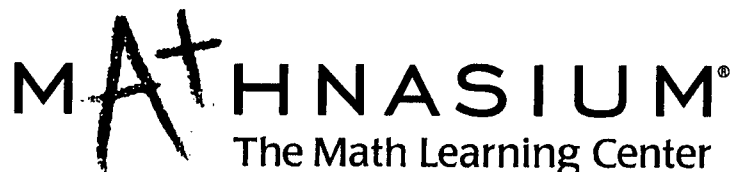


FRANCHISE DISCLOSURE DOCUMENT



**Mathnasium Center Licensing, LLC**

**dba Mathnasium Learning Center**

DEPARTMENT OF CORPORATIONS  
RECEIVED LOS ANGELES OFFICE

A California Limited Liability Company

5120 West Goldleaf Circle, Suite 300

Los Angeles, California 90056 USA

(877) 531-MATH (6284)

whitney.novak@mathnasium.com

www.mathnasium.com

MAR 05 2012

As a Mathnasium franchisee you will operate a learning center that provides math instruction using the Mathnasium system of learning. Children typically attend Mathnasium centers two or more times per week for approximately 60 minutes.

The total investment necessary to begin operation of a Mathnasium center ranges from \$93,250 to \$131,000. This includes \$29,500 that must be paid to Mathnasium. If you sign an Option Agreement at the same time you sign the Franchise Agreement, you will pay us an additional \$19,500 to \$22,000 times the number of additional centers you want to open for the Option Fee.

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 awarding of the franchise. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact your Franchise Development Director at 5120 West Goldleaf Circle, Suite 300, Los Angeles, California 90056; (877) 531-6284.

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, DC 20580. You can also visit the FTC's homepage at [www.ftc.gov](http://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 issuance date is March 2, 2012.

## STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with the 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 MEDIATION OR ARBITRATION ONLY IN THE COUNTY WHERE OUR HEADQUARTERS IS LOCATED, CURRENTLY IN LOS ANGELES COUNTY, CALIFORNIA. OUT-OF-STATE MEDIATION OR ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO SUE OR ARBITRATE OR MEDIATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE.
2. THE CONTINUATION OF YOUR TERRITORIAL EXCLUSIVITY DEPENDS ON YOU MAINTAINING ENROLLMENT OF 50 STUDENTS AFTER YOUR 20<sup>TH</sup> MONTH OF OPERATION AND BEING IN COMPLIANCE WITH ALL SYSTEM STANDARDS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Certain state laws may supersede these provisions. See State Addenda in Exhibit G for a summary of some of these laws.

## STATE EFFECTIVE DATES

The following states require that the franchise disclosure document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan (notice filing only – no FDD filing), Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This franchise is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California

Hawaii

Illinois

Indiana

Maryland

Michigan

Minnesota

New York

North Dakota

Rhode Island

South Dakota

Virginia

Washington

Wisconsin

In all states that do not have franchise registration and disclosure laws, the effective date is the same as the issuance date stated on the front cover of this franchise disclosure document.

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.**

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

- (a) A prohibition on your right to join an association of franchisees.
- (b) A requirement that you assent to a release, assignment, novation, waiver, or estoppel which deprives you of rights and protections provided in this act. This shall not preclude you, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits us to terminate a franchise before the expiration of its term except for good cause. Good cause shall include your failure to comply with any lawful provision of the Franchise Agreement and to cure the failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure the failure.
- (d) A provision that permits us to refuse to renew your franchise without fairly compensating you by repurchase or other means for the fair market value at the time of expiration of your inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to us and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applied only if: (i) the term of the franchise is less than 5 years and (ii) you are prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area after the expiration of the franchise or you do not receive at least 6 months advance notice of our intent not to renew the franchise.
- (e) A provision that permits us to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude you from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits us to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent us from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet our then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of us or our subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) You or your proposed transferee's failure to pay any sums owing to us or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

(h) A provision that requires you to resell to us items that are not uniquely identified with us. This subdivision does not prohibit a provision that grants to us a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants us the right to acquire the assets of a franchise for the market or appraised value of the assets if you have breached the lawful provisions of the Franchise Agreement and have failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits us to directly or indirectly convey, assign, or otherwise transfer our obligations to fulfill contractual obligations to you unless provision has been made for providing the required contractual services.

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.**

Any questions regarding this notice should be directed to:

State of Michigan  
Department of Attorney General  
Consumer Protection Division  
Attn: Franchise  
G. Mennen Williams Building  
Lansing, Michigan 48913  
Telephone Number: (517) 373-7117

**MATHNASIUM CENTER LICENSING, LLC  
FRANCHISE DISCLOSURE DOCUMENT**

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**Exhibits**

"A-1"	List of Franchised Outlets
"A-2"	List of Certain Former Franchisees
"B"	Financial Statements
"C"	Franchise Agreement <i>Exhibits to Franchise Agreement:</i> Exhibit 1: Territory Exhibit 2: General Release for Renewal Exhibit 3: Confidentiality/Non-Competition Agreement – Owner/Officer/Manager Exhibit 4: Confidentiality/Non-Competition Agreement – Center Director/Employee Exhibit 5: Schedule of Owners, Officers and Managers Exhibit 6: Guaranty and Assumption of Obligations
"D"	List of Certain State Franchise Authorities (Government Offices) and Registered Agents in Certain States
"E"	Option Agreement to Open Additional Centers <i>Exhibits to Option Agreement:</i> Exhibit 1: Option Territory Exhibit 2: Development Schedule Exhibit 3: Guaranty and Assumption of Obligations
"F"	Conditional Assignment of Telephone and Directory Listings
"G"	State Addenda
"H"	Promissory Notes for Additional Centers or Option Fee
"I"	Acknowledgment of Receipt of Completed Agreements
"J"	Receipt of Disclosure Document

## **ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

To simplify the language in this disclosure document, "Mathnasium", "we", "us" and "our" means Mathnasium Center Licensing, LLC and "you" means the person who acquires the franchise. If you are a corporation, limited liability company or other legal entity, "you" also includes your owners.

Mathnasium is a California limited liability company formed in California on June 20, 2003. Our principal business and corporate address is 5120 West Goldleaf Circle, Suite 300, Los Angeles, California 90056.

Mathnasium is a subsidiary of Mathnasium LLC, which also has its principal place of business at 5120 West Goldleaf Circle, Suite 300, Los Angeles, California 90056. Mathnasium LLC is a limited liability company formed in California on November 17, 2002. Mathnasium operates under the names "Mathnasium Learning Centers", "Mathnasium Centers", "Mathnasium The Math Learning Center" and "Mathnasium."

Our agents for service of process, and their addresses are listed in Exhibit D.

### **The System**

Mathnasium offers and awards franchises throughout the United States to independent operators for the operation of learning centers that provide math instruction using the Mathnasium education method at locations we have consented to. Mathnasium centers are open to the public at least 5 times a week during after-school hours for at least 4 hours per day. Children typically attend Mathnasium centers twice a week for approximately 60 minutes per session. Some children attend more than twice a week or for more than 60 minutes per session.

Mr. Larry Martinek is the creator of the Mathnasium Method™, an important component of the Mathnasium system. Over a 30-year career as an educator he developed a substantial body of educational works that form the basis of the Mathnasium education method. The Mathnasium Method™ uses diagnostics, instruction, guided practice and manipulatives. The Mathnasium system includes more than 14,000 worksheets for children between 4 and 17 years old.

The system is detailed in our manuals, a copy of which will be given as part of our initial training program (described in Item 11 below).

### **The Mathnasium Center Franchise**

A Mathnasium franchisee is granted the right under a Franchise Agreement to use the system including its teaching techniques, trade secrets and marks in connection with operating one center. We will designate a territory for you and not allow another Mathnasium center to be located there except if you do not meet our minimum performance requirements. If you apply for a Mathnasium center franchise, your evaluation will include a personal interview. When you sign your Franchise Agreement, you may be offered an opportunity to sign an Option Agreement to Open Additional Stores ("Option Agreement"), the form of which is Exhibit E to this disclosure document. Under the Option Agreement, you would be granted an option to open additional centers within a negotiated development area and under an agreed upon development schedule.

Mathnasium may pay an existing franchisee or others a fee for referring a prospective franchisee to Mathnasium who becomes a franchisee. Any existing franchisee or others receiving a referral fee will not otherwise participate in the awarding of the franchise to the prospective franchisee and is not

authorized to make any financial performance representation. Existing franchisees may receive a prospective franchisee conversation fee if they answer questions of prospective franchisees who become franchisees in two circumstances: (a) there is a pool (currently \$1,000) that is split among all franchisees who speak with a candidate who becomes a franchisee; and (2) there is a second pool (also currently \$1,000), which is split by three of our top franchisees who have indicated to us that they are willing to spend a disproportionate amount of time with prospective franchisees; it is based on how many of them speak with a prospective franchisee who then purchases a franchise. The referral and prospective franchisee conversation fee policies are reviewed annually, and may be terminated at any time.

### Market: Competition

Mathnasium's services are generally marketed to parents of children. The supplemental educational market continues to experience increasing competition. Your competitors include educational services offered on the Internet, tutoring institutes, tutoring centers, learning centers, test prep centers, cram schools, individual tutors, self-tutoring programs, other Mathnasium centers, and other individuals, companies and organizations.

### Industry-Specific Regulations

Certain states may require specific certification or licenses in connection with your instructional duties as a franchisee. Most states will require a background check of all instructors in order to work with children. Furthermore, your center may be considered a school or daycare under some state or local laws or zoning codes. Classification of your center as a school or daycare may entail additional requirements such as separate bathrooms for boys and girls, water fountains, special exit doors equipped with panic bars, fire safety improvements, and accommodations for disabled persons. You should consult with your attorney concerning any special requirements that may apply to you or your center. You must comply with all applicable laws and regulations in addition to our requirements.

### Prior Business Experience of Mathnasium, its predecessors and affiliates

Mathnasium does not do business under any other name, nor do we engage in other business activities other than those related to math instruction. Mathnasium does not directly operate a business of the type being franchised, but our parent, Mathnasium LLC, operates a business of the type being franchised at the location(s) described in Item 20 below, and has since 2002. Our parent company, Mathnasium LLC, has neither awarded nor offered any franchises. We began offering franchises in late 2003. Neither we nor Mathnasium LLC have offered franchises in other lines of business. Mathnasium has no predecessor and no other affiliates.

## **ITEM 2: BUSINESS EXPERIENCE**

Pursuant to an agreement between us and our parent Mathnasium, LLC, the following individuals serve us in the positions listed below but are actually employed by our parent.

### Chief Executive Officer: Peter Markovitz, M.A.

Mr. Markovitz founded Mathnasium in 2002, and was named our President and Chief Executive Officer in June 2003. His title changed to Chief Executive Officer in April 2010.

### President: David Ullendorff, M.A.

Mr. Ullendorff co-founded Mathnasium in 2002, and was named our Executive Vice President in June 2003. His title changed to President in April 2010.



Chief Instructional Officer: Larry Martinek, B.A.

Mr. Martinek co-founded Mathnasium in 2002, and was named our Chief Instructional Officer in June 2003. He has been President and General Manager of Strongbox Marketing Corporation in Los Angeles, California since 1980. Mr. Martinek has a bachelor's degree in Mathematics, and secondary teaching credentials in California. He has been a classroom teacher in Los Angeles, California, a Faculty Coordinator of RISE (Reform of Intermediate and Secondary Education) located in Los Angeles, California, and has developed a substantial body of educational works, which form the basis of the Mathnasium education method.

Senior Vice President, Franchise Marketing and Development: Joe Novak

Mr. Novak joined Mathnasium in September 2010, when he was named Head of Global Franchise Marketing. In February 2011, he was named Senior Vice President, Franchise Marketing and Development. Prior to joining Mathnasium, from March 2009 to August of 2010, Mr. Novak was self-employed as a licensing and brand consultant. From June 2006 to February 2009, Mr. Novak was employed as the Executive Director of International Licensing and Brand Management for DIC Entertainment in Burbank, California.

Vice President of Franchise Development: Dan Huntington

Mr. Huntington joined Mathnasium in June 2004, when he was named Director of Franchise Development. He was promoted to Vice President of Franchise Development in 2008.

Chief Operating Officer: Whitney Novak, M.B.A.

Ms. Novak joined Mathnasium in May 2006, when she was named Director of Franchise Operations, transitioning to Director of Business Operations in February 2008. She was named Chief Operating Officer in February 2011.

Senior Vice President, Franchise Operations: Mary Feldman, B.S.

Ms. Feldman joined Mathnasium in 2006, when she was named Director of Franchise Support, transitioning to Director of Franchise Administration in March 2008 and Director of Franchise Operations in April 2009. In February 2011, Ms. Feldman was named Senior Vice President, Franchise Operations.

**ITEM 3: LITIGATION**

No litigation is required to be disclosed in this Item.

**ITEM 4: BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

**ITEM 5: INITIAL FEES**

Our initial franchise fee is \$29,500. You must pay the entire fee when you sign the Franchise Agreement. The initial franchise fee is not refundable except if we elect to cancel the Franchise Agreement during or at the conclusion of the initial training program, because we believe that it is in your best interest, or our best interest, to do so (See Franchise Agreement 4.1). If we exercise this right to cancel the Franchise Agreement, we will return the initial franchise fee to you, less the costs we have incurred in marketing, awarding, and processing your franchise and in providing training to you. The initial franchise fee is used (in addition to other purposes) to pay for the cost of the initial training program (you must pay all other expenses, including travel and lodging).

At the time the initial franchise fee and franchise agreement are submitted, franchisees are required to submit to a background check which includes a criminal/civil record search and a credit check. We will not countersign a franchise agreement until we have received results of the search and check. If Mathnasium determines that a franchisee is unsuitable to run a Mathnasium center as a result of background check results, we reserve the right to not accept you as a franchisee and to return to you the franchise agreement and any initial franchise fee paid.

If you are an existing franchisee purchasing an additional franchise (not under an existing Option Agreement), you will pay a discounted initial franchise fee of \$19,500. We may offer financing to existing franchisees purchasing an additional franchise. See Item 10.

Mathnasium is a participant in the International Franchise Association VetFran Program. If you are a qualifying veteran honorably discharged from the U.S. Armed Forces within 3 years of your signing our franchise agreement or if you are an active duty member of the U.S. Armed Forces on the Effective Date, we will reduce the initial franchise fee for your first center by 40%. If you were honorably discharged more than 3 years ago, we will reduce the initial franchise fee for your first center by 25%.

If you choose to pay the initial franchise fee by credit card, you must also pay us the bank charges we incur for credit card processing. Currently the charge ranges from 1.5% to 2.5% of the transaction amount.

The range of actual initial franchise fees charged in our last fiscal year ending December 31, 2011 was from \$0 to \$27,500, the higher amount being the amount charged for initial fees for the first unit. In 3 cases in 2011, we discounted, deferred or waived initial franchise fees from the fees published in the Disclosure Document for certain high-performing existing franchisees.

#### Option Agreement

If you qualify, you may open additional centers under the Option Agreement. When you sign an Option Agreement, you will pay an initial franchise fee of \$29,500 for the first center, plus an Option Fee of either (i) \$19,500 multiplied by the number of additional centers you commit to open in cash or (ii) \$11,000, multiplied by the total number of additional Centers you commit to open paid in cash plus a Promissory Note in the amount of \$11,000 multiplied by the total number of additional Centers you commit to open for a total Option Fee of \$22,000 for each Center. The Option Fee, whether paid in cash in full or partially in cash and partially by execution of a Promissory Note, pays in full the initial franchise fee for all additional centers listed in the Development Schedule. The Promissory Note provides for payment of \$11,000 for each center opened upon the earlier of the signing of the franchise agreement for the next center or 6 month intervals from the date of signing the Option Agreement. If you are signing the Option Agreement simultaneously with your initial Franchise Agreement, the Promissory Note provides for payment of the first financed \$11,000 payment upon the earlier of the signing of the franchise agreement for that center or 12 months from the date of signing the Option Agreement, and 6 month intervals thereafter for all additional centers on the Option Agreement.

The Option Fee is not refundable, unless we cancel the Option Agreement during or at the conclusion of the Initial Training Program provided to you by us under your first Mathnasium Center Franchise Agreement. If we exercise our right to cancel the Option Agreement, we will refund your Option Fee (which includes cancelling any Promissory Note signed) after deducting any related expenses we have incurred.

In 3 cases in 2011, we discounted, deferred or waived the upfront payment of the Option Fee.

If you request a 6 month extension on the date by which any center has to be open under the Development Schedule in the Option Agreement, you must pay us an Option Extension Fee of \$5,000 at the time you submit your written request to us.

**Other Fees**

Depending on when you open your Center, you may be required to begin paying us the Base Royalty Fee (\$500 per month) and/or the Technology License fee (\$75 per month) before you open.

**ITEM 6: OTHER FEES**

<b>Name of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Monthly Royalty	10% of your monthly gross receipts from all sources as a result of operating your center, plus a base royalty fee of \$500 per month (payable on the first center only) plus the greater of (i) the 10% monthly royalty or (ii) \$1,400 beginning in the 24 <sup>th</sup> month.	20 <sup>th</sup> day of the next month.	Payment of the base royalty fee begins the first full month after completion of the Initial Training Program by at least one principal for the first center (or the completion of the 2 <sup>nd</sup> week of initial training if we change to a training program of 2 non-consecutive weeks) and begins the first month each additional center opens for additional centers. The 10% monthly royalty begins when you open your Center. The minimum royalty payment is due in the 24 <sup>th</sup> month after your center opens, See Notes 1, 2, and 5.
Monthly Marketing Fee	2% of your monthly gross receipts (see Note 5) from all sources as a result of operating your center.	20 <sup>th</sup> day of the next month	See Notes 2, 3, and 5.
Technology License Fee	Currently \$75 per month per center, subject to increase. We anticipate an increase in 2012.	5 <sup>th</sup> day of each month	For each center, payable on the 5 <sup>th</sup> day of the first full month you have access to our centralized computer system. Typically this occurs within a couple of weeks of signing a lease for the Center. See Notes 1, 2, and 6.
Annual Convention Fee	Currently \$100 per franchisee if you stay in the hotel we designate for the conference; otherwise \$250.	Currently charge \$50 in April and May respectively	This covers attendance of 2 people. See Notes 1, 2, and 7.
Administrative fee for late payment	\$300 every 2 weeks until payment is made	25 <sup>th</sup> day of the month which the payment was due and every 2 weeks thereafter	Payable if you are 5 days late on payments due us. See Notes 1 and 2.

<b>Name of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Administrative fee for late submission of reports	\$100 every week until reports submitted	21 <sup>st</sup> day of the month following the month covered by the reports and every week thereafter	Payable if you are 1 day late in submitting reports. See Notes 1 and 2.
Non-Compliance Fine	\$300 per month for each non-complying incident	1 <sup>st</sup> day of the month following receipt of a quality assurance report	Applies only if you fail to make changes requested in our periodic quality assurance reports. See Notes 1 and 2.
Returned check service charge	\$60 per check returned by bank for non-sufficient funds.	When requested by Mathnasium	Charge covers Mathnasium's costs for re-depositing the check. See Note 1.
Indemnification	See Note 4.		
Shipping costs	Actual cost of shipping only.	When incurred	
Payments for "Chargeable Items" purchased from Mathnasium	Prices determined by Mathnasium.	As stated on invoice	Your basic teaching materials are currently included in your royalties. However, we may offer supplemental teaching materials or promotional items for your use or sale. These are called "Chargeable Items" (See Item 8 for a more specific definition and for the dollar amount of such fees). We can change the price for Chargeable Items without notice.
Transfer Fee and Relocation Fee	\$6,000	Before Transfer or Relocation	Payable if you transfer or if you relocate your franchise outside of your territory or more than 5 miles away from the original approved location
Initial training tuition for additional trainees	Up to \$300 per day per person	Before training begins	Payable if more than the principal owner and center director will attend the initial training program.
Apprenticeship training program fee for additional trainees	\$500 per person	Before training session begins	Payable if more than 2 people will attend the same apprenticeship training program.
Apprenticeship training program fee for additional sessions	\$1,000 for up to 2 people	Before training session begins	Payable if more than 1 apprenticeship training program is requested (at a second time or a second location).
Tune-Up Training tuition for additional trainees	\$300 per person	Before training session begins.	Payable if more than 2 people will attend the Tune-Up Training.
Additional Marketing Assessment	Pro rata amount to cover special advertising program.	When incurred.	Determined by a majority vote of all franchised centers (one vote per center).

Name of Fee	Amount	Due Date	Remarks
Local or regional cooperative advertising	As determined by cooperative, but not to exceed \$18,000 annually. (No cooperatives currently established.) All money spent on cooperative advertising will be a credit against the local advertising requirement.	Determined by cooperative.	We designate cooperatives if 50% or more of the centers vote to establish a cooperative. A cooperative can be 2 or more centers. Company-owned or affiliate-owned centers will participate in cooperatives and will have one vote per center.
Reimbursement of taxes	Amount of taxes assessed against us based on payments you make to us.	Upon demand.	Payable if your state imposes such a tax on us.

Except where otherwise specified, we impose all the fees in this table uniformly, you pay them to us, and we do not refund them.

**NOTES:**

[1] Within 60 days after the start of each calendar year, effective on written notice, we can increase fees that are a fixed dollar amount, including the monthly base royalty and minimum royalty payment, by the greater of 3.0% per year or the percentage increase of the Consumer Price Index, US City Average, All Items (1967= 100). If increases are not made in any given year we do not forfeit our right to allow the increases to accumulate for a period of up to 3 consecutive years and apply them later. Any adjustments will only be applicable if applied on a system wide basis. No adjustment based on the CPI will be made to the percentage of Gross Receipts charged as Monthly Royalty (10%) or Marketing Fees (2%). We have charged varying royalties in the past, including lower and higher percentages.

Mathnasium presently provides a royalty rebate for its top performers of 2% on royalties paid on monthly gross receipts to be used towards marketing. To qualify for this rebate, a franchisee must sign the current Franchise Agreement for all centers owned by that franchisee. Top performers who will receive the rebate are defined as the top 8% for the previous month in total royalty payments from all centers owned by qualifying franchisees. Mathnasium also presently provides a royalty rebate during the first year after an existing franchisee acquires an existing center from the previous owner. Royalty rebate policies are reviewed annually and we may change or terminate them at any time.

[2] Monthly royalties, marketing fees and technology fees must be paid to us by electronic withdrawal in accordance with the procedures specified in the manuals directly from a depository account set up by you for this purpose. When you attend initial training, you must fill out a form authorizing electronic withdrawal from a personal or business depository account under an electronic funds transfer (EFT) arrangement with your bank. Once established, your business account must be substituted for any personal account information provided at initial training. You will not be provided access to the Mathnasium centralized computer system (currently called "M2") until you have provided Mathnasium with a completed EFT form. If you fail to pay any royalties, fees or other charges within 5 days following the due date or if we do not withdraw the fees from your account because you have failed to give us information on your Gross Receipts for the previous month, then you will owe Mathnasium a \$300 administrative fee for the late payment, and \$300 every two weeks thereafter until payment is made in full. If you are more than 1 month delinquent in reporting your Gross Receipts for any month, we have the right to withdraw 110% of the base royalty and monthly royalty fees you paid in the previously reported month, plus other fees due, including administrative fees for late payments and reporting.

If you have past due amounts, at our option you must sign a promissory note for the balance you owe us; however, we are not obligated to offer you a promissory note arrangement. After signing a

promissory note, you must pay each month's royalty and marketing fee payments and the promissory note payment on time. If you default on either payment (or if you refuse, if offered, to sign a promissory note) and you do not cure within 30 days after written notice from us, then we can terminate the Franchise Agreement immediately upon notice to you, with no further opportunity to cure.

We also have the right to charge you a \$100 administrative fee for each week you fail to submit reports described in the manuals. Reports for the month just completed are due on the 20<sup>th</sup> day of the following month (e.g. reports covering March are due on April 20). We also have the right to charge you a non-compliance fine of \$300 per month for each specific change you fail to make as requested in a quality assurance report we give you periodically (see Section 6.14(b) of the Franchise Agreement).

[3] We began charging marketing fees in 2007. Franchisees who signed before then may not be paying marketing fees.

[4] Under the Franchise Agreement, you must indemnify Mathnasium and hold it harmless from any claim, liability, loss or expense arising out of the operation of the center. This means that if Mathnasium incurs any expenses to handle, settle, or dispute any matter relating to your center (including attorneys' fees, court costs, etc.), we may require you to reimburse Mathnasium for them.

[5] "Gross receipts" are defined as your monthly gross receipts from all sources in your operation of the center, including student tuition, registration and testing fees, sales of learning materials, hourly per student private tutoring, and any other services we may approve. Gross receipts shall exclude only sales tax receipts that you must by law collect from customers and that you pay to the government, any customer refunds actually paid, and coupons or promotional discounts approved by us.

[6] You must use our centralized computer system for business management at the Center. Mathnasium has invested in and currently uses a proprietary technology system built on a platform licensed from Salesforce.com, Inc. which is subject to ongoing development by outside vendors. Contracts between Mathnasium LLC, Salesforce.com, Inc. and outside vendors provide discounted licenses to our franchisees for access to and use of the system, as well as ongoing improvements, and modifications. Currently, these license fees are paid to us by electronic withdrawal directly from a depository account set up by you for this purpose under an electronic funds transfer arrangement in accordance with the procedures specified in the manuals. Mathnasium retains no part of this fee. The platform or related software may be licensed by a different vendor in the future. As of the date of this Disclosure Document, the fee charged by Mathnasium is \$75 per center per month. However, this monthly fee is subject to increase. We anticipate an increase in 2012. These fees cover the cost of the 1 license required for your first center. Additional centers require 1 additional license each. We reserve the right to change the centralized computer system at any time and to use the technology fees paid by you for the licensing fees of another technology platform or to develop our own platform.

[7] This fee is charged to defray our costs of holding an Annual Convention. The fee covers attendance for up to two people for your first center and one additional person per additional center. Additional attendees will be charged an additional fee of \$100 per person. Attendance is required. If you are unable to attend, the fee is not refundable.

**ITEM 7: ESTIMATED INITIAL INVESTMENT****YOUR ESTIMATED INITIAL INVESTMENT**

<b>TYPE OF EXPENDITURE</b>	<b>AMOUNT</b>	<b>METHOD OF PAYMENT</b>	<b>WHEN DUE</b>	<b>TO WHOM PAID</b>
Initial Franchise Fee	\$29,500 for 1 <sup>st</sup> center; \$19,500 for additional centers	Lump sum (See Item 10 regarding financing for additional centers)	At signing of franchise agreement	Mathnasium
Expenses While Training (initial training and apprenticeship)	\$2,500 to \$5,000 (See Note 1)	As arranged	At time of training	Hotels, Airfare, Restaurants, etc.
Rent (and Security Deposit, if Required)	\$6,000 to \$12,000 (See Note 2)	As required by landlord	As required by landlord or by applicable law	Landlord
Paint, Carpet and Tenant Improvements	\$2,500 to \$5,000 (See Note 3)	As arranged	Before opening	Vendors
Furniture, Signs, Equipment and Supplies	\$15,000 to \$18,000 (See Note 4)	As arranged	Before opening	Vendors
Insurance	\$1,000 to \$2,500 (See Note 5)	As arranged	Before opening	Insurance Agent
Business License, Name Registration	\$250 to \$1,000	As arranged	Before opening	Local Municipality, state
Professional Services (Legal and/or Accounting)	\$1,500 to \$2,000 (See Note 6)	As arranged	As arranged	Vendors
Phone and Utilities	\$500 to \$1,000 (See Note 7)	As arranged	Before opening	Phone, utilities companies
Video surveillance and related equipment	\$1,500 to \$5,000 (See Note 8)	As arranged	Before opening	Vendors
Early Stage Advertising	\$15,000 to \$20,000	As arranged	Before opening and during first 4 months of operation	Vendors
ADDITIONAL FUNDS (4 Months)	\$18,000 to \$30,000 (See Note 9)	As arranged	As arranged	Vendors, landlord, employees, utilities, etc.
<b>TOTAL (1<sup>st</sup> Center)</b>	<b>\$93,250 to \$131,000 (See Note 10 and Note 11)</b>			

Except where otherwise specified, we impose all the fees in this table, you pay them to us, and we do not refund them.

## **NOTES**

[1] This estimate covers the travel costs of one person attending initial training and the apprenticeship program. These programs are conducted at different times and different locations necessitating 2 separate trips. In 2012, we may expand our initial training to two non-consecutive weeks of training at two separate locations (in addition to the separate apprenticeship program). If this happens, estimated expenses while training could increase by 50% to as much as \$7,500 among all three trips.

You may incur additional training fees if you send more than 2 people to training. (See Item 6)

[2] The estimate is for the first and last month's rent. Rent will vary according to location and whether the landlord requires a security deposit. In highly desired business and commercial districts or when franchisees elect to lease spaces larger than our standard recommended space, rent might be higher. The size of the space should be 1,000 to 1,400 square feet. You do not need more than 1,400 square feet. We strongly recommend waiting to finalize a location until you have attended our initial training for business operations. You may not use your home or other residential property as your center. We may require you and your landlord to sign an addendum to the lease for your center or another acceptable form of agreement requiring the landlord to give Mathnasium written notice if you are in default of your center lease and allowing us the option to assume the lease if you are in default. Your final location must be approved by us in writing, prior to signing a lease. We must review and consent to the layout of each center. If you don't complete the build out of the center in a reasonable time, Mathnasium may (but is not obligated to) complete the build out, all expenses of which will be paid or reimbursed by you. This estimate does not include any amount for tenant improvements.

[3] The estimate is for painting and carpeting your center space, and basic tenant improvements. The cost of tenant improvements may also be covered by the landlord or amortized in your rent, depending on lease negotiations with your landlord. Tenant improvements can be required and/or expensive if applicable laws require certain facilities described in Item 1 under Industry-Specific Regulations.

[4] The estimate includes initial lease payments for computers, peripherals and other office equipment of \$500 to \$1,000, for which financing is generally available. The total purchase price of computers is estimated to be under \$2,500.

[5] The figure given is the current annual rate if you obtain all insurance required in the manuals, based on an assumed center enrollment of 100 students. You must also obtain property and casualty insurance, which varies by size and location of the Center. We estimate that the annual cost of all required insurance coverage would range from \$1,000 to \$2,500. You may also have an obligation under state law to obtain workers compensation or other forms of insurance. This estimate does not include an amount for workers compensation insurance since those rates can vary widely depending on your state and number of employees.

[6] The estimate includes legal and accounting services that may be required to start your business, including a legal review of your franchise agreement. Ongoing professional services are included in the "Additional Funds" category.

[7] The estimate includes purchase of phones and modem, installation of Internet service, and utilities setup deposits. You must have a separate business phone line and answering machine or voicemail used exclusively for your center, and a broadband Internet connection.

[8] Typically this equipment (total cost of \$5,000) is purchased with a \$1,000 down payment and the remainder financed.



[9] This is an estimate of the additional funds you will need during the initial period of operation, which we define as 4 months from the opening of the center. It includes rent for months 2 through 4, and 4 months of other expenses including utilities, office supplies, and outside services. It includes payroll for one employee but does not include any compensation that you elect to pay to yourself, or any royalties that you would pay us. You must pay the base royalty beginning the first full month after you (if you are an individual) or at least one of your principals (if you are an entity) complete the initial training. These estimates have been made based on the experience of our franchisees, but we cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on many factors, such as: how closely you follow our methods and procedures; your management skill, experience and business acumen; local economic and environmental conditions; the local market for our services; the prevailing wage rate; competition; and, the enrollment level reached during the initial 4 month period.

[10] These are estimates only. The chart provides an estimate of the initial investment to open one new center. None of the expenditures described in the chart is refundable, except the initial franchise fee (less related costs incurred by us), which Mathnasium will refund if during, or within five (5) days after the completion of the initial training program, Mathnasium elects to cancel the Franchise Agreement because it believes that it is in your or our best interest to do so. It is extremely difficult to predict future changes in these costs because they are under the control of third parties. We do not expect these costs to rise faster than general inflation, but we cannot guarantee this. You should review these figures carefully with a business advisor before making any decision to invest in the franchise.

[11] We do not finance any part of your initial investment on your first center. Financing may be available for second and subsequent centers.

#### Option Agreement

If you are also entering into an Option Agreement, in addition to the expenses you will incur in connection with opening the first center described above, you will also pay us an Option Fee. See Item 5 for a description of the Option Fee.

#### **ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

We must pre-approve any instructional materials that you wish to use at your center unless these materials are already specified in the manuals. You must purchase our proprietary Math Dictionaries from us or a supplier we designate. You must purchase items bearing the Mathnasium marks only from us or other sources we designate or approve, unless we waive this requirement in writing. Approved suppliers are listed in the manuals. They are our only approved suppliers. Currently we are not an approved supplier of any products or services. Currently, there is no supplier(s) in which any of our officers owns an interest.

Certain other items you must purchase for operating your Center, including furniture, surveillance equipment, stationery, wall décor, student supplies and insurance, must be purchased from approved suppliers or following our standards and specifications.

We approve suppliers after review of the quality of the products they provide to Mathnasium and our franchisees. Mathnasium formulates standards and specifications for products from approved suppliers based on our officers' experiences in the child instruction business. These standards and specifications are provided to potential suppliers when we begin the supplier review process and to franchisees if requested in writing. If you would like us to consider a new supplier, you must have the supplier provide

us with samples of its work. If the supplier meets our specifications for quality control, we will approve it as an additional supplier by written notification of our approval to the supplier and you. A review of a proposed new supplier may require a trial period but typically is completed within 60 days and no fees are payable to Mathnasium for this review. Mathnasium will not unreasonably withhold consent of a proposed, new supplier. If an approved supplier no longer meets our standards, Mathnasium may revoke its status as an approved supplier by written notification to the supplier and notification to the system by e-mail and modification to the manuals.

Mathnasium is not presently involved in any purchasing or distribution cooperatives. In our last fiscal year, Mathnasium did not obtain any rebates from approved suppliers based on franchisee purchases, but we reserve the right to do so in the future.

Purchases made directly from Mathnasium, from approved suppliers, or in accordance with our standards and specifications in establishing your center will range from 30% to 40% of your total initial investment (see Item 7 above).

Purchases made directly from Mathnasium, from approved suppliers, or in accordance with our standards and specifications in ongoing operation of your center will range from 20% to 40% of your total monthly expenses.

Mathnasium does negotiate purchase agreements with suppliers for the benefit of Mathnasium franchisees, and when we do we pass on any negotiated discount directly and entirely to our franchisees. Mathnasium does not provide material benefits to any franchisee based on a franchisee's use of designated or approved sources.

In our last fiscal year ending December 31, 2011, Mathnasium indirectly received revenues as a result of purchases by franchisees from the supplier of the Mathnasium Math Dictionaries in the amount of \$6,990 or 0.1% of our total revenues of \$6,829,203. Mathnasium currently has no affiliates that provide products or services to Mathnasium franchisees or receive rebates as a result of required purchases by franchisees.

#### **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 disclosure document.**

<b>OBLIGATION</b>	<b>SECTION OF FRANCHISE AGREEMENT</b>	<b>SECTION OF OPTION AGREEMENT TO OPEN ADDITIONAL CENTERS</b>	<b>DISCLOSURE DOCUMENT ITEM</b>
a. Site selection and acquisition/lease	1.3, 3.1	1.01, Exhibit 1	7,8 and 11
b. Pre-opening purchases/leases	6.9, 7.1	Not Applicable	6, 8 and 11
c. Site development and other pre-opening requirements	3.1, 4.1, 6.2, 13.2	1.01, 1.02, Exhibit 2	11
d. Preliminary and ongoing training	1.4, 4.1-4.6	Not Applicable	11 and 15
e. Opening	3.2, 15.1(c)	1.01, 1.02, Exhibit 2	11
f. Fees	5.1-5.5, 10.3, 18.3(b)	2.01	5 and 6

OBLIGATION	SECTION OF FRANCHISE AGREEMENT	SECTION OF OPTION AGREEMENT TO OPEN ADDITIONAL CENTERS	DISCLOSURE DOCUMENT ITEM
g. Compliance with standards and policies/operating manuals	6.1-6.18, IX	1.01,1.02, 4.01	8, 11, 15 and 16
h. Trademarks and proprietary information	1.1-1.4, 7.1-7.6, 8.1, 8.3, 15.1(d), 17.1-17.2, 20(a)	Not Applicable	13 and 14
i. Restrictions on products/ services offered	3.3, 6.8, 7.4, 8.2, 8.3, 16.1, 16.2	1.02	16
j. Warranty and customer service	6.4, 6.13, 6.14	Not Applicable	Not Applicable
k. Territorial development and sales quotas	2.1, 10.2	1.01, 1.02, Exhibit 2	Not Applicable
l. Ongoing product/service purchases	4.6	Not Applicable	6 and 8
m. Maintenance, appearance remodeling requirements	6.2, 6.10, 6.15, 8.1, 18.4(b)ii	Not Applicable	11
n. Insurance	13.2	Not Applicable	6, 7 and 8
o. Advertising	5.3, 6.2, 6.5	Not Applicable	11
p. Indemnification	12.1, 13.1	Not Applicable	6
q. Owner's participation/ management staffing	11.1	Not Applicable	15
r. Records and reports	6.9, 6.10, 6.15, 15.2(a)	Not Applicable	6
s. Inspections and audits	6.14	Not Applicable	6
t. Transfer	18.1-18.9, XIX	3.01, 3.02, 6.01	17
u. Renewal	14.1-14.3	Not Applicable	17
v. Post termination obligations	15.4	Not Applicable	17
w. Non-competition covenants	16.1-16.5	Not Applicable	17
x. Dispute resolution	20.1-20.5	5.01	17
y. Privacy Policy	6.16	Not Applicable	Not Applicable

## **ITEM 10: FINANCING**

We do not offer direct or indirect financing for your first center. We may finance initial fees for your second or subsequent center, if you qualify. The financing structure currently offered is payment of \$4,500 in cash when you sign the Franchise Agreement and financing of the \$15,000 balance of the initial franchise fee. Installment payments must be made by electronic funds transfer. One of the qualifications for financing is that you must start operations at that center within 3 months after you sign the Franchise Agreement.

The \$15,000 is financed over 30 months at zero interest. You must sign the standard Promissory Note in Exhibit H. The only security we require is a personal guaranty of the note by you and your spouse or if the franchisee is an entity, by all of the owners of the franchisee entity and their spouses. The note can be prepaid at any time without penalty. If you default by failing to make a payment under the note, failing to open your additional center within 3 months after you sign the Franchise Agreement, or your Franchise Agreement being terminated, we can accelerate your obligations to pay the entire amount due and you will be responsible for our costs of collection, including attorney's fees, and 10% interest until the Note is paid in full. Failure to pay the note is a default in payment under the Franchise Agreement. You waive your rights to notice of a collection action and to assert any defenses to collect against us. (See Exhibit H, Promissory Note for Additional Centers).

We may finance a portion of the Option Fee for additional centers to be opened by you under the Option Agreement. If the Option Fee is not paid in full in cash, the fee will be higher (see Item 5), and we will finance half of the higher fee due, which is \$11,000 times the number of additional centers to be opened at zero interest. The form of Promissory Note is at Exhibit H. If you are signing the Option Agreement simultaneously with your initial Franchise Agreement and committing to open only one additional center, the \$11,000 principal amount of the note is due on the earlier of the date you sign the franchise agreement for the additional center or 12 months from the date of signing the Option Agreement. If you are signing the Option Agreement simultaneously with your initial Franchise Agreement and committing to open more than one additional center, \$11,000 installment payments will be due on the earlier of the date you sign the franchise agreement for each additional center or the date which is a 12 month interval from the date of signing the Option Agreement for the first additional center and 6 month intervals thereafter for the remaining centers. If you are an existing franchisee signing the Option Agreement for an additional center and committing to open only one additional center, the \$11,000 principal amount of the note is due on the earlier of the date you sign the franchise agreement for the additional center or 6 months from the date of signing the Option Agreement. If you are an existing franchisee and are committing to open more than one additional center, \$11,000 installment payments will be due on the earlier of the date you sign the franchise agreement for each additional center or the date which is a 6 month interval from the date of signing the Option Agreement.

The only security we require is a personal guaranty of the Promissory Note by you and your spouse or if the franchisee is an entity, by all of the owners of the franchisee entity and their spouses. The note can be prepaid at any time without penalty. If you default by failing to make a payment under the note when due, at our option we can (i) accelerate your obligations to pay the entire amount due and you will be responsible for our costs of collection, including attorney's fees, and 10% interest until the note is paid in full, (ii) remove one territory from the Development Schedule, and/or (iii) terminate the Option Agreement, and you will forfeit all monies paid up to that point. Failure to pay the note is a default in payment under the Franchise Agreement. You waive your rights to notice of a collection action and to assert any defenses to collect against us. (See Exhibit H, Promissory Note for Option Fee).

This financing structure is subject to annual review.

We do not have any practice or intent to sell, assign or discount to a third party all or part of the financing arrangement.

**ITEM 11: FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING**

Except as listed below, we are not required to provide you with any assistance.

Pre-Opening Obligations

Before you begin operating your Center, Mathnasium will:

- (1) Review and consent (or withhold consent) to the site proposed for your center (Franchise Agreement, Section 3.1). We strongly recommend waiting to finalize a location until you have completed initial training for business operations. Mathnasium assists in site selection by reviewing the location and nature of the proposed facility and its appropriateness for use as a center. You may not use your home or other residential property as a center. Mathnasium does not ordinarily lease sites to franchisees, although we may sublease space to a franchisee from time to time if a company-owned center converts to a franchised center. In consenting to the site for your center, we consider the general location and neighborhood where your center would be located, demographic information about residents within the vicinity of the center, visibility, availability of parking, physical characteristics of existing buildings, availability of necessary space for the center, as well as other factors integral to the Mathnasium business model. If we do not consent to the proposed site for your center, you will be given additional time (up to 20 business days) to locate an appropriate site. And if you and we cannot agree on any site, your Franchise Agreement may be cancelled, at no liability to us. Our review and consent to the location of a center by Mathnasium is no guarantee or assurance that you will be successful there.
- (2) Designate a single descriptive community name for your center. (Franchise Agreement, Section 6.2)
- (3) Lend you a copy of our manuals for franchisees and other applicable manuals during the relevant phases of the initial training program (Section IX, Franchise Agreement). Mathnasium can change the manuals and other manuals, and you must comply with these changes when you are notified of them. Currently we notify you via the change logs posted on the Mathnasium centralized computer system (currently called "M2"), but they will not materially alter your rights and obligations under the Franchise Agreement.
- (4) Verify that you have the insurance coverage that we require for your center (Franchise Agreement, Section 13.2).

Mathnasium currently will only render services to you that are required by your Franchise Agreement (or other agreements with us) or the manuals.

Time to Open

You must start center operations within 6 months after you sign the Franchise Agreement. This generally occurs 3 to 5 months after completion of the initial training program. You may request from us in writing an extension of time in which to open, and we may grant an extension for a minimum of 2 and maximum of 4 months, if we determine in our sole discretion that you are actively taking steps toward opening the Center. If you have not started Center operations within 6 months from after signing the Franchise Agreement (or by the end of the extension period if granted), we may terminate

the Franchise Agreement. The actual time to open will vary depending on how long it takes you to obtain our consent to your proposed site for the center, obtain any necessary permits or licenses, perform any needed construction or remodeling, and equip the facility for operation.

**Training**

Prior to attending the initial franchise training program, you are required to review all pre-training materials and complete business and educational assessments. This work will require approximately 40 hours of your time. The initial franchise training program typically lasts at least 5 days and is usually conducted every 6 weeks at or near our offices in Los Angeles, California or in various other cities across the country. By the later of sixty (60) days after you sign the Franchise Agreement or the first day of the second initial franchise training program session we hold after you sign your Franchise Agreement, your center director and one principal who is the largest equity owner of the franchise or the franchisee entity must start and then successfully complete the initial franchise training program. In situations where part or all of your center management will be handled by a person other than you, we will require that person to complete all pre-training work and attend the initial training program. Your center director must successfully complete the pre-training work, the initial training program, and all certification training courses specified in the manuals before you may open your center. You and your center director must also participate in and successfully complete a 4 to 5 day apprenticeship in one of various Mathnasium "Mentor Centers" around the United States. The initial franchise fee covers the cost of this apprenticeship program for your center director and 1 principal owner to simultaneously attend. You must pay all other expenses, including travel and lodging. (Franchise Agreement, Section 4.2). The fee to attend non-simultaneous programs is \$1,000 per additional program, for up to two attendees. Greater than two attendees may simultaneously attend the apprenticeship program for a fee of \$500 per person. If a mentor is available, you may be offered an additional week as part of the apprenticeship at a Mentor Center for an additional fee of \$1,000 payable to the mentoring franchisee. Mathnasium retains no part of this fee. It is paid in full to the mentoring franchisee. During 2012, we will be updating the initial franchise training program so that it may include two non-consecutive weeks of training at two separate locations in the United States.

Below is a description of the current initial training program schedule (hours stated refer to minimum hours provided):

**TRAINING PROGRAM**

<b>SUBJECT</b>	<b>HOURS OF CLASSROOM TRAINING*</b>	<b>HOURS OF ON-THE-JOB TRAINING*</b>	<b>LOCATION</b>
Business Setup	4	0	Pre-Training Reading
Location Selection and Market	2	0	Pre-Training Reading
Center Setup	4	0	Pre-Training Reading; Los Angeles, California or other U.S. locations
Welcome; Training Objectives; Introductions	2	0	Los Angeles, California or other U.S. locations
Company Background, Vision, Customer Service Focus	1	0	Los Angeles, California or other U.S. locations
Systems and Tools	1.5	0	Los Angeles, California or other U.S. locations
Neighborhood Marketing	2-3	0	Los Angeles, California or other U.S. locations
In-store Marketing and Sales	3-4	0	Los Angeles, California or other U.S. locations

SUBJECT	HOURS OF CLASSROOM TRAINING*	HOURS OF ON-THE-JOB TRAINING*	LOCATION
Customer Service – Driving Retention and Referrals	1.5	0	Los Angeles, California or other U.S. locations
Business Management and Accounting	2	0	Los Angeles, California or other U.S. locations
Mathnasium Management System (M2)	4	0	Los Angeles, California or other U.S. locations
Business Management – Hiring, Training, Management	2	0	Los Angeles, California or other U.S. locations
Training: Center Director and Instructor Certification Programs	1	0	Los Angeles, California or other U.S. locations
Daily Operations	2	0	Los Angeles, California or other U.S. locations
Introduction to the Mathnasium Method	2.5	0	Los Angeles, California or other U.S. locations
Assessing Students	2.5	0	Los Angeles, California or other U.S. locations
Mathnasium Materials Overview	1	0	Los Angeles, California or other U.S. locations
Creating the Customized Workbook	1	0	Los Angeles, California or other U.S. locations
Math Tips for Teaching	8	0	Los Angeles, California or other U.S. locations
Role Playing	2-3	0	Los Angeles, California or other U.S. locations
Education Review	1	0	Los Angeles, California or other U.S. locations
Operations Review	1	0	Los Angeles, California or other U.S. locations
Question and Answer	1	0	Los Angeles, California or other U.S. locations
Conclusions	1	0	Los Angeles, California or other U.S. locations
Apprenticeship Program at Mentor Center	0	30-40	Los Angeles, California, or other center in the U.S.

\*Less than one hour stated as one hour.

The initial training program is typically provided within 30 to 45 days after you sign the Franchise Agreement. Mathnasium's Senior V.P., Franchise Operations determines the actual time the initial training program begins each day. The instructional material consists of a printed, bound copy of the Operations Manual and Guides (750 pages) and the Education Training Manual (465 pages) as well as the Mathnasium Math Dictionary, Flashy Demo Cards, various worksheets, sample assessments and floor plan tools.

The training instructors are currently (i) Mary Feldman, who has been with Mathnasium or our affiliates for 7 years, and who has 21 years experience in the subject matters she teaches, (ii) Larry Martinek, who has been with Mathnasium or our affiliates for 9 years, and who has 39 years experience in the subject matters he teaches, (iii) David Ullendorff, who has been with Mathnasium or our affiliates for 9 years, and who has 21 years experience in the subject matters he teaches, (iv) Lisa Eastwood, who has been with Mathnasium or our affiliates for 7 years, and who has 11 years experience in the subject

matters she teaches, (v) David Peddie, who has been with Mathnasium or our affiliates for 5 years, and who has 7 years experience in the subject matters he teaches, (vi) Merkisha Machen, who has been with Mathnasium or our affiliates for 6 years, and who has 14 years experience in the subject matters she teaches, (vii) Shant Assarian, who has been with Mathnasium for 2 years and who has 11 years experience in the subject matters he teaches, and (viii) Peter Markovitz, who has been with Mathnasium or our affiliates for 9 years, and who has 28 years experience in the subject matters he teaches.

**Note:** The initial training program must be successfully completed by your center director and the principal who is the largest equity owner. Additional persons from your company may attend the initial training program if they have a legitimate business relationship with you and they sign a Confidentiality/Noncompetition Agreement. Instructors cannot attend the initial training program. We have the right to add supplemental training sessions to our standard initial training program if we determine that you need them.

The initial franchise fee covers the cost of the initial training program for your center director and 1 equity owner. You must pay all other expenses, including travel and lodging. (Franchise Agreement, Section 4.1). Other attendees may be charged tuition for the initial training program (not to exceed \$300 per day). The initial training program currently occurs at one training center designated by Mathnasium, but in 2012 we expect to develop additional training that will include 2 non-consecutive weeks of training that may be held at 2 separate locations.

Additional training courses specified in the manuals consist of videos, reading, and worksheets completed on your own and submitted to Mathnasium for certification.

Mathnasium will provide the Tune-Up training program (a 2-day training course about 6 to 10 months after you open your center) in either Los Angeles, California or another location that we select (Franchise Agreement, Section 4.3). One principal owner or your Center Director must attend the Tune-Up training program. Instructors cannot attend the Tune-Up training program. Mathnasium may also provide your center director and other personnel of yours periodic ongoing training at locations that we designate or by telephone or Internet. You must participate in ongoing training as prescribed by us during the term of the Franchise Agreement (this is usually done by telephone conference). There is currently no fee for the ongoing training, but you must pay the cost of any travel and living expenses that you incur to personally attend ongoing training (Franchise Agreement, Sections 4.4 and 4.5).

Center Directors hired or promoted after your Center is already operating must attend either the initial training program, including all pre-training work, or the Center Director training program (if they were previously an instructor at a Mathnasium center for at least 6 months),

If we hold an annual convention for franchisees, you must attend and pay the annual convention fee.

You are responsible for all of the expenses incurred by your trainees or other attendees in connection with the initial training program and any other training, conferences, conventions or other meetings your trainees attend, including, for example, their salaries, transportation costs, meals, lodging and other living expenses. All attendees at training, conferences, conventions, and meetings must sign a Confidentiality/Noncompetition Agreement prior to attending.

#### Obligations After Opening:

During the operation of the franchised business, Mathnasium will:



(1) Provide electronic access to the system and manuals necessary for the operation of your center (Franchise Agreement, Section 7.1). Access to the Mathnasium centralized computer system (currently called "M2") is only granted after Mathnasium receives a completed electronic funds transfer (EFT) form at the time of initial training, which authorizes electronic withdrawal of funds from a depository account for royalties and other fees. Please see Item 6, Note 2 for more information.

(2) Notify you of changes to the manuals and other modifications to the system (Franchise Agreement, Sections 8.2).

(3) Furnish to you reasonable assistance by telephone, fax, e-mail, or website regarding the operation of the center as we deem appropriate (Franchise Agreement, Section 4.7).

(4) Notify you if the general state of repair, appearance or cleanliness of your center or its fixtures, equipment or signs do not meet our standards, and specify the action you must take to correct the deficiency (Franchise Agreement, Section 6.10). Mathnasium employees or representatives can (i) visit your center any day of the week (except national holidays) and at any time of the day between 9:00 am and 9:00 pm, including at least 3 hours outside of the hours your center is open, with or without advance notice, and if we give advance notice, you and your center director must be present; (ii) physically or electronically inspect any materials, products, data or documents relating to the operation of your center; (iii) physically or electronically access all accounting records, as they relate to the operation of your center; (iv) interview parents, children, and your center employees; (v) contact any parents or students currently or previously enrolled at your center at any time without advance notice to you; (vi) observe your instructional skill, center management skill, and system knowledge skill; and (vii) require you to place and maintain video and audio equipment (to be specified in the manuals when added) to facilitate the monitoring of learning center activity as well as closer monitoring of teacher interaction with students. You must keep your accounting records according to the Mathnasium chart of accounts. You must keep financial records relating to your Mathnasium business separate from all other business activity not directly related to Mathnasium. You must keep all records relating to each student enrolled at your center for a period of at least 2 years from the student's last day of attending the center. If we communicate required changes to you following a center visit, you will incorporate said changes within a reasonable time period (Franchise Agreement, Section 6.14).

(5) Review any additional services, programs or products that you develop for your center to determine whether to include them as part of the Mathnasium System (Franchise Agreement, Section 8.3).

We currently have a policy by which we make monthly marketing contributions to existing franchisees who purchase an additional existing franchise business from a selling franchisee. The payment is calculated based on the amount of royalties you pay each month. This policy may be changed or withdrawn at any time.

## Advertising

### *Monthly Marketing Fees*

You must pay Mathnasium a monthly "Marketing Fee" equal to 2% of your monthly gross receipts for national, regional or local marketing and promotional purposes (Franchise Agreement, Section 5.3).

We will spend Marketing Fees collected from all Mathnasium franchisees for the development of marketing materials and to use in local, regional, or national advertising, public relations, market research, and promotional campaigns designed to promote and enhance the value of the marks and

their general public recognition and acceptance (Franchise Agreement, Section 5.3). We also may pay for marketing products and services including advertising and public relations firms to assist in our marketing program from the Marketing Fees. We also pay ourselves a management fee of 25% of the annual aggregate Marketing Fees for supervising the marketing program. The balance of the marketing fees may be used for marketing, advertising, or promotion; marketing training materials, courses, or instruction; or for the salaries of employees and/or independent contractors whose function is exclusively dedicated to marketing. Marketing Fees will be deposited into our operating account, but administratively segregated in our records and as a result, are not audited. No interest is imputed for your benefit or paid to you. We will provide you (if requested in writing) with an unaudited statement of annual receipts and expenditures of Marketing Fees during the prior calendar year on or before each March 31. If we do not expend all Marketing Fees collected for one year, the amount remaining will be used in the future for such purposes. We are not required to spend any Marketing Fees in or near your center; but Marketing Fees are spent to benefit all franchises, which may or may not include yours in a given calendar year. None of the Marketing Fees will be used primarily to sell Mathnasium franchises.

We will determine, in our sole discretion, the cost, form of media, content, format, production and timing, including regional or local concentration and seasonal exposure, location and all other matters involving brand marketing, advertising, public relations and promotional campaigns (Franchise Agreement, Section 5.3).

Mathnasium has no obligation in administering the Marketing Fees to make expenditures for you that are equivalent or proportionate to your contributions to these fees, or to ensure that any particular franchisee or center benefits directly or proportionately from the placement of marketing or promotion, or to ensure that marketing or promotion impacts or penetrates your territory. In 2011, the Marketing Fees were expended as follows:

Production	11%
Media placement	15%
National math competition	13%
Marketing Functionality in CRM	6%
Our Administrative Expenses	25%
Other (Marketing activities, research, miscellaneous)	9%
Monies saved for 2012 expenditures	21%
<b>Total</b>	<b>100%</b>

*Advertising Cooperatives (Franchisee Marketing Groups)*

Mathnasium is not presently involved in any advertising cooperatives, but you may have to participate in a local or regional advertising cooperative if half or more of the centers in your area vote to do so. A cooperative can be as small as 2 centers. Your contribution to these cooperatives is anticipated to be a minimum of \$250 per month. In no event will you be required to contribute more than \$18,000 in any calendar year. We reserve the right to create advertising cooperatives in the future for your benefit. And if we do so, we will have the right to require these cooperatives to change, dissolve, or merge.

We do not currently have a formal franchisee council that advises us on advertising policies, but we do obtain input informally from franchisees.

### *Other Advertising Information*

The Franchise Agreement obligates you to vigorously promote the enrollment of students at your center at all times during the term of your Franchise Agreement. This includes your spending a minimum of \$4,500 in every 3 consecutive months on approved local marketing and advertising of your center for your center's first year of operation (although we recommend at least \$2,000 per month in the first year of operation), and a minimum of \$6,000 in every 3 consecutive months for your center's second or more years of operation. We presently have a policy of not requiring the second-year increase to \$6,000 for centers in the top 50% for the previous month in total revenue. We also presently have a policy of reducing minimum required marketing spending amounts for franchisees with multiple centers that are in reasonable proximity to each other, because economies of scale enable them to spend less in marketing throughout a region. However, these policies can be changed or withdrawn at any time.

Mathnasium must approve your signs that contain our marks before you may display them to the public. At a minimum, we will require you to use the marks in their proper form and color, as detailed in manuals.

On a regional or system-wide basis, we may impose an additional assessment on you and other affected franchisees for special designated advertising or promotional activities if Mathnasium franchisees owning a majority of all franchised centers that would be affected vote for such an additional assessment. We may require participation in multi-area marketing programs as described in Section 5.3(b) of the Franchise Agreement.

You may develop advertising materials for your own use, at your own cost. However, we must approve, in writing, all advertising materials prior to use. We may require copies of some or all advertising pieces to be sent to Mathnasium. If you develop your own marketing or advertising intended for placement on the Internet or any other public computer network, you must obtain our prior written approval before using them. (You may use marketing and promotional material that Mathnasium has created without getting our prior written permission, so long as it has not been altered in any way.) You may not combine marketing and advertising for your center with marketing and advertising for any other program or business entity without our written permission. We assume no responsibility for any claims or damages arising from your marketing, advertising or promotional activities.

The Mathnasium marks may only be used in Mathnasium approved artwork, layouts and creative material. Mathnasium must approve, in writing, all marketing and advertising materials prior to use. All advertising must list the community name assigned to your center or if you are advertising jointly with other centers, it must list all participating centers by the names assigned by us. If there are other communities included in your territory that your center may serve and that you want to identify in approved advertising and promotion of your center, you must obtain our prior written approval to do so. We have the right to subsequently withdraw approval of use of certain community names other than your assigned name.

Monthly Marketing Fees and any cooperative advertising contributions will only be used to promote the system to retail customers and promote the goodwill of the marks (Franchise Agreement, Section 5.3(c)).

### *Advertising on the Internet*

You may not have an Internet site or presence, or offer or sell Mathnasium products or services through the Internet, except as authorized by us in the manuals or otherwise in writing. You may not

advertise for students by social media or using related media or technology, except as authorized by us in writing. We may provide you with a presence on Mathnasium's master web site. You must participate in any such web site under our rules.

**Technology System**

You must use the Mathnasium centralized computer system (currently called "M2"), which will include point of sale functions to manage your business. You must use all required functionality of the centralized computer system. You must have a broadband connection to the Internet at your center to allow you to access the system and to communicate with us. You also must use hardware and software specified by us. We estimate that the initial cost of purchasing a computer system will be under \$2,500. The monthly technology fee covers the M2 system and is currently \$900 per year and is subject to increase. Over time, to continue to comply with your contractual requirement, you may need to upgrade or replace your computer due to normal wear and tear or obsolescence. There are no contractual limitations on the frequency or cost of any repairs, or of any upgrade or replacement to your computer, but we estimate that your maintenance costs will be less than \$500 per year, and the purchase price of an upgrade or replacement to your computer would be under \$2,500. Through the M2 system, we can physically or electronically look at any data as it pertains to your business. We reserve the right for our employees or representatives to physically or electronically access and review any data in your accounting software as it pertains to your business. Mathnasium owns and maintains an exclusive right in all customer and business transaction data. Access to the M2 system is only granted after Mathnasium receives a completed electronic funds transfer (EFT) form at the time of initial training, which authorizes electronic withdrawal of funds from a depository account for royalties and other fees. Please see Item 6, Note 2 for more information.

**Table of Contents of Manuals**

The manuals contain 52 pages (plus at least 698 pages of supplemental guides relating to procedures). We will lend you our manuals at the initial training program as part of the training materials. If Mathnasium terminates the Franchise Agreement, you must return the manuals. While Mathnasium retains the right to modify or change any materials, the following is the Table of Contents of our manuals for franchisees as of the date of this disclosure document:

<b>Topic</b>	<b>Number of Pages</b>
Introduction	10
The Pillars	4
Pillar 1: Great Environment	5
Pillar 2: Great People and Instruction	9
Pillar 3: Effective Marketing and Sales	6
Pillar 4: Customer Relationships	4
Pillar 5: Sound Business Management	14
Subtotal of Pages	52
Supplemental Guides	598
M2 Guide	100
<b>Total Pages</b>	<b>750</b>

## **ITEM 12: TERRITORY**

You will receive an exclusive territory subject to the exceptions discussed below. Your territory will be based on the boundaries specifically described in Exhibit 1 to the Franchise Agreement. The size of the Territory will be a minimum of 3 ½ square miles and up to approximately 7 square miles. We determine the size of the Territory that will be granted to you principally based on population density as well as other factors. We may adjust the territory once the location of your center is known. If, based on subsequent changes, we reasonably determine that the customers in your Territory or adjacent areas would be better served by adjusting the boundaries of your Territory, we may adjust it upon written notice to you. If we adjust your Territory, the adjusted territory will not be less than 3 ½ square miles in size. These changes may be based on or include changes in geography, population density, number of children, average household income, the location of your center and other centers, traffic, and other factors.

You are granted the right to operate one center in the territory that is defined in the Franchise Agreement. Mathnasium does not grant you options or rights of first refusal to open any additional centers.

Mathnasium and its affiliates will not open another center within the territory nor grant franchises to others to operate a learning center within the territory, subject to our reservation of rights. Mathnasium and our direct or indirect affiliates reserve the right to offer and award other types of franchises that are not directly competitive with your Mathnasium franchise and to (i) market and sell Mathnasium educational products and services through other channels of distribution anywhere (including in schools through distance learning, Webinars, and on the Internet); (ii) provide Mathnasium services to alternative customer types at locations other than Mathnasium learning centers (including low income students); (iii) use or allow others to use the marks, including the right to establish company owned centers outside of your territory; (iv) to sell other products or services using the marks or not using the marks, if the product or service is not primarily a learning center (e.g. selling books); and (v) to merge with, acquire, or be acquired by any business, including a competing business. Mathnasium is not obligated to pay you any compensation for soliciting or accepting orders from inside your territory.

You may operate your center only at the location approved by Mathnasium and specified in Section 1.3 of your Franchise Agreement. You may not teach students at sites other than your approved center location, including students' homes, prior to or after your center begins operation. We may require you and your landlord to sign an addendum to the lease for the Center or another acceptable form of agreement requiring the landlord to give Mathnasium written notice if you are in default of your center lease and allowing us the option to assume the lease if you are in default. We must review and consent to the layout of each center. You must obtain our written permission before relocating your center. We will consider several factors, including demographic data and the proximity of other centers, in reviewing a request to relocate. If we consent to your request to relocate your center, and the new location is inside your original territory or five miles or less from your original center location, we will not charge a relocation fee. If the new location is outside your original territory or more than five miles from your original center location, you will pay us a relocation fee equal to our then current transfer fee. However, in no event may you or a transferee relocate your center more than 10 miles from the original location. You may not establish any program using the system in any setting other than the approved location of your center, without our written approval. Such approval requires annual renewal.

Parents of students are free to enroll their children at the Mathnasium center of their choice, regardless of their or its location. There are no geographic restrictions on the students that you or other Mathnasium franchisees may serve. You will not market in any media format that primarily

reaches outside your territory, without our prior written permission. We have exclusive rights to market on the Internet and on mobile devices, including texting, emails and social media, and you will not use these media formats except as we may authorize in writing. Similarly, when parents contact us, we may refer them to any one or more Mathnasium centers, regardless of franchisee ownership. We have no obligation to refer parents residing closest to your center or to you. Because you will not receive a territory that is completely exclusive due to the exceptions above, you may experience competition from other channels of distribution that we own, and from us or other franchisees who have customers who live in your territory.

The continuation of your territorial exclusivity depends on your maintaining an enrollment of a minimum of 50 students after your 20th month of operation. Also, after your 20th month of operation, your Center must not fall below the 4th percentile of Mathnasium franchisees in the United States that have been open 20 months or longer, based on gross center revenue (Franchise Agreement, Section 2.1). The continuation of your territorial exclusivity does not depend on you achieving any other sales volume, market penetration or other contingency.

### Option Agreement

You are granted an exclusive Option Territory during the term of the Option Agreement. The Option Territory will include a territory with a minimum of 4,000 children between the ages of 5 and 17 for each of the centers you intend to develop under the Option Agreement. The territory will be described in an exhibit to the Option Agreement.

Continuation of your territorial exclusivity during the term of the Option Agreement depends on your compliance with the Development Schedule in the Option Agreement and timely payment of the financed portion of the option fee. As long as your obligations under the Development Schedule are being met and payments are made when due, and until the expiration of the Option Agreement, we will not ourselves operate a Center and will not allow a franchisee to operate a Mathnasium Center within the Option Territory.



You are not granted any rights to subfranchise under the Option Agreement.

### **ITEM 13: TRADEMARKS**

Our affiliate, Mathnasium LLC, owns and licenses to us, and grants us the right to sub-license to you the trademarks MATHNASIUM and MA+HNASIUM THE MATH LEARNING CENTER stylized, as shown on the front cover of this disclosure document.

As used in this disclosure document and the Franchise Agreement, the term "mark" or "marks" includes our trademarks, trade names, service marks, logos, trade dress, commercial symbols, domain names, and similar related words or symbols, designated by Mathnasium from time to time to identify centers and the goods and services offered in them. The principal marks include those that you will use to identify the franchised business.

The following are descriptions of the principal marks that we will license to you:

REGISTRATION OR SERIAL NUMBER	DESCRIPTION OF MARK	PRINCIPAL OR SUPPLEMENTAL REGISTER OF THE UNITED STATES PATENT AND TRADEMARK OFFICE	REGISTRATION DATE
3927713	MATHNASIUM	Principal (Class 35)	August 3, 2011
3869774	MATHNASIUM	Principal (Class 41)	November 2, 2010
3443806		Principal (Class 41)	June 10, 2008
3443807		Principal (Class 35)	June 10, 2008

All required affidavits have been filed.

Our affiliate has also obtained trademark registrations in other countries.

You must follow our rules when you use the marks as described in the Franchise Agreement and in the manuals. You cannot use the word "Mathnasium" or our marks as part of a corporate name or with modifying words, designs or symbols. We will assign you a single descriptive community name to be used with the Mathnasium mark to identify your center. You may not use our registered name in the sale of unauthorized products or services or in a manner not authorized in writing by Mathnasium.

There are presently no effective determinations of the United States Patent and Trademark Office, any trademark trial and appeal board, any state trademark administrator or any court, any pending interference, opposition or cancellation proceedings involving the above-referenced marks. There are no agreements currently in effect that significantly limit our rights to use or license the use of marks that are material to the franchise, except for the Trademark License Agreement between Mathnasium LLC and us, effective as of September 30, 2003, which grants us the nonexclusive right to use and sublicense the use of the marks in the United States. The Trademark License Agreement is for an indefinite term, and will remain in effect until terminated by either party upon 180 days notice. If the License Agreement is terminated, you may be required to stop using the marks. There are no infringing uses or superior previous rights known to Mathnasium that can materially affect your use of the marks in this state or any other state in which the franchised business is to be located. There is no known pending material federal or state court litigation regarding our use or ownership rights in any mark. All required affidavits have been filed.

Mathnasium has the right to control any administrative proceedings or litigation involving a mark licensed to you by Mathnasium. You must notify Mathnasium promptly when you learn about an alleged infringement, unfair competition or challenge to your use of our marks. We then will promptly take the action we think appropriate. Mathnasium must indemnify you for any action against you by a third party based solely on alleged infringement, unfair competition or similar claims about the marks. Mathnasium will have no obligation to defend or indemnify you if the claim against you relates to your use of the marks in violation of the Franchise Agreement.

If you learn of any third-party using the marks that you believe is not authorized to use the marks or any variant of them, you must promptly notify us within 24 hours. Mathnasium will determine whether or not we wish to take any action against the third party. You will have no right to make any demand or to prosecute any claim against an alleged infringer for the infringement of our marks.

You must modify or discontinue the use of a mark if Mathnasium modifies or discontinues it. You must not directly or indirectly contest our rights to our marks, trade secrets or business techniques that are part of our business.

#### **ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

##### **Patents and Copyrights**

We hold no patents. Mathnasium LLC holds common law copyrights for elements of the system, including worksheets used in the system and diagnostic tests, achievement tests, record sheets, progress charts, answer books and instruction manuals that we provide to franchisees for use in their centers, but none of these have been registered with the Copyright Office.

You may use the copyrighted materials only for the registered students of your center under the terms of the Franchise Agreement and while the Franchise Agreement is effective.

While the Franchise Agreement does not obligate us to do so, Mathnasium intends to enforce these copyrights against any infringement where we see fit. You must report any infringement of the copyrights that you find out about promptly (within 24 hours), and you must cooperate in stopping the infringement (at our expense). We do not know of any infringing uses of our copyrights that could materially affect your use. Additionally, there are no pending interference, opposition or cancellation proceedings; no other pending litigation involving the copyrights; and no agreements currently in effect which materially limit our rights to use or license others to use this copyright. We have no obligation to defend or indemnify you against a challenge to your use of our copyrighted materials.

##### **Confidential Information**

During and after the term of the Franchise Agreement, you may not disclose any of Mathnasium's confidential information that you obtained as a result of the franchise. Confidential information includes (but is not limited to) the manuals, system, customer data, and any data or procedures to which you would not have had access if you were not a Mathnasium franchisee.

You (this includes your center director, equity owners and their spouses or legal domestic partners and anyone else who attends any initial or follow-up training program) must sign a Confidentiality/Non-Competition Agreement (Exhibit 3 to the Franchise Agreement) prior to attending your first Mathnasium training session. All of your assistants (see Item 15), instructors and other employees must sign a Confidentiality Agreement (Exhibit 4 to the Franchise Agreement) prior to starting employment. The signed Agreements must be kept in each employee's personnel file, and a copy of all such documents must be sent to Mathnasium Headquarters.

#### **ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

You or one of your principals is required to personally participate in the management and direct operation of the franchise on a full-time basis regardless of whether you have a designated Center Director. It is our intention to select only those franchisees whose principals plan to actively participate in the direct operation and daily affairs of the franchise. Mathnasium is not seeking to license franchisees if the principals of these franchisees are merely seeking a passive investment. Additionally, as required by section 1.2 of the Franchise Agreement, you must act as or employ a center director for the center. The name of the center director must be disclosed to us and should the center director change, we must be notified in writing. The Center Director must successfully complete the initial training program or the Center Director training program (if they were previously an instructor at a Mathnasium center for at least



6 months), and the apprenticeship training program. The Center Director must devote his or her entire time during normal retail business hours to the management, operation and development of the franchise business at the center. The center director also must maintain confidentiality of the trade secrets described in Item 14, and comply with the covenants not to compete described in Item 17. A live person must answer the Center telephones during the minimum hours of 10 am to 3 pm Monday through Friday.

If the franchisee is an entity, all owners of the entity must personally guarantee the franchisee's obligations under the Franchise Agreement, including agreeing to be bound by, and personally liable for the breach of, every provision in the Franchise Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including the preservation of the confidentiality of our confidential information as defined in the Franchise Agreement and compliance with the covenants not to compete described in Item 17. The Guaranty and Assumption of Obligations that each owner must sign is an exhibit to the Franchise Agreement.

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

You may offer only Mathnasium programs, and only in accordance with the system. We must pre-approve the use of any additional services, programs or products that you develop for your center. If we approve such items, you may use them only in your center. You may not sell or otherwise distribute the items to other Mathnasium franchisees or to any other person or entity without our written permission. We have the right, but no obligation, to make such items part of the system. If we do so, we may compensate you for your development of the items in an amount that we deem appropriate at our sole discretion, and, if we deem it desirable, you will sign documents to confirm our ownership of the items. Whether or not we approve these items or make them part of the system, you may not copyright or trademark any items arising from the operation of your center or from the use of our confidential information. We have the right to copyright or trademark any items developed by you or your employees in our name. You must follow Mathnasium's procedures faithfully.

Providing services under the federal No Child Left Behind Act is not permitted by Mathnasium. Offering programs at your center through another company, whether that company is owned by you or by someone else, is not permitted without prior written approval from Mathnasium. We will rarely provide such approval, as alternate programs cause brand confusion.

We reserve the right to set maximum franchisee prices, prices in price promotions, pricing methodology and form, and actual or minimum prices, each to the extent permitted by law.

You may not use the system or the marks anywhere except at your center location designated in the Franchise Agreement, unless you receive our specific written approval for operating at another location(s). You may not teach at any site other than your approved Center location. You may not distribute any of Mathnasium's products or sources over the Internet or any other computer network. There is no geographic restriction on the students who may enroll at your center. However, you may not advertise for students in any media reading primarily outside your Territory except as authorized by us in writing. You may not market to school districts, zip codes, carrier routes, schools, printed circulation areas, or other such defined areas that are outside of your Territory.

We have the unlimited right to change the programs, services and products that your center is authorized to offer, and you must abide by these changes.

**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 disclosure document.**

**FRANCHISE AGREEMENT**

Provisions	Section in Franchise Agreement	Summary
a. Length of the franchise term	14.1	5 years.
b. Renewal or extension of the term	14.3	If you are in good standing, you can renew the Franchise Agreement for up to two additional 5-year terms. There is no fee for renewal.
c. Requirements for you to renew or extend	14.1-14.3	Renewal conditions include the following: full compliance with Agreements, no more than one written notice of default from us during any calendar year; satisfactory record of customer Service and of compliance with our operating standards; sign our General Release Form (Exhibit 2 to the Franchise Agreement); and sign our then-current form of renewal Franchise Agreement. The renewal Franchise Agreement may contain terms and conditions that are materially different from the current Franchise Agreement.
d. Termination by you	15.5	You have the right to terminate at any time if Mathnasium commits a material breach of the Franchise Agreement and such breach is not cured within 30 days.
e. Termination by us without cause	Not Applicable	Not Applicable.
f. Termination by us with cause	4.1, 15.1-15.3	See g. and h. below.
g. "Cause" defined - curable defaults	15.1 - 15.3	You have 10 days to cure a monetary default and 30 days to cure any default other than those identified in h. below.
h. "Cause" defined - non-curable defaults	15.1, 15.3	Non-curable defaults: misrepresentations made by you in reporting center performance, you commit to a site before getting our approval, failure to open the center within 6 months without an extension from us in writing; abandonment of the center, conviction of or pleading no contest to a crime, underreporting, relocating without permission, piracy of intellectual property, unauthorized transfer, repeated defaults even if cured, failure to maintain minimum enrollment levels or you are in bottom 4% of all franchisees in revenue, violation of system behavior standards, violations of law, and appointment of a trustee or receiver.

Provisions	Section in Franchise Agreement	Summary
i. Your obligations on termination or non-renewal	15.4	Obligations include complete de-identification of center, cease using the System and Marks (including advertising, internet usage and signs), payment of amounts due (including payment of base fee for the remainder of the term of the Franchise Agreement), return of manuals and information related to the system; notification to parents and repayment of prepaid services, notification to landlord, transfer of telephone numbers, directory listings, e-mail addresses, domain names, Internet accounts, customer data and business records.
j. Assignment of contract by Mathnasium	XIX	We are entitled to transfer our rights and/or to delegate performance of our obligations under the Franchise Agreement, provided that the transfer does not materially increase your obligations.
k. "Transfer" by you – definition	18.1-18.9	Transfer as a verb means to sell, assign, give away, pledge, or encumber, either voluntarily or by operation of law (such as through divorce or bankruptcy proceedings), any interest in the Franchise Agreement, any interest in the center, or (if you are a corporation or other entity) any ownership interest in any entity that is the franchisee. Transfer as a noun means any of these sales, assignments, etc.
l. Mathnasium's approval of transfer by you	18.1	You may transfer only upon Mathnasium's prior approval and written consent.
m. Conditions for Mathnasium's approval of transfer by you	18.2 and 18.3	<p><u>TRANSFER OF ENTIRE BUSINESS – TENTATIVE APPROVAL</u></p> <p>If you propose to transfer your entire center business, you must give us notice and all relevant information (unless the majority equity interest in the proposed transferee is owned by you, or waived by Mathnasium in writing); your center must have been open for at least 6 months; and you must be in compliance with all of your obligations to Mathnasium. We will have a reasonable time to evaluate whether to give tentative approval of the transfer. If we give tentative approval of the transfer, we will allow the proposed transferee into our initial training program. However, you may not complete the transfer until you have received our final approval in writing.</p> <p><u>TRANSFER OF ENTIRE BUSINESS – FINAL APPROVAL</u></p> <p>Before Mathnasium will give its final approval of a transfer (unless the majority equity interest in the proposed transferee is owned by you, or waived by Mathnasium in writing), the proposed transferee must, among other things, demonstrate to Mathnasium's satisfaction that he or she meets all of our current requirements for becoming a Mathnasium franchisee, successfully completing our initial training program; sign our then-current form of Franchise</p>

Provisions	Section in Franchise Agreement	Summary
		<p>Agreement; and make arrangements to upgrade the center.</p> <p>If the proposed transferee is one of Mathnasium's other franchisees, he or she must (1) meet our requirements for a second center, (2) not be in default under his or her agreements with Mathnasium, (3) have a good record of student service and compliance with Mathnasium's operating standards, and (4) demonstrate a financial and operational plan for the additional center. If the transferee is a corporation or other entity, the entity's principal owners must execute the current Franchise Agreement).</p> <p>You and your owners must: sign a general release in favor of Mathnasium; provide us with written notice that the landlord has agreed to the transfer of the lease for the center to your transferee; and pay off any promissory note you owe to Mathnasium. You must pay us a transfer fee of \$6,000. No transfer fee is payable if the transfer is to a corporation or limited liability company that is owned by all or a majority of your owners.</p> <p>Some of these conditions apply to a transfer that does not involve your entire business; see Section 18.5 of the Franchise Agreement.</p>
n. Mathnasium's right of first refusal to acquire your business	Not Applicable	Not Applicable.
o. Mathnasium's option to purchase your business	Not Applicable	Not Applicable.
p. Death or disability of an individual franchisee	18.7	The executor, administrator, personal representative or Trustee must apply to Mathnasium in writing within three months for consent to transfer the person's interest to his or her heir, beneficiary, devisee, or other successor. We may (but are not obligated to) operate the Center until a successor completes initial training.
q. Non-competition covenants during the term of the franchise	16.1	You, your directors and instructors must not be involved in a competing business without our prior written consent. Competing business means any business that offers math education or that offers to children any academic instruction, self-guided instruction, tutoring, test preparation, or other supplemental educational services.

Provisions	Section in Franchise Agreement	Summary
r. Non-competition covenants after the franchise is terminated or expires	16.2, 16.3	You may not be involved in a competing business for 1 year after termination or expiration if the competing business is within 50 miles of your center or of any center. For 2 years, you may not contact any Mathnasium students for the purpose of enrolling them in any other supplemental education program.
s. Modification of the agreement	23.6	Modifications must be in writing and signed by authorized representatives of each party, except for Mathnasium's right to change the manuals.
t. Integration/merger clause	23.5	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	20.1 – 20.5	Except for certain claims, the parties agree in the Franchise Agreement to first submit disputes initially to mediation. If the mediation is unsuccessful, the disputes must then be arbitrated before one arbitrator.
v. Choice of forum	20.3, 20.5(c)	Mediation and arbitration will take place in the county of our headquarters, currently Los Angeles County, California. Litigation may take place at an appropriate court where our headquarters is located, subject to state law.
w. Choice of law	21.1	Federal law governs trademark issues. Otherwise, the law of the state where your center is located governs the Franchise Agreement and the legal relationship between you and us.

### OPTION AGREEMENT

Provisions	Section in Option Agreement	Summary
a. Length of the franchise term	1.03	Term expires when the last center to be developed under the Development Schedule has been opened.
b. Renewal or extension of the term	1.01(b)	You may obtain one 6 month extension.
c. Requirements for you to renew or extend	1.01(b)	In order to obtain the extension, you must notify us in writing and pay a \$5,000 Option Extension Fee.
d. Termination by you	Not applicable	Not applicable
e. Termination by us without cause	Not Applicable	Not applicable
f. Termination by us with cause	4.01	We may terminate you if you fail to substantially comply with any obligation under the Option Agreement or any franchise agreement or you are in default under the Development Schedule or on payment of your financed Option Fee.
g. "Cause" defined - curable defaults	4.01	See f.
h. "Cause" defined - non-curable defaults	Not applicable	See f.

Provisions	Section in Option Agreement	Summary
i. Your obligations on termination or non-renewal	Not applicable	Not applicable
j. Assignment of contract by Mathnasium	3.01	We are entitled to transfer the Option Agreement to a successor, provided that the successor agrees to perform the obligations of the franchisor under the agreement.
k. "Transfer" by you – definition	3.02	Only a transfer to an entity controlled by you is permitted.
l. Mathnasium's approval of transfer by you	3.02	See m.
m. Conditions for Mathnasium's approval of transfer by you	3.02	You must deliver to us a copy of the written document in a form we approve evidencing assignment of the Option Agreement to the entity and the entity's agreement to be bound by all of the obligations under the Option Agreement.
n. Mathnasium's right of first refusal to acquire your business	Not Applicable	Not Applicable.
o. Mathnasium's option to purchase your business	Not Applicable	Not Applicable.
p. Death or disability of an individual franchisee	Not applicable	Not applicable
q. Non-competition covenants during the term of the franchise	Not applicable	Not applicable
r. Non-competition covenants after the franchise is terminated or expires	Not applicable	Not applicable.
s. Modification of the agreement	6.05	Modifications must be in writing and signed by authorized representatives of each party.
t. Integration/merger clause	6.05	Only the terms of the Option Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and Option Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	5.01	Disputes will be resolved in accordance with the provisions of the last Franchise Agreement you entered into with us.
v. Choice of forum	5.01	Disputes will be resolved in accordance with the provisions of the last Franchise Agreement you entered into with us, subject to state law.
w. Choice of law	6.04	The laws of the state of your principal place of business govern the Option Agreement and the legal relationship between you and us.

**ITEM 18: PUBLIC FIGURES**

We currently do not use any public figure to promote the sale of our franchises; however we reserve the right to do so at our discretion.

**ITEM 19: FINANCIAL PERFORMANCE REPRESENTATION**

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 to be 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 outlet or under particular circumstances.

The following is a historic financial performance representation for the period from January 1, 2011 through December 31, 2011, and for the period from January 1, 2010 through December 31, 2010. It includes average Gross Receipts of Mathnasium's existing centers that had been open for 12 months or longer as of December 31, 2011 or December 31, 2010, respectively, broken down by quartiles. "Gross Receipts" means your monthly gross receipts from all sources in your operation of the Center, including student tuition, registration and testing fees, sales of learning materials, hourly per student private tutoring, and any other approved services. "Gross Receipts" excludes only sales tax receipts that you must by law collect from customers and that you pay to the government, any customer refunds actually paid, and coupons or promotional discounts approved by us.

As of December 31, 2011, we had 284 Mathnasium Centers in operation. Of the 284 Mathnasium Centers, 71 were not included in this financial performance representation because they had not been open for 12 months or longer as of December 31, 2011. In addition, an additional 19 Mathnasium Centers who had been open for at least 12 months were not included because they had not reported their Gross Receipts to us for the full 12 month period.

As of December 31, 2010, we had 226 Mathnasium Centers in operation. Of the 226 Mathnasium Centers, 63 were not included in the comparative financial performance representation because they had not been open for 12 months or longer as of December 31, 2010. In addition, an additional 5 Mathnasium Centers who had been open for at least 12 months were not included because they had not reported their Gross Receipts to us for the full 12 month period.

Mathnasium Centers may not mature until they are at least 24 to 36 months old. As of December 31, 2011, 47% of Mathnasium Centers had been open 24 or fewer months. As of December 31, 2010, 53% of Mathnasium Centers had been open 24 or fewer months.

**2011**  
**AVERAGE GROSS RECEIPTS**  
**FOR MATHNASIUM CENTERS OPERATING**  
**12 MONTHS OR MORE**  
**BY QUARTILE**

**2010**  
**AVERAGE GROSS RECEIPTS**  
**FOR MATHNASIUM CENTERS OPERATING**  
**12 MONTHS OR MORE**  
**BY QUARTILE**

TOP 25% OF CENTERS BY GROSS RECEIPTS	MID-UPPER 25% OF CENTERS BY GROSS RECEIPTS	MID-LOWER 25% OF CENTERS BY GROSS RECEIPTS	BOTTOM 25% OF CENTERS BY GROSS RECEIPTS	TOP 25% OF CENTERS BY GROSS RECEIPTS	MID-UPPER 25% OF CENTERS BY GROSS RECEIPTS	MID-LOWER 25% OF CENTERS BY GROSS RECEIPTS	BOTTOM 25% OF CENTERS BY GROSS RECEIPTS
<b>CATEGORY AVERAGE GROSS RECEIPTS</b>				<b>CATEGORY AVERAGE GROSS RECEIPTS</b>			
\$ 268,684	\$ 155,088	\$ 103,578	\$ 57,952	\$ 232,573	\$ 131,226	\$ 87,680	\$ 46,949
<b>NUMBER OF CENTERS MEETING OR EXCEEDING AVERAGE FOR CATEGORY</b>				<b>NUMBER OF CENTERS MEETING OR EXCEEDING AVERAGE FOR CATEGORY</b>			
18 or 38% of 48 Centers in Top 25%	24 or 50% of 48 Centers in Mid-Upper 25%	23 or 48% of 48 Centers in Mid-Lower 25%	31 or 62% of 50 Centers in Bottom 25%	13 or 33% of 39 Centers in Top 25%	21 or 54% of 39 Centers in Mid-Upper 25%	20 or 51% of 39 Centers in Mid-Lower 25%	18 or 44% of 41 Centers in Bottom 25%
<b>GROSS RECEIPTS OF TOP 10 CENTERS IN CATEGORY</b>				<b>GROSS RECEIPTS OF TOP 10 CENTERS IN CATEGORY</b>			
\$ 477,908	\$ 182,474	\$ 129,231	\$ 77,874	\$ 461,254	\$ 156,002	\$ 103,258	\$ 72,902
432,771	181,680	128,140	77,663	416,426	155,255	103,095	72,168
414,339	181,154	128,055	77,071	394,502	152,521	101,974	72,132
406,791	178,719	127,620	76,292	365,119	151,426	100,285	70,985
406,394	177,145	126,682	75,896	362,674	150,646	100,220	69,787
381,113	176,231	125,983	75,848	340,322	150,303	100,100	69,263
375,832	174,358	125,951	74,938	276,843	146,953	98,174	66,895
366,220	173,851	125,502	74,799	275,720	144,966	96,982	65,931
350,980	171,847	125,233	74,518	270,383	144,616	94,554	64,828
344,211	171,594	121,894	74,331	270,329	142,377	94,041	62,690



**2011**  
**AVERAGE GROSS RECEIPTS**  
**FOR MATHNASIUM CENTERS OPERATING**  
**12 MONTHS OR MORE**  
**BY TOP HALF AND BOTTOM HALF**

**2010**  
**AVERAGE GROSS RECEIPTS**  
**FOR MATHNASIUM CENTERS OPERATING**  
**12 MONTHS OR MORE**  
**BY TOP HALF AND BOTTOM HALF**

<b>TOP 50% OF CENTERS BY GROSS RECEIPTS</b>	\$211,886	<b>TOP 50% OF CENTERS BY GROSS RECEIPTS</b>	\$181,900
Number of centers in top 50% meeting or exceeding the average of the top 50%	31 or 32% of 96 Centers included in average	Number of centers in top 50% meeting or exceeding the average of the top 50%	27 or 34.6% of 78 Centers included in average
<b>BOTTOM 50% OF CENTERS BY GROSS RECEIPTS</b>	\$ 80,300	<b>BOTTOM 50% OF CENTERS BY GROSS RECEIPTS</b>	\$ 67,315
Number of centers in bottom 50% meeting or exceeding the average of the bottom 50%	44 or 45% of 98 Centers included in average	Number of centers in bottom 50% meeting or exceeding the average of the bottom 50%	45 or 57.6% of 78 Centers included in average

The above averages of Gross Receipts for franchised Mathnasium Centers open at least 12 months and reporting throughout the year shown was calculated by us based on reports on Gross Receipts furnished to Mathnasium by its franchisees. It is important to note that neither the submitting franchisees nor Mathnasium audited this information.

As a new franchisee, your financial results will likely differ from the results described above and those differences may be material. Your results may also vary significantly from those shown above depending on a number of other factors, including the location of your center; the nature and extent of your competition; whether your geographic area has a greater or lesser demand for Mathnasium services; the skill, experience and business acumen of your management and staff; local economic conditions; and how long you have operated your center. Centers may not mature until their 24<sup>th</sup> to 36<sup>th</sup> month of operation or later.

The financial information in the above tables shows only historic gross receipts of franchised Mathnasium centers. The financial information above does not reflect the costs of sales, operating expenses or other costs or expenses that you will incur and that must be deducted from the gross receipts to obtain your net income or profit.

Mathnasium will make written substantiation of the data used in preparing the information above available to you upon reasonable request.

**ITEM 20: OUTLETS AND FRANCHISEE INFORMATION**

**[Table No. 1]  
SYSTEM-WIDE OUTLET SUMMARY FOR YEARS 2009 TO 2011**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets Operating at the Start of the Year</b>	<b>Outlets Operating at the End of the Year</b>	<b>Net Change</b>
Franchised	2009	149	182	+33
	2010	182	226	+44
	2011	226	283	+57
Company-Owned	2009	2	2	-1
	2010	1	1	0
	2011	1	1	0
Total U.S. Outlets	2009	151	183	+32
	2010	183	227	+44
	2011	227	284	+57

**[Table No. 2]  
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS  
(OTHER THAN THE FRANCHISOR) FOR YEARS 2009 TO 2011**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Alabama	2009	0
	2010	0
	2011	1
Arizona	2009	0
	2010	1
	2011	1
California	2009	2
	2010	2
	2011	0
Georgia	2009	0
	2010	0
	2011	1
Kansas	2009	0
	2010	1
	2011	0
Minnesota	2009	2
	2010	0
	2011	1
North Carolina	2009	1
	2010	1
	2011	1
Ohio	2009	0
	2010	1
	2011	1

Tennessee	2009	0
	2010	3
	2011	2
Texas	2009	0
	2010	2
	2011	2
Virginia	2009	1
	2010	0
	2011	0
Washington	2009	3
	2010	1
	2011	0
TOTALS	2009	9
	2010	12
	2011	10

[Table No. 3]

## STATUS OF FRANCHISED OUTLETS FOR YEARS 2009 TO 2011

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets Operating at End of the Year
Alabama	2009	2	0	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	1	0	0	0	0	3
Alaska	2009	1	0	0	0	0	1	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Arizona	2009	7	5	0	0	0	0	12
	2010	12	0	0	0	0	0	12
	2011	12	1	0	0	0	1	12
California	2009	42	12	3	0	0	1	50
	2010	50	7	1	0	0	0	56
	2011	56	7	3	0	0	2	58
Colorado	2009	3	2	0	0	0	0	5
	2010	5	2	1	0	0	0	6
	2011	6	2	0	0	0	0	8
Connecticut	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	2	0	0	0	0	2
Delaware	2009	1	0	0	0	0	1	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Florida	2009	6	2	1	0	0	1	6
	2010	6	2	0	0	0	0	8
	2011	8	5	1	0	0	1	11
Georgia	2009	6	2	0	0	0	0	8
	2010	8	2	0	0	0	1	9
	2011	9	4	0	0	0	0	13
Hawaii	2009	4	0	0	0	0	2	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Illinois	2009	2	0	0	0	0	0	2
	2010	2	7	0	0	0	0	9
	2011	9	3	0	0	0	0	12
Indiana	2009	2	1	0	0	0	1	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Iowa	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
	2011	1	1	0	0	0	0	2

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets Operating at End of the Year
Kansas	2009	2	1	1	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Kentucky	2009	0	1	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Louisiana	2009	1	3	0	0	0	0	4
	2010	4	0	0	0	0	0	4
	2011	4	1	0	0	0	0	5
Maryland	2009	1	1	1	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	1	0	0	0	0	2
Massachusetts	2009	0	1	0	0	0	0	1
	2010	1	2	0	0	0	0	3
	2011	3	1	0	0	0	0	4
Michigan	2009	4	2	1	0	0	1	4
	2010	4	2	0	0	0	1	5
	2011	5	6	0	0	0	0	11
Minnesota	2009	5	0	0	0	0	0	5
	2010	5	4	0	0	0	0	9
	2011	9	4	0	0	0	0	13
Mississippi	2009	2	0	1	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Missouri	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Nebraska	2009	0	1	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	1	0
Nevada	2009	2	0	0	0	0	0	2
	2010	2	1	0	0	0	1	2
	2011	2	0	0	0	0	0	2
New Hampshire	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	1	0
	2011	0	0	0	0	0	0	0
New Jersey	2009	3	5	0	0	0	0	8
	2010	8	2	0	0	0	0	10

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets Operating at End of the Year
	2011	10	3	0	0	0	0	13
New Mexico	2009	1	0	0	0	0	0	1
	2010	1	0	1	0	0	0	0
	2011	0	1	0	0	0	0	1
New York	2009	2	0	0	0	0	0	2
	2010	2	2	0	0	0	0	4
	2011	4	6	0	0	0	0	10
North Carolina	2009	9	5	2	0	0	0	12
	2010	12	1	0	0	0	0	13
	2011	13	2	0	0	0	1	14
Ohio	2009	2	1	0	0	0	0	3
	2010	3	0	1	0	0	1	1
	2011	1	1	0	0	0	0	2
Oklahoma	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
	2011	1	1	0	0	0	0	2
Oregon	2009	2	0	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	1	0	0	0	0	3
Pennsylvania	2009	3	0	0	0	0	0	3
	2010	3	0	0	0	0	0	3
	2011	3	2	0	0	0	0	5
South Carolina	2009	0	1	0	0	0	0	1
	2010	1	1	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Tennessee	2009	4	1	0	0	0	0	5
	2010	5	0	0	0	0	0	5
	2011	5	2	0	0	0	0	7
Texas	2009	17	4	0	0	0	0	21
	2010	21	11	0	0	0	0	32
	2011	32	6	0	0	0	1	37
Utah	2009	1	0	0	0	0	0	1
	2010	1	1	0	0	0	0	2
	2011	2	1	0	0	0	0	3
Virginia	2009	2	0	0	0	0	0	2
	2010	2	2	0	0	0	0	4
	2011	4	3	0	0	0	0	7
Washington	2009	9	0	1	0	0	0	8
	2010	8	1	0	0	0	0	9
	2011	9	1	0	0	0	1	9
Wisconsin	2009	0	1	0	0	0	0	1
	2010	1	0	0	0	0	0	1

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets Operating at End of the Year
	2011	1	0	0	0	0	0	1
U.S. Totals	2009	149	52	11	0	0	8	182
	2010	182	53	4	0	0	5	226
	2011	226	69	4	0	0	8	283

[Table No. 4]

STATUS OF COMPANY-OWNED OUTLETS FOR YEARS 2009 TO 2011

State	Year	Outlets Operating at Start of Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Awarded to Franchisees	Outlets at End of the Year
California	2009	2	0	0	1	0	1
	2010	1	0	0	0	0	1
	2011	1	0	0	0	0	1
Totals	2009	2	0	0	1	0	1
	2010	1	0	0	0	0	1
	2011	1	0	0	0	0	1

[Table No. 5]

PROJECTED OPENINGS AS OF DECEMBER 31, 2011

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
Arizona	0	1	0
California	9	5	1
Colorado	2	2	0
Connecticut	1	0	0
Florida	2	1	0
Georgia	1	1	0
Guam	1	0	0
Illinois	0	3	0
Indiana	1	1	0
Kansas	1	1	0
Kentucky	0	2	0
Louisiana	0	1	0
Maryland	0	1	0
Massachusetts	0	2	0
Michigan	1	2	0
Minnesota	0	2	0
Missouri	0	1	0

<b>State</b>	<b>Franchise Agreements Signed But Outlet Not Opened</b>	<b>Projected New Franchised Outlets in the Next Fiscal Year</b>	<b>Projected New Company-Owned Outlets in the Next Fiscal Year</b>
New Jersey	0	4	0
New York	4	5	0
Ohio	0	1	0
Oklahoma	1	0	0
Oregon	0	1	0
Pennsylvania	0	2	0
South Carolina	0	1	0
Tennessee	1	1	0
Texas	8	5	0
Utah	0	1	0
Virginia	2	1	0
Washington	0	1	0
<b>TOTAL</b>	<b>35</b>	<b>49</b>	<b>1</b>



Exhibit A-1 lists the names of all franchises and the address and telephone numbers as of February 14, 2012. An additional 15 units opened after December 31, 2011.

Exhibit A-2 lists the contact name, city and state, and telephone number of every franchisee who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the unit franchise agreements in the fiscal year ended December 31, 2011 and every franchisee who has not communicated with us within ten weeks of the date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last 3 fiscal years, we have not signed any confidentiality clauses with current or former franchisees as a result of settlement agreements or that restrict their ability to speak with current and former franchisees.

Mathnasium has not created, sponsored or endorsed any trademark-specific franchisee organizations associated with the Mathnasium franchise system being offered. There are no independent franchisee organizations that have asked to be included in this disclosure document.

## **ITEM 21: FINANCIAL STATEMENTS**

Exhibit B to this disclosure document contains our audited financial statements for the fiscal years ending December 31, 2011, 2010, and 2009.

## **ITEM 22: CONTRACTS**

### **Exhibit C - Franchise Agreement**

#### *Exhibits to Franchise Agreement:*

- Exhibit 1: Territory
- Exhibit 2: General Release for Renewal
- Exhibit 3: Confidentiality/Non Competition Agreement
- Exhibit 4: Confidentiality Agreement
- Exhibit 5: Schedule of Owners, Officers and Managers
- Exhibit 6: Guaranty and Assumption of Obligations

### **Exhibit E - Option Agreement to Open Additional Centers**

#### *Exhibits to Option Agreement:*

- Exhibit 1: Option Territory
- Exhibit 2: Development Schedule
- Exhibit 3: Guaranty and Assumption of Obligations

### **Exhibit F - Conditional Assignment of Telephone and Directory Listings**

### **Exhibit G - State Addenda (if applicable for your state)**

### **Exhibit H- Promissory Notes for Additional Centers or Option Fee**

## **ITEM 23: RECEIPTS**

You will find copies of a detachable receipt in Exhibit J at the very end of this disclosure document.