

**YOUNG REMBRANDTS FRANCHISE, INC.**

**23 North Union Street**

**Elgin, Illinois 60123**

**(847) 742-6966 or (866) 300-6010**

**RECEIVED**

**INFORMATION FOR PROSPECTIVE FRANCHISEES**

**MAR 28 2006**

**REQUIRED BY FEDERAL TRADE COMMISSION**

Department of Corporations  
Los Angeles

\*\*\*\*\*

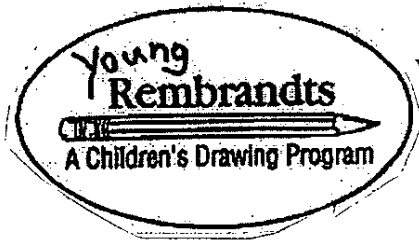
TO PROTECT YOU, WE'VE REQUIRED YOUR FRANCHISOR TO GIVE YOU THIS INFORMATION. WE HAVEN'T CHECKED IT, AND DON'T KNOW IF IT'S CORRECT. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. WHILE IT INCLUDES SOME INFORMATION ABOUT YOUR CONTRACT, DON'T RELY ON IT ALONE TO UNDERSTAND YOUR CONTRACT. READ 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 ACCOUNTANT. IF YOU FIND ANYTHING YOU THINK MAY BE WRONG OR ANYTHING IMPORTANT THAT'S BEEN LEFT OUT, YOU SHOULD LET US KNOW ABOUT IT. IT MAY BE AGAINST THE LAW.

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

FEDERAL TRADE COMMISSION  
Washington, D.C.

Date of Issuance: March 23, 2006

## FRANCHISE OFFERING CIRCULAR



### YOUNG REMBRANDTS FRANCHISE, INC.

An Illinois Corporation

23 North Union Street

Elgin, Illinois 60123

(847) 742-6966 or (866)300-6010

The Franchisee will provide art classes and teach art techniques to preschool and elementary school children.

The Initial Franchise Fee for a standard Gold Franchise is \$31,500. The estimated initial investment required is from a low of \$39,500 to a high of \$48,800. The initial investment estimate does not include rent for a business location as we expect you to operate the business from your home. Under certain circumstances (described in Item 5 of the Offering Circular) you pay a lower initial franchise fee.

#### RISK FACTORS:

1. THE FRANCHISE AGREEMENT PERMITS THE FRANCHISEE TO ARBITRATE WITH YOUNG REMBRANDTS FRANCHISE, INC. ONLY IN ILLINOIS. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE WITH YOUNG REMBRANDTS, INC. IN ILLINOIS THAN IN YOUR HOME STATE.

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

3. THE AFFILIATE HAS APPLIED FOR A REGISTERED SERVICE MARK WITH THE U.S. PATENT AND TRADEMARK OFFICE BUT HAS NOT YET RECEIVED THE REGISTRATION.

4. YOUR EXCLUSIVE RIGHTS TO THE TERRITORY WE GRANTED TO YOU ARE CONTINGENT UPON YOUR MAINTAINING A LEVEL OF GROSS REVENUES TO GENERATE AN AVERAGE MINIMUM MONTHLY ROYALTY PAYMENT.

5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

**REGISTRATION OF THIS FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS OFFERING CIRCULAR.** If you learn that anything in this Offering Circular is untrue, contact the Federal Trade Commission and your State administrator listed in Exhibit I.

Effective Date in California: \_\_\_\_\_, 2006

YOUNG REMBRANDTS FRANCHISE, INC.

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\*\* Definitions from the Franchise Agreement have the same meaning in the Offering Circular and the Exhibits.

## ITEM 1

### THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

Young Rembrandts Franchise, Inc. ("we", "us", "our" or "ours" or "the Company") is an Illinois corporation incorporated on December 2, 1997, with principal office at 23 North Union Street, Elgin, Illinois 60123. Our agent for service of process is identified in Exhibit I.

In 1988, Ms. Bette Fetter, our Secretary and Founder, began a business known as Young Rembrandts, Inc. which was incorporated in Illinois on September 2, 1994 (the "Affiliate"). Ms. Fetter, along with her husband Bill Fetter, who joined the Affiliate's business in 1992 and who currently serves as our President and Treasurer, designed our business concept, format, and method of operations. Since March 9, 1988, the Affiliate has offered and performed in Illinois and Wisconsin the identical services to be offered to the public by you. The address of the Affiliate is 23 North Union Street, Elgin, Illinois 60123.

We offer the sale of franchises to an individual or entity. "You", "your" and "yours" as used in this Offering Circular will refer to the individual who buys the franchise or the entity that buys the franchise if you are a corporation, partnership or limited liability company and all of the individual owners of the entity. If you are an entity, all of your owners must sign a guaranty which means that all of the provisions of the Franchise Agreement also will apply to your owners. (See Item 15)

We have developed, and we own the system to be franchised (the "System") described in the Franchise Agreement (the "Agreement") which is Exhibit A to this Offering Circular. You will operate within a specific Territory which will be described in your Franchise Agreement.

As a Young Rembrandts franchisee, you offer to sell and provide drawing classes, including instruction in artistic techniques, primarily to elementary and preschool children in private schools, public elementary schools, day care centers, Montessori schools and local community recreational departments. Once a month we will provide you with weekly lesson plans we have prepared for your use during the following month. The lesson plans will include instructions and drawings.

Classes that take place in schools will typically not be conducted when the schools are not in session, with some exceptions. However, park districts and day care centers typically offer classes throughout the year. Additional camp curriculum is provided to you for conducting classes at other locations during times when elementary schools are not in session. Operations and marketing of the business should be conducted throughout the year.

Although you are not required to have artistic skills, these skills are desirable. Each of your staff, however, is required to have these skills. You are not required to own or lease any office space or studio; since the schools or centers will provide a suitable classroom for the lessons. You can operate the franchise from your home.

The customers are most likely to be parents of preschool and elementary school age children who desire quality, professional art classes for their children. You may have competition from other local, regional and national companies offering other art education programs for children in similar locations. The market for art education programs for children is developed in some major metropolitan areas, but is undeveloped in other areas. You can also expect competition from independent private artists, art schools, and specialty arts and crafts stores. Before you sign a franchise agreement, you should survey your

market to determine what local competition exists and the perceived quality of their programs and materials.

Our standard franchise offering is the Gold Franchise with which you will be granted a protected territory that includes at least 75 public and private elementary schools. We may grant a Silver Franchise with a protected territory containing a lesser number of elementary schools in certain rural areas which do not have 75 public and private elementary schools within a reasonable geographic area for providing the Young Rembrandts services or in non-rural areas in limited circumstances where 75 public and private elementary schools do not exist within the desired territory. We determine in what geographic area we will grant a Silver franchise.

You have the option of entering into a Territory Development Agreement (the "TDA") with us under which you reserve the right to open additional franchises within a specified territory. The TDA is attached as Exhibit B to this Offering Circular.

You must meet the requirements of the state regulatory agency which licenses preschools and day care centers in your state in order to be able to provide classes in a preschool or day care center. The requirements may include a background check, physical examination or testing, and/or finger printing of you and your teachers. You must also conduct background checks on all of your employees before they begin teaching. Regardless of any information which you may receive from us, you must on your own investigate and determine what federal, state and local laws and regulations apply to the operation of your Young Rembrandts franchise.

Before you sign a franchise agreement, you should investigate the school districts in your local area to determine if any barriers exist that may either prevent you from operating in certain schools or may make it more difficult for you to do so. It has come to our attention that a small number of school districts have a policy that only non-profit organizations are permitted to conduct classes on school property or solicit customers through the school. However, we have not found this to be the case generally.

We began actively offering and selling franchises in 2001. We currently have a policy of paying our franchisees a referral fee if they refer a prospective franchisee to us and it results in a franchise sale. Neither we nor the Affiliate has ever franchised any other type of business. Neither we nor the Affiliate has ever operated any other type of business.

## **ITEM 2** **BUSINESS EXPERIENCE**

### **President/Treasurer/Founder/Director: Bill Fetter**

Mr. Fetter has been our President, Treasurer and Director since our inception in December 1997. He has also served as Vice President and Treasurer of our Affiliate from March 1, 1992 to present.

### **Secretary/Founder/Director: Bette Fetter**

Ms. Fetter has served as our Secretary and a Director since our inception in December 1997. She has also served as President and Director of our Affiliate from March 9, 1988 to present.

**Director of Franchise Operations: Kim Swanson**

Ms. Swanson has been employed by us since January 2002, most recently as our Director of Franchise Operations and previously as Franchise Development and Director of Training and Support. Ms. Swanson was employed by our Affiliate from August 1998 to December 2001, initially as an Area Coordinator/Teacher and then as Area Manager/Office Manager.

**Director of Design and Marketing: Joelyn Rogers**

Ms. Rogers has been our Director of Design and Marketing since January 2002. She has also served as Trainer and Franchise Coordinator. She was hired by our Affiliate in August 1995 as instructor and later serves as Area Coordinator. From August 2001 to December 2001 she was a web designer for Office Designs.com in Glenview, Illinois. From May 1999 to the present she has worked in banquets for Randall Oaks Golf Club in Dundee, Illinois.

**Director of Franchise Support: Madeline Morgenroth**

Ms. Morgenroth has been our Director of Franchise Support since December 2004, and has worked for us in franchise support since January 2004. She was hired by our Affiliate in January 1999 as a teacher. From September 2000 to January 2004 she also served our Affiliate as Field Representative, Trainer and Area Coordinator.

**Franchise Brokers:** See Exhibit G to the Offering Circular.

**ITEM 3  
LITIGATION**

On October 9, 2005, a former franchisee, Marianne Gammon, filed a lawsuit against us, our president Bill Fetter and other unnamed defendants in the Superior Court of California, County of Sacramento, Gammon vs. Young Rembrandts Franchise, Inc., Bill Fetter and Does 1-100, Case No. 05AS04688. Ms. Gammon has alleged breach of contract, fraud and deceit, negligent misrepresentation, violations of the California Franchise Investment Law, and unfair trade practices against all of the defendants. She seeks a declaratory action to stop enforcement of the non-competition clauses, damages in an unspecified amount, a permanent injunction, attorney's fees and costs and other unspecified relief. On January 11, 2006, we filed an answer and affirmative defenses and filed a cross-complaint against Ms. Gammon alleging breach of contract, quantum meruit, fraudulent concealment and unfair competition. We are seeking compensatory damages, punitive damages, a permanent injunction, attorney's fees and costs and other relief. Ms. Gammon filed an answer and affirmative defenses to the cross-complaint on January 31, 2006. No trial date has been set.

Other than the 1 case above, no litigation is required to be disclosed in this Offering Circular.

## Franchise Broker

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Litigation involving any of our franchise brokers that is required to be disclosed in this Offering Circular is disclosed in Exhibit G to the Offering Circular.

### **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**

For our standard Gold Franchise, you pay an Initial Franchise Fee of \$31,500 by certified or cashier's check when you sign the Agreement. In limited areas, we will grant a Silver Franchise. If you are purchasing a Silver Franchise, you pay an Initial Franchise Fee of \$28,500 when you sign the Agreement.

If you already own a franchise and are purchasing an additional franchise, you will pay an initial franchise fee of \$26,500. We give a \$3,000 discount on the initial franchise fee to qualified employees who have been employed by us or our affiliate for a minimum of 1 year.

If you fail to satisfactorily complete the Initial Training and we terminate the Agreement for that reason, we will refund the initial franchise fee you paid less our expenses related to you (including the cost of recruiting, training and providing materials) not to exceed 50% of the initial franchise fee upon your delivery to us of a signed release. Otherwise, the fee is non-refundable.

#### Territory Development Agreement.

You must sign 1 Franchise Agreement and pay the \$31,500 initial franchise fee when you sign the Territory Development Agreement.

We charge a non-refundable Territory Development Fee which you must pay in a lump sum when you sign the Territory Development Agreement. The fee is determined by multiplying the number of additional franchises you will open by \$13,250, which is one-half of the initial franchise fee for additional franchises. As you open each additional franchise, you must sign the then current, standard franchise agreement and pay \$13,250 for the balance of the initial franchise fee.

**ITEM 6**  
**OTHER FEES**

Name of Fee <sub>1</sub>	Amount	Due Date	Remarks
Royalty	10% on first \$75,000 in Gross Revenue and 8% on Gross Revenues in excess of \$75,000 each year from August 1 through July 31. For the Gold Franchise, you must pay a minimum monthly royalty of \$250 for 1st and 2nd year, \$400 for 3rd and 4th year, and \$500 during years 5 through 10. For the Silver Franchise, you must pay a minimum monthly royalty of \$250 for 1st and 2nd year, \$300 for 3rd and 4th year and \$350 during years 5 through 10.	On the 10 <sup>th</sup> day of each month for all Gross Revenue received during the preceding calendar month	Obligation to pay royalty begins on the day you open for business. Obligation to pay the minimum monthly royalty begins the first full calendar month that is at least 30 days after the date you complete the initial training program. Payments are to be made by electronic funds transfer or by check. Gross Revenues means total receipts for services rendered by you, less applicable sales, use or service taxes.
National Marketing Fee	Up to 2% of Gross Revenues	On the 10 <sup>th</sup> day of each month for the preceding calendar month	Payable once the National Marketing Fund is established.
Late Fees	10% of unpaid amounts plus interest of highest legal rate or 1½ %	Upon billing	Payable if royalty or national marketing fees are not paid by the 15 <sup>th</sup> day of the month
Transfer Fee plus Broker Fees	\$5,000 plus fee charged by broker, if applicable	Before transfer	Transfer fee payable to us when you sell your franchise. Covers initial training for the buyer. You must also pay any broker's fees due on the sale.
Renewal Fee	\$1,500	Upon signing renewal agreements	Payable to us if you renew your franchise at the end of the initial term.



Name of Fee <sub>1</sub>	Amount	Due Date	Remarks
Additional Training	Currently \$3,000 per trainee over 2 trainees for initial training	Prior to training	We provide initial training to the first 2 people at no charge. You must also pay the expenses incurred by your employees in attending this training, including travel, room and board and compensation.
Annual Conference fee	We determine the fee each year in advance. The fee is to defray our costs for the conference. For 2006, estimated to be \$550 to \$800 per person.	Before conference begins	You must attend the annual conference. If you fail to attend, you must still pay the conference fee. If we do not hold the conference, you do not pay.
Audit	If the Royalty Fee has been underpaid by more than 3%, you pay us 3 times the amount due, plus our cost of audit and other costs and 1½% interest per month on the underpayment. If you have underpaid by less than 3%, you pay us the amount due plus our costs and 1½% interest per month on the underpayment.	Upon billing	Payable if audit of your books reveals a deficiency in your payments or if audit necessary due to your failure to report.
Indemnification	Our costs and damages	When we bill you	You must defend and indemnify us from claims.
Insurance Reimbursement	Our cost	Upon demand	If we purchase insurance for you after you fail to do so.
Attorneys' Fees	Reasonable fees and costs	When awarded by court	If we must bring a suit or proceeding to enforce the Agreement.
Cross Territory Fine	\$200 per class	Upon demand	Payable for each class you conduct in another franchisee's territory after the completion of the class session in progress at the time the new franchisee purchases the territory. Fine is in addition to our right to terminate for breach.

1. All Fees are payable to us and are non-refundable, unless otherwise expressly stated.

**Item 7**

**INITIAL INVESTMENT**

	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
<b>Initial Franchise Fee<sup>1</sup></b>	\$31,500	Lump Sum	At Signing of Franchise Agreement	Us
<b>Office Equipment and Computer System<sup>2</sup></b>	\$3,000 to \$5,000	As Required by Supplier	As Required by Supplier	Suppliers
<b>Travel and Living Expenses While Training<sup>3</sup></b>	\$700 to \$1,700	As incurred	During Training	Airlines, Hotels & Restaurants
<b>Miscellaneous Opening Costs<sup>4</sup></b>	\$1,000 to \$2,000	As incurred	As incurred	Attorney, Accountant, Suppliers
<b>Initial Inventory of Art Supplies</b>	\$500 to \$1,000	As Required by Supplier	As Required by Supplier	Supplier
<b>Liability Insurance<sup>5</sup></b>	\$300 to \$1,100	Lump Sum	Before opening	Insurance Agent
<b>Additional Funds – First 3 Months of Operation<sup>6</sup></b>	\$ 2,500 to \$6,500	As incurred	As incurred	Third Parties
<b>TOTALS</b>	<b>\$39,500 to \$48,800</b>			

**NOTES**

**<sup>1</sup> Initial Franchise Fee**

You pay an initial franchise fee of \$31,500 if you are purchasing the standard Gold Franchise. The initial franchise fee for a Silver Franchise offered in limited areas is \$28,500. The initial franchise fee for additional franchises is \$26,500. The initial franchise fee paid by certain qualified employees is \$28,500. See Item 5. You pay the fee when you sign the Franchise Agreement. If your franchise is terminated by us for your failure to satisfactorily complete the initial training, we will refund the initial franchise fee less the amount to cover our costs incurred for you but not to exceed 50% of the initial franchise fee.

**<sup>2</sup> Equipment**

You must purchase computer hardware and software (see Item 11), fax machine, copy machine and a telephone for use in operating the franchise business. This equipment must be purchased following our specifications.

### <sup>3</sup> Training Expenses

You are not charged an additional fee for you to attend initial training. You must arrange for transportation and pay the expenses for meals and lodging incurred in attending the initial training program. The total cost will depend on how far you must travel and the type of accommodations you choose. This estimate is based on 1 person attending training. You will also be required to attend supplemental initial training after you have been in operation for 3 months. The travel and living expenses for attending supplemental initial training are not included in the estimate provided.

### <sup>4</sup> Miscellaneous Opening Costs

This estimate includes legal and accounting fees, utility expenses, costs for obtaining required certifications or licenses, and other miscellaneous opening costs.

### <sup>5</sup> General Liability Insurance

You must purchase the general liability insurance required by us. The estimate is for a 1-year premium. The cost of insurance will vary based on the types and limits of the insurance you purchase, your location, your driving record, and other factors affecting risk exposure.

### <sup>6</sup> Additional Funds

This estimate covers business-operating costs, including supplies, marketing materials, transportation, costs of promotion, utilities and minimum royalty payments. No amount has been included for employee compensation in the low estimate. The high estimate includes an amount to cover 2 part-time employees to teach classes during the first 3 months. No amount has been included for an owner's draw or salary. You may need additional funds for personal living expenses.

There is no requirement that you have an office, so there is no expense included in the above estimates for a lease. It is anticipated that you will operate the business from your home.

These figures are estimates and we can't guarantee that your expenses won't be higher. Your costs will vary depending upon various factors, including how well you follow our procedures; your business management and sales skills; competition; economic conditions; the local market for our services, and the number of classes taught, the gross billings reached during the first 3 months, and the timing of customer payments (whether paid before or at the end of a session).

We have compiled these estimates based on our Affiliate's experience in operating a Young Rembrandts business and our general business knowledge. You should review these figures carefully with a business or financial advisor before making any decision to purchase a franchise.

The refundability of initial expenses other than the initial franchise fee (discussed above), depends on the terms of agreement you reach with your vendors and suppliers.

## Territory Development Agreement

If you sign a Territory Development Agreement, you should anticipate the initial costs listed above for the first franchise you will open plus the initial fee due under the Territory Development Agreement which is \$13,250 times the number of franchises you intend to open.

### **ITEM 8**

#### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You must purchase promotional products with our name and/or logo, including t-shirts, sweatshirts and caps from a supplier approved by us. We and our Affiliate are currently not approved suppliers; however, we may be approved suppliers in the future.

You must follow our standards and specifications in purchasing art supplies and materials, the computer system and other office equipment, and marketing materials used in operating a Young Rembrandts business. We currently sell tri-fold boards, poster signs, and master teacher recognition pens to our franchisees for their convenience. Our revenue from the sale of these supplies in the year ending December 31, 2005 was \$2,670 or less than 1% of our total revenues of \$769,930.

We will provide you with the specifications and standards and lists of approved suppliers in the Operations Manual or otherwise in writing or by electronic communication. These specifications and standards relate to product quality and safety, consistency, reliability, frequency of delivery, financial capability, and customer relations.

If you want to use any of the above items of any brand and/or from a supplier which is not then approved, you must first notify us and submit sufficient information, specifications and samples concerning the brand and/or supplier as we request for our determination of whether the brand complies with our specifications and standards and/or the supplier meets our approved supplier criteria. We may charge you a reasonable fee to cover our costs in making this determination. We will notify you of whether or not the proposed brand and/or supplier is approved within a reasonable time. If we later revoke the approval of a brand or supplier previously approved, we will notify you in writing and you must then cease making purchases of the brand or from the supplier.

The cost of equipment, materials and supplies purchased from us or in accordance with our specifications or from approved suppliers represents 22% to 27% of your total purchases in establishing your franchise, and 5% to 10% of your total purchases in operating the franchise.

You must use the weekly lesson plans and camp lesson plans provided by us and must follow the lesson plans pursuant to our instructions. You cannot use your own lesson plans or lesson plans from any other source. You do not pay any additional fees for the lesson plans.

We may develop proprietary or customized software for use in the operation of the Young Rembrandts business. If proprietary or customized software is developed and implemented into the Young Rembrandts System, you will be required to purchase or license the software and ongoing maintenance and support services from us or a third party we designate. We expect to complete development of a scheduling software customized for the Young Rembrandts System in 2006. Once developed, you will be required to use it in operating your Young Rembrandts business.

We may negotiate preferred pricing purchase arrangements from suppliers for the benefit of franchisees. We do not currently receive payments from approved suppliers with respect to your purchases, but reserve the right to do so. You will receive no material benefits from these purchases from approved suppliers other than lower product prices.

You must purchase liability and automobile liability insurance in the amount of \$1,000,000 and other insurance as described in detail in Article XII of the Franchise Agreement and in the Operations Manual. The insurance coverage requirements may be modified by us. We will give you notice of any modifications. You must furnish us with evidence of insurance coverage.

**ITEM 9**  
**FRANCHISEE'S OBLIGATIONS**

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

<b>Obligation</b>	<b>Section of Franchise Agreement (and Paragraph of TDA, if applicable)</b>	<b>Item in Offering Circular</b>
a. Site selection and acquisition/lease	No obligation	N/A
b. Pre-opening purchases/leases	Section 5.2	N/A
c. Site development and other pre-opening requirements	No obligation	N/A
d. Initial and ongoing training	Sections 5.1 and 5.5	Items 6 and 11
e. Opening	Sections 6.2 and 6.3 (Par. 5 of TDA)	Item 11
f. Fees	Sections 4.2.E , 5.1 and Article 9 (Par. 2 and 3 of TDA)	Items 5 and 6
g. Compliance with standards and policies/Operations Manual	Section 5.3, Article VII	Item 11 and Exhibit F
h. Trademarks and proprietary information	Articles 7 and 8 (Par. 9 of TDA)	Items 13 and 14
i. Restrictions on Products/services offered	Sections 5.8 and 6.6	Item 16
j. Warranty and customer service requirements	Section 5.7	Item 11B(2)

<b>Obligation</b>	<b>Section of Franchise Agreement (and Paragraph of TDA, if applicable)</b>	<b>Item in Offering Circular</b>
k. Territorial development and sales quotas	Section 3.3 (Par. 4 of TDA)	Item 12
l. Ongoing product/services purchases	Sections 5.2 and 6.6	Item 8
m. Maintenance, appearance and remodeling requirements	Sections 6.4 and 6.5	N/A
n. Insurance	Article 12	Item 7
o. Advertising	Article 10	Items 6, 7 and 11
p. Indemnification	Section 11.3	Item 6
q. Franchisee's participation/management/staffing	Sections 6.10 and 6.11	Item 15
r. Records/reports	Article 13	Item 6
s. Inspections/audits	Section 13.3	Item 6
t. Transfer	Articles 14 and 15 (Par. 7 of TDA)	Items 6 and 17
u. Renewal	Sections 4.2 and 4.3	Item 17
v. Post-termination obligations	Article 17	Item 17
w. Non-competition covenants	Article 18	Item 17
x. Dispute resolution	Articles 19 and 20 (Par. 12 of TDA)	Item 17 and Cover Page

**ITEM 10**  
**FINANCING**

We do not offer any direct or indirect financing if you are purchasing your first Young Rembrandts franchise. We do not guarantee any of your purchases, leases, contracts or other obligations.

If you are an existing franchisee purchasing an additional franchise, we may finance your initial franchise fee. We determine in our discretion to whom we will offer financing. If we do offer to finance your initial franchise fee, we will allow you to pay the initial franchise fee over a one year period in 4 quarterly installments. We will not require you to sign a note or give a security interest or guaranty or to waive any rights or legal defenses. You can prepay at any time without penalty. If you do not pay the initial franchisee fee, we can terminate your franchise.

**ITEM 11**  
**FRANCHISOR'S OBLIGATIONS**

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

Pre-Opening. Before you begin your business we will:

(1) No real estate purchase or lease is required. We estimate that you should be able to open the franchise within 30 days after signing the Agreement depending on when the next training program will be conducted and time of year. If you sign a Franchise Agreement near the end or after the school year, you may not begin conducting classes at elementary schools until the beginning of the next school year; however, you should begin marketing for business immediately and should be able to begin conducting classes in day care centers that have year round programs. You must open for business within 90 days after signing the Agreement or your franchise agreement may be terminated. (Section 6.2). We do not approve your business location and expect that you will operate your business from your home.

(2) Give you written specifications for the computer system, equipment, art materials and supplies, and other products to be purchased by you and a listing of approved suppliers, and give you advice with respect to these specifications (Section 5.2).

(3) Lend you a copy of the Operations Manual ("Manual") which currently includes a Franchise Manual and an Employee Manual. (Section 5.3). The approximate number of pages of the Manual is 245 plus forms. The Table of Contents of the Manual is at Exhibit F.

(4) Train you and 1 additional person in the operation of the Business (Section 5.1). You must attend and satisfactorily complete the 5 day Initial Training Program as shown below:

**Initial Training Program**

Subject	Time Begun	Instructional Material	Hours of Classroom Training (Note 2)	Hours of On-the-Job Training	Instructor (Note 3)
Introduction, History & Philosophies	Note 1		1	0	Training Staff
Sales & Marketing	Note 1	Manual	12	0	Training Staff
Daily Operations	Note 1	Manual	4-6	2	Training Staff
Personnel	Note 1	Manual	4	0	Training Staff
Curriculum	Note 1	Manual	6	3-4	Training Staff
Teaching & Sample Classes	Note 1	Manual, Videos	8	3-4	Training Staff

Subject	Time Begun	Instructional Material	Hours of Classroom Training (Note 2)	Hours of On-the-Job Training	Instructor (Note 3)
Accounting	Note 1	Manual	4	0	Training Staff
Business Management	Note 1	Manual	4½	0	Training Staff
Monthly Reporting Procedures	Note 1	Manual	2	0	Training Staff
Promotions	Note 1	Manual	1	0	Training Staff

Note 1: Many of the aspects of the training are integrated so that there are no definitive starting and stopping times.

Note 2: During the Initial Training Program, you may be required to complete homework assignments outside of the classroom training.

Note 3: The training program is currently conducted by Kim Swanson. The experience of Kim Swanson is discussed in Item 2 above. Kim Swanson has worked in all areas of the Young Rembrandts business since being hired by our affiliate in August 1998. The following people currently assist in the training:

Joie Rogers is our Director of Design and Marketing. Her experience is discussed in Item 2 above. She has worked in all areas of the business with a concentration on curriculum development and marketing.

Madeline Morgenroth is our Director of Franchise Support. She has been employed by us or our affiliate since January 1999 and has worked as a teacher, trainer/supervisor and manager.

Cindy Funk teaches the accounting portion of the training program. She has worked for our affiliate since 1999 and currently manages the Accounting Department.

Sue West is our Affiliate's Quality Specialist. She has been employed by our Affiliate since 1999 and has worked as a teacher and field trainer.

Specific instructors are subject to change or substitution. During on-the-job training you may also work with teachers of our affiliate.

Initial Training is provided at our Home office or other location we designate in the Chicago, Illinois metropolitan area. Training is conducted approximately 4 to 5 times per year.

If we determine that it is necessary, you must return to our Home Office or other location we designate in the Chicago, Illinois metropolitan area for 2 days of Supplemental Initial Training in the classroom sometime during your fourth or fifth month of operation. The Supplemental Initial Training will include a review of the topics covered during the Initial Training Program and other topics relating to the operation of a Young Rembrandts franchise. The staff that conducts the Initial Training will also conduct



## the Supplemental Initial Training.

We do not charge you extra for your Initial Training or Supplemental Initial Training which you must attend and satisfactorily complete. We do not charge for a second person to attend Initial Training or Supplemental Training if they attend the training within 2 years of the date you sign the Franchise Agreement. You must pay travel and living expenses for you and your attendees for the training at our headquarters. However, if you want us to provide training to more than 2 people, you must pay us a Training Fee for each additional person and training is subject to availability.

(5) Provide you with initial advertising copy and lay-out for you to use in preparing your own customized marketing materials. (Section 5.4)

(6) Assist you in identifying a Territory within which you will conduct the Business (Section 4.1) and, if you elect to enter into a TDA, the territory of the TDA.

(7) You must purchase or lease computer hardware and software which meet our specifications. You must keep current with software upgrades. Our current specifications are set forth below:

- Pentium III or Pentium 4 processor (no AMD, no celeron)
- Minimum of 512 MB of RAM
- Ethernet network card
- High-speed internet connection Router (recommended brands: Microsoft, Netgear, or Linksys) configured properly (may need professional consultation)
- Monitor, at least 15"
- Printer, standard black print laser
- Flat bed scanner
- Quick Books Pro Software (2004 or later) for bookkeeping
- Digital Camera (3.2 megapixels or above)
- Microsoft Office 2003 or later (including the following software: Word, Excel, Outlook, Publisher)
- Microsoft Windows XP Operating System (firewall must be configured, automatically configured with Service Pack 2)
- Norton Antivirus Protection Software 2005 or later (automatic update must be configured, automatic scheduled scans must run daily)
- Data back-up plan (scheduled to back-up daily, weekly, monthly, yearly; 2 copies saved, 1 off-site); on-line back-up options are available.

Before you attend the initial training program, you must on your own arrange for and attend computer training as necessary for you to be proficient in the use of the required computer software.

You must have access to the Internet via a DSL line. We will provide you an e-mail address that you must use in promoting and operating your business and in communicating with us. You must sign the Terms of Use for the Young Rembrandts Franchisee Extranet. We may require you to upgrade or update your computer hardware or software at any time during the term of the Franchise Agreement if we determine that the hardware or software is insufficient for the efficient operation of the Business or is incompatible with our computer system. We may require you to purchase or license proprietary or customized software we may develop for use in operating a Young Rembrandts business and to enter into

ongoing maintenance and support agreements. In 2006 we expect to complete development of a scheduling software customized for the Young-Rembrandts System which you will be required to use. Training in the use of the software will be covered during the Initial Training Program. We may access the information or data stored on your computer system.

B. Opening and Post-Opening. During the operation of the Business, we:

(1) will provide weekly lesson plans for 48 out of 52 weeks each year which you must use and follow exactly as defined in the materials. We will also periodically provide camp lesson plans for use in camps at park districts, schools and other locations. (Section 5.8).

(2) will (i) conduct inspections to ensure compliance; (ii) upon your written request, provide advisory and other services; (iii) provide additions to the System as made available to other franchisees; (iv) provide modifications to the Manual; (v) provide forms you use to report information we require; (vi) make staff available for consultation on operational problems; and (vii) send Customer Satisfaction cards or make phone calls to your customers (Sections 5.6 and 5.7).

(3) may develop advertising, promotional and marketing programs and materials for the Young Rembrandts System. (Section 10.1)

(4) may conduct refresher-training programs at our headquarters or other location we designate at our expense. We may require you or your manager to attend these programs no more than once a year. You must pay your travel and living expenses (Section 5.5.A).

(5) may hold an Annual Conference of franchisees. You must attend the Annual Conference. If you have more than one franchise, your required manager must also attend the Annual Conference. You must pay us the Annual Conference fee even if you fail to attend. You must pay the travel and living expenses you and your manager incur in attending the Annual Conference. We do not have to conduct an Annual Conference.

We will administer the national marketing fund (the "National Marketing Fund") once it is established. We will give you at least 60 days notice before we you must begin paying your National Marketing Fund contribution and we will advise you of the amount you are currently required to contribute (up to 2%). The National Marketing Fund will be for the creation and development of advertising and marketing programs as we deem necessary or appropriate to advertise or promote Young Rembrandts franchises. Young Rembrandts businesses owned by us or our affiliates will contribute to the National Marketing Fund on the same basis as franchisees. We expect to establish the National Marketing Fund in 2006.

We direct all advertising, marketing and promotional programs financed by the National Marketing Fund, with sole discretion over the creative concepts, materials, and endorsements used in them, and the geographic, market, and media placement and allocation of the programs. You agree that the National Marketing Fund may be used to pay the cost of preparing and producing written, audio and video advertising materials; administering national, regional or local advertising programs including, direct mail and other media advertising, and employing advertising agencies to assist in those activities; establishing and maintaining a web site for the franchise system; supporting public relations, market research and marketing activities; providing advertising, marketing and promotional materials or Young Rembrandts franchisees. The National Marketing Fund will not be used to solicit the sale of franchises.

The National Marketing 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 any reasonable salaries, administrative costs and overhead we may incur in activities reasonably related to the administration of the National Marketing Fund and its advertising, marketing and promotional programs (including, conducting market research, preparing advertising, marketing and promotional materials, and collecting and accounting for contributions to the National Marketing Fund). We may spend in any fiscal year an amount greater or less than the total contribution of all franchises to the National Marketing Fund in that year. The National Marketing Fund may borrow from us or other lenders to cover deficits of the National Marketing Fund or invest any surplus for future use by the National Marketing Fund. All interest earned on monies contributed to the National Marketing Fund will be used to pay advertising, marketing and promotional costs of the National Marketing Fund before other assets of the National Marketing Fund are expended. We will prepare an annual statement of monies collected and costs incurred by the National Marketing Fund and will furnish it to you on written request.

The National Marketing Fund is intended to maximize recognition of the Marks and patronage of Young Rembrandts businesses. Although we will endeavor to use the National Marketing Fund to develop advertising, marketing and promotional materials, and to place advertising in a manner that will benefit all Young Rembrandts franchisees, we have no obligation to ensure that expenditures by the National Marketing Fund in or affecting any geographic area are proportionate or equivalent to contributions to the National Marketing Fund by each Young Rembrandts franchisee operating in that geographic area or that any Young Rembrandts franchisee will benefit directly or in proportion to its contribution to the National Marketing Fund from the development of advertising, marketing and promotional materials or the placement of advertising. We assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the National Marketing Fund. We may discontinue or reestablish the National Marketing Fund. If the National Marketing Fund is discontinued, all amounts remaining in the National Marketing Fund on the date of discontinuance will be distributed to franchisees in proportion to their respective contributions for the most recent 6 months.

## **ITEM 12** **TERRITORY**

You will be granted a protected Territory in which to operate the Business. If you are purchasing our standard Gold Franchise, there will be a minimum of 75 public and private elementary schools (schools which provide instruction for any of kindergarten through 5<sup>th</sup> grade) located within the Territory. In certain areas where it is not feasible to grant a territory with at least 75 schools, we may grant a Silver Franchise with a Territory which has less than 75 schools. The territory for the Silver Franchise will include a minimum of 40 public and private elementary schools. The Territory will be described in an exhibit to the Franchise Agreement.

We will not establish in your Territory any other franchised or company-owned Young Rembrandts business offering art classes using the Marks. We can establish within and outside of the Territory businesses offering similar services and products using different marks. We may establish other channels of distribution for similar services and products using the Marks within or outside of your Territory, including the Internet.

You may not conduct classes in another franchisee's territory and other franchisees must not conduct

classes in your Territory. If you are conducting classes in an area that has not been granted to another franchisee and the area is later granted to a new franchisee as part of the new franchisee's territory, you must turn over the classes once the new franchisee has completed initial training and at the end of the current session of the classes being conducted in the new franchisee's territory

Once your business has been in operation for at least 12 months, your exclusive rights to the Territory and your right to continue to operate the franchise are dependent upon you maintaining Gross Revenues sufficient to generate an average monthly royalty payment of at least \$500. If over a period of 6 consecutive months your royalty payments do not average at least \$500 per month, after giving you notice to cure and an additional 6 month period in which to increase your Gross Revenues so that your royalty payments average at least \$500 per month, we can terminate your exclusive rights to the Territory or we can terminate your franchise rights. For the Silver Franchise, once you have been open for business for at least 12 months, you must maintain Gross Revenues sufficient to generate an average monthly royalty payment of at least \$350. If we terminate your exclusive rights to the Territory, we may ourselves operate in or may grant other parties the right to operate in the Territory granted to you.

### Territory Development Agreement

Under the Territory Development Agreement you are granted a territory in which you have the right to develop an agreed upon number of Young Rembrandts franchises during the term of the Territory Development Agreement ("TDA Territory"). The TDA Territory will be negotiated by you and us. The size of the TDA Territory will depend on how many franchises you have agreed to develop. During the term of the Territory Development Agreement, we will not grant any franchise or ourselves operate any Young Rembrandts business within the TDA Territory. We can establish within and outside of the TDA Territory businesses offering similar services and products using different marks. We may establish other channels of distribution for similar services and products using the Marks within or outside of your TDA Territory, including the Internet.

## **ITEM 13** **TRADEMARKS**

We grant you a non-exclusive right and license to use, within the Territory only, the mark Young Rembrandts and any other current or future service marks, trademarks, or logos which are used with the Young Rembrandts System ("Marks"). On March 3, 1998, an application for registration of "Young Rembrandts" on the Principal Register was filed with the United States Patent and Trademark Office ("PTO") by Bette Fetter. The PTO trademark examiner initially refused registration of the Mark in October 1998 due to the existence of several other registered marks which may be confusingly similar to our Mark. The marks cited by the PTO were "Rembrandt" for artists' colors, oil and water colors, "Rembrandt" for artists' pastel crayons, and "Young Rembrandts" for art reproduction services in connection with reproducing children's art into ceramic tiles and ashtrays. The application was suspended by the PTO in May 1999. The rights to the Marks, including the pending application were assigned to Young Rembrandts Franchise, Inc. in September 2001. We are currently pursuing various avenues in an attempt to ultimately obtain a registration. However, we currently do not know whether registration of our Mark will be possible.

By not having a Principal Register federal registration for "Young Rembrandts", we do not have certain presumptive legal rights granted by a registration. If we are unable to obtain a federal registration, it may

become necessary to use a substitute mark. If we require you to modify or discontinue use of the principal Mark or to use a substitute Mark due to a claim by any third party claiming superior rights or a claim by a governmental entity that our use of the Mark is objectionable or prohibited, we will reimburse you for your out-of-pocket expenses for changing the Mark. This shall not apply to the use of additional Marks developed for use with the Young Rembrandts System.

As of the date of this Offering Circular, we have obtained the following state service mark registrations for the mark "Young Rembrandts."

<u>State</u>	<u>Registration Number</u>	<u>Registration Date</u>
Alabama	109-699	August 11, 2005
Arizona	48236	January 20, 2004
California	059705	September 28, 2004
Georgia	S-21033	January 15, 2004
Idaho	17954	January 27, 2004
Illinois	091824	February 19, 2004
Indiana	2004-0034	January 15, 2004
Kentucky	015458	February 11, 2004
Michigan	M06757	February 23, 2004
Minnesota	926291-2	June 4, 2004
Missouri	S016339	January 16, 2004
North Carolina	T-17783	February 17, 2004
Ohio	200504101954	February 1, 2005
Oregon	S37443	January 23, 2004
Pennsylvania	3325818	August 4, 2005
Tennessee	--	February 22, 2005
Texas	800294848	February 2, 2004
Virginia	7543	August 30, 2005

We will apply for additional state service mark registrations as we determine is appropriate.

There are no agreements limiting our right to license you the Marks. We have licensed the use of the Marks to our affiliate for its operation of its Young Rembrandts businesses.

You must follow our rules when you use the Marks. You cannot use any of the Marks as a part of an entity name nor in connection with an unauthorized product or service.

You must immediately notify us in writing of any apparent infringement or challenge to your use or our ownership of the Marks and of any claim by any person of any rights in the Marks or in any similar name. We will take the action we think is appropriate. You will assist us in any hearings or suits to protect the Marks.

We will reimburse you for your costs and damages for defending the Marks if you give us timely notice of any claim against you with respect to the Marks.

To our knowledge, there are no infringing uses that would materially affect your use of the Marks, nor are

there any presently effective material adverse determinations of the PTO, Trademark Trial and Appeal Board, or of any court or State Trademark-Administrator; pending infringement; opposition or cancellation; and pending material litigation involving the principal trademark.

Our Email address on the Internet's World Wide Web at the Universal Resource Locator of: [yr@youngrembrandts.com](mailto:yr@youngrembrandts.com) (the "YR Email") is the sole property of ours. We have a web page (the "YR web page") which may be used for various purposes, including promoting the Marks and the existing Young Rembrandts businesses, marketing and selling franchises and marketing and selling various products and services worldwide that may compete with you within and outside the Territory. The YR web page is the sole property of ours. You may not obtain any domain names for the Internet incorporating the Marks or use the Marks on the Internet in any manner without our prior written consent. We will provide you with an e-mail address that you must use in operating the Young Rembrandts business. Upon termination of the franchise, you must cease using the address.

#### **ITEM 14**

#### **PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

No patents are material to the Franchise.

We provide you with copyrighted drawings (included in the lesson plans) for your use in conducting Young Rembrandts classes. These drawings are the property of our Affiliate, Young Rembrandts, Inc. These copyrighted items and any derivative works are not to be used, reproduced or publicly displayed by you or your employees or your customers, schools, park districts, day care centers or other third parties except in the conduct of Young Rembrandts drawing classes using the Young Rembrandts System unless the prior consent of our Affiliate is obtained. Our Affiliate does consent to temporary display of the children's images of the drawings at the site of the Young Rembrandts classes. Our Affiliate has obtained copyright registrations with the U. S. Copyright Office for 23 of its line drawings used in lessons. Although our Affiliate has not obtained copyright registration for all drawings, it claims a copyright in all of them and the information is proprietary. Our Affiliate will file for copyright registrations and renew those registrations as it deems appropriate.

Our right to use or license the use of these copyrighted items is not materially limited by any agreement or known infringing use. Our Affiliate licenses to us the right to use and sublicense the use of the copyrighted items in the operation of a Young Rembrandts business.

You must immediately notify us in writing of any apparent infringement or challenge to our or your use of the copyrighted items, including derivative works. We will take the action we think is appropriate. You must assist us in any hearings or suits to protect the copyrighted items as is necessary.

We can require you to discontinue using any of the copyrighted items.

You can use the proprietary information in the Operations Manual, instructional materials (included in the lesson plans), instructional videos, and other materials that are loaned to you in operating your Young Rembrandts business. Although we and our Affiliate have not filed an application for a copyright registration for the Manual, instructional materials or other written materials, we claim copyrights and the information is proprietary. Our Manuals, instructional materials and all other information relating to the System provided to you by us, whether in writing or in verbal or electronic communication, are

proprietary and confidential and a trade secret of ours. You must comply with all procedures established by us periodically to prevent unauthorized use or disclosure of the proprietary and confidential information.

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

You must participate directly in the operation and management of the Business. You must operate the Business year-round on a full-time basis. The business must at all times be under the direct supervision of you or your full-time manager who has successfully completed our Initial Training program. If you conduct operations in more than one franchise territory, you must have a full-time manager for one of the territories. The manager does not need to have an ownership interest in the franchise. The manager must sign a confidentiality and non-competition agreement in a form approved by us.

If you are an entity, all owners of the entity must sign a guaranty of your obligations under the Franchise Agreement in a form approved by us. The Guaranty is Exhibit C to this Offering Circular.

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

You must offer, sell and provide only those services and products which we approve, and you must offer all services and products which we require. We may change, add or delete the types of approved services or products to be offered by you to customers. You must make any expenditures reasonably necessary to implement the changes or additions.

You may only use lesson plans provided by us in conducting classes. You must not deviate from the lesson plans provided to you and must not delete any portion or substitute or add other materials.

You are limited as to the customers to whom you may offer your services to the extent that you cannot conduct classes at locations within the territory granted to another franchisee.

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

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

<b>Provision</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
a. Term of the franchise	Section 4.1	Term is 10 years.

Provision	Section in Franchise Agreement	Summary
b. Renewal or extension of the term	Section 4.2	If in good standing, you can add one 10-year option to renew.
c. Requirements for you to renew	Sections 4.2 and 4.3	Give notice, be current on all monetary obligations, be in full compliance with all material terms of the Agreement, including meeting the minimum royalty payment requirements, sign new Agreement(s), pay renewal fee, upgrade, and sign release.
d. Termination by you	Section 16.3	If you are in compliance and we are in material breach and fail to cure after notice.
e. Termination by us without cause	None	N/A
f. Termination by us with cause	Section 16.1 and 16.2	We can terminate only if you are in default for the reasons set forth in Article XVI. We have the right to survey customers. If, in any one calendar year, 25% or more of your customers are dissatisfied, we, at our option, may take over the Territory and terminate the Agreement. If we take over the Territory we will pay you 50% of your last six months sales. Default under other agreements with us is default under this Franchise Agreement.
g. "Cause" defined – defaults which can be cured	Item 12 and Section 16.2 A(2)	You have 24 hours to cure conduct or failure to act which impairs goodwill. You have 10 days to cure: failure to report Gross Revenues, non-payment of fees, failure to obtain insurance, non-compliance with law. You have 30 days to cure any other defaults. You have 6 months to cure failure to achieve the minimum average royalty payment.
h. "Cause" defined - defaults which cannot be cured	Sections 12.6, 16.1 and 16.2 A(1)	Non-curable defaults include: failure to complete Initial Training, failure to open within 90 days after signing the Agreement, conviction of crime, falsification of application, danger to health or safety, repeated defaults even if cured, abandonment, unapproved transfers, danger to public health or safety, foreclosure, unauthorized use or disclosure of Confidential Information or Marks, or violation of covenants not to compete.



Provision	Section in Franchise Agreement	Summary
i. Your obligations on termination/ non-renewal	Section 17.1	Obligations include payment of all amounts due, return of the Manual, videos, lesson plans and other of our property, maintain confidentiality, return of all data and records on customers and class locations, cease use of Marks, cease identification as a franchisee, return or destroy materials containing the Marks, cancel assumed name, assign telephone number, turn over all customer and school information to us, and pay our attorney's fees and costs for termination. (Also see r., below)
j. Assignment of contract by us	Section 14.1	No restriction on our right to assign except required assumption of performance obligations by Assignee.
k. "Transfer" by you - definition	Section 14.3	Includes transfer of Agreement or assets or ownership change.
l. Our approval of transfer by you	Sections 14.2 and 14.3	We have the right to approve all transfers but will not unreasonably withhold approval provided stated conditions are satisfied.
m. Conditions for our approval of transfer	Sections 14.2 and 14.3	Conditions include: provide information on transferee, new franchisee qualifies, you are in compliance with the Agreement, transfer fee paid, purchase agreement approved, training completed, release signed by you, either new franchise agreement or assumption of existing agreement signed (at our option), and compliance with our right of first refusal. (Also see r., below)
n. Our right of first refusal to acquire your business	Article XV	We can match any bona fide written offer for your business.
o. Our option to purchase your business	Section 16.2	See f. above.
p. Your death or disability	Section 14.5	Transfer to heirs not subject to transfer conditions and our right of first refusal if heirs qualify as franchisee, sign new agreement and manager begins Initial Training within 3 months. Training fee must be paid.
q. Noncompetition covenants during the term of the franchise	Section 18.1	No involvement in any competing business anywhere.

Provision	Section in Franchise Agreement	Summary
r. Noncompetition covenants after the franchise is terminated or expires	Sections 18.1 and 18.2	You cannot compete within 25 miles of the Territory for a period of 24 months. You must turn over all customer and school lists and telephone numbers. For 1 year, you cannot solicit or service customers or schools.
s. Modification of Agreement	Section 20.13 and 18.5	No modifications generally except Manual subject to change and court modification of covenants not to compete to make valid.
t. Integration/ merger clause	Section 20.14	The terms of the Franchise Agreement and other Exhibits to this Offering Circular contain the complete agreement between us and are binding. Any other promises are not enforceable.
u. Dispute resolution by arbitration or mediation	Section 19.1 and 19.3	Mediation at option of the parties. All disputes (except certain remedies) to be arbitrated at our offices or other location we designate.
v. Choice of forum	Section 20.6	Litigation to be in Kane County, Illinois.*
w. Choice of law	Section 20.5	Illinois law applies.*

This table lists certain important provisions of the Territory Development Agreement ("TDA"). You should read these provisions in the TDA attached to this Offering Circular as Exhibit B.

Provision	Paragraph in TDA	Summary
a. Term of the agreement	Paragraphs 4 and 5	Agreed upon by parties in TDA.
b. Renewal or extension of the term	None	N/A
c. Requirements for you to renew	None	N/A
d. Termination by you	None	N/A
e. Termination by us without cause	None	N/A
f. Termination by us with cause	Paragraph 6	We can terminate if you commit a listed violation.
g. "Cause" defined – defaults which cannot be cured	Paragraph 6	Bankruptcy, any unauthorized transfer; and termination of any Franchise Agreement.
h. "Cause" defined – defaults which can be cured	Paragraph 6	30 days to cure failure to meet development obligations or any other breach.

Provision	Paragraph in TDA	Summary
i. Your obligations on termination/ non-renewal	Paragraphs 6 and 8	No further right to develop; however, termination does not affect existing franchise agreements.
j. Assignment of contract by us	Paragraph 7	We have an unrestricted right to assign.
k. "Transfer" by you – definition	Paragraphs 6 & 7	You have no right to transfer unless we consent in writing in advance.
l. Our approval of transfer by you	Paragraph 7	Only if consented to by us in writing in advance.
m. Conditions for our approval of transfer	Paragraph 7	See l. above.
n. Our right of first refusal to acquire your business	None	N/A
o. Our option to purchase your business	None	N/A
p. Your death or disability	None	N/A
q. Noncompetition covenants during the term of the franchise	None	N/A
r. Noncompetition covenants after the franchise is terminated or expires	None	N/A
s. Modification of Agreement	Paragraph 11	No modifications unless in writing and signed.
t. Integration/ merger clause	Paragraph 11	Only the terms of TDA are binding.
u. Dispute resolution by arbitration or mediation	Paragraphs 17, 18 and 19	Mediation at option of parties. All disputes (except certain remedies) to be arbitrated at our offices or other location we designate.
v. Choice of forum	Paragraph 20	Litigation to be in Kane County, Illinois. *
w. Choice of law	Paragraph 16	Illinois law applies. *

\* Some states have provisions to the contrary. See Exhibit J for any addendum to the Offering Circular or Franchise Agreement for your state.

These states have statutes, and they and other states may have court decisions, which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133eet seq.], DELAWARE [Code Sections 2551-2556], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [815 ILCS 705/1 through 705/44], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section

80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03].

**ITEM 18**  
**PUBLIC FIGURES**

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

**ITEM 19**  
**EARNINGS CLAIMS**

Our Affiliate currently owns and operates a Young Rembrandts business in the metropolitan Chicago market. This affiliate-owned business operates throughout the Chicago metropolitan area from one office location, using a staff of primarily part-time employees as Coordinators, Teachers, and Field Representatives and differs from a Young Rembrandts franchise business in that it is a larger operation and services a much larger territory. However, the services offered by our Affiliate to its customers are substantially similar to those that are offered by Young Rembrandts franchisees.

A Young Rembrandts business conducts drawing classes in day care centers and park districts throughout the year, in public and private elementary schools and pre-schools while school is in session (which is generally from September to June) and at camps conducted by park districts or elementary schools during the summer and other times when school is not in session. Classes at pre-schools and day care centers run for 45 minutes each and classes in elementary schools and park districts run for one hour. Camp sessions are one and one-half hours.

The table below provides certain information about class frequency, class size, number of students per class, fees charged and teacher wages as experienced by our Affiliate during the period September 1, 2004 through August 31, 2005. This information is broken down into four categories by the location where the classes are conducted: Pre-School/Day Care Center, Elementary Schools, Park Districts, and Camps Conducted by Park Districts or Schools.

Note that the column listing the maximum number of weeks per year a type of account could hold drawing classes is a maximum only and is not data on the actual number of weeks classes were conducted by our Affiliate in each of these types of accounts. There is no assurance that you will conduct classes for the maximum number of weeks each year for each account.

**The following data reflects the operations of an Affiliate-owned business, and should not be considered as the actual class frequency, enrollment levels, fees charged or wages paid that will be realized by any given franchisee. Your financial results are likely to differ from the results stated in this statement. The Affiliate-owned Company has experienced the class frequency, enrollment levels, fees charged and wages paid in the amounts set forth below. However, we do not represent, warrant, promise or guarantee that you can expect to attain the same class frequencies, enrollment levels, fees or wages paid.**

*[The remainder of this page has been left blank intentionally.]*

**INFORMATION ON AFFILIATE OPERATIONS**  
**September 1, 2004 - August 31, 2005**

Type of Account	Age Range/ Curriculum	When Operate	Frequency	Maximum Possible # of Weeks Per Year	Range of Enrollment	Fees Per Child	Teacher Wages
<b>Pre-School/ Day Care Center</b>	3 ½ - 5 Pre-School Curriculum	Year-Round, except for Pre-Schools on school year calendar	1 class/week, 10-12 week Sessions	36 weeks for Pre-School; 48 weeks for Day Care Centers	6-10 students per class	\$6.50-\$8.00 per child per week	\$12.00-\$15.00 per class
<b>Elementary Schools</b>	6-12 Elementary Curriculum	School calendar year	1 class/week, 6-12 week sessions	33 weeks	8-20 students per class	\$8.00-\$9.50 per student per class	\$18.00-\$22.00 per class
<b>Park Districts</b>	3 ½ - 5 Pre-School and 6-12 Elementary Drawing & Cartoon Curriculum	Year-Round	2-3 classes/week conducted on same day for Pre-School and elementary age, for 4-12 week repeated sessions	48 weeks	For Pre-School, 6-10 children per class; 6-15 children per class for elementary age	\$7.50-\$8.00 per child per class	\$12.00-\$15.00 per class
<b>Camps Conducted at Park Districts or Schools</b>	6-12 Elementary 'Themed' Curriculum	When schools not in session	3 classes/week 1 week sessions; Multiple sessions	12 weeks	8-15 children per class	\$12.00-\$13.00 per child per class	\$25.00 per class

**Explanatory Notes**

Our Affiliate operates predominantly in areas of metropolitan Chicago that are considered as suburban, as distinguished from urban or rural. Neither we nor our affiliate have experience in other metropolitan markets, or in any urban or rural markets.

There are no franchises reflected in the data.

The data included in the chart above was derived from the records of our Affiliate, and was not audited by an independent certified public accountant.

Substantiation of the data used in preparing the earnings claim will be made available to you on reasonable request.

We urge you to consult with an independent advisor, like an accountant or lawyer to advise you regarding the use of the information set forth in this claim.

The data in the table does not reflect any expenses other than teacher wages. An amount of profit cannot be inferred from the data provided. You will incur various expenses in addition to payroll, including, taxes, royalty fees and marketing fund contributions, teacher and employee recruitment, facility room rental, classroom supplies and materials, promotional materials, office materials, insurance, telephone, vehicle and travel expenses, debt service, legal and accounting fees, employee benefits, and other expenses. In addition, the actual marketing, operational and management procedures employed by you, may significantly affect profits realized in any given operation.

Revenues will vary from franchisee to franchisee and from market to market, and we do not represent that the data shown above for the period indicated will accurately predict the future results for our Affiliate or for any potential franchisee. Factors which may affect revenues, and which you should consider carefully in evaluating this information and in making any decision to purchase a franchise, include: business skills, motivation and effort of the individual franchisee and of the franchisee's staff and management; size and location of your franchise territory; local advertising and promotional activities; competition; your pricing policies; income and demographic characteristics of a particular market area (including age, income level, population density and parental involvement in schools and park districts); the interest level and demand for art classes in a particular market area; number of years of operation; as well as conditions generally prevailing in the local and national economy.

We emphasize that while the above data is based on the actual experience of our Affiliate, they are determined, to a large extent, by the quality of the management of the business. Among the determinant factors are the hours you dedicate to the business, your energy and dedication, the quality of the teachers, and the quality of customer service.

You should note that the information contained in this Item 19 is not intended to express or infer an estimate, projection or forecast of revenues or profits to be derived in connection with any particular franchise. The information presented is limited to the actual results by our Affiliate from September 1, 2004 through August 31, 2005. We make no representation whether you will experience any specific level of class frequency, enrollment, fees charged or teacher wages. The data provided should not be viewed as an assurance that you or any franchisee will attain the results shown above.

Except for the information set forth in this statement, we do not furnish or authorize our salespersons, agents or employees to furnish any oral or written information concerning the actual, average, projected or forecasted sales, costs, income, or profits (the "earnings capability") of a Young Rembrandts franchise business. We specifically instruct our sales personnel, agents, and employees that they are not permitted to make any claims or statements containing a specific franchisee's earnings capability or chances for success, and we will not be bound by allegations of any unauthorized representations as to earnings capability or chances for success.

The Earnings Claims figures do not reflect the cost of sales or operating expenses that must be deducted from gross revenue or gross sales to obtain your net income or profit. The best source of cost and expense data may be from franchisees and former franchisees, some of whom are listed in Exhibit E to the Offering Circular.

**ITEM 20**  
**LIST OF OUTLETS**

<b>FRANCHISED UNIT STATUS SUMMARY</b>							
<b>FOR YEARS 2004/2003/2002*</b>							
<b>STATE</b>	<b>TRANSFERS</b>	<b>CANCELED OR TERMINATED</b>	<b>NOT RENEWED</b>	<b>REACQUIRED BY FRANCHISOR</b>	<b>LEFT THE SYSTEM OTHER</b>	<b>TOTAL FROM LEFT COLUMNS</b>	<b>FRANCHISES OPERATING AT FISCAL YEAR END</b>
Alabama							1/0/0
Arizona							4/3/2
California		1/0/0			1/0/0	2/0/0	7/7/3
Colorado							1/0/0
Delaware							1/1/1
Florida							4/3/1
Georgia							2/2/1
Idaho							1/1/1
Illinois				1/0/0	1/0/0	2/0/0	5/7/6
Indiana					1/0/0	1/0/0	1/2/1
Kentucky							1/1/1
Michigan							3/3/2
Minnesota							2/1/1
Missouri							2/1/1
Nevada							1/0/0
North Carolina					1/0/0	1/0/0	1/1/1
Ohio							3/2/1
Oklahoma							1/1/0
Oregon	1/0/0					1/0/0	1/1/1
Pennsylvania							1/0/0
Tennessee							1/1/0
Texas							3/2/2
Vermont							1/1/0
Virginia							1/0/0
Wisconsin							2/2/1
<b>Totals</b>	<b>1/0/0</b>	<b>1/0/0</b>	<b>0/0/0</b>	<b>1/0/0</b>	<b>4/0/0</b>	<b>7/0/0</b>	<b>51/43/27</b>

\*The information provided is as of December 31.



A list of our franchisees as of December 31, 2005 is attached as Exhibit E.

A list of the franchisees who had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement in 2005 and any franchisees who have not communicated with us within the last 10 weeks is attached as Exhibit E.

As of December 31, 2005, we have 1 Developer with a Development Territory in Delaware and Pennsylvania. 1 Developer in California was terminated in 2005.

<b>STATUS OF COMPANY OR AFFILIATE OWNED UNITS</b>			
<b>For Years 2005/2004/2003*</b>			
<b>STATE</b>	<b>UNITS CLOSED DURING YEAR</b>	<b>UNITS OPENED DURING YEAR</b>	<b>TOTAL UNITS OPERATING AT YEAR END</b>
Illinois	0/0/0	0/0/0	1/1/1
<b>Total</b>	0/0/0	0/0/0	1/1/1

\*The information provided is as of December 31.

Although our Affiliate operates 1 Young Rembrandts business, the business currently provides services in areas throughout the Chicago Metropolitan area through a staff of teachers. The affiliate owned business is different in size and structure from the franchise business.

<b>PROJECTED OUTLET OPENINGS</b>			
<b>as of January 1, 2006</b>			
<b>STATE</b>	<b>FRANCHISE AGREEMENTS SIGNED BUT UNIT NOT OPEN</b>	<b>PROJECTED FRANCHISED NEW UNITS IN THE NEXT FISCAL YEAR</b>	<b>PROJECTED COMPANY OR AFFILIATE OWNED OPENINGS IN NEXT FISCAL YEAR</b>
Arizona	0	1	0
California	0	3	0
Colorado	0	2	0
Florida	0	1	0
Georgia	0	1	0
Illinois	0	3	0
Indiana	0	1	0
Massachusetts	0	1	0
Missouri	0	1	0
New York	0	2	0

<b>PROJECTED OUTLET OPENINGS</b> as of January 1, 2006			
<b>STATE</b>	<b>FRANCHISE AGREEMENTS SIGNED BUT UNIT NOT OPEN</b>	<b>PROJECTED FRANCHISED NEW UNITS IN THE NEXT FISCAL YEAR</b>	<b>PROJECTED COMPANY OR AFFILIATE OWNED OPENINGS IN NEXT FISCAL YEAR</b>
North Carolina	0	1	0
Ohio	0	2	0
Oregon	0	1	0
Pennsylvania	0	1	0
Texas	0	1	0
Virginia	0	1	0
<b>Total</b>	0	23	0

**ITEM 21**  
**FINANCIAL STATEMENTS**

Attached at Exhibit D are our audited financial statements for the years ended December 31, 2005 and 2004 and our audited financial statements for the year ended December 31, 2004 and 2003.

**ITEM 22**  
**CONTRACTS**

The following agreements are attached as exhibits to this offering circular: Franchise Agreement, Exhibit A, Territory Development Agreement, Exhibit B; Guaranty, Exhibit C. If your state requires a State Addendum, it will be at Exhibit K. You must sign the Terms of Use for the Young Rembrandts Franchisee Extranet which is attached as Exhibit J.

Before signing the Franchise Agreement, you must complete and sign a Franchise Disclosure Questionnaire, a copy of which is attached to this Offering Circular as Exhibit H. The purpose of this Questionnaire is to indicate your receipt and understanding of various documents and other information.

**ITEM 23**  
**RECEIPTS**

Enclosed are two copies of a detachable document acknowledging receipt of this Offering Circular and all Exhibits as shown on the Receipt page. It is to be signed by you, one copy retained by you and one delivered to us.