18

PUBLIC FIGURES

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

Item 19

EARNINGS CLAIMS

We do not furnish our salespersons with written earnings claims information within this document concerning the actual sales, costs, income, and or profits of a Store in operation. Actual results may vary by Store, and we cannot estimate the results of any particular franchise.

Item 20

LIST OF STORES

**STATUS OF FRANCHISED STORES
STORES FOR YEARS 2003/2004/2005/2006⁽¹⁾**

State	Transfers	Canceled Or Terminated	Not Renewed	Reacquired By Franchisor	Left The System Other	Total From Left Columns	Franchises Operating At Year End
California	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/2
TOTAL	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/0	0/0/0/2

(1) Numbers for 2006 are as of August 31, 2006. All other numbers are as of December 31, 2003, 2004 and 2005.

**STATUS OF COMPANY-OWNED or COMPANY-AFFILIATED
STORES FOR YEARS 2003/2004/2005**

STATE	STORES CLOSED DURING YEAR	STORES OPENED DURING YEAR	TOTAL STORES OPERATING AT YEAR END
California	0/0/0	1/0/0	1/1/1
TOTALS	0/0/0	1/0/0	1/1/1

**ESTIMATED OPENINGS – NEXT CALENDAR YEAR (2006)
AS OF SEPTEMBER 1, 2006**

STATE	FRANCHISE AGREEMENTS SIGNED BUT STORE NOT OPEN	PROJECTED NEW STORES IN THE NEXT CALENDAR YEAR	PROJECTED COMPANY-OWNED OPENINGS IN NEXT CALENDAR YEAR
California	2	5	0
Colorado	1	0	0
Idaho	1	0	0
TOTALS	4	5	0

A list of the names of all franchisees and the addresses and telephone numbers of their Stores are listed as Exhibit 3 to this Offering Circular. No franchisees have had their franchise terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement, or who have not communicated with us within 10 weeks of our application date.

Item 21

FINANCIAL STATEMENTS

Our audited financial statements as of December 31, 2005, are attached to this offering circular as Exhibit 1, together with our unaudited financial statements as of August 31, 2006.

Item 22

CONTRACTS

The following agreements are attached as exhibits:

Franchise Agreement – Exhibit 2

Disclosure Acknowledgement Addendum – Exhibit 7

Item 23

RECEIPT

Two copies of an acknowledgment of your receipt of this Offering Circular are included at the end of this Offering Circular (Exhibit 8). You should keep one copy as your file copy and return the second copy to us.