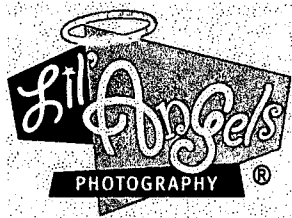


FRANCHISE DISCLOSURE DOCUMENT

LIL' ANGELS, LLC,
A Limited Liability Company
6831 Crumpler Boulevard, Suite 101
Olive Branch, MS. 38654
(662) 890-9103
mikesondag@angelsus.com
<http://www.lilangelsphoto.com>

RECEIVED
DEPT OF CORPORATIONS
SAN FRANCISCO

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INFORMATION FOR PROSPECTIVE FRANCHISE OWNERS REQUIRED BY THE FEDERAL TRADE COMMISSION

The franchise owner will schedule and take pictures of children, families, and those involved in youth organizations.

The total investment necessary to begin operation of a Lil' Angels franchise is from \$46,700 to \$51,200. This investment includes \$45,000 that must be paid to the Franchisor, an affiliate, or a vendor.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "*A Consumer's Guide to Buying a Franchise*," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

The issue date for this Franchise Disclosure Document is April 1, 2012.

**STATE COVER PAGE
REQUIRED BY THE STATE OF CALIFORNIA**

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. **REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.**

Call the state franchise administrator listed in Exhibit D for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following **RISK FACTORS** before you buy this franchise:

- (1) **THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION IN THE STATE OF TENNESSEE. OUT-OF-STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN TENNESSEE THAN IN YOUR OWN STATE.**
- (2) **THE FRANCHISE AGREEMENT STATES THAT TENNESSEE 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) **THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.**

Effective Date: April 29, 2012.

LIL' ANGELS PHOTOGRAPHY®
FRANCHISE DISCLOSURE DOCUMENT

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EXHIBITS

- A. FINANCIAL STATEMENTS
- B. FRANCHISE AGREEMENT
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LIL' ANGELS PHOTOGRAPHY®

Franchise Disclosure Document

Item 1: The Franchisor, and any Parents, Predecessors, and Affiliates.

To simplify the language in this Franchise Disclosure Document, "Lil' Angels" means Lil' Angels LLC, the Franchisor. Throughout this Franchise Disclosure Document, "we" and "our" may be used to refer to Lil' Angels. "You" means the person who buys the Lil' Angels franchise. Further, Lil' Angels Photography® is a registered mark of Lil' Angels, LLC.

Lil' Angels is a Tennessee limited liability company that was formed in May 1996. Lil' Angels does business as Lil' Angels Photography. Our principal business address is 6831 Crumpler Boulevard, Suite 101, Olive Branch, Mississippi 38654.

There is no parent or any affiliate that offers franchises in any line of business or provides products or services to our franchise owners. However, one of the approved photo processing lab for all Lil' Angels franchise owners is United Color Lab, Inc. (hereinafter referred to as "United Color Lab"). Daniel G. Wilmoth, Secretary of Lil' Angels, LLC, has not only an ownership interest in Lil' Angels, but also the sole ownership interest in United Color Lab, which is a Tennessee corporation that was formed in September 1992. Its principal business address is 4041 Hatcher Circle, Memphis, Tennessee 38118. The business of United Color Lab is to process images submitted by its customers throughout the United States. It has not conducted a business of the type to be operated by the franchise owner. Further, it has not offered franchises for the same type of business as that to be operated by the franchise owner. Finally, it has not offered franchises in other lines of business.

There is no predecessor to Lil' Angels.

The registered agent for service of process is Daniel G. Wilmoth, 4041 Hatcher Circle, Memphis, Tennessee 38118.

Franchisor's Business

We grant franchises for the right to provide photography services for families, children, and youth involved in child day care centers, sports, schools, clubs, and other youth-related organizations. While Lil' Angels has not conducted a business of the type to be operated by the Franchise Owner, one of our members has operated a business of the type to be operated by the Franchise Owner in Tupelo, Mississippi since January 1993. We have offered Lil' Angels franchises since January 1, 1998. We have not offered franchises for the same type of business as that offered in this Disclosure Document. Further, we have not offered franchises in any other lines of business, and do not offer franchises in any other lines of business, and do not offer franchises under names other than Lil' Angels.

Franchised Business

You will advertise and contact families, childcare centers, athletic teams and organizations, schools, clubs, and other youth-related organizations to take pictures of children, youth, and families. There is an

expanding market for pictures of children, families, and youth in childcare centers and other child organizations. Although you can normally schedule the date and time for you to take pictures, some childcare centers and other organizations set the times throughout the year for taking pictures.

Once you have taken the pictures, you will have the images developed by photo processing labs approved by Lil' Angels. After you have received the processed pictures from the approved photo labs, you will sell the pictures to the families.

In addition to the charge by the photo lab for processing each picture unit, you will pay a System Fee of \$.52 for each equivalent unit. An "equivalent unit" is a unit of value we have assigned for each processed picture item. This System Fee is subject to an annual modification that is disclosed in more detail in Item 11. When other Lil' Angels Franchise Owners pay the System Fee, you may have the opportunity to receive a portion of the System Fees paid by these other Owners. That is, when a Lil' Angels Franchise Owner that you introduce to the franchise system pays the \$.52 System Fee, you will receive \$.15 from his or her System Fee payment. Further, if the Franchise Owner that you introduced to the franchise system introduces an additional Lil' Angels Franchise Owner to the franchise system, you will receive \$.10 from the System Fee payments made by the additional Lil' Angels Franchise Owner. You have the right to receive these payments from the System Fees for so long as you are a Lil' Angels Franchise Owner. However, you must qualify to receive these payments from the System Fees by meeting your minimum production requirement and being in compliance with the terms and conditions of the Franchise Agreement.

In the operation of your business, you will be competing with national chains and companies and local portrait and photography studios and photographers that offer the same or similar services.

Regulations Specific to Franchised Business

There are no regulations of which we are aware that specifically govern the taking of children's pictures. However, because you will be photographing children, before you can purchase a Lil' Angels franchise, you are required to successfully complete a background check. If you have employees who photograph children, you may require them to undergo a background check. Franchise Owners and their employees, if any, are not required to have prior photography experience. Nevertheless, you will be required to obtain local and state business licenses and permits.

Factors to Consider

In considering whether to purchase a Lil' Angels franchise, you should consider the following factors: (a) you should research the number of photography and portrait studios already in your exclusive area that take pictures of families, children, and youth at daycare centers, (b) you should contact as many franchise owners listed in this document as possible; (c) you should contact any person with whom we have been involved in litigation, as disclosed in Item 3; (d) you should have this entire Franchise Disclosure Document reviewed by your attorney and accountant; (e) you should be aware that any investment, particularly in a franchise, involves a degree of risk, and you should not rely on any estimates of costs, revenues or other operating results other than as contained in this Franchise Disclosure Document.

Item 2: Business Experience.

Chief Manager: Jim Palmer

In June 1980, Mr. Palmer opened his photography studio in Tupelo, Mississippi. Since January 1993, he has concentrated exclusively on providing photography services to childcare centers. In May 1996, he became a member and Secretary of Lil' Angels and in April 2011 he became the Chief Manager of Lil' Angels.

Secretary: Daniel G. Wilmoth

From April 1992 to the present, Mr. Wilmoth has been the sole owner and operator of United Color Lab in Memphis, Tennessee. From May 1996 to the present, he has been a member of Lil' Angels, serving as Chief Manager from May 1996 until August 2010 and Secretary in April 2011 to the present.

In addition to his ownership of and involvement in Lil' Angels, from February 2004 to October 2010, Mr. Wilmoth was an owner and Chairman of the Board of Lil' Pals Pet Photography, Inc., a Memphis, Tennessee franchise company. From July 2007 to the present, he has been a shareholder and secretary of DreamMaker Kids, another Memphis, Tennessee based company that takes pictures of children at Career Days in schools and other venues. From November 2009 to the present, Mr. Wilmoth has been an equal partner in D&E Technologies, a Charlotte, NC company that has developed software which permits Lil' Angels franchise owners to upload images to a photo processing lab and to display pictures in an online store format for viewing by parents of children. Beginning in September 2007 to the present, Mr. Wilmoth is the owner of Coast to Coast Studios, based in Memphis, Tennessee, that licenses the right to take pictures of families in grocery stores and churches and publish church directories.

General Manager: Michael R. Sondag

Mr. Sondag worked as a marketing consultant for businesses in Memphis, TN from December 2000, until May 2002. From May 2002 to August 2010, Mr. Sondag was the Marketing Director for United Color Lab in Memphis, Tennessee. In May 2004, he became a shareholder and Secretary and from June 2005 to October 2010, he served as President of Lil' Pals Pet Photography, Inc., a franchise company in Memphis, Tennessee. In May 2008, he became the Director of Franchises and in August 2010, he became the General Manager for Lil' Angels.

Assistant General Manager: Jim Wells

Mr. Wells served as the controller in charge of all financial matters for United Color Lab from 2002 until August 2010. Beginning in August 2010 until the present, Mr. Wells is the controller and Assistant General Manager for Lil' Angels overseeing all financial matters involving the company and franchise owners.

Item 3: Litigation.

Other than the following matters, there is no litigation that is required to be disclosed in this Franchise Disclosure Document.

Lil' Angels, LLC v Katherine Wright, CH-10-2035, was filed on November 5, 2010 in the Chancery Court of Shelby County, Tennessee against Katherine Wright who was a former franchise owner. We alleged that although Mrs. Wright terminated her relationship as a franchise owner, she continued to do take pictures in her area in violation of a covenant not to compete. As a result we sought an injunction prohibiting her from competing in her former territory and damages for legal fees and expenses of litigation. On March 2, 2011, a Consent Order was entered by the court through which Mrs. Wright was enjoined from further breaches of the franchise and termination agreements and ordered to pay the sum of \$2,500 in damages.

Lil' Angels LLC v Ray and Doni Anderson, CH-11-1333, was filed on August 12, 2011 in the Chancery Court of Shelby County, Tennessee against Ray Anderson and Doni Anderson, (the "Andersons") former franchise owners. We alleged that upon receiving proper notice, the Andersons failed to pay system fees so their franchise was terminated. As a result we sought money damages for the system fees, attorney fees, court costs, and expenses of litigation. A default judgment was entered on October 14, 2011 and a final judgment was entered on January 17, 2011 requiring the Andersons pay the sum of \$8,170.07 in damages and costs. We are seeking to enforce the collection of the judgment.

Lil' Angels, LLC v Doris Casselton, CH-11-1908, was filed on December 22, 2011 in the Chancery Court of Shelby County, Tennessee against Dorris Casselton, a former franchise owner now residing in Puerto Rico. A companion case, *Lil' Angels, LLC v Rhonda Milford*, CH-11-1909, also was filed on December 22, 2011 in the Chancery Court of Shelby County, Tennessee against Rhonda Milford, a former franchise owner now residing in Puerto Rico. In both cases, the former owners terminated their franchise relationships with us, moved to Puerto Rico, and immediately used our proprietary forms, information, and pictures in beginning a photography business and used our system to compete in the marketplace. As a result, we sought an injunction to restrain them from using our proprietary information, together with damages and expenses of litigation. An Answer has not been filed and the case is pending.

Item 4: Bankruptcy.

There is no bankruptcy information that is required to be disclosed in this Franchise Disclosure Document.

Item 5: Initial Fees.

The initial fees of \$45,000 consist of the following:

All Franchise Owners will pay to us a nonrefundable Initial Franchise Fee of \$35,000. This fee is paid through a \$35,000 Cashier's Check upon execution of the Franchise Agreement; and,

All Franchise Owners will purchase \$10,000 of photography equipment and supplies plus applicable taxes and any shipping expense, at least 30 days before they commence training. This nonrefundable amount is paid in a lump sum to us or other vendors.

Item 6: Other Fees.

The table in this Item sets forth all other fees or payments that you must pay to Lil' Angels, or our affiliates, or that we collect on behalf of a third party, after you pay the Initial Franchise Fee:

OTHER FEES

Type of Fee	Amount	Due Date	Remarks
Photo Lab Processing Charges	\$.85 for each equivalent unit of every portrait package	Upon shipment of the order by the photo lab	Note 1
System Fee	\$.52 for each equivalent unit of every portrait package	Upon shipment of the order by the photo lab	Note 2
Shipping Fee	\$9.80 for each order	Upon shipment of the order by the photo lab	Note 3
Additional Owner Training	\$2,000.00 per person	Before additional training begins	See Item 11 for training after initial owner training.
Transfer Fee and Training Fees	15% of the then current Initial Franchise Fee as an assignment or \$500/year for an assumption plus a training fee of \$2,000 and a field training fee of \$2,500	Upon the transfer of your Franchise Agreement	Either you or the transferee must pay these fees when the Franchise Agreement is signed.

NOTES:

(1) After the pictures have been taken, you will send the images to one of the approved photo labs to be processed. When the order has been processed, you must pay the amount charged by the photo lab to process the pictures together with the System Fee. Although the photo lab may adjust its processing charges, the current amount is \$.85 for each equivalent unit of your portrait packages. You will pay the System Fee and the photo lab processing charge when we charge the total amount on your pre-authorized debit or credit card.

(2) You will pay a System Fee of \$.52 for each equivalent unit, as disclosed in Item 11. This System Fee is in addition to the photo lab charge to process these picture packages. This \$.50 System Fee is paid as follows:

\$.27 Lil' Angels

\$.25 Lil' Angels Franchise Owners as a Commission, if applicable. (See Item 11 for more information on Commissions)

Finally, the System Fee shall be modified annually beginning on the first Monday in January of every year following the execution of the Agreement. The modification shall be based upon the average of the Unadjusted Percent Change in Miscellaneous Personal Services for the three calendar months of the third quarter of every prior year to the three calendar months of the third quarter of the current year, as reported in the Consumer Price Index for All Urban Consumers (CPI-U); U.S. City Average (1982-84=100). During the fourth quarter of every year following execution of this Agreement, we shall advise you of the modification to the System Fee and the amount of the

new system fee. You shall be responsible for notifying us of any mathematical errors in computing the modification to the system fee.

- (3) You will pay for mailing the images to an approved photo lab for the processing of the photos or may transfer the images to an approved photo lab through the use of the internet. Once the finished pictures are ready to send back to you, the photo lab will pack your pictures and charge you a shipping fee of \$9.80. If the cost for mailing the pictures is greater than \$9.80, the photo lab will pay the balance. However, if you need the pictures to be mailed in an expedited manner, you will pay all costs of mailing. In the event that UPS or another similar shipper increases the costs to mail the developed photos back to you, the photo lab reserves the right to adjust the amount of the shipping fee.

All fees are payable to and imposed and collected by Lil' Angels. Further, all fees are non-refundable and are uniformly imposed. There are no fees imposed by cooperatives.

Item 7: Estimated Initial Investment.

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee	\$35,000(7)	One Cashier's Check	Upon signing the Franchise Agreement	Lil' Angels
Equipment and Supplies(1)	\$10,000 (7) plus applicable taxes and shipping costs	Lump Sum	Before your Training begins	Lil' Angels or vendors
Travel and Living Expenses For You and Your Employees During Training (2)	\$500 to \$1,000	As Incurred	During Training	Airlines, Hotels & Restaurants
Credit Card Machine (3)	\$0- to \$1,200	Lump Sum	Before your first photo shoot	Bank
Deposits and Licenses (4)	\$100 to \$500	Lump Sum	Before your begin operation	City, County, and Suppliers
Miscellaneous Opening Costs (5)	\$500 to \$1,000	Lump Sum	Before you begin operation	Suppliers
Additional Funds –Initial Period (6)	\$600 to \$2,500	As Incurred	As Incurred	Photo Lab, gas, meals, travel
TOTAL (8)	\$46,700 to \$51,200			

NOTES:

- (1) You may purchase this equipment and supplies from Lil' Angels or from other vendors that we approve. The New Owner Training Class will include hands-on picture taking experience with the equipment, so you must have the equipment and supplies before the training class begins.
- (2) Lil' Angels pays for the cost of lodging at the host hotel during the initial New Owner Training Classes for the two persons you designate. Further, Lil' Angels furnishes the noon meals during the New Owner Training Classes. You will pay all other costs associated with the training. To assist with transportation, meetings, and training schedules, you must stay at the designated host hotel during the training.
- (3) You will need to obtain a credit card machine that you can take to your photography shoots in order to accommodate those families who wish to pay for their picture packages through their debit or credit cards. If you have a machine, you do not need to purchase another one. If you do not already have a credit card machine, you may obtain a machine that will use a phone line for approximately

\$350. The higher amount shown in the table is an average of the amount to be charged by a bank for a wireless machine, forms, and deposit.

- (4) Lil' Angels recommends that all Franchise Owners operate from their home, rather than from a storefront or photo studio location. Thus, there are no expenses to be paid that are associated with real estate acquisition, leasehold improvements, or signs. The deposits and licenses are an estimate for a business phone line and local business licenses.
- (5) This is an estimate of the expenses for the first three months of the operation of your business. These expenses include payroll costs, if any, legal, and accounting charges. Because these figures are estimates, we cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as: how much you follow our methods and procedures; your management and marketing skill; experience and business acumen; local economic conditions; the local market for our product; the competition; and the sales level reached during the initial period.
- (6) After you have taken your first pictures, you will submit the images to an approved photo-processing lab. After the lab completes the processing of your images, you will be charged for the pictures.. Although this amount varies with the number of images taken during this first photo shoot, the average amount is \$600. Once you have received the finished pictures, you will sell them to the parents of the children you have photographed. Depending upon the distance of the photography shoots from your location, you will pay for gas, meals, and other travel related expenses. Income from your job or from your spouse's or another's job will meet additional living expenses.
- (7) We will finance the amounts representing the Initial Franchise Fee and Equipment and Supplies of your initial investment. As explained more fully in Item 10, after you pay to us \$19,000 plus any sales taxes and shipping costs, we will finance an amount up to \$10,000 over 24 months at an annual interest rate of 7.99%. The estimated maximum monthly loan payment is \$452.23. This financing arrangement is available for new territory purchases only. It does not apply to transfers or assignments of territories.
- (8) We used our years of experience to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the Lil' Angels franchise. Further, Lil' Angels does not offer direct or indirect financing to Franchise Owners for any item.

THERE ARE NO OTHER DIRECT OR INDIRECT PAYMENTS TO THE FRANCHISOR IN CONJUNCTION WITH THE PURCHASE OF THE FRANCHISE. FURTHER, ALL FEES THAT ARE PAYABLE TO LIL' ANGELS ARE NON-REFUNDABLE.

Item 8: Restrictions on Sources of Products and Services.

First, in order to maintain the high uniformity and quality of services throughout the Lil' Angels System, you must use certain equipment and supplies. The main components of the equipment and supplies consist of the following:

Canon Professional Digital Cameras with lens	Einstein Professional Lights
Camera Case	Cargo Box
Tools	Light Stands
Posing Table	Costume Outfits
Tripod	
Backgrounds	
Laptop Computer	

In order to maintain further uniformity and quality of services throughout the Lil' Angels System, you must use certain vendors from which to purchase the equipment and supplies. You may purchase the equipment and start up supplies from Lil' Angels.

If any of these supplies or camera equipment is lost, damaged, or stolen, you must buy similar camera equipment or supplies that meet our specifications from any source of your own choosing. We are an approved supplier for the camera, equipment, props, costumes, and supplies. The specifications for the camera, equipment, props, costumes, and supplies include standards for type and model of camera and type, make, color and sizes of props, costumes, and supplies.

Second, you must send all your images to photo processing labs that have been approved by Lil' Angels to process your images. We will make available to you the prices for photo processing prior to signing the Franchise Agreement.

Third, you must maintain the minimum insurance coverage set forth in Section 6.11 of the Franchise Agreement. For all insurance, you must include Lil' Angels as an additional named insured and loss payee (if applicable) as well as furnish us with proof of such coverage every twelve (12) months. Because insurance premiums vary greatly with companies and with business insurance packages, it is extremely difficult to give an exact figure or even an approximate figure for the annual or monthly insurance costs. Insurance fees are paid to an insurance agency, person, or entity chosen by you.

We have established certain written standards and specifications that photo processing facilities must meet to service the Lil' Angels Franchise Owners. These specifications include standards for quick processing of images, product quality, processing procedures, placing the logo on the finished picture, fees, shipping costs, billing, credit terms, procedures for handling returns, and reputation in the market place.

In addition, we have established certain specifications that vendors must meet to sell cameras, equipment and supplies to the Lil' Angels Franchise Owners. These specifications include standards for quality of equipment and supplies, comprehensive support and replacement policies, quickness of providing the equipment and supplies, and reputation in the market place. If you wish to purchase the camera, equipment and supplies from a vendor other than Lil' Angels, you must submit a written request to us. We will evaluate the proposed vendor through the use of the approval specifications.

If you should like to have us review a product or service to add to our approved list, you should send a written request together with the product and written information about the services to Lil' Angels. We will first evaluate the product or service to see if its addition would fit the Lil' Angels System. This is an arbitrary decision made by the management of Lil' Angels. We or a Franchise Owner will test the product or service for a period of time sufficient to evaluate adequately its benefits. Further, we or a Franchise Owner will test the product or services' ability to add to the revenue of any Franchise Owner's business, the ease of implementing the product or service, the services available from the manufacturer or seller of the product, the quality, historical background and stability of the manufacturer or seller, the "fit" with the Lil' Angels System, and many other elements, both tangible and intangible. This testing process may take as long as three to six months and there is no fee charged to evaluate potential suppliers.

We will notify you and the product and equipment supplier in writing of our approval within 30 days from the date we have all the information to complete our evaluation process.

Upon request, we will provide our criteria for approving suppliers and provide our specifications and standards to you and approved suppliers. We have used our experience and the experience of other Franchise Owners to issue and modify our specifications. An approval may be revoked if the supplier fails to provide goods and/or services to Franchise Owners according to our standards and specifications.

Except as described above, you need not purchase from or deal with specific people or companies to buy goods or services required in the operation of your business. In the Operations Manual and other materials you will receive at training, following the signing of your Franchise Agreement, we have listed certain approved cameras, equipment, products, goods, and supplies along with a list of approved vendors, including Lil' Angels.

We derive revenue from purchases you make from us. In the year ending December 31, 2011, franchise owners paid us \$2,051,308 for photo processing charges and supplies, which represents approximately 98% of our total revenues of \$2,105,630. The payment for photo processing and supplies from approved sources will constitute approximately 35% of your overall expenses for the operation of the Lil' Angel's franchise.

For the period ending December 31, 2011, we paid the approved photo processing labs \$1,178,866 for photo processing and supplies.

Except for the supplier of frames, which pays us 10% of your purchases, and the photo processing labs, which credits us with a management fee of up to 11.25% of your orders, approved suppliers do not make payments to us from your purchases. We reserve the right to increase the management fee from the photo processing labs to 25%.

We do not negotiate purchase arrangements with suppliers and we do not provide material benefits to a Franchise Owner based upon their use of approved sources. Finally, there are no purchasing or distribution cooperatives.

Item 9: FRANCHISE OWNER'S OBLIGATIONS.

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 disclosure document.

Obligation	Section in Franchise Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Not Applicable	Items 7 and 11
b. Pre-opening purchases/leases	Not Applicable	Items 7 and 8
c. Site development and other pre-opening requirements	Not Applicable	Items 7 and 11
d. Initial and ongoing training	Sections 5.2 and 6.1	Items 7 and 11

e. Opening	Not Applicable	Item 11
f. Fees	Section 3	Items 5 and 6
g. Compliance with standards and policies/Operating Manual	Sections 6.9, 6.16, and 6.18	Items 11 and 16
h. Trademarks and proprietary information	Sections 6.3 and 6.10	Items 13 and 14
i. Restrictions on products/services offered	Section 6.8	Items 8 and 16
j. Warranty and customer service requirements	Not Applicable	Not Applicable
k. Territorial development and sales quotas	Sections 1.3 and 9.4	Item 12
l. Ongoing product/service purchases	Section 6.8	Item 8
m. Maintenance, appearance, and remodeling requirements	Section 6.16	Item 11
n. Insurance	Section 6.11	Items 6 and 8
o. Advertising	None	Items 6 and 11
p. Indemnification	Section 6.12	Item 17
q. Owner's participation/management/staffing	Section 6.13	Items 11 and 15
r. Records and reports	Section 6.6	Item 8
s. Inspections and audits	Section 6.7	Item 17
t. Transfer	Section 11	Item 17
u. Renewal	Section 2.2	Item 17
v. Post-termination obligations	Section 9.6	Items 15 and 17
w. Non-competition covenants	Section 7	Items 12, 15 and 17
x. Dispute resolution	Section 10	Item 17
y. Other	Not Applicable	Not Applicable

Item 10. Financing

We do not offer direct or indirect financing to Franchise Owners for any item.

Item 11: Franchisor's Assistance, Advertising, Computer Systems, and Training

Except as listed below, Lil' Angels is not required to provide you with any assistance.

(1) Pre-Opening Obligations

We do not provide assistance in locating a site and negotiating the purchase or lease of a site. We do not generally own the premises and lease it to the Franchise Owner. In place of operating a storefront location, we recommend that you operate out of your home.

(2) Length of Time to Open Your Business

It typically takes from one to three months after you sign the Franchise Agreement to open your business. The factors that affect this time are the dates for the New Owner Training Classes and the field training program, legal and accounting matters that pertain to your business entity, and the schedules of the operators of the day care centers, schools, clubs, and other youth-related organizations in preparation for your initial meeting with them.

(3) On-going Obligations of Lil' Angels

A. Hold additional training classes. (Section 5.2 of the Franchise Agreement)

Lil' Angels also holds additional classes and programs to assist you in offering the latest portrait styles and techniques and to give you further sales, management, and marketing information. These classes will be held in the Greater Memphis Metro Area, or other agreeable locations. The charge for additional training is \$2,000 per person. Although Lil' Angels will pay for the noon lunches during the training, you must pay all travel, lodging, meals, personal expenses, compensation, and other expenses associated with this type of training for you and your employees.

B. Consult with all Franchise Owners. (Section 5.3 of the Franchise Agreement)

Lil' Angels will give advice to and consult with you about operating and growing your business. Further, we will work to improve the Lil' Angels System. We will look for and test new services and products. Once a new service or product is approved, we will introduce it to you for implementation in your business.

C. Update the Basic Training Manual and materials. (Section 5.1 of the Franchise Agreement)

Lil' Angels will update and revise the Basic Training Manual as new services, products or other developments are made to the system.

D. Pay the Commissions to Franchise Owners. (Section 4.1 of the Franchise Agreement)

You will pay a System Fee of \$.52 for each equivalent unit. This System Fee is in addition to the photo lab charge to process these picture packages. Further, this fee is subject to an annual modification that is based upon the average of the Unadjusted Percent Change in Miscellaneous Personal Services for the three calendar months of the third quarter of every prior year to the three calendar months of the

third quarter of the current year, as reported in the Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average (1982-84=100). This System Fee is paid as follows:

- \$.27 Lil' Angels
- \$.25 Lil' Angels Franchise Owners as a Commission, if applicable.

Every Franchise Owner has the opportunity, but not the requirement, to introduce other potential Franchise Owners to the Lil' Angels franchise system. In the event the referred person purchases a Lil' Angels franchise, **you will not receive any part of the Initial Franchise Fee that he pays or any Commissions or other monetary or other benefit as a result of that purchase. That is, when you introduce other potential Franchise Owners to the Lil' Angels franchise system, you will not be offering or granting franchises or acting as a franchise seller.**

However, you do have the right to receive Commission payments from the System Fees paid by Franchise Owners that you have referred for so long as you are a Lil' Angels Franchise Owner.

Specifically, you will receive Level One Commission from the System Fees that he pays for the on-going operation of his business. In the further event he refers an additional person who purchases a Lil' Angels franchise, **neither you nor he will receive any part of the Initial Franchise Fee that he pays or any Commission or other monetary or other benefit as a result of that purchase.** Yet, you will receive Level Two Commission from the System Fees paid by the referred Franchise Owner for the on-going operation of his business.

The Commissions are as follows:

Level One Commissions

\$.15

Level Two Commissions

\$.10

There is no maximum number of Franchise Owners you can refer to us, nor is there a maximum dollar amount of Commission you can earn. However, to receive any Commissions, you must first meet the requirements for referring a potential Franchise Owner. The Commissions will be paid to natural persons and not to business entities. If you operate as a business entity (partnership, Limited Liability Company, corporation or other similar arrangement), for you to become vested in the right to receive Commissions, you must be an ongoing, materially participating, majority owner of the entity to receive Commission payments.

Although there is no minimum amount of pictures you must sell, before you can receive the Level One and Level Two Commissions, you must qualify to receive the Commissions. First, you must pay the sum of \$5,000 in photo lab processing charges and System Fees within each calendar quarter. This amount is called the Quarterly Production Requirement. In addition, you must be in compliance with the terms and conditions of the Franchise Agreement. In the event you do not meet this Quarterly Production Requirement in any calendar quarter or you are not in compliance with the terms and conditions of the Franchise Agreement, you shall not be entitled to receive any future Commissions. However, when you do pay the Quarterly Production Requirement in any subsequent calendar quarter and cure any breach of the Franchise Agreement, if curable, you again shall be entitled to receive both levels of Commissions beginning with the month in which you paid the \$5,000 amount and comply with the terms and conditions of the Franchise Agreement.

In the event the Franchise Owner on whose behalf you were receiving Level One or Level Two Commissions is terminated or his franchise agreement is canceled or his ownership interest is transferred, you will not receive any future Commissions on behalf of that Franchise Owner. The right to receive Commission payments may not be transferred.

(4) Advertising Program

There is no required advertising program in which you must participate. Furthermore, there is no advertising council. If you wish to use advertising materials that you have produced, you should submit the materials to us for our review prior to their use. It is vitally important that you schedule and attend personal meetings with families, personnel in child care centers and other youth-related organizations to discuss the program of Lil' Angels.

Lastly, you may use electronic media, including the Internet, in the operation of your business. However, you must not place information through the electronic media that will (1) materially impair the exclusivity of the marks or their goodwill; (2) detract from the successful operation of any Franchise Owner or the Franchisor; (3) violate any business policy, practice, procedure or obligation prescribed in any manuals or by us; or (4) result in unreasonable litigation or public criticism of the Franchisor, the franchise business or system, its marks or the photography profession.

(5) Electronic Cash Registers and Computer Systems

You are not required to buy or use an electronic cash register or particular computer system. However, it is advisable that you use a computer system to manage your business and to process the orders for pictures.

(6) Operation Manual. (Section 5.1 of the Franchise Agreement)

Upon completion of the New Owner Training Class, we will loan you a 135 page Basic Training Manual for your use. The Basic Training Manual will remain the property of Lil' Angels and must be returned to us at your expense, without copying or duplicating in any way, when your Franchise Agreement is terminated or expires. We will update the Basic Training Manual as new services, products or other developments are made to the system.

The following is the Table of Contents of our Basic Training Manual that will be provided to all Franchise Owners:

**Basic Training Manual
Table of Contents**

<u>Section</u>	<u>Number of</u>
<u>Pages</u>	
Operation	25 Pages
Fashion.....	74 Pages
School Days	21 Pages
Forms	39 Pages
Sales	36 Pages

ROES	40 Pages
Green/Black	3 Pages
Directory	4 Pages
Miscellaneous	31 Pages
	Total 273 Pages

(7) Training Program. (Section 5.2 of the Franchise Agreement).

We will train you and your manager or one other person you designate after you have signed the Franchise Agreement and before you begin operation of the business or before a manager begins to manage your business. If you hire a photographer to take pictures on your behalf, the photographer must also attend and successfully complete the initial owner training program. Alternatively, if we have certified you to train your photographers, you may train any hired photographers before they commence to take pictures for you.

There will be no charge for two people to attend the initial owner training class. However, after the designation of these two people, you will be responsible to pay a training fee of two thousand dollars (\$2,000) per person for additional Franchise Owners, managers, and photographers who attend the franchise owner training class.

The initial owner training consists of a New Owner's Training Class and a field training program in your territory. The New Owner's Training Class is held in the Greater Memphis Metropolitan Area for a six to seven-day period. Classes are held approximately quarterly, but may be canceled if a minimum number of three new Franchise Owners do not register to attend. The maximum time that you may have to wait to attend the training would be four months. The classes are held in hotels and other facilities and cover an in depth discussion of the Lil' Angels System, principles of small businesses, financial operations, marketing techniques, business management and technical photography training. During the training, you must stay at the designated host hotel.

The instructors of the New Owner's Training Classes are listed in Item 2. Their experience is also set forth in Item 2. In addition, Gretchen Flores, Kathleen Lineberry, Steve Martin, and Jack and Cheri Taylor may teach parts of the classes. Their qualifications to teach the classes are:

Gretchen Flores

Since 1998 Gretchen Flores has been an owner and operator of a Lil' Angels Photography franchise in River Ridge, Louisiana.

Kathleen Lineberry

From 1999 to the present, Kathleen Lineberry has worked at CPQ Professional Imaging, a photo processing company in Cleveland, Tennessee. She has extensive experience in training customers and staff on a number of digital photography software programs together with the production interface and workflow involving those programs. In her current position as Production Coordinator, she has helped to not only develop new products, but also market and implement the new photography products and services.

Steve Martin

Since 2002, Steve Martin has been an owner and operator of a Lil' Angels Photography franchise in Cookeville, Tennessee.

Jack and Cheri Taylor

Since 1997, Jack and Cheri Taylor have been owners and operators of a Lil' Angels Photography franchise in Summerfield, Florida.

You and your manager or photographer, who will be responsible for the day-to-day operation of the business or photographing children using the Lil' Angels System, must attend the New Owner Training Classes before you begin the operation of the Lil' Angels franchise. However, you may train your hired photographer before he or she begins to photograph children, youths, and families, if we have certified you. The training will consist of instruction, all classroom materials, homework, and hands-on training. During the initial owner training, we will pay for your lodging expense, but you will be responsible for your own and your employee's travel, meals, personal expenses, compensation and other expenses while attending training. Further, you must successfully complete the following classes to our satisfaction:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of on the Job Training	Location
Orientation, Sales and Small Business Issues	3.0 Hours	0 Hours	Hotels in the Greater Memphis Metro Area
Camera, Technical skills, Set up,	5.0 Hours	0 Hours	Hotels in the Greater Memphis Metro Area
Marketing and Lab procedure	6.5 Hours	0 Hours	Hotels in the Greater Memphis Metro Area
Selling and Record Keeping	3.0 Hours	2.0 Hours	Hotels in the Greater Memphis Metro Area
Fashion and School Day Photos and Booking	4.0 Hours	1.0 Hours	Hotels in the Greater Memphis Metro Area
School Day Photos	1.0 Hours	6.0 Hours	Hotels in the Greater Memphis Metro Area
Green Screen, Black Background, High Key and Kids EMOTION	0 Hours	10 Hours	Hotels in the Greater Memphis Metro Area

Fashion Photos	2.0 Hours	10.0 Hours	Hotels in the Greater Memphis Metro Area
Field Training to implement all aspects of the Lil' Angels System	0 Hours	20 Hours	At business location of Franchise Owner in the territory

If we are not satisfied that you have successfully completed the program, you must attend and successfully complete the next scheduled New Owner Training Class.

Following the New Owner's Training Class, we will have a person listed in Item 2 or a teacher of the New Owners Training Class come to your territory for the second portion of the initial owner training. This field training will consist of a one-week period of hands-on implementation of the Lil' Angels System, including solicitation of business prospects, booking the prospects, scheduling photography shoots, taking the pictures in different situations, forwarding the images to the approved photography labs, receiving the processed images, selling the images, and paying and reporting the sales to the appropriate taxing authorities, the photo labs, children's centers, and us.

Additional training programs and refresher courses are provided for all Franchise Owners. While attendance is not required at these additional training programs, it is recommended that you attend.

Item 12: Territory

We will grant you an exclusive territory with an average population of 300,000 or approximately 150 childcare centers. We will define the limits of the territory by highways, roads, and county boundaries. However, you will operate from one location, usually your home, and must receive our permission before relocating. If you were to move or otherwise relocate outside of your territory, we would base our approval of the relocation of your business or your establishment of additional franchise operations on the payment of any required initial franchise fee, and/or your successful implementation of the Lil' Angels System in your territory.

While you may use the names and trademarks that have been granted to you in the operation and conduct of your business within your exclusive territory, you may not operate or conduct any business outside of your exclusive territory without our written permission. We will not operate a Lil' Angels business or permit the operation of any other Lil' Angels franchised business within your defined territory. Neither Lil' Angels nor other Franchise Owners can solicit or accept orders inside your defined territory without your prior written permission. Further, you may not solicit or accept orders outside your defined territory. To protect you and all other franchise owners, we will assess a fee of \$5,000 per event and require the submission of event sheets from any franchise owner who shoots outside his or her defined territory.

In addition, you do not have the right to use other channels of distribution to make sales outside of your territory. Neither we nor an affiliate has used or reserved the right to use other channels of distributions to make sales within your territory under our principal trademark or under other trademarks. Further, neither we nor an affiliate have plans to operate or franchise a business under a different trademark.

In the event Lil' Angels secures a national account that has one or more locations in your territory, you must take photographs at the location(s) and comply with the procedures set forth in the national agreement. In the event you choose to not take photographs at the location, or not comply with the national account procedures, or do not meet the standards of the account, we reserve the right to take photographs at the location(s) to maintain the national account for the benefit of the system and other Lil' Angels franchise owners.

You do not receive the right to acquire additional franchises. Further, you maintain rights to your area even though the population increases. There are no other sales volume amounts, market penetration requirements or other contingencies that you must achieve to maintain your franchise rights.

You must pay the Quarterly Production Requirement of \$5,000 in photo lab processing charges and system fees during each calendar quarter. However, for the four calendar quarters in 2012 only, we modified the production requirements as follows:

Calendar Quarter	Production Requirement
First	\$4,000
Second	\$5,000
Third	\$3,000
Fourth	\$5,000

If you are a new Franchise Owner to the Lil' Angels System or if you purchased your franchise territory as an assignment from an existing Lil' Angels Franchise Owner, you must meet the Quarterly Production Requirement for each calendar quarter beginning with the first calendar quarter following the six-month anniversary of the date you signed the Agreement. If you purchased your franchise by assuming the remaining term of a franchise owner when you executed the Agreement, you must meet the Quarterly Production Requirement beginning with the first complete calendar quarter following the date you signed the Agreement. Finally, if you were an existing Lil' Angels Franchise Owner and renewed your franchise through the Agreement, you must meet the Quarterly Production Requirement beginning with the calendar quarter in which you signed the Agreement.

If you do not meet the Quarterly Production Requirement in any calendar quarter after the requisite time period, we will give you the opportunity to avoid the termination of your franchise by providing written notice that you will have thirty days within which to pay the Minimum System Fee Payment (hereinafter referred to as "MSFP"). Payment of the MSFP avoids the termination of your franchise; it does not permit you to receive any Commissions.

The MSFP is calculated as follows:

- Subtract your actual production from the minimum Quarterly Production Requirement to obtain the Production Requirement Shortage.
- Divide the amount of the Production Requirement Shortage by the Quarterly Production Requirement to determine the percent of the shortage from the Quarterly Production Requirement.
- Multiply this percentage by the Minimum System Fee Base of \$1,500 to determine the Minimum System Fee you must pay.

As provided in Section 9.4 of the Franchise Agreement, if you do not make the MSFP within the thirty day time period, the Franchisor may terminate your franchise.

Item 13: Trademarks

Under your Franchise Agreement, Lil' Angels grants you the right to use all of its names and trademarks (the "Marks") currently used or which may later be used in the operation of Lil' Angels photography business.

The following marks are registered with the United States Patent and Trademark Office on the Principal Register:

Service Mark: Lil' Angels Photography
Serial Number: 2,137,312
Registration Date: February 17, 1998, renewed February 17, 2008

Service Mark: Lil' Angels Photography with quadrilateral shapes
Serial Number: 3,569,590
Registration Date: February 3, 2009

Lil' Angels owns all rights to the Marks listed above. You may use the Marks in the operation of your business. However, you may not use any of the Marks or any derivative of them in your business name.

There are no presently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the Trademark Administrator of this state, any court of this state, and no pending interference, opposition or cancellation proceeding or material litigation involving the Marks. There are no agreements currently in effect which significantly limit our rights to use or license the use of the Marks in any manner material to your business.

Lil' Angels is not obligated by the Franchise Agreement to protect any and all rights that you have to use the Marks or to protect you against any claims of infringement or unfair competition with respect to the Marks. We have no plans for compensating Franchise Owners for any modification or loss of the right to use any of the Marks. If you become aware of another person or party using the Marks or similar trademarks to those we license to you in the Franchise Agreement, you must notify us immediately of this use.

Lil' Angels is not obligated under your Franchise Agreement to compensate, indemnify, or defend you in any proceedings regarding the use of the Marks. Should you be prohibited from using the Marks, Lil' Angels will agree to a mutual termination of the Franchise Agreement and full mutual releases of all liability thereunder.

Lil' Angels does not know of any superior prior rights or infringing uses that could materially affect your use of our Marks.

Item 14: Patents, Copyrights, and Proprietary Information.

We do not own rights in, or licenses to any patents or copyrights that are material to the franchise. Further, we do not have any pending patent or copyright applications that are material to the franchise. In addition, we are not aware of any current, material determinations of the United States Patent and Trademark Office, the United States Copyright Office or a court regarding any patent or copyright that affects the franchised business. Finally, we are not aware of any proceedings that are pending in the United State Patent and Trademark Office or any court that are material to the franchise.

We are not obligated by the Franchise Agreement to protect the patent, patent application, or copyright or to defend you against claims arising from your use of patented or copyrighted items. We do not know of any patent or copyright infringement that could materially affect you.

Nevertheless, we claim copyright protection and a proprietary interest in all written, printed, and video materials we use in conjunction with the Lil' Angels System. We know of no party infringing upon the use of our written, printed, and video materials or proprietary information.

You must notify us immediately if you become aware of any party infringing on information we claim as proprietary.

Item 15: Obligation to Participate in the Actual Operation of the Franchise Business.

You must at all times retain and exercise management control over your business, unless Lil' Angels approves otherwise in writing. You are an independent contractor, and as such must exercise full, complete, and unfettered control over, and have full responsibility for any employee and labor relations matter involving your employees and for any sales and picture issues that may arise as a result of photographing children and selling the photographs. While the Franchise Agreement does not require you to participate in the direct, day-to-day operations of your studio, we recommend that you become personally involved in the direct operation of your business.

Any supervisor or photographer must successfully complete the initial training program before they commence their responsibilities. Although there is no required equity interest that a supervisor must have in your business, a supervisor must agree to maintain our trade secrets and to not compete with you.

Item 16: Restrictions on What the Franchise Owner May Sell.

You must sell only goods or services that have been approved by Lil' Angels. We have the right to add additional authorized services and products that you will offer. There are no limits on our right to add additional services and products. Further, we retain the right to approve or disapprove goods or services that you may sell.

Item 17: Renewal, Termination, Transfer and Dispute Resolution

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Franchise Disclosure Document.

Provision ⁽¹⁾	Section in Franchise Agreement	Summary
a. Length of the franchise term	Section 2.1	10 Years
b. Renewal or extension of the term	Section 2.2	In the discretion of the Franchisor, which will not be unreasonably withheld, you may apply for an additional term of 10 years

c. Requirements for franchisee to renew or extend	Section 2.2	The term "renewal" in the Lil' Angels System, means you may continue to operate your franchise business, but under the then current Franchise Agreement at the end of the term of your original Franchise Agreement. To renew or extend the term of your Franchise Agreement, you must give notice, sign the then current Franchise Agreement, which may have materially different terms and conditions than your original contract, attend training class, upgrade your equipment and supplies to the ten current requirements, and sign a general release
d. Termination by franchisee	Section 9.1	If we commit a material breach of the Franchise Agreement, you must give us written notice and time to cure
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with cause	Sections 9.2 and 9.3	Your Franchise Agreement can be terminated if you default
g. "Cause" defined – curable defaults ⁽²⁾	Section 9.3	Any material breach of the Franchise Agreement, including: you violate the Franchise Agreement or a requirement of any manual, you continually fail to comply with written policies of Franchisor and/or the requirements of this Agreement after you receive notice, you fail to provide required services, you fail to pay any fee or other payment obligation to us or an approved vendor, you fail to submit reports or data or supply false reports or data, you transfer any rights without our consent, you file for bankruptcy, you make an assignment for the benefit of creditors, you do anything that impairs the exclusivity of the Marks or their goodwill, you commit an act that detracts from the successful operation of another owner or Lil' Angels, you violate any business policy, practice or procedure, you engage in any activity that impairs the System, you fail to maintain a designated manager or you make a material misrepresentation relating to the acquisition of the franchise
h. "Cause" defined – non-curable defaults	Section 9.2	Failure to pay any required financial obligation within 30 days after receipt of notice, failure to pay a monthly loan payment within 15 days of the due date under a financing arrangement with us, abandonment of franchised business, conviction of criminal misconduct, seizure of business, loss of license to operate the business, failure to comply with any law applicable to the franchise and violation of the safety and accountability policies
i. Franchisee's obligations on termination/non-renewal	Section 9.6	Complete cessation of operation, payment of all amounts due and system fees for the remaining term of Agreement, return of all manuals, and abide by covenant not to compete (also see (r) below)
j. Assignment of contract by franchisor	Section 11.1	No restrictions.
k. "Transfer" by franchisee - defined	Section 11.2	The term "transfer" includes transfers of the franchise and assets or ownership change and shall include an assignment or an assumption

l. Franchisor approval of transfer by franchisee	Section 11.2	Based on evaluation of new owner, but will not be unreasonably withheld
m. Conditions for franchisor approval of transfer	Section 11.2	Transferee owner qualifies, you satisfy all debts owed to Lil' Angels, pay the transfer fee, have transferee sign the new Franchise Agreement, sign a general release, deliver necessary documents to transferee, insure transferee purchases required equipment and supplies, and you or transferee pays for the transferee to attend and successfully complete the New Owner Training Class and field training program
n. Franchisor's right of first refusal to acquire franchisee's business	Section 11.2	You must first offer the sale of your business to Lil' Angels, which must accept your offer within 30 days
o. Franchisor's option to purchase franchisee's business	Not Applicable	Not Applicable
p. Death or disability of franchisee	Section 12	No automatic transfer through probate, heirs must qualify (See (l) & (m) above)
q. Non-competition covenants during the term of the franchise	Section 7	You may not participate in any business that is in any way competitive with a Lil' Angels franchise
r. Non-competition covenants after the franchise is terminated or expires ⁽³⁾	Section 7.2	You may not participate in any business that is in any way competitive with a Lil' Angels franchise and which is within fifty miles of any Lil' Angels' territory for the remaining unexpired term of your Franchise Agreement or two years from termination of your Franchise Agreement, whichever is longer
s. Modification of the agreement	Section 16.4	Must be in writing, signed by you, and accepted by Lil' Angels, manuals may be revised by us unilaterally
t. Integration/merger clause	Section 16.3	Only the terms of the Franchise Agreement are binding (subject to state law), any other promises may not be enforceable
u. Dispute resolution by arbitration or mediation	Section 10	All disputes are first subject to arbitration in Memphis, Shelby County, Tennessee
v. Choice of forum ⁽⁴⁾	Section 16.11	Arbitration must be in Memphis, Shelby County, Tennessee
w. Choice of law ⁽⁴⁾	Section 16.10	The governing law will be the law of the state of Tennessee.

NOTES:

- (1) California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control. Provisions of your Franchise Agreement giving Lil' Angels the right to terminate in the event of your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Sec. 101, et seq.).

- (2) Provisions of your Franchise Agreement giving Lil' Angels the right to terminate in the event of your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Sec. 101, et seq.).
- (3) The franchise agreement contains a covenant not to compete that extends beyond the termination of the franchise. These provisions may not be enforceable under California law.
- (4) The Franchise Agreement requires binding arbitration. The arbitration will occur at Memphis, Tennessee with the costs being borne by the losing party. Further, the Franchise Agreement requires application of the laws of the state of Tennessee. This provision may not be enforceable under California law.

Item 18: Public Figures

Lil' Angels does not use any public figure to promote this franchise.

Item 19: Financial Performance Representations

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure Document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Michael R. Sondag, General Manager, 6831 Crumpler Boulevard, Suite 101, Olive Branch, MS. 38654 (662) 890-9103, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20: Outlets and Franchise Owner Information

With respect to the information in the following tables, references to 2009, 2010 and 2011 calendar years relate to the periods ending December 31, 2009, December 31, 2010 and December 31, 2011.

Table No. 1

**System wide Outlet Summary
For years 2009 to 2011**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net change
Franchised	2009	92	86	-6
	2010	86	81	-5

	2011	81	77	-4
Company Owned	2009	0	0	0
	2010	0	0	0
	2011	0	0	0
Total Outlets	2009	92	86	-6
	2010	86	81	-5
	2011	81	77	-4

Table 2

**Transfers of Outlets from Franchisees to new Owners (other than the Franchisor)
For Years 2009-2011**

State	Year	Number of Transfers
CA	2009	0
	2010	0
	2011	3
FL	2008	0
	2009	0
	2010	1
IL	2008	0
	2009	1
	2010	2
MO	2008	0
	2009	1
	2010	2
MS	2008	1
	2009	0
	2010	0
OR	2008	0
	2009	0
	2010	1
TN	2008	1
	2009	0
	2010	0
TX	2008	0
	2009	0
	2010	1
Total	2008	6
	2009	2
	2010	7

Table 3

**Status of Franchised Outlets
For Years 2009-2011**

State	Year	Outlets at start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
AL	2009	3					1	2
	2010	2						2
	2011	2		1				1
AZ	2009	2						2
	2010	2					1	1
	2011	1						1
AR	2009	0						0
	2010	0						0
	2011	0						0
CA	2009	14	1					15
	2010	15	2					17
	2011	17					1	16
CO	2009	4						4
	2010	4					1	3
	2011	3						3
DE	2009	1		1				0
	2010	0						0
	2011	0						0
FL	2009	9	1					10
	2010	10					1	9
	2011	9						9
GA	2009	2	1	1				2
	2010	2						2
	2011	2						2
ID	2009	1						1
	2010	1						1
	2011	1						1
IL	2009	6	1				1	6
	2010	6						6
	2011	6						6
IN	2009	0						0
	2010	0						0
	2011	0						0
IA	2009	0						0
	2010	0	1					1
	2011	1					1	0
	2009	0						0

KS	2010	0					0
	2011	0					0
KY	2009	0					0
	2010	0	1				1
	2011	1					1
LA	2009	6					6
	2010	6		1			5
	2011	5					5
MI	2009	0					0
	2010	0					0
	2011	0					0
MN	2009	1				1	0
	2010	0					0
	2011	0					0
MS	2009	4				1	3
	2010	3					3
	2011	3					3
MO	2009	6	1			1	6
	2010	6					6
	2011	6					6
NE	2009	0					0
	2010	0					0
	2011	0					0
NJ	2009	1		1			0
	2010	0					0
	2011	0					0
NY	2009	1					1
	2010	1		1			0
	2011	0					0
NC	2009	1					1
	2010	1					1
	2011	1					1
OH	2009	3					3
	2010	3			1		2
	2011	2					2
OK	2009	0					0
	2010	0	1				1
	2011	1					1
OR	2009	1	1			1	1
	2010	1				1	0
	2011	0					0
PA	2009	2					2
	2010	2					2
	2011	2					2
SC	2009	2					2
	2010	2			1		1

	2011	1						1
TN	2009	6						6
	2010	6				1		5
	2011	5						5
TX	2009	9						9
	2010	9				1		8
	2011	8						8
VT	2009	1						1
	2010	1						1
	2011	1						1
VA	2009	1		1				0
	2010	0						0
	2011	0						0
WA	2009	4				1		3
	2010	3						3
	2011	3				1		2
Totals	2009	92	3	3	0	0	6	86
	2010	86	4	2	2	0	5	81
	2011	81		1			3	77

Table 4

**Status of Company-Owned Outlets
For Years 2009 to 2011**

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
NA	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	0	0	0	0
Totals	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	0	0	0	0

Table 5

Projected Openings as of December 31, 2011

State	Franchise Agreements Signed but Outlet not Opened	Projected New Franchise Outlet in the Next Fiscal Year	Projected New Company Owned Outlet in the Next Fiscal Year
	0	0	0
Total	0	0	0

Current Franchise Owners as of December 31, 2011

The following is a list of the current Franchise Owners as of December 31, 2011 and the addresses and telephone numbers of each of their outlets:

Alabama

Robert and Freda Thompson, 3725 Boulder Lane, Mobile, AL 38619 (251) 634-8875

Arizona

Karl Aloisio, 1770 Countrywalk Lane, Chandler, AZ 85225 (480) 893-6690

California

Tom and Julie Castle, 2524 Black Tern Way, Elk Grove, CA 95757 (916) 685-8304

Shelby Deal, 3843 Gondar Avenue, Long Beach, CA 90808 (562) 425-7953

April Hunter, 18615 Calvert Street, Reseda, CA 91335 (818) 345-1734

Jenni Bradford, 18375 Glass Mountain Drive, Riverside, CA 92504 (951) 283-8698

Lori Ciaccio, 10683 N. Lighthouse Drive, Fresno, CA, 93730 (661) 663-3768

Natalie Rippe, 6914 Cottonwood Circle, Corona, CA 92880 (626) 318-2891

Ingrid Krantz, 1347 Capri Drive, Campbell, CA 95008 (408) 436-1009

Veronica Baluyut, 3216 E. 188th Street, Torrance, CA 90504 (310) 901-1275

Sarah Asuncion, 1208 Promenade Street, Hercules, CA 94547 (510) 599-3490

David Roberts, 2200 Caliente Glen, Escondido, CA 92029 (760) 935-9480

Ryan and Sharon Welch, 10685 Twin Cities Road, Galt, CA 95632 (205) 482-0370

Richard and Cindy Morgan, 9601 Rockpoint Drive, Huntington Beach, CA 92646 (714) 965-1617

Colorado

Jeff Hersh, 1170 Opal Street, Suite 104, Broomfield, CO 80020 (720) 460-9480

Brooke Yoemans, 2448 South Scranton Way Aurora, CO, 80014 (303) 912-3306

Lori Randolph, 2367 Cobblestone Court, Highland Ranch, CO 80126 (303) 683-1312

Florida

Kim Williams, 5929 NE 72nd Street, Silver Springs, FL 34488 (352) 732-6733

Jack and Cheri Taylor, 14641 SE 1st Avenue Road, Summerfield, FL 34491 (352) 245-4161

Celeste Esparza, 472 Winding Willow Dr., Palm Harbor, FL 34683 (727) 542-3222

Dawn Moore and Trish Lobb, 12620-3 Beach Blvd. #336, Jacksonville, FL 32246 (904) 318-6172

Frank and Kathy Harrington, 2206 Patterson Street, Thomasville, GA 31792 (229) 225-2137

Amy Fort, 1426 Longoak Drive South, Lakeland, FL 33811 (863) 816-4131

Suzanne Smith, 8067 Bibiana Way, Ft. Meyers, FL 33912 (239) 464-8329

Sherry Elliot, 2842 Riverview Boulevard, Bradenton, FL 34205 (941) 301-1134

Kera Mattes and Mandy Walker, 7024 Brier Creek Court, Bradenton, FL 34202 (941) 735-7112

Georgia

Helen Heldt, 113 Stewart Avenue, Marietta, GA 30064 (770) 499-8679

Frank and Kathy Harrington, 2206 Patterson Street, Thomasville, GA 31792 (229) 225-2137

Idaho

Sheryl Deigert, 1296 North Chaucer Way, Eagle, ID 83616 (208) 938-4830

Illinois

Connie Siegrist, 2808 Rutland Circle, Naperville, IL 60564 (630) 253-4862
Cheryl Wells, 17650 Wentworth Avenue, Lansing, IL 60438 (708) 895-4388
Krista Long, 3712 North Broadway Apt. 113, Chicago, IL 60613 (773) 559-1234
Leslie Ranali, 5236 North Spalding, Basement Unit, Chicago, IL 60625 (224) 392-9562
Cindi Stazzone, 1910 North 74th Court, Elmwood Park, IL 60707 (708) 228-1857

Kentucky

Angela Kasiak, 315 Sandra Drive, Winchester KY 40391 (219) 510-3013

Louisiana

Shelia Ginn, 106 Spyglass Drive, Monroe, LA 71203 (318) 345-2265
Gretchen Flores, 180 Henfer Ave., River Ridge, LA 70123 (504) 738-2980
Gina LeBlanc, 123 Ednas Road, Lake Charles, LA 70607 (337) 598-9165
Amy Blue, 1907 Roseneath Drive, Baton Rouge, LA 70806 (225) 241-4451
Laura Weaver, 105 Woodsboro Drive, Lafayette, LA 70508(337).962-7847

Mississippi

Patty Norwood, 68 Forrest Hill Dr., Hattiesburg, MS 37402 (601) 268-9952
Cheryl McElroy, 3220 Dean Road, Nesbit, MS 38651 (901) 409-3925
Sherri Baggett, 248 Clubview Circle, Pearl, MS 39208 (601) 936-5864

Missouri

Erin Veith-King, 1615 Dardenne Ridge Dr., St. Peters, MO 63376 (636) 397-2587
Robyn Tholen, 12673 N.W. 45 HWY, Parkville, MO 64152 (816) 985-6749
Megan Nickey, 604 Oak Park Boulevard, West Plains, MO 65775 (240) 478-2613
Connie Dowell, 5008 Piedmont Place, Columbia, MO 65202 (573) 356-3210
Carrie Phillips, 3518 NE 50th Street, Kansas City, MO 64119 (217) 316-6853
Richard King, 1615 Dardenne Ridge Drive, St. Peters, MO 63376 (314) 604-0800

North Carolina

Thomas Tanner, 2185 E. Hwy 70A, Pine Level, NC 27568 (919) 965-5265

Ohio

Kathy Allyn, 5438 Granada Drive, Mentor, OH 44060 (440) 285-9157
Karen Hoffman, 20278 Bradgate Lane, Strongsville, OH 44149 (440) 759-5214

Oklahoma

Roger Gaither, 2517 NW 35th Street, Oklahoma City, OK 73112 (405) 947-0160

Pennsylvania

Gillian Hayden, 71 Nottingham, Chambersburg, PA 17201 (717) 386-3103
Emily Bilovus, 114 Holly Hill Dr. Oakdale, PA 15071, (724) 693-8380

South Carolina

Dawn Mears, 34-A Amhurst, Charleston, SC 29403 (843) 722-0508

Tennessee

Jim & Janet Atnip, 3717 Lake Shore Dr., Cookeville, TN 38506 (931) 526-2997
Beth Bowles 8925 Carroll Wood Lane East, Cordova, TN 38016 (901) 684-0199
Steve Martin, 3814 Post Oak Circle, Cookeville, TN 38506 (931) 537-2039
Hazel McCanless, 2611 Seven Springs Road, Cookeville, TN 38506 (931) 372-8663
Megan Ikerd, 6218 Autumn Point, Olive Branch, MS 38654 (901) 603-5938

Texas

Chris Willisie, 1201 N Goliad Street, Rockwall, Texas 75087 (972) 772-7872
Jackie Aloisio, 20110 Gable Point Drive, Katy, TX 77450 (832) 875-8636
Patricia Moll, 2821 Clayera Cove, Austin, TX 78748 (832) 212-2659
Kathie Ricketts-Zorick, 2546 Ashley Oak, Schertz, TX 78154 (210) 566-7417
Wayne Kamper, Jr. 5333 Jerri Lane, Haltom City, TX 76117 (817) 614-7648
Molly Spahr, 2602A Bridgeway Court, Austin, TX 78704 (917) 885-7802
Patricia Raimond, 10016 Bob White Drive, Houston, TX 77096 (832) 646-6455

Vermont

Kathleen Hall, 1129 East Burke Rd., Lyndonville, VT 05851 (802) 626-9667

Washington

Joy Jackson, 21107 119th Ave. SE, Kent, WA 98013 (253) 639-2603
Kristyn Peterson, 38313 276th Avenue SE, Enumclaw, WA 98022 (360) 802-4528

Former Franchise Owners as of December 31, 2011

The following is a list of the name, city and state and current business telephone number or last known home telephone number of every Franchise Owner who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who has not communicated with the Franchisor within 10 weeks of the Disclosure Document issuance date:

Alabama

Joe and Sheila Gordon, 4308 Windsong Trail, Trussville, AL 35173 (205) 655-2446 were given proper notice and subsequently terminated on December 24, 2011 for failure to comply with the System requirements of customer service.

California

Steve Kent, 973 Oak Street, Costa Mesa, CA 92627 (949) 515-4465 sold his franchise to Richard and Cindy Morgan on October 14, 2011.
Laura Lang, 15839 Garydale Dr., Whittier, CA 90604 (562) 883-2955 entered into an agreement with the franchisor on February 2, 2011 to close the operation of her franchise so she could be a homemaker for her family.
Doris Casselton, 4987 Orinda Way, Fairfield, CA 94534 (707) 864-1352 sold her franchise to Sarah Asuncion on April 30, 2011.
Carrie Malone, 308 North Lower Sacramento Road, Lodi, California 95242 (209) 513-2015 sold her franchise to Ryan Welch on February 3, 2011.

Florida

Bethany Saputo, 1330 Daryl Drive Sarasota, FL 34232 (941) 320-4094 sold her franchise to Kera Mattes and Mandy Walker on October 3, 2011.

Devyn Dugger, 1330 Daryl Drive Sarasota, FL 34232 (941) 466-8002 sold his franchise to Sherry Elliot on April 30, 2011.

Illinois

Julie Scheuler, 905 Vine Avenue, Park Ridge, IL 60068 (847) 490-3963 sold her franchise to Cindi Stazzone on July 31, 2011.

Iowa

Julie-Anne Henry, 3310 54th Street, Des Moines, IA 50310 (217) 520-9411 entered into an agreement with the franchisor on June 30, 2011 to close the operation of her franchise so she could take care of her children and assume a part-time job with a day care in her territory.

Texas

Beth Williamson, 15827 Fleetwood Oaks Drive, Houston, TX 77079 (281) 395-6014 sold her franchise to Patricia Raimond on July 31, 2011.

Theresa Williamson, 12903 Bonnywood, Cypress, TX 77429 (281) 373-9147 sold her franchise to Patricia Raimond on July 31, 2011.

Washington

Katie Hagglund, 18541 West Lake Desire Drive SE, Renton, WA 98058 (425) 931-7422 entered into an agreement with the franchisor on August 6, 2011 to close the operation of her franchise so she could take a job in a daycare.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

We are not selling a previously-owned franchised outlet.

Franchise Owners have not signed confidentiality clauses during the last three fiscal years. To the extent known, there is no trademark-specific franchisee organization associated with the franchise system being offered.

Item 21: Financial Statements

Attached as Exhibit A are the following statements:

1. Unaudited balance sheet as of February 29, 2012 and related income statement for the period ending February 29, 2012.
2. Audited balance sheet as of December 31, 2011 and related income statement for the period ending December 31, 2011 in a comparative manner with the corresponding balance sheet and statement of income for the period ending December 31, 2010.
3. Audited balance sheet as of December 31, 2010 and related income statement for the period ending December 31, 2010 in a comparative manner with the corresponding balance sheet and statement of income for the period ending December 31, 2009.

Item 22: Contracts

Attached as Exhibit B is the Lil' Angels Franchise Agreement. If the Franchise Owner is a corporation, all shareholders must guarantee its performance. If Franchise Owner is a partnership, all partners must guarantee its performance. Exhibit C is the Financing Agreement that Franchise Owner must sign if payment of any of the initial fees is financed.

Item 23: Receipt

The last two pages of this Franchise Disclosure Document are detachable acknowledgments of receipt.