

## FRANCHISE DISCLOSURE DOCUMENT



### **Mathnasium Center Licensing, LLC dba Mathnasium Learning Centers**

A California Limited Liability Company  
5120 West Goldleaf Circle, Suite 300  
Los Angeles, California 90056 USA  
(877) 531-MATH (6284)  
gabe.wintner@mathnasium.com  
www.mathnasium.com

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 \$82,250 to \$136,000. This includes initial franchise fee that must be paid to Mathnasium which ranges from \$19,500 to \$37,000, depending on whether you are purchasing your first or an additional franchise.

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 as amended August 6, 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 IN 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.

We use the services of one or more franchise brokers or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

Certain state laws may supersede these provisions. See State Addenda in Exhibit E 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:	March 21, 2012 as amended August 9, 2012
Hawaii:	March 6, 2012 as amended August 9, 2012
Illinois:	March 5, 2012 as amended August 8, 2012 as amended August 31, 2012
Indiana:	March 5, 2012
Maryland:	March 15, 2012 as amended August 24, 2012
Michigan:	March 6, 2012
Minnesota:	March 8, 2012 as amended August 9, 2012
New York:	March 22, 2012 as amended October 12, 2012
North Dakota:	March 21, 2012 as amended September 10, 2012
Rhode Island:	April 5, 2012 as amended August 8, 2012
South Dakota:	March 5, 2012
Virginia:	March 5, 2012 as amended August 8, 2012
Washington:	March 12, 2012 as amended August 8, 2012
Wisconsin:	March 5, 2012 as amended August 8, 2012

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

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## **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.

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.

Vice President of Franchise Development: Steve Kwon, B.S.

Mr. Kwon joined Mathnasium in February 2012 when he was named Director of Franchise Development. He was promoted to Vice President of Franchise Development in May 2012. From 2007 to 2011, he was an independent franchise consultant based in California.

Chief Operating Officer: Shant Assarian, B.S., C.P.A., M.B.A.

Mr. Assarian joined Mathnasium in March 2010 when he was named Controller. He was promoted to Chief Operating Officer in April 2012. Prior to joining Mathnasium, Mr. Assarian was an auditor at Grant Thornton, LLP in Los Angeles, CA from 2003 until 2010.

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.

In-House Counsel: Gabriel Wintner, B.A., J.D.

Mr. Wintner joined Mathnasium in April 2012, when he was named Legal Director. His title was changed to In-House Counsel in July 2012. Prior to joining Mathnasium, Mr. Wintner was Of Counsel at the law firm of Kaplan Silverman, LLC, located in Chicago, Illinois, from February 2012 until April 2012. From August 2010 to January 2012, Mr. Wintner practiced law in Chicago, Illinois. During the period 2007 to 2010, Mr. Wintner was attending law school.

Controller: Terrence Gardiner, B.S.

Mr. Gardiner joined Mathnasium in April 2012 when he was named Controller. Prior to joining Mathnasium, Mr. Gardiner was an auditor at Grant Thornton, LLP in Los Angeles, CA from 2004 until 2012.

Head of Marketing: David Peddie, B.A., M.T.S.

Mr. Peddie joined Mathnasium in April 2011 as a Regional Manager. He was promoted to Head of Marketing in January 2012. Prior to joining Mathnasium headquarters, Mr. Peddie owned and operated a Mathnasium learning center in Lake Forest, CA from 2006 until 2011.

**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 \$37,000 if you are purchasing your first franchise. You must pay the entire fee when you sign the Franchise Agreement. This fee is fully earned by us once paid and is not refundable with one exception: If we elect to cancel the Franchise Agreement during or at the conclusion of the initial training program, 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 costs of the initial training program, up to 6 hotel nights during the initial training program, the apprenticeship training program, the first 3 months of your base royalty (first center only), and the annual convention fee for your first year (first center only). For training programs, you must pay all other expenses, including travel and lodging, not otherwise stated as covered.

Prior to 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) and you own at least one other Center operating under a Franchise Agreement signed August 6, 2012 or earlier, on or prior to August 6, 2013, you will pay a discounted initial franchise fee of \$19,500. If you are an existing franchisee purchasing an additional franchise (not under an existing Option Agreement) and you do not own at least one other Center operating under a Franchise Agreement signed August 6, 2012 or earlier, or you purchase the franchise after August 6, 2012, you will pay an initial franchise fee of \$26,500. We may finance \$15,000 of the initial franchise fee. If you are eligible for the franchise fee of \$19,500, you must pay \$4,500 in cash when you sign the Franchise Agreement and the balance by signing a Promissory Note for \$15,000. If your initial franchise fee will be \$26,500, you will pay \$11,500 in cash when you sign the Franchise Agreement and the balance by signing a Promissory Note for \$15,000. (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.

We reserve the right to change the initial franchise fee or discounts given at any time before you purchase a franchise.

## 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	Initially, 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). Beginning in the 24 <sup>th</sup> month of operation of the center, the base royalty fee plus the greater of (i) the 10% monthly royalty or (ii) \$1,400.	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.
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.

<b>Name of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
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 or one other principal (total of 2) 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 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 fee rebate during the first year after an existing franchisee acquires an existing center from the previous owner of 100% of the base and monthly royalty fees for the first 3 months, 75% of the base and monthly royalty fees for the next 3 months, 50% of the base and monthly royalty fees for the next 3 months, and 25% of the base and monthly royalty fees for the last 3 months. 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. For your first Center only, the initial franchise fee covers the cost of your annual convention fee for the first convention taking place after you sign the franchise agreement. 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	\$37,000 for your first franchise; \$19,500 or \$26,500 if you are buying an additional franchise (See Item 5)	Lump sum (See Item 10 regarding financing for additional centers)	At signing of franchise agreement	Mathnasium
Expenses While Training (initial training and apprenticeship)	\$1,500 to \$2,500 (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>\$82,250 to \$136,000 (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. The initial franchise fee covers the cost of up to six total hotel nights during the initial training program. The initial training and apprenticeship 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 60% to as much as \$4,000 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. The one exception is if Mathnasium elects to terminate the Franchise Agreement during or at the conclusion of the initial training program, 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. 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.

#### **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. Franchisees purchase our dictionaries from the supplier, and the supplier passes on the revenue to Mathnasium less the supplier's shipping and handlings costs. 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.**

OBLIGATION	SECTION OF FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
a. Site selection and acquisition/lease	1.3, 3.1	7, 8 and 11
b. Pre-opening purchases/leases	6.9, 7.1	6, 8 and 11
c. Site development and other pre-opening requirements	3.1, 4.1, 6.2, 13.2	11
d. Preliminary and ongoing training	1.4, 4.1-4.7	11 and 15
e. Opening	3.2, 15.1(c)	11
f. Fees	5.1-5.5, 10.3, 18.3(b)	5 and 6

<b>OBLIGATION</b>	<b>SECTION OF FRANCHISE AGREEMENT</b>	<b>DISCLOSURE DOCUMENT ITEM</b>
g. Compliance with standards and policies/operating manuals	6.1-6.18, IX	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)	13 and 14
i. Restrictions on products/ services offered	3.3, 6.8, 7.4, 8.2, 8.3, 16.1, 16.2	16
j. Warranty and customer service	6.4, 6.13, 6.14	Not Applicable
k. Territorial development and sales quotas	2.1, 10.2	Not Applicable
l. Ongoing product/service purchases	4.6	6 and 8
m. Maintenance, appearance remodeling requirements	6.2, 6.10, 6.15, 8.1, 18.4(b)ii	11
n. Insurance	13.2	6, 7 and 8
o. Advertising	5.3, 6.2, 6.5	11
p. Indemnification	12.1, 13.1	6
q. Owner's participation/ management staffing	11.1	15
r. Records and reports	6.9, 6.10, 6.15, 15.2(a)	6
s. Inspections and audits	6.14	6
t. Transfer	18.1-18.9, XIX	17
u. Renewal	14.1-14.3	17
v. Post termination obligations	15.4	17
w. Non-competition covenants	16.1-16.5	17
x. Dispute resolution	20.1-20.5	17
y. Privacy Policy	6.16	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 for franchisees with at least one Franchise Agreement signed on or before August 6, 2012, and a signing date of the current Franchise Agreement on or before August 6, 2013 who qualify for the initial franchise fee of \$19,500 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. The financing structure currently offered for franchisees who do not qualify under the previous terms and must pay an initial franchise fee of \$26,500 is payment of \$11,500 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.

The \$15,000 note for the initial franchise fee of \$19,500 is paid over 30 months at zero interest. The \$15,000 note for the initial franchise fee of \$26,500 is financed over 24 months at zero interest. You must sign the standard Promissory Note in Exhibit F. 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 in full at any time without penalty. If you default by failing to make a payment under the note, 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 F, Promissory Note for Additional Centers).

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 approve or disapprove the site proposed for your center (Franchise Agreement, Section 3.1). We will not approve or disapprove any proposed site until you have completed the initial training program. 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 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. You must open a separate bank account for your business operations and submit to us a EFT form for that account before you open your Center.

### 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. If you hire another center director after you have completed the initial training program and the center director was previously an instructor at a Mathnasium Center for at least 6 months, you have the option of having the center director attend Center Director Training instead of the initial training program and apprenticeship training. 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

SUBJECT	HOURS OF CLASSROOM TRAINING*	HOURS OF ON-THE-JOB TRAINING*	LOCATION
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
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

SUBJECT	HOURS OF CLASSROOM TRAINING*	HOURS OF ON-THE-JOB TRAINING*	LOCATION
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 the principal who is the largest equity owner and by your initial center director. 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 one equity owner. The initial franchise fee also covers the cost of up to six total hotel nights during the initial training program. You must pay all other expenses, including travel and lodging for additional attendees. (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 4.5 and 4.6).

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. For your first Center only, the initial franchise fee covers the cost of your annual convention fee for the first convention taking place after you sign the franchise agreement.

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 4.8).
- (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 expend the Marketing Fees collected from our franchisees to pay for expenses related to the development of marketing materials for use in national, regional or local advertising, cooperative advertising, market research, public relations, promotional campaigns, internet presence, marketing products and services and other marketing, advertising or promotion designed to promote and enhance the value of the Marks and general public recognition and acceptance thereof. These expenses may include payments to third party vendors that provide marketing products or services or compensation of our in-house employees for time devoted exclusively on marketing services for the purpose of enhancing the Marks and the general public recognition and acceptance of the Marks. We may also use up to 10% of the annual aggregate Marketing Fees collected to pay for our administrative expenses attributable to the administration of our marketing program, including to prorated portions of our accounting, human resources, and real estate expenses. (Earlier franchise agreement allowed us to pay ourselves a higher percentage for administrative expenses.)

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%
Total	100%

#### *Advertising Cooperatives (Franchisee Marketing Groups)*

Mathnasium presently has one advertising cooperative. 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, merge, or terminate.

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 website. You must participate in any such website 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:

Topic	Number of Pages
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
Total Pages	750

**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 Attachment 1 to the Franchise Agreement. When assigned, the Territory will contain a minimum of 2,500 children between the ages of 5 and 17 years. The distance between the boundaries of neighboring territories will be a minimum of 0.3 miles. The final location of your center must be inside of the Territory and at least 0.125 miles from the boundary of the Territory, but a greater distance is desirable. We determine the size of the Territory that will be granted to you principally based on population density as well as other factors. We reserve the right to adjust the boundaries of your territory once the location of your center is known. If, based on the actual location of your center or changes over time, we determine at our sole discretion and business judgment that the interests of existing or prospective customers in your Territory or adjacent areas would be better served by adjusting the boundaries of your Territory, we may adjust them upon written notice to you. These changes may be based on or include changes in geography, population density, number of children, average household income, the location of your center, the location of other

centers, traffic, and other factors. If we adjust your Territory, the adjusted Territory will contain a minimum of 3,000 children between the ages of 5 and 17 years.

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 5 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 5 miles from your original center location, you will pay us a relocation 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. The manuals will specify where you may and may not advertise with regard to each form of media you will use, such as postcards, newspapers, newsletters, and other forms of media. We may otherwise restrict marketing activities based on where targeted customers are known to reside, or are believed by us to reside. You may only conduct marketing activities outside of what is approved in the manuals with prior written approval from Mathnasium. 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.

**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 (Attachment 3 or Attachment 4 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 (Attachment 5 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 attachment 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 read primarily outside your Territory except as authorized by us in the manuals. The manuals will specify where you may and may not advertise with regard to each form of media you will use, such as postcards, newspapers, newsletters, and other forms of media. We may otherwise restrict marketing activities based on where targeted customers are known to reside, or are believed by us to reside. You may only conduct marketing activities outside of what is approved in the manuals with prior written approval from Mathnasium.

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**

<b>Provisions</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
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 (Attachment 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.

Provisions	Section in Franchise Agreement	Summary
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 or material omissions in franchise application, 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 minimum gross receipts, violation of system behavior standards, violations of law, and appointment of a trustee or receiver.
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	18.2 and	TRANSFER OF ENTIRE BUSINESS –

Provisions	Section in Franchise Agreement	Summary
Mathnasium's approval of transfer by you	18.3	<p><u>TENTATIVE APPROVAL</u>  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>  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 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</p>

Provisions	Section in Franchise Agreement	Summary
		18.5 of the Franchise 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	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.
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.

## **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**

<b>TOP 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>MID-UPPER 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>MID-LOWER 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>BOTTOM 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>TOP 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>MID-UPPER 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>MID-LOWER 25% OF CENTERS BY GROSS RECEIPTS</b>	<b>BOTTOM 25% OF CENTERS BY GROSS RECEIPTS</b>
<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**

Outlet Type	Year	Outlets Operating at the Start of the Year	Outlets Operating at the End of the Year	Net Change
Franchised	2009	149	182	+33
	2010	182	226	+44
	2011	226	284	+58
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	285	+58

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

State	Year	Number of Transfers
Alabama	2009	0
	2010	0
	2011	1
Arizona	2009	0
	2010	1
	2011	1
California	2009	2
	2010	2
	2011	1
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	11

[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	1	59
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
	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

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
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
	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	7	284

[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
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

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
Virginia	2	1	0
Washington	0	1	0
TOTAL	35	49	1

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 agreement in the fiscal year ended December 31, 2011; every franchisee who sold their franchise to a new owner during the fiscal year ended December 31, 2011; and every franchisee who has not communicated with us within the ten week period ending February 14, 2012. 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

*Attachments to Franchise Agreement:*

Attachment 1: Territory

Attachment 2: General Release for Renewal

Attachment 3: Confidentiality/Non Competition Agreement –Owners/Officers/Managers

Attachment 4: Confidentiality Agreement/Non-Competition Agreement – Center Directors

Attachment 5: Confidentiality Agreement - Employees

Attachment 6: Schedule of Owners, Officers and Managers

Attachment 7: Guaranty and Assumption of Obligations

Attachment 8: Conditional Assignment of Telephone and Directory Listings

Attachment 9: Electronic Funds Transfer Authorization Form

Exhibit E - State Addenda (if applicable for your state)

Exhibit F - Promissory Notes for Additional Centers

## **ITEM 23: RECEIPTS**

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

LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

Gary Curl  
2801 John Hawkins Pkwy., Suite 1331  
Hoover, AL 35244  
(205) 987-6710

Steven Frazier  
51 Nance Road, Suite 101  
Madison, AL 35758  
(256) 430-4053

Sharon Pursley  
2045 Cecil Ashburn Drive at Bailey  
Cove, Four Mile Offices, Suite 100  
Huntsville, AL 35802  
(256) 885-0886

Sonal & Rikhit Arora  
4015 S. Arizona Ave., Suite 2  
Chandler, AZ 85248  
(480) 895-6700

Brian & Annmarie Burgmeier  
3875 West Ray Rd., Suite #12  
Chandler, AZ 85226  
(480) 782-1924

Richard & Jeanie Davis  
18471 East Queen Creek Rd, Suite 104  
Queen Creek, AZ 85142  
(480) 279-3122

Richard & Jeanie Davis  
1152 N. Power Road, Suite 103  
Mesa, AZ 85205  
(480) 325-6284

Carter & Lynette Groves  
1345 East Chandler Blvd, Suite 1-201  
Phoenix, AZ 85048  
(480) 460-6677

Melissa Hardison  
2930 North Hayden Rd.  
Scottsdale, AZ 85251  
(480) 945-0342

Melissa Hardison  
4730 Indian School Rd., Suite 107  
Phoenix, AZ 85018  
(602) 957-4500

Voyze (Gabe) Harris  
4777 East Sunrise Drive, Suite #127  
Tucson, AZ 85718  
(520) 529-7179

Kevin Kemper  
1219 E. Glendale Ave., Suites 2 & 4  
Phoenix, AZ 85028  
(602) 795-6668

Prashanth Murthy  
10810 E. Via Linda, Suite 115  
Scottsdale, AZ 85259  
(480) 767-6284

Devi Paolillo & Miles Overholt  
7850 N. Silverbell Road, Suite #162  
Tucson, AZ 85743  
(520) 407-6284

Larry Schatt  
538 S. Gilbert Rd. Ste. 107  
Gilbert, AZ 85296  
(480) 782-7987

Barbara Abts  
14051 Newport Ave. Ste. B  
Tustin, CA 92780  
(714) 731-1700

Ziad & Jad Awad  
14452 Ventura Blvd.  
Sherman Oaks, CA 91423  
(818) 380-0169

Geeta & Rakesh Batra  
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LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

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Kira Krupovlyanskaya  
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Phil & Melissa LeBlanc  
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Rangu Mandyam  
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Kapil Mathur  
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Kapil Mathur  
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Kapil Mathur  
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Kapil Mathur  
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LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

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Matthew & Karen Phu  
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Jeff & Jennifer Pudewell  
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LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

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Meena Krishnan & Viswanath Krishnan  
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Mohamed (Mo) Khalil  
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Marsha Rimokh  
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Marsha Rimokh  
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Forrest Lum  
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LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

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Joe Deflorio & Patrick Figurski  
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Scott Bernstein & Robert Tarnowski  
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Denise McCann  
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Denise McCann  
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Shopping Center  
Red Bank, NJ 07701  
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John Napoli  
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Jodi & James Ralston  
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8032 S Yale Ave  
Tulsa, OK 74136  
(918) 574-2222

Vane & Ginger Lucas  
1077 N. 9th St.  
Broken Arrow, OK 74012  
(918) 574-2222

Kokila Vidyarthi  
8128 SW Beaverton Hillsdale Hwy  
Portland, OR 97225  
(971) 732-5155

Kokila & Anish Vidyarthi  
12965 NW Cornell Road  
Portland, OR 97229  
(971) 732-5155

Bruce Withycombe  
17449 SW Lower Boones Ferry Rd.,  
Suite 100  
Lake Oswego, OR 97035  
(503) 744-0544

Greg Bundens  
10 Paoli Shopping Center  
Paoli, PA 19301  
(610) 644-2306

Greg Bundens  
1149 Lancaster Avenue  
Rosemont, PA 19010  
(610) 526-1607

Indira Lawson  
8500 Henry Ave., Suite 44  
Philadelphia, PA 19128  
(267) 437-2388

James & Kelly Munchel  
608 Richmond Dr., Suite 110  
Lancaster, PA 17601  
(717) 519-6899

Steven Ross  
4050 Washington Road  
McMurray, PA 15317  
(724) 941-6284

Derek Brown  
100-A Old Cherokee Rd  
Lexington, SC 29072  
(803) 356-6103

Donald Walter  
1800 2nd Loop Road, Suite 14  
Florence, SC 29501  
(843) 407-4129

Erica Bacon  
420 Cool Springs Blvd., Suite 100  
Franklin, TN 37067  
(615) 807-1065

Michael O'Hern  
9700 Kingston Pike, Suite 8  
Knoxville, TN 37922  
(865) 769-6944

Michael O'Hern  
1919 Gunbarrel Rd., Suite 153  
Chattanooga, TN 37421  
(423) 899-2011

Karim Valiani  
2049 N Germantown Pkwy, Suite 201  
Cordova, TN 38016  
(901) 529-7070

Karim Valiani  
9289 Poplar Ave, Suite 104  
Germantown, TN 38138  
(901) 757-1922

Jon Willis  
131 Maple Row Blvd. Suite B-201  
Hendersonville, TN 37075  
(615) 469-2180

Jon Willis  
3580 N. Mt Juliet Rd.  
Mt. Juliet, TN 37122  
(615) 469-2180

Imran Ali  
21181 Kuykendahl Rd.  
Spring, TX 77389  
(832) 698-4113

Hazem Aburubia  
5313 FM 1960 W  
Houston, TX 77069  
(281) 755-2000

Brad Buckman & Akshaya Trivedi  
240 E FM 544 Ste 96  
Murphy, TX 75094  
(469) 361-1413

Dwight Cooley  
5445 S. Hulen St.  
Ft. Worth, TX 76133  
(817) 263-6284

LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

Alan & Gina Cotton  
4400 N Midland Drive, Suite 501  
Midland, TX 79707  
(432) 689-0919

Tan Dao  
3601 W. William Cannon Dr., Suite 275  
Austin, TX 78749  
(512) 275-6522

John & Elizabeth Donnelly  
2270 Matlock Road, Ste 104  
Mansfield, TX 76063  
(817) 473-6284

Samien Hasanali  
19903 Stone Oak Parkway Suite #105  
San Antonio, TX 78258  
(210) 404-0123

Bria Howe  
3003 Richmond Rd., Suite B  
Texarkana, TX 75503  
(430) 200-0099

Lakshmi Jagarlamudi  
4308 N. Quinlan Park Road Ste 215  
Austin, TX 78732  
(512) 284-9849

Lakshmi Jagarlamudi & Anitha Danda  
10401 Anderson Mill Rd., #109A  
Austin, TX 78750  
(512) 331-6284

Brad James  
8004 Quaker Ave. Suite F  
Lubbock, TX 79424  
(806) 687-8701

Rajani Karla  
300 W. Bitters Rd., Suite 160  
San Antonio, TX 78216  
(210) 494-4111

Rajani Karla  
9859 IH-10 West, Suite 101  
San Antonio, TX 78230  
(210) 699-0123

GV Krishnan & Ravi Shah  
4830 Beechnut St.  
Bellaire, TX 77096  
(713) 697-6284

GV Krishnan & Ravi Shah  
15219 Southwest Freeway  
Sugar Land, TX 77478  
(713) 697-6284

G.V. Krishnan & Ravi Shah  
13410 Briar Forest Drive, #194  
Houston, TX 77077  
(713) 697-6284

John & Cathy Labuda  
12344 Barker Cypress Rd Suite 150  
Cypress, TX 77429  
(281) 256-9932

Tuan Phuong (Nam) Le  
1550 Austin Hwy, Suite 107  
San Antonio, TX 78218  
(210) 696-6284

Tuan Phuong (Nam) Le  
6032 FM 3009, Suite #180  
Schertz, TX 78154  
(210) 646-6284

David & Elizabeth Lyons, Robert &  
Rebecca Barnes  
919 East Interstate 30, Suite 126  
Rockwall, TX 75087  
(972) 722-6000

David & Elizabeth Lyons, Robert &  
Rebecca Barnes  
11909 Preston Rd., Suite 1411  
Dallas, TX 75230  
(214) 739-6284

Rick McLaughlin  
10350 Bandera Road, Suite 304  
San Antonio, TX 78250  
(210) 684-6284

Sara & Edgar Miranda  
3411 Market Loop, Suite 112  
Temple, TX 76502  
(254) 833-1233

John Opalko  
4775 West Panther Creek Drive, Suite  
410  
Woodlands, TX 77381  
(281) 465-4990

Dan Parker  
3115 W. Parker Rd., Suite 560  
Plano, TX 75023  
(972) 519-0340

Syd Pasha  
3313 RR-620 South, Suite 100  
Lakeway, TX 78738  
(512) 828-6386

Lavanya & Karakunar Reddy  
900 N Austin Ave, Ste 127  
Georgetown, TX 78626  
(512) 869-6284

Lavanya Reddy  
1500 South A.W. Grimes Boulevard,  
Suite 125  
Round Rock, TX 78664  
(512) 415-5371

Debbie Rose  
3742 Far W. Blvd., Suite 105  
Austin, TX 78731  
(512) 837-6284

Karen Roussos  
1251 E. Southlake Blvd, Ste 305  
Southlake, TX 76092  
(817) 421-1900



LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

Alysen Snavely  
4100 W. El Dorado Pkwy, Suite 220  
McKinney, TX 75070  
(972) 784-4141

Alysen Snavely  
8811 Teel Parkway, Suite 130  
Frisco, TX 75034  
(469) 362-7300

Jennifer Speer  
2305 Boonville Rd., Suite 550  
Bryan, TX 77808  
(979) 774-2939

W. (William) Michael & Gail Sterling  
9778 Katy Freeway, Suite 500  
Houston, TX 77055  
(713) 583-6182

Sookyung (Sue) Syed (Kwon)  
23930 Westheimer Parkway, Suite 104  
Katy, TX 77494  
(281) 347-7865

Bill Treneer  
8201 Broadway Street, Suite 113  
Pearland, TX 77581  
(281) 412-9800

Leon Woloski  
201 South Shary Road, Suite #450  
Mission, TX 78572  
(956) 467-4422

Leon & Deborah Woloski  
7001 N. 10th St., Suite B  
McAllen, TX 78504  
(956) 467-4773

Mila Gleason & David Kaplan  
1844 E. Fort Union Blvd.  
Salt Lake City, UT 84121  
(801) 679-1588

Mark Minson  
715 E. 12300 S. Unit E  
Draper, UT 84020  
(801) 572-6284

Ken Unger  
5435 W 11000 N Suite 15  
Highland, UT 84003  
(801) 756-2424

Abdelghani Bellaachia  
43330 Junction Plaza, Suite 160  
Ashburn, VA 20147  
(703) 726-6284

Abdelghani Bellaachia  
1435 Center Street  
McLean, VA 22101  
(703) 714-6284

Abdelghani Bellaachia  
302 Maple Avenue West  
Vienna, VA 22180  
(703) 255-6284

Daryl Gage  
940 Cedar Rd., Suite 103  
Chesapeake, VA 23322  
(757) 277-9638

Jennifer Nichols & Peter Morrison  
3352 Princess Anne Rd., Suite 911  
Virginia Beach, VA 23456  
(757) 368-6284

James & JoAnn Temple  
15508 Westchester Commons Way  
Midlothian, VA 23114  
(804) 378-2211

James & JoAnn Temple  
3151 Lauderdale Drive  
Richmond, VA 23233  
(804) 364-3333

Lee Anderson  
13027 Bothell Everett Hwy. Suite C  
Everett, WA 98208  
(425) 385-2892

Rayan Chepuri  
17615 S.E. 272nd St., Suite 107  
Covington, WA 98042  
(253) 639-6284

Rayan Chepuri  
10216 SE 256th St., Suite 104  
Kent, WA 98030  
(253) 854-6284

Rayan Chepuri & Kiran Vangala  
7802 SE Center Blvd., Suite A  
Snoqualmie, WA 98065  
(425) 367-4747

Kody Lyons  
13507 Meridian Ave E, Suite L  
Puyallup, WA 98373  
(253) 604-0888

Andrea Ratkowski  
2128 SW 336th St.  
Federal Way, WA 98023  
(253) 835-1314

Sumitha Reddy & Kiran Vangala  
3820 N 27th  
Tacoma, WA 98407  
(253) 761-2022

Sumitha Reddy & Kiran Vangala  
4546 Klahanie Dr SE  
Issaquah, WA 98029  
(425) 270-1054

Miles Ulrich  
16505 Redmond Way, Suite F  
Redmond, WA 98052  
(425) 885-6284

LIST OF FRANCHISED CENTERS AS OF FEBRUARY 14, 2012

Michael & Gerilyn Yanke  
N78 W14569 Appleton Avenue  
Menomonee Falls, WI 53051  
(262) 251-5600

## Exhibit A-2

**The following franchisees had a franchise terminated, cancelled, were not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Mathnasium Franchise Agreement in the fiscal year ended December 31, 2011:**

Kleo Kwok  
Oro Valley, AZ  
(626) 833-9889

Geeta & Rakesh Batra  
Irvine, CA  
(949) 608-7331

Joyce Ching  
Oakland, CA  
(510) 836-1919

Larry & Huong Luu  
Monterey Park, CA  
(323) 336-5510

Denise & Elias Pappas  
Lancaster, CA  
(818) 368-8249

Joseph Malinda  
Orange Park, FL  
(904) 521-7274

Jacqueline Pierce  
Plantation, FL  
(954) 830-0592

Kurt Lawrence  
Omaha, NE  
(402) 312-9015

Sanford Groetzinger  
Asheville, NC  
(828) 676-0042

Bharati Harchekar  
Irving, TX  
(214) 402-6868

Penny Wilkinson  
Spokane, WA  
(509)998-5936

The following franchisees sold their franchises to a new owner during the fiscal year ended December 31, 2011:

Phillips, Janet  
Madison, AL  
(256) 508-5363

Kaur, Ramanjeet  
Mesa, AZ  
(480) 735-4780

Kira Krupovlyanskaya  
Los Angeles, CA  
(202) 253-4069

Ong, Jonathan  
Marietta, GA  
(516) 312-5744

Nguyen, Valentina  
Bloomington, MN  
(507) 382-2607

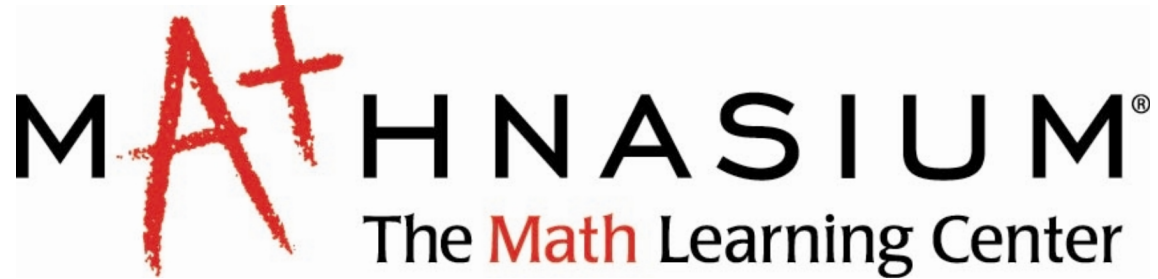
McCann, Denise  
Huntersville, NC  
(704) 497-5400

Avery, Verne  
Canton, OH  
(330) 209-7419

Lavender, David (Centers in Germantown, TN and Cordova, TN)  
Deceased

Mattison, Mark & Michelle  
Frisco, TX  
(469) 396-7248

Ali, Laila & Kitab  
Houston, TX  
(954) 668-4746



**MATHNASIUM CENTER LICENSING, LLC**

**Consolidated Financial Statements and Independent Auditors' Report**

**December 31, 2011 and 2010**

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# ROSSI DOSKOCIL & FINKELSTEIN

LLP

*Certified Public Accountants & Consultants*

## INDEPENDENT AUDITORS' REPORT

To the Managing Member,  
**Mathnasium Center Licensing, LLC**  
Los Angeles, California

We have audited the consolidated balance sheet of Mathnasium Center Licensing, LLC (the "Company") as of December 31, 2011, and the related consolidated statements of income and member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2010 and 2009, were audited by other auditors whose report dated February 11, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above, present fairly, in all material respects, the financial position of Mathnasium Center Licensing, LLC as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Rossi Doskocil & Finkelstein LLP*

February 29, 2012

**BARON ACCOUNTANCY CORPORATION**  
**CERTIFIED PUBLIC ACCOUNTANTS**

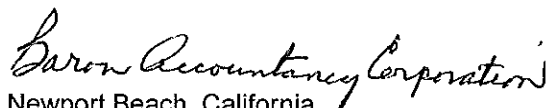
INDEPENDENT AUDITORS' REPORT

To the Managing Member of  
Mathnasium Center Licensing, LLC

We have audited the accompanying consolidated balance sheet of Mathnasium Center Licensing, LLC as of December 31, 2010 and the related statements of income and member's equity, and cash flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mathnasium Center Licensing, LLC as of December 31, 2010, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

  
Newport Beach, California  
February 11, 2011



MATHNASIUM CENTER LICENSING, LLC

Consolidated Balance Sheets

December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets		
Cash	\$ 314,744	\$ 140,454
Accounts receivable, less allowance for doubtful accounts of \$217,091 and \$148,286 at December 31, 2011 and 2010, respectively	653,229	504,610
Prepaid expenses	81,718	5,130
Due from member	<u>42,370</u>	<u>866,260</u>
Total current assets	1,092,061	1,516,454
Long term portion of accounts receivable	115,500	37,000
Other assets	37,919	20,638
Capitalized software and website development costs, less accumulated amortization of \$100,367 and \$7,978 at December 31, 2011 and 2010, respectively	367,007	306,222
Property and equipment, less accumulated depreciation of \$38,358 and \$3,300 at December 31, 2011 and 2010, respectively	<u>225,886</u>	<u>17,092</u>
Total assets	<u>\$ 1,838,373</u>	<u>\$ 1,897,406</u>

LIABILITIES AND MEMBER'S EQUITY

Current liabilities		
Accounts payable	\$ 280,726	\$ 442,773
Accrued liabilities	649,289	333,818
Deferred revenue	3,333	105,250
Current portion of capital lease obligations	<u>4,248</u>	<u>-</u>
Total current liabilities	937,596	881,841
Deferred rent	171,891	-
Long term portion of capital lease obligations	13,450	-
Other liabilities	<u>42,500</u>	<u>-</u>
Total liabilities	1,165,437	881,841
Member's equity	<u>672,936</u>	<u>1,015,565</u>
Total liabilities and member's equity	<u>\$ 1,838,373</u>	<u>\$ 1,897,406</u>

See accompanying notes to consolidated financial statements.

MATHNASIUM CENTER LICENSING, LLC  
Consolidated Statements of Income and Member's Equity  
Years Ended December 31, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Franchise fee income	\$ 1,708,167	\$ 1,297,783	\$ 1,340,240
Royalties and marketing fees	5,114,454	3,558,021	2,711,288
Miscellaneous	6,582	12,332	13,881
	<u>6,829,203</u>	<u>4,868,136</u>	<u>4,065,409</u>
Operating Expenses			
Marketing and advertising	1,667,513	930,217	839,720
Franchisee systems, training and support	585,519	458,189	330,134
Curriculum development	383,288	374,664	305,442
General and administrative	3,406,029	2,875,123	2,580,220
Depreciation and amortization	127,447	11,278	-
	<u>6,169,796</u>	<u>4,649,471</u>	<u>4,055,516</u>
Income from operations	659,407	218,665	9,893
Interest expense	<u>4,398</u>	<u>7,986</u>	<u>4,440</u>
Net income	655,009	210,679	5,453
Member's equity, beginning of year	1,015,565	804,886	799,433
Distributions to member	<u>(997,638)</u>	<u>-</u>	<u>-</u>
Member's equity, end of year	<u>\$ 672,936</u>	<u>\$ 1,015,565</u>	<u>\$ 804,886</u>

See accompanying notes to consolidated financial statements.

MATHNASIUM CENTER LICENSING, LLC  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
Cash flows from operating activities:			
Net income	\$ 655,009	\$ 210,679	\$ 5,453
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Depreciation and amortization	127,447	11,278	-
Bad debts	162,998	96,322	25,574
Non-cash rent expense	45,395	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(390,117)	(160,464)	(110,757)
Prepaid expenses	(76,588)	(3,442)	(1,688)
Other assets	(17,281)	(20,638)	-
Due from member	(42,370)	(271,733)	96,626
Accounts payable	(162,047)	120,421	(18,218)
Accrued liabilities	315,471	300,591	8,582
Deferred revenue	(101,917)	105,250	-
Other liabilities	42,500	-	-
Taxes payable	-	-	(6,000)
Net cash provided by (used in) operating activities	558,500	388,264	(428)
Cash flows from investing activities:			
Payments for capitalized software and website development costs	(153,174)	(314,200)	-
Purchase of property and equipment	(96,118)	(20,392)	-
Net cash used in investing activities	(249,292)	(334,592)	-
Cash flows from financing activities:			
Borrowings under Line of Credit	105,000	-	-
Repayments on Line of Credit	(105,000)	-	-
Payments on capital lease obligations	(3,540)	-	-
Distributions paid to member	(131,378)	-	-
Net cash used in financing activities	(134,918)	-	-
Net increase (decrease) in cash	174,290	53,672	(428)
Cash, beginning of year	140,454	86,782	87,210
Cash, end of year	\$ 314,744	\$ 140,454	\$ 86,782
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest expense	\$ 4,398	\$ 7,986	\$ 4,440
Non-cash investing and financing activities:			
Dividend in-kind to Mathnasium, LLC	866,260	-	-
Tenant improvements paid for by landlord	126,496	-	-
Property acquired under capital lease	21,238	-	-

See accompanying notes to consolidated financial statements.

MATHNASIUM CENTER LICENSING, LLC

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

NOTE 1 – ORGANIZATION

Mathnasium Center Licensing, LLC (“MCL” or “Company”) is a single member limited liability company formed on June 20, 2003. MCL is wholly owned by Mathnasium, LLC (“Parent”). MCL grants franchisees use of the name Mathnasium and the associated business systems. The system facilitates the process of operating a business to teach mathematics to children through neighborhood learning centers. The Mathnasium franchise operates throughout the United States and various other countries throughout the world. Mathnasium UK Ltd. was formed on April 21, 2010 and is wholly owned by MCL. Substantially all of the Company’s revenues are derived from franchising operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany transactions and balances have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made in the 2010 and 2009 presentation to conform to the 2011 presentation.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Company considers investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010. Cash balances held at financial institutions may, at times, exceed FDIC insured limits.

Accounts Receivable – The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. Accounts are considered delinquent based on the related contractual terms. Accounts are written off as uncollectible at the time management determines that collection is unlikely.

Property, Equipment, Capitalized Software, and Website Development Costs – Property and equipment are carried at cost. Development costs related to the Company’s proprietary franchise CRM system and website have been capitalized in accordance with Accounting Standards Codification (“ASC”) No. 350, “Intangibles – Goodwill and Others.” Depreciation of assets recorded under capital leases is included in depreciation expense. For financial reporting and tax purposes, depreciation and amortization are calculated using straight-line and accelerated methods, respectively, over the estimated service lives of the depreciable assets. The estimated service lives are as follows:

Computers and office equipment	3 – 5 years
Furniture and fixtures	7 – 10 years
Capitalized software and website development	5 – 10 years
Leasehold improvements	shorter of 7 years or remaining lease term

Revenue Recognition – Franchise agreements grant franchisees use of the name Mathnasium and the associated business systems within a designated geographic area. Franchise agreements typically have a five-year, renewable term with an initial, non-refundable franchise fee. Continuing fees include a fixed monthly fee and monthly royalty and marketing fees based on a percentage of gross receipts.

MATHNASIUM CENTER LICENSING, LLC  
Notes to Consolidated Financial Statements (continued)  
December 31, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued) - Royalty and marketing fee revenues and franchise fees are recognized in accordance with the provisions of ASC No. 952 "Franchisors." Royalty and marketing fees are recognized as revenue in the periods in which franchisees receive fees for their services. Franchise fee revenue from initial territory sales and option agreements are recognized as revenue when the Company has substantially completed its obligations under the franchise agreement. Criteria for substantial performance include:

- (1) An executed franchise agreement is received,
- (2) Collection of the franchise fee is reasonably assured, and
- (3) The franchisee has completed the Company's Initial Training Program.

Cash received for franchise fees or option agreements relating to transactions for which the revenue recognition criteria have not been met are recognized as deferred revenue. Deferred revenue totaled \$3,333 and \$105,250 at December 31, 2011 and 2010, respectively, and will generally be recognized as revenue upon franchisees' completion of the Initial Training Program.

Marketing and Advertising – Marketing and advertising costs relate to activities to promote the Mathnasium brand to consumers and prospective franchisees and are expensed as incurred. These costs include advertising, creative design, special events, tradeshow, administrative fees, and employee compensation. Advertising costs totaled \$691,073, \$616,101, and \$505,655 in 2011, 2010, and 2009 respectively.

Franchisee Systems, Training and Support – Franchisee systems, training and support expenses are costs directly associated with the training and on-going support of franchisees including facility rentals, printing and supplies, communications, conventions, professional services, and employee compensation.

Curriculum Development – Curriculum development expenses are costs directly associated with the creation and maintenance of the Mathnasium curriculum including education materials, conferences, and employee compensation.

Income Taxes – The Company is a single member limited liability company and has elected to be treated as a disregarded entity under federal income tax regulations. Accordingly, all items of income and expense are reported on the member's tax returns. The Company is subject to state LLC fees which are included in general and administrative expense and totaled \$6,800 in 2011, 2010, and 2009 respectively. The Company is also subject to income taxes in foreign jurisdictions which totaled \$15,445, \$11,042, and \$10,028 in 2011, 2010, and 2009 respectively. Foreign income taxes are presented separately from related revenues and are included in general and administrative expenses.

MCL follows the provisions of FASB ASC 740-10, *Income Taxes – Overall*, and subsections, formerly FASB Interpretation No. 48. Accordingly, MCL accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. MCL recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. Penalties and interest are recorded as general and administrative expense and interest expense, respectively. The Company has provided approximately \$10,000 at December 31, 2011 related to potentially uncertain tax positions.

Fair Values – The carrying amounts of cash, accounts receivable, accounts payable, accrued liabilities, and taxes payable approximate their respective fair values due to their short maturities.

MATHNASIUM CENTER LICENSING, LLC  
Notes to Consolidated Financial Statements (continued)  
December 31, 2011 and 2010

NOTE 3 – CAPITALIZED SOFTWARE AND WEBSITE DEVELOPMENT COSTS

During 2010, the Company commenced development of a proprietary, Internet-based, customer relationship management system (“Franchise CRM System”) for franchisee use. The first and second phases of development were completed and placed into service during 2010 and 2011, respectively. Also during 2010, the Company developed and launched the first phase of the Company’s new website. The first phase of the website focuses on consumer marketing and integrates the Internet presence of franchisees. In 2011, the Company developed and launched the final phase of the Company’s new website. The final phase of the website focuses on franchise development marketing.

Amortization of the costs associated with the completed phases of the franchise CRM system and website commenced in 2010. Amortization expense totaled \$92,389 and \$7,978 in 2011 and 2010, respectively. Capitalized software and website development costs consist of the following at December 31:

	2011	2010
Franchise CRM system	\$ 305,902	\$ 152,941
Website	161,472	124,623
	467,374	277,564
Less: accumulated amortization	(100,367)	(7,978)
	367,007	269,586
Franchise CRM system in development	-	25,200
Website in development	-	11,436
Total	\$ 367,007	\$ 306,222

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2011	2010
Computers and office equipment	\$ 72,908	\$ 16,579
Software	8,890	-
Furniture and fixtures	43,721	3,813
Leasehold improvements	138,725	-
	264,244	20,392
Less accumulated depreciation	(38,358)	(3,300)
Total	\$ 225,886	\$ 17,092

Depreciation expense totaled \$35,058, \$3,300, and \$0 in 2011, 2010, and 2009 respectively. During the year ended December 31, 2011, leasehold improvements totaling \$126,496 were paid for by the landlords of the Company’s offices in California and Georgia in connection with leased office space. These costs are included in property and equipment and will be recognized as a reduction of future rent expense.

MATHNASIUM CENTER LICENSING, LLC  
Notes to Consolidated Financial Statements (continued)  
December 31, 2011 and 2010

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Accrued salaries and vacation	\$ 545,081	\$ 322,495
Current portion of territory release obligations	41,200	-
Other	63,008	11,323
Total	<u>\$ 649,289</u>	<u>\$ 333,818</u>

NOTE 6 – LINE OF CREDIT

The Company obtained a revolving line of credit on January 21, 2011 (“Loan Agreement”). Pursuant to the Loan Agreement, the Company has pledged as collateral all receivables, equipment, and fixtures. The terms and current borrowings of the Company’s line of credit as of December 31, 2011 are as follows:

<u>Amount Outstanding</u>	<u>Unused Line of Credit</u>	<u>Available for Borrowing</u>	<u>Interest Rate</u>	<u>Expiration Date</u>
\$ -	\$ 150,000	\$150,000	6.25%	January 21, 2012

NOTE 7 – 401(K) SAVINGS PLAN

The Company has a 401(k) plan, administered by Mathnasium, LLC, (“Plan”) to provide retirement benefits for employees providing services to the Company. The Company matches employee contributions up to a maximum of 4% of their annual compensation. The Company’s contribution to this plan was \$64,534, \$47,652, and \$48,153 in 2011, 2010, and 2009 respectively.

NOTE 8 – CAPITAL LEASES

The Company leases various furniture and equipment under agreements accounted for as capital leases and included in property and equipment. Depreciation totaled \$2,174, \$0, and \$0 in 2011, 2010, and 2009, respectively, and is included in depreciation and amortization expense. The carrying value and accumulated depreciation of assets under capital lease agreements at December 31 are:

	<u>2011</u>	<u>2010</u>
Cost	\$ 21,238	\$ -
Less: accumulated depreciation	(2,174)	-
Total	<u>\$ 19,064</u>	<u>\$ -</u>

MATHNASIUM CENTER LICENSING, LLC  
Notes to Consolidated Financial Statements (continued)  
December 31, 2011 and 2010

NOTE 8 – CAPITAL LEASES (continued)

The leases require the following future minimum lease payments for the years ending December 31:

2012	\$	4,248
2013		4,248
2014		4,248
2015		4,248
2016		706
Total	\$	<u>17,698</u>

NOTE 9 – OPERATING LEASES

Mathnasium, LLC leases office space in California, Georgia, and Minnesota for the benefit of Mathnasium Center Licensing, LLC. The lease terms include escalation clauses, renewal options, and early termination fees if the Company was to exit a lease before the end of its term. Rent expense totaled \$146,053, \$101,665, and \$93,314 in 2011, 2010, and 2009 respectively. The leases require the following minimum rental payments for the years ending December 31:

2012	\$	166,314
2013		206,927
2014		213,138
2015		219,372
2016		105,768
Total	\$	<u>911,519</u>

NOTE 10 – COMMITMENTS

Included in accrued and other liabilities are \$83,700 in amounts due to franchisees for various territory release agreements, payable as follows:

2012	\$	41,200
2013		30,000
2014		12,500
Total	\$	<u>83,700</u>

NOTE 11 – RELATED PARTY TRANSACTIONS

Mathnasium, LLC maintains office facilities, bank accounts, the line of credit, and provides all employees for the benefit of Mathnasium Center Licensing, LLC. The associated leasehold improvements, deferred rent, rent expenses, finance charges, and all employee compensation of Mathnasium, LLC employees providing services to the Company are included in these financial statements.



MATHNASIUM CENTER LICENSING, LLC  
Notes to Consolidated Financial Statements (continued)  
December 31, 2011 and 2010

NOTE 11 – RELATED PARTY TRANSACTIONS (continued)

Amounts due from Mathnasium, LLC totaled \$42,370 at December 31, 2011, consisting of royalties and employee salary reimbursements and other expense reimbursements resulting from Mathnasium, LLC's company-owned learning center. Amounts due from Mathnasium, LLC totaled \$866,260 at December 31, 2010. During the year ended December 31, 2011, Mathnasium Center Licensing, LLC paid \$131,378 for Mathnasium, LLC expenses and deemed it a dividend. The total dividends to Mathnasium, LLC for the years ended December 31, 2011, 2010, and 2009 were \$997,638, \$0, and \$0, respectively.

In December 2011, Mathnasium, LLC informed the management of Mathnasium Center Licensing, LLC that the due from member balance of \$866,260 at December 31, 2010 will likely not be recoverable since significant government service contracts relied upon by Mathnasium, LLC did not materialize into the anticipated amount of revenue and were not expected to in the future. On December 15, 2011, Mathnasium Center Licensing, LLC and Mathnasium, LLC agreed to deem as a dividend the December 31, 2010 due from member balance of \$866,260 to Mathnasium, LLC. It was also agreed that any expenses paid by Mathnasium Center Licensing, LLC on behalf of Mathnasium, LLC would be deemed a dividend to Mathnasium, LLC in the year such expenses were incurred, effective January 1, 2011.

NOTE 12 – SUBSEQUENT EVENTS

Management evaluated subsequent events through February 29, 2012, the date the financial statements were available to be issued, in accordance with ASC Topic 855 "Subsequent Events."

The Company's line of credit was renewed on February 21, 2012 with a new expiration date of January 21, 2013. All other terms remained the same as the original Loan Agreement.

**FRANCHISE AGREEMENT**

**MATHNASIUM CENTER LICENSING, LLC**

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**MATHNASIUM CENTER LICENSING, LLC  
FRANCHISE AGREEMENT**

This FRANCHISE AGREEMENT (the "Agreement") is entered into on \_\_\_\_\_, 20\_\_\_\_ (the "Effective Date") between MATHNASIUM CENTER LICENSING, LLC, a California limited liability company ("Mathnasium," "we," or "us"), and \_\_\_\_\_ ("you") [entity or individual names].

**DEFINITIONS**

"Base Royalty" means the base royalty fee of Five Hundred Dollars (\$500) per month that you must pay to us as detailed in Section 5.2(b) of this Agreement.

"CCS" means Mathnasium's centralized computer system, currently called M2, in its existing form and as it may be changed from time to time.

"Center" means a Mathnasium learning center.

"Center Director" means a person who successfully completes the Initial Training Program or the Center Director Training Program (if they were previously an instructor at a Mathnasium center for at least six months), and our apprenticeship program as detailed in Section 4.2 of this Agreement, and thereafter is involved in the full-time management of your Center and the learning activities conducted there.

"Competing Business" means any business that offers math education, or that offers to children any academic instruction, self guided instruction, tutoring, test preparation, or supplemental educational services.

"Confidential Information" means confidential information related to Mathnasium and its business and its franchisees' businesses. "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. We own all intellectual property and other rights to the Confidential Information.

"CPI" means the Consumer Price Index, US City Average, All Items (1967=100).

"Dispute" means any dispute, claim or controversy arising out of or relating to this Agreement, or its breach, including any claim that this Agreement or any part hereof or its formation, is invalid, illegal or otherwise voidable or void, or induced by fraud.

"FDD" means the Mathnasium Center Licensing, LLC franchise disclosure document.

"Franchise Fee" means the initial franchise fee that you must pay us as detailed in Section 5.1 of this Agreement.

"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 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.

"Includes" and "Including" and similar words shall not be given a restrictive interpretation, and words used as examples shall not limit the generality of antecedent words or phrases.

"Initial Training Program" means Mathnasium's initial training program as detailed in Section 4.1 of this Agreement.

“Manuals” means Mathnasium’s confidential proprietary style guide, manuals, directives, descriptions of the System, and any amendments, supplements, derivative works, and replacements; whether embodied in electronic or other media. We own all copyrights and other rights to the Manuals.

“Marketing Fee” means the monthly fee of two percent (2%) of Gross Receipts that you must pay us as detailed in Section 5.3 of this Agreement.

“Marks” means the trademarks, service marks, logos, trade dress, commercial symbols, domain names, and similar and related words or symbols, designated by Mathnasium from time to time to identify Centers and the goods and services offered in them.

“Minimum Royalty” means the greater of (i) the Monthly Royalty or (ii) One Thousand Four Hundred Dollars (\$1,400).

“Monthly Royalty” means the royalty of ten percent (10%) of your Gross Receipts that you must pay us each month as detailed in Section 5.2(a) of this Agreement.

“Opening Date” means the date your Center opens for business by starting Center operations and holding your first Center session.

“Option Agreement” means an agreement between Mathnasium and a franchisee that allows the franchisee to prospectively reserve a territory on condition that the franchisee opens a Center in that territory by a particular date. Mathnasium is not presently offering Option Agreements.

“Option Fee” means the fee required to be paid to Mathnasium by a franchisee who entered into an Option Agreement.

“Principal” means a person owning twenty percent (20%) or more of the franchised business or the franchisee entity.

“System” means Mathnasium’s (i) education systems including but not limited to teaching methods, application forms, diagnostic tests, achievement tests, curriculum worksheets, student record books, progress charts, and other student or teacher aids in whatever media; (ii) business systems including but not limited to marketing, accounting, operational and administrative materials and processes; (iii) know-how; (iv) the CCS; and (v) Confidential Information and Manuals used by us, by you, or in Centers. You acknowledge that: (i) the System is not generally known and is beyond your present skills and experience; and (ii) to develop the System would be expensive, time consuming, and difficult. We own all intellectual property, copyrights and other rights to the System.

“Territory” means the territory described in Attachment 1 to this Agreement, within which you will locate your Center and conduct learning activities using the System. The criteria for determining the Territory are discussed in Section 3.3 of this Agreement.

“Transfer” means, when used as a verb, 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 this Agreement, any interest in the Center, or (if you are a corporation or other legal entity) any ownership interest in you. “Transfer” means, when used as a noun, any such sale, assignment, etc.

“Transfer Fee” means a fee of Six Thousand Dollars (\$6,000).

## **I. APPOINTMENT**

1.1. Furnishing of the FDD. You acknowledge that we provided you with a copy of Mathnasium’s FDD at least fourteen (14) days before you signed this Agreement and that we provided you with this Agreement containing all material terms at least seven (7) days before you signed this Agreement. You acknowledge that the FDD Mathnasium provided to you is current as of the Effective Date. You further acknowledge that, aside from our FDD, we did not furnish you with any oral or written information concerning the actual or potential sales, costs, income, or profits of a Mathnasium franchise before you signed this Agreement.

1.2. Grant. We appoint you as an authorized franchisee of Mathnasium to operate a Center. You promise to carry out the obligations and responsibilities of a Mathnasium franchisee, including acting yourself as (if you are a sole proprietorship) or employing a Center Director.

1.3. Location. You are responsible for selecting a proposed site for your Center after completing the Initial Training Program. You may not locate the Center in your home or other residential property. The site must be able to accommodate at least twenty (20) students at one time. Mathnasium has the right to increase these minimum accommodation requirements on reasonable notice. You must obtain Mathnasium's written approval of the site before you enter into any commitment with the landlord or site owner. Such approval will not be unreasonably delayed or withheld. We may require you and your landlord to sign an addendum to the lease for the Center or another form of agreement acceptable to us 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. We must review and consent to the physical layout of each Center.

1.4. Right to Use Marks and the System. We grant to you a limited license to use: (i) the Marks, and (ii) the System. Your use of the Marks and the System is limited by the terms of this Agreement. We may change the System, Manuals, or Confidential Information at any time. We may store and deliver these in any manner or medium.

## **II. SALES QUOTAS**

2.1. Minimum Enrollment; Minimum Gross Receipts. Beginning with the twenty-first (21<sup>st</sup>) full calendar month after the Opening Date, you must maintain a minimum enrollment of fifty (50) students. Also beginning with the twenty-first (21<sup>st</sup>) full calendar month after the Opening Date, the Gross Receipts of your Center must not be in the bottom four (4) percent of all Centers in the United States that have been open twelve (12) months or more. If your Center falls in the bottom four percent (4%) of Gross Receipts for two (2) or more consecutive months, it will be considered an event of default pursuant to Section 15.2 of this Agreement.

## **III. SITE SELECTION; TERRITORY**

3.1. Site Selection. We will not review, approve or disapprove your site until after you have completed the initial training program. Our assistance with site selection and our review and approval of your site are not representations or guarantees of any level of success of the site. You agree that we have no liability to you regarding the viability or profitability of your Center.

3.2. Start of Center Operations. You must start Center operations within six (6) months after the Effective Date. Your Center operations have started when your Center begins to maintain regular hours during which it is open to existing or potential customers. You acknowledge that we would be damaged by any unreasonable delay in your opening a Center within the Territory. If you have not started Center operations within six months of the Effective Date, you may request an extension from us, in writing, which we may grant for a minimum of two and maximum of four 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 more than six (6) months from the Effective Date and you have not requested or we have not granted an extension, we may immediately terminate your franchise under Section 15.1 without any liability to Mathnasium. If you have not started Center operations by the end of any extension period granted, we may immediately terminate your franchise under Section 15.1 without any liability to Mathnasium.

3.3. Territory; Retention of Rights. As long as you are in compliance with the minimum enrollment requirements and minimum Gross Receipts requirement set forth in Section 2.1 above, we will not establish another franchised or company-owned or affiliate-owned Mathnasium Center in the Territory granted to you. Your Territory will be based on the boundaries specifically described in Attachment 1 to this Agreement. When assigned, the Territory will contain a minimum of two thousand five hundred (2500) children between the ages of five (5) and seventeen (17) years. The distance between the boundaries of neighboring territories will be a minimum of three-tenths (0.3) of a mile. The final location of your Center must be inside of the Territory's boundaries and at least one-eighth (0.125) of a mile from the

nearest boundary of the Territory, but a greater distance is desirable. We reserve the right to adjust the boundaries of your Territory once the location of your Center is known. The size and boundaries of the Territory will be determined by us based on population density and other demographics. If, based on the actual location of your Center or changes over time, we determine at our sole discretion and business judgment that the interests of existing or prospective customers in your Territory or adjacent areas would be better served by adjusting the boundaries of your Territory, we may adjust them upon written notice to you. These changes may include changes in geography, population density, number of children, average household income, the location of your Center, the location of other centers, traffic, and other factors. If we adjust your Territory, the adjusted Territory will contain a minimum of three thousand (3000) children between the ages of five (5) and seventeen (17) years.

Except as explicitly and specifically granted to you herein, all rights in and to the Marks, the System, and the goodwill associated with each of them is hereby reserved to us and any affiliates. Specifically, but without limitation, we and our affiliates retain the right, but shall not be obligated, to:

(a) franchise and establish company-owned and affiliate-owned Mathnasium Centers outside the Territory.

(b) establish, operate and franchise the System or any other programs, products and/or services under trade names, trademarks, service marks, or logos other than the Marks within or outside of the Territory.

(c) sell or provide services and products, whether or not part of the System, using the Marks or other names, trademarks and service marks, under other channels of distribution, within or outside of the Territory. Specifically, without limitation, we or an affiliate may offer instruction services and products directly to customers on the Internet.

(d) sell or provide services and products, whether or not part of the System, using the Marks or other names, trademarks and services marks to alternative customer types, within and outside of the Territory, including low income students.

(e) sell other products or services using the Marks or other names, trademarks and services marks, other than primarily a learning center.

(f) merge with, acquire, or be acquired by any business, including a competing business.

3.4. Relocation of Center. You may not relocate your Center without our prior written consent. Such consent will not be unreasonably delayed or withheld. If you want to relocate your Center to a location outside of the Territory or greater than five (5) miles from the original location, and if we consent to your request to relocate your Center, you will pay us a Relocation Fee of Six Thousand Dollars (\$6,000). In no event can you or a transferee relocate your Center more than ten (10) miles from the original location.

#### **IV. TRAINING**

4.1. Initial Training Program. We provide an Initial Training Program to you, and, as applicable, any Center Director. Instructors are not permitted to attend the Initial Training Program. The Principal having the largest ownership interest in the franchise, or in the entity that is the franchisee, and the Center Director, if any, except as provided in Section 4.4, must successfully complete the Initial Training Program. Such individuals must begin the Initial Training Program by the later of sixty (60) days from the Effective Date or the date on which the second session of the Initial Training Program offered by us after the Effective Date begins. Prior to attending the Initial Training Program, you are required to review all training materials and complete business and educational assessments. Our Initial Training Program generally takes place over a five-day period and consists of five (5) full days of training. At our discretion, this training may increase to two (2) non-consecutive weeks during 2012. Your training will be held in Los Angeles, California or other locations in the United States. The initial franchise fee covers the cost of the Initial Training Program for your Center Director and one Principal (additional attendees may

be charged up to Three Hundred Dollars (\$300) per day as tuition). The initial franchise fee also covers the cost of up to six (6) total hotel nights during the Initial Training Program the franchisee attends. No portion of the initial fee is refundable, even if not all hotel nights are used. You are responsible for any travel and incidental expenses beyond the six (6) hotel nights. You agree that any and all information about the System and the Manuals that we provide to you during the Initial Training Program are the exclusive property of Mathnasium, and are lent to you for the sole purpose of training to become a Mathnasium franchisee. Neither you nor anyone under your control may reproduce any portion of the System or Manuals or make them available to anyone else without our prior written authorization. You acknowledge that Confidential Information will be disclosed to you during the Initial Training Program, and all of your attendees must execute the *Confidentiality/Non-Competition Agreement* in the form attached as Attachment 3 or Attachment 4 to this Agreement. You agree not to disclose any Confidential Information without our prior written consent for any purpose other than fulfilling the requirements of the Initial Training Program. This confidentiality provision applies to information that has not been disclosed to the public and was not known to you before we disclosed the Confidential Information to you during the Initial Training Program. We can terminate this Agreement due to your inability to successfully complete the Initial Training Program, as determined in our sole discretion, during or at the conclusion of the Initial Training Program, by providing written notice to you, and refunding your Franchise Fee, less marketing, sales, operational and training costs we have incurred in connection with awarding you a franchise and in connection with this Agreement. The termination notice will be effective immediately upon receipt by you or two (2) business days after sending by overnight courier service. You must promptly return all Manuals and information related to the System upon termination of this Agreement. You will still be bound by the confidentiality provision and other provisions that survive termination if this Agreement is terminated.

4.2. Apprenticeship Training Program. The Principal who attended the Initial Training Program and your Center Director (if applicable) are required to attend and successfully complete an apprenticeship training program that is arranged by us. If you do not have a Center Director, a second Principal may, but is not required to, attend the same apprenticeship training program at no additional cost to you. Our apprenticeship training program generally takes place over a four (4) to five (5) day period, after the Initial Training Program, but within six (6) weeks of the opening of your first Center. The apprenticeship training program will be held at one of Mathnasium's mentor Centers (operated by a Mathnasium franchisee). The initial franchise fee covers the cost of the apprenticeship training program for the Principal who attended the Initial Training Program and either (i) your Center Director (if applicable) or (ii) another Principal to attend simultaneously. A third attendee may simultaneously attend this apprenticeship for an additional fee of Five Hundred Dollars (\$500). If a Principal or Center Director wishes to attend a non-simultaneous program, they may do so for an additional fee of One Thousand Dollars (\$1,000), which entitles up to two (2) attendees to participate in that non-simultaneous program. You are responsible for any travel and incidental expenses. All attendees must execute the *Confidentiality/Non-Competition Agreement* in the form attached as Attachment 3 or Attachment 4 to this Agreement.

4.3. Tune-Up Training Program. Approximately six (6) to ten (10) months after your Center opens, we may require your Center Director or one Principal to attend a two-day tune-up training program, to be held at a location within the United States that we designate. There is no fee for the tune-up training program for your Center Director and one Principal. The fee for additional attendees is Three Hundred Dollars (\$300) per person. You are responsible for any travel and incidental expenses. All attendees must execute the *Confidentiality/Non-Competition Agreement* in the form attached as Attachment 3 or Attachment 4 to this Agreement. Instructors are not permitted to attend the Tune-Up Training Program.

4.4. Center Director Training Program. Available as an option for Center Directors to attend in place of Initial Training, Center Director Training takes place up to four (4) times per year in Los Angeles, California or other location in the United States that we designate. Center Directors may attend the Center Director Training Program instead of the Initial Training Program if they are hired after you attend the initial training program and if they were previously an instructor at a Mathnasium center for at least six (6) months. There is no fee for the Center Director Training Program. Reservations must be made at least two (2) weeks before the training begins. You are responsible for any travel and incidental expenses. All attendees must execute the *Confidentiality/Non-Competition Agreement* in the form



attached as Attachment 4 to this Agreement. Instructors are not permitted to attend the Center Director Training Program.

4.5. Ongoing Training. After your Center Director successfully completes the Initial Training or Center Director Training Program, the apprenticeship training program, and the tune-up training program, you or your Center Director must participate in and successfully complete ongoing training as prescribed by Mathnasium during the term of this Agreement.

4.6. Supplemental and Repeat Training. We have the right to require you to repeat any training within a reasonable amount of time. Additionally, we have the right to add training sessions to our standard training programs and to require your attendance. We also can require you, within a reasonable amount of time, to participate in and successfully complete specific Mathnasium training sessions that we feel are necessary to upgrade your instructional, business, or Center management skills. We alone will make these determinations based upon our reasonable business judgment.

4.7. Annual Convention. Mathnasium may hold an annual convention in different areas of the country to keep franchisees up to date on instructional techniques and business strategies. We may charge and you must pay an annual convention fee to partially defray convention costs. For your first Center only, the initial franchise fee covers the cost of your annual convention fee for the first convention taking place after the Effective Date of this Agreement. Annual attendance is required. If you are unable to attend, the fee is not refundable.

4.8. Consultation. In addition to the formal training described above, we may (but are not obligated to) provide consultation through more informal methods, such as meetings with you at our office, other locations designated by Mathnasium, phone calls or visits to your Center. We currently provide you with instructional materials on a non-chargeable basis, as described in our Manuals. We may charge for such items and other items of inventory in the future.

4.9. Transportation, Lodging, Meals and Other Expenses. Unless otherwise explicitly stated in Section IV, you must pay all expenses for you and your attendees' transportation, lodging, meals, and other expenses incurred in connection with attending any of our training programs.

## **V. FRANCHISE FEE, ROYALTIES AND MARKETING FEES**

### 5.1. Franchise Fee

(a) When you sign this Agreement, you must pay Mathnasium a Franchise Fee as noted here: *[Initial applicable fee]*

(i) If this Agreement is for your first Center:

\_\_\_ Thirty-Seven Thousand Dollars (\$37,000)

\_\_\_ Twenty-Two Thousand Two Hundred Dollars (\$22,200) if you were honorably discharged from the U.S. Armed Forces within three (3) years of the Effective Date; or you are an active duty member of the U.S. Armed Forces on the Effective Date; or

\_\_\_ Twenty-Seven Thousand Seven Hundred Fifty Dollars (\$27,750) if you were honorably discharged from the U.S. Armed Forces more than three (3) years prior to the Effective Date.

(ii) If you are an existing franchisee and this Agreement is for an additional Center and is being signed pursuant to a previously signed Option Agreement:

\_\_\_ \$0 if you already paid the Option Fee in full; or

\_\_\_\_ Payment on the Promissory Note signed with the Option Agreement in the amount of Eleven Thousand Dollars (\$11,000) for the balance of the Initial Franchise Fee for this Center if you paid a portion of the Option Fee at the execution of the Option Agreement.

(iii) If you are an existing franchisee and this Agreement is for an additional Center and is not being signed pursuant to a previously signed Option Agreement, and both (i) you own at least one other Center that is operating under a Franchise Agreement signed prior to August 6, 2012, and (ii) the Effective Date of this Agreement is August 5, 2013 or earlier:

\_\_\_\_ Nineteen Thousand Five Hundred Dollars (\$19,500); you may pay in cash in full or pay Four Thousand Five Hundred Dollars (\$4,500) in cash and execute a Promissory Note for Fifteen Thousand Dollars (\$15,000) at the execution of this Agreement.

(iv) If you are an existing franchisee and this Agreement is for an additional Center and is not being signed pursuant to a previously signed Option Agreement, and either (i) you do not own at least one other Center that is operating under a Franchise Agreement signed prior to August 6, 2012, or (ii) the Effective Date of this Agreement is August 6, 2013 or later:

\_\_\_\_ Twenty-Six Thousand Five Hundred Dollars (\$26,500); you may pay in cash in full or you may pay Eleven Thousand Five Hundred Dollars (\$11,500) in cash and execute a Promissory Note for Fifteen Thousand Dollars (\$15,000) at the execution of this Agreement.

No initial franchise fee will be paid if you are signing the Agreement in conjunction with \_\_\_\_\_ a transfer or \_\_\_\_\_ a renewal of your existing franchise. [*Initial as applicable.*] The Franchise Fee is fully earned by us once paid and is not refundable with one exception: If Mathnasium elects to terminate this Agreement during or at the conclusion of your Initial Training Program as provided in Section 4.1, we will refund to you the Franchise Fee paid less the costs we have incurred in marketing, sales, operational and training costs in connection with awarding you a franchise and in connection with this Agreement. For a renewal, any requirements in this Franchise Agreement that relate to opening a new center do not apply.

(b) The Franchise Fee is payable in full when you sign this Agreement. For the first Center, payment must be paid to us via check, cash, money order, wire transfer, or credit card. If payment is made by Franchisee by credit card, Franchisee must pay to Mathnasium all credit card processing charges it incurs upon receipt of an invoice for such charges. Mathnasium reserves the right to offer financing on any additional units. For additional Centers, all financed payments must be paid to us by electronic withdrawal directly from a depository account under an electronic funds transfer (EFT) arrangement with your bank. The EFT account may be the account already on file for royalty payments, in which case the EFT Authorization Form – Existing Account must be completed and returned with this Agreement. Alternatively, the EFT account may be a new account, in which case you will be required to fill out a form authorizing electronic withdrawal from the new depository account and return that form with this Agreement.

## 5.2. Royalty Payments.

(a) Monthly Royalty. Monthly beginning on the Opening Date, you must pay Mathnasium the Monthly Royalty.

(b) Base Royalty. For your first Center, beginning the first full month after completion of Initial Training by at least one Principal, you must pay Mathnasium the monthly Base Royalty. For your first Center only, the initial franchise fee covers the cost of your first three (3) monthly payments of the Base Royalty. If you already own one or more centers and this Agreement is for an

additional center, you must begin paying the monthly Base Royalty in the first month the additional center established under this Agreement opens for business.

(c) Minimum Royalty Payment. Beginning with the twenty-fourth (24<sup>th</sup>) month after the Opening Date, you must pay us on a monthly basis, the Base Royalty, plus the Minimum Royalty.

(d) Royalty Rebate for Top Performers. We presently provide a royalty rebate on royalties paid for our top performing franchisees of two percent (2%) of Gross Receipts. To qualify for this rebate, a franchisee must sign the current Mathnasium franchise agreement for all Centers owned by that franchisee. Top performers who will receive the rebate are defined as the top eight percent (8%) for the previous month in total royalty payments from all Centers owned by qualifying franchisees. We can change or terminate this rebate at any time.

### 5.3. Marketing Fees.

(a) General. Monthly beginning on the Opening Date, you must pay us the Marketing Fee. Marketing Fees are our property and may be deposited by us into our general operating account, but administratively segregated in our records. We determine the cost, form of media, content, format, production, timing (including regional or local concentration and seasonal exposure), location and all other matters relating to advertising, public relations and promotional campaigns. Marketing fees are spent to benefit the entire system, and we make no promises or guarantees on how, or if, this marketing will affect your individual Center.

(b) Additional Assessment; Multi-Area Marketing Programs. On a system-wide basis, we may impose an additional assessment upon all of our franchisees for special designated advertising or promotional activities (so long as such assessment is not in substance merely an increase in the Marketing Fees referred to in section 5.3(a) above) if Mathnasium franchisees owning a majority of all of its franchised Centers agree to such additional assessment by vote. All special advertising programs must be approved by us. We may require you to participate in multi-area marketing programs, such as special offers, gift cards, loyalty rewards, contests, promotions, etc. Voting for these purposes will be one vote per center. 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.

(c) Use of Marketing Fees. We will expend the Marketing Fees collected from our franchisees to pay for expenses related to the development of marketing materials for use in national, regional or local advertising, cooperative advertising, market research, public relations, promotional campaigns, internet presence, marketing products and services and other marketing, advertising or promotion designed to promote and enhance the value of the Marks and general public recognition and acceptance thereof. These expenses may include, but are not limited to, payments to third party vendors that provide marketing products or services or compensation of our in-house employees for time devoted exclusively on marketing services for the purpose of enhancing the Marks and the general public recognition and acceptance of the Marks. We may also use up to ten percent (10%) of the annual aggregate Marketing Fees collected to pay for our administrative expenses attributable to the administration of our marketing program, including but not limited to prorated portions of our accounting, human resources, and real estate expenses. We will not be required to use collected Marketing Fees in the same calendar year in which they were collected. No interest on unexpended Marketing Fees shall be imputed for the benefit of, or payable to, you and no interest on our expenditures in excess of Marketing Fees collected shall be imputed for the benefit of, or payable to, us. If requested by you in writing, on or before March 31st of each year, we will deliver to you a statement of receipts and expenditures of the aggregate Marketing Fees relating to the preceding calendar year, certified to be correct by one of our officers.

5.4. Payments. Monthly Royalty and Marketing 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 under an electronic fund transfer (EFT) arrangement with your bank. When you attend the Initial Training Program, you will be required to fill out a form authorizing electronic

withdrawal from a depository account, attached to this Agreement as Attachment 9. If you do not have a business account established at that time, you will be required to fill out an authorization form for electronic withdrawal from your personal account, and you must fill out a new authorization form for electronic withdrawal from your business account once it is established. You must have opened a bank account for your business operations and submitted to us the EFT form for such account prior to the date you open your Center. Monthly Royalty and Marketing Fees are due on the twentieth (20<sup>th</sup>) day of the following month. If you fail to pay any royalties, fees or other charges by the twenty-fifth (25<sup>th</sup>) day of the following month, 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 Three Hundred Dollar (\$300) administrative fee for the late payment, and an additional Three Hundred Dollars (\$300) for every two (2) weeks after that twenty-fifth (25<sup>th</sup>) day until payment is made. If you are more than one (1) month delinquent in reporting your Gross Receipts for any month, we can automatically withdraw up to one hundred ten percent (110%) of the Base Royalty and Monthly Royalty fees paid in the prior reported month, plus other fees due, including administrative fees for late payments and late reporting. In addition to Monthly Royalties, your statement may indicate additional charges, such as chargeable items, shipping charges, and returned check fees. If you are in default in payment to us and do not cure within thirty (30) days after delivery of notice to you, we may require you to sign a promissory note for all past due amounts.

5.5. CPI Adjustments. Within sixty (60) days after the beginning of each calendar year, and upon written notice, we can increase the Base Royalty, the Minimum Royalty, and any other fee of a fixed dollar amount up to the greater of (i) three percent (3%) per year or (ii) the percentage increase of the CPI during the previous calendar year. 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 three (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%).

## **VI. OPERATION OF CENTER**

6.1. Compliance with System. You agree that strict compliance with the System is essential to this Agreement. For example, you must keep your Center open on a "full-time basis" (as defined in the Manuals). You are required to have your telephone answered by a live person (not an answering machine or voicemail system) who is knowledgeable about the Mathnasium program and your Center, during normal retail business hours or a minimum of 10:00am to 3:00pm local time Monday through Friday. If, through monitoring your Center regarding this requirement, we reasonably determine that your telephone is not being answered by a live person (i.e., if a live person does not answer two (2) or more times out of five (5) calls at different times of the day and days of the week), we will provide you with written notice that you are in default of this requirement. If, by thirty (30) days or more after your notice of default, we reasonably determine that you have not cured the default, we may assess you a non-compliance fine of Three Hundred Dollars (\$300) per month until you can demonstrate to our satisfaction that you are in compliance with this requirement.

6.2. Center Name. We will work with you to select a single descriptive community name for your center. You must operate the Center under the name we assign to you. 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 the use of any of the additional community names other than your assigned name. You may use the Mathnasium logo (the fanciful letter "A" with the word "Mathnasium") for activities associated with the operation of your Center. Any other use of the logo requires our prior written approval. We also have the right to change your Center name if the geographic reference is misleading or otherwise undesirable, in our business judgment. If we require you to change your Center name, we will give you reasonable time to change advertising and promotional material associated with your Center at your cost.

6.3. Mathnasium Center Sessions. You must conduct teaching sessions at your Center at least five (5) days and twenty (20) hours per week. Each weekday Center session must be at least four hours in duration. You must enter your Center session hours on your Center webpage. Center sessions

do not include time devoted to preparing for your Center hours, or marketing, meeting with parents or other business activities. You may not conduct teaching sessions or provide any other services at any location other than your Center, including homes of students, prior to or after the Opening Date.

6.4. Improvements: Services to Students. You and your instructors must exert reasonable effort to continuously improve your knowledge of and ability to apply the System. You must render prompt, professional, courteous, and willing service to your students and the parents of students enrolled at your Center.

6.5. Promotion of the Center.

(a) Local Promotion of Your Center. You have an obligation to vigorously promote the enrollment of students at your Center. In addition to the Marketing Fee required by Section 5.3 above, you must spend at least Four Thousand Five Hundred Dollars (\$4,500) in every three (3) consecutive months on local advertising and enhancing the reputation of your Center on a local level for your Center's first year of operation. For the Center's second year of operation and beyond, you must spend at least Six Thousand Dollars (\$6,000) in every three (3) consecutive months on local advertising and enhancing the reputation of your Center on a local level. You should not rely solely on Mathnasium's sales promotions and our goodwill in promoting your Center. Upon request, you shall furnish to us, in the manner we prescribe, an accurate accounting of your expenditures on local advertising and promotion.

(b) Advertising Approval. We may require copies of some or all advertising pieces to be sent to Mathnasium. If you develop your own proposed promotional materials, you must obtain our written approval prior to using them. Such approval will not be unreasonably delayed or withheld. The promotional materials that we create may be used without our prior written permission, so long as they have not been altered in any way. We are not obligated to pay for advertising materials, whether you create the materials and we approve them or you use promotional materials that we create. All advertising must list the name we assigned to your Center, or if you are advertising jointly with other centers, it must list all participating centers by name. You may not combine advertising for your Center with advertising for any other program or business entity without written permission from us. We assume no responsibility for any claims or damages that may occur as a result of your advertising or promotional activities.

(c) Internet Presence and Promotions. 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 will provide you with a presence on Mathnasium's master website. You must participate in any such website under our rules. 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.

(d) Territory Restrictions. You may not advertise for students in any media read primarily outside your Territory, except as authorized by us in the Manuals. The Manuals, which may be amended from time to time, will contain information on what your advertising abilities and restrictions will be with regard to each particular media you will be using, such as postcards, newspapers, newsletters, and other forms of media. We may otherwise restrict any marketing activities based on where targeted customers are known to reside, or are believed by us to reside. You may only conduct marketing activities outside of what is approved in the Manuals with the prior written approval of Mathnasium, which may be withheld, or withdrawn even after being granted, at our sole discretion.

(e) Signs and Logos. We must approve all signs before you display them to the public at your Center. Such approval will not be unreasonably delayed or withheld. You must use the Mathnasium logo in its proper form and color as required by the Manuals.

(f) Cooperative Advertising. From time to time we may designate a local or regional advertising cooperative if fifty percent (50%) or more of the centers in the proposed coverage area vote to do so. If such a cooperative is established, we will have the right to require the cooperative to change, dissolve, merge, or terminate. Once the cooperative is established, you agree to participate in and

contribute your share to such cooperative advertising and promotional programs as determined by the cooperative in addition to the Marketing Fees required pursuant to Section 5.3. Any such contributions to cooperative advertising promotional programs shall be credited toward the local advertising and promotional expenditures required by Section 6.5(a). In no event will you be required to contribute more than Eighteen Thousand Dollars (\$18,000) in any calendar year to cooperative advertising.

6.6. Computer System and Customer Data. You are not required to have or use a cash register, but you must use CCS to manage all aspects of your business, including all required functionality and processing all customer payments through the system, when this functionality is made available. You must purchase and use the computer hardware and software that we specify for use of CCS, and make such additions and replacements in the future as are necessary. You must have access to the Internet through a broadband connection at your Center to allow you to access the system and to allow communication with us, in compliance with the Manuals. For your first center, beginning with the first full month after completion of Initial Training, you must pay the then current monthly technology fee for one (1) license for the CCS. If you already own one or more centers, you must begin paying the monthly technology fee for the center to be established under this Agreement beginning with the first full month you have access to the CCS for the center established under this Agreement. Additional centers require one (1) additional license each. We have the right to access any data as it pertains to the business. We also reserve the right to access or review any data in your accounting system as it pertains to the business. Mathnasium owns and maintains an exclusive right in all customer and business transaction data. We reserve the right to designate additional software programs or packages that you must use for your Center business. If we specify an additional software program, we will identify it in the Manuals.

6.7. Enrollment of Students. There is no geographic restriction on whom you may enroll at your Center. However, solicitation of students is subject to Section 6.5 (d).

6.8. Approved Services and Products. You may only offer approved services and products at your Center. Approved services and products are defined in the Manuals and may be changed and modified from time to time. You may only offer services outside of what is approved in the Manuals with the prior written approval of Mathnasium which may be withheld in our sole discretion. Providing services under the federal No Child Left Behind Act is not permitted by Mathnasium. You are not permitted to offer programs at your Center through another company, whether that company is owned by you or not, unless you receive advance approval in writing from Mathnasium.

6.9. Reports. The Manuals specify the monthly reports that you must submit to us, the method of submission, and their due dates. You must also submit an annual reporting summary as described in the Manuals (these reports will include your students' names, addresses, phone numbers, enrollment dates, amounts paid to you and other details that we specify in the Manuals). We may also require specific non-recurring reports. We have the right to add, edit, or change the required reports, their frequency, and the methods of reporting. We have the right to withhold information related to the System if we do not receive the reports by their respective due dates. If you fail to submit any required report within one day following the due date, then you must pay Mathnasium a One Hundred Dollar (\$100) administrative fee for each late report, and One Hundred Dollars (\$100) every week thereafter until the report is submitted.

6.10. Books and Records. You must establish and maintain a bookkeeping, accounting and record keeping system conforming to the requirements prescribed by us from time to time and accurately record Gross Receipts and other financial information as we prescribe and in the manner we prescribe. If requested by us in advance, you shall submit to us financial statements for Center operations, including a statement of profit and loss and balance sheet for any particularly specified month, quarter or year and/or year-end income tax returns. You must keep accounting and financial records relating to your Center operations separate from all other business activities not related to the Center business.

6.11. Inventory. You must maintain at all times an adequate supply of materials to operate the Center without interruption.

6.12. Maintenance of Center. You must always maintain a clean, sanitary, safe, and orderly Center. You must immediately repair any broken fixtures and immediately eliminate all safety hazards.

6.13. Professionalism. You must operate your Center at all times in a professional manner. You must not engage in deceptive, misleading, unethical, immoral or illegal conduct. You must not make any false or misleading or deceptive statement or representation or advertising concerning Mathnasium or its authorized franchisees. You must demonstrate in the operation of your Center the ability to operate within the bounds of a franchise system, showing professionalism in your relationships with Mathnasium, other Mathnasium franchisees, and your customers.

6.14. Response to Complaints. You must respond to any individual or entity that has made any criticisms about you, your Center, your instructors, Mathnasium, or any other Mathnasium franchisee within five business days after you receive such criticism. You must also send us a written account of any such criticisms within five business days, including a statement of how you remedied the situation.

6.15. Compliance with Laws. You must operate your Center in compliance with all applicable laws, regulations, codes, and ordinances, including, if applicable, requirements to hold or obtain a teacher's certificate and/or to complete course work in education and to obtain and keep in good standing all necessary occupancy or zoning certificates, permits or licenses.

6.16. Consultation and Inspection.

(a) We have the right to ourselves or through a designated representative: (i) visit your Center any day of the week and at any time of the day, including 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, students, 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 the placement and maintenance of video and audio equipment, as specified in the Manuals or otherwise by us in writing, to facilitate the monitoring of learning center activity as well as closer monitoring of instructor 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 minimum period of two years from the student's last day of attending the Center.

(b) Periodically, we may provide you with a quality assurance report regarding your compliance with the System. You must incorporate any changes we recommend to you within thirty (30) days following our quality assurance evaluation or report following a Center evaluation. If a specific change has not been made within thirty (30) days or by the time of our next quality assurance evaluation or visit, we may charge you a non-compliance fine of Three Hundred Dollars (\$300) per month for each requested change you have not made until we are reasonably satisfied that the change has been made.

(c) Participation in customer surveys, including exit surveys, is required.

6.17. Variation of Standards. We have the right to waive or modify our standards for any franchisee based on circumstances that we deem important to the successful operation of the franchisee's business or any other reason; provided, however, that nothing in this sentence is intended to disclaim the representations we made in the FDD that we provided to you.

6.18. Mathnasium Privacy Policy. All Mathnasium franchisees are required to review and comply with the privacy policy described on Mathnasium's website in the daily operation of their center. Franchisees are also required to put security measures in place to prevent the disclosure of the confidential information of their customers.

## **VII. MARKS AND SYSTEM**

7.1. System. We will provide you with electronic access to our System and Manuals as necessary to operate your Center. Access to the CCS is only granted after Mathnasium receives a

completed electronic funds transfer (EFT) form, attached to this Agreement as Attachment 9, at the time of the Initial Training Program. This form authorizes electronic withdrawal of funds from a depository account for royalties and other fees. You must purchase other items bearing the Marks only from us or other sources we designate or approve, unless we waive this requirement in writing. You must follow our requirements when you use the Marks.

7.2. No Unauthorized Use or Copying. You may not duplicate, reproduce, or distribute any portion of the Manuals or information related to the System, or allow anyone other than an enrolled student in your Center or instructors while employed by you to receive any portion of the Manuals or information related to the System without our prior written consent.

7.3. Acknowledgment of Status and Ownership. You acknowledge that you do not own any rights in the Marks or the System. You agree that you will not hold yourself out to the public as owning any such rights, and that you will never contest the validity of, or our rights in, any Marks or the System.

7.4. Limitations. Your right to use the Marks and the System continues only as long as you are an authorized Mathnasium franchisee. You may use the Marks and the System only as specified in this Agreement, the Manuals, and any other written policy that we may adopt. You acknowledge that any use of the Marks or the System other than in the manner we have authorized will be a violation of our rights. You may not use our Marks with any other marks or logos.

7.5. Notice of Unauthorized Use. We require you to report any suspected unauthorized use of the Marks or the System within twenty-four (24) hours after you become aware of it. We will investigate, and we will have the sole right to determine what, if any, action to take regarding the suspected unauthorized use.

7.6. Ownership and Use of Marks. Mathnasium agrees to indemnify you against any loss or damages, including reasonable attorneys fees, resulting from any lawsuit or other action instituted by any person or entity (other than Mathnasium) challenging your rights to use the Marks or the System.

## **VIII. CHANGES IN THE MARKS AND SYSTEM**

8.1. Modification of the Marks. We have the right to change the Marks in our discretion. You agree in reasonable time to discontinue using, to modify, or to adopt substituted Marks, if we direct you to take such action.

8.2. Modification of the System. We have the right to change the content of the System in our discretion. If we change the System, we will notify you and you must implement the changes within a reasonable time that we specify.

8.3. Services, Programs and Products Developed by Franchisee. You must get our approval in writing, prior to use, for the use of any additional services, programs or products that you develop for your Center. Such approval will not be unreasonably delayed or withheld. If we approve such additional items, you may use them only in your Center. You may not sell or otherwise distribute them. We will have the right, but no obligation, to make any such items part of the System. Whether or not we approve them or make them part of the System, you will not have any copyright or other rights in them. If we make any such items part of the System, we will have all copyright and other rights in them.

## **IX. MANUALS**

We will lend you one copy of our Manuals. You must adhere to all standards, rules, and regulations contained in the Manuals as though they were set forth in this Agreement. We have the right to modify the Manuals from time to time. We will provide you with at least thirty (30) days notice of any such modifications. The Manuals remain our property at all times, and the information contained in the Manuals is secret and confidential. Therefore, you and your employees must treat the Manuals as Confidential Information and must keep them in a secure place at all times.



## **X. REQUIREMENTS FOR OPENING ADDITIONAL CENTERS**

If you have met the requirements listed in this Section 10, we will consider allowing you to open one or more additional Centers. We have the right to modify, add to, or delete any of these requirements. These requirements do not apply if you are signing this Franchise Agreement for a territory under a previously signed Option Agreement.

10.1. Your first Center must have been open and operating for at least seven (7) months.

10.2. You must have an average net enrollment growth of five (5) students per month or have maintained an average monthly enrollment of one hundred (100) students for the previous six (6) months.

10.3. You must have shown growth in Gross Receipts of at least One Thousand Two Hundred Dollars (\$1200) per month or have maintained monthly Gross Receipts of Twelve Thousand Five Hundred Dollars (\$12,500) for the previous six (6) months.

10.4. You must sign our then current Mathnasium Center franchise agreement and pay us our then current Franchise Fee for each additional Center.

10.5. You must be in compliance with your current Franchise Agreement for at least six (6) consecutive months preceding your request to open an additional center.

10.6. You must have demonstrated in the operation of your current Center(s) the ability to operate within the bounds of a franchise system, showing professionalism in your relationships with Mathnasium, other Mathnasium franchisees, and your customers.

## **XI. CENTER DIRECTOR**

11.1. Obligations of Center Director and Principal. The Center Director must attend and successfully complete the Initial Training Program (including all pre-training work) and the apprenticeship training program, and personally perform the obligations and requirements specified in this Agreement, including teaching students. Center Directors hired or promoted after the Center is already operating may attend the Center Director Training Program instead of the Initial Training Program, if they were previously an instructor at a Mathnasium center for at least six (6) months. The Center Director must oversee, direct and be ultimately responsible for all communications with parents, student assessment and achievement tests, and student workbooks for each student enrolled at your Center. Even if you have hired and designated a Center Director, at least one Principal must personally participate in and devote full-time efforts to the management and operation of the Center.

11.2. Assistants and Instructors. You may employ at your Center one or more qualified assistants or instructors. For all employees of the Center, you must conduct a background check, together with any other checks required by statute, through a reputable investigative company and in accordance with any statutory requirements. Background checks must be kept on file at your center according to the instructions in the Manuals and made available to Mathnasium staff upon request, either manually or electronically. You are responsible for adequately training the assistants and instructors according to the specific guidelines in the Manuals and ensuring that they are competent and of good character and comply with all statutory requirements to work with children.

11.3. Absences. You must give reasonable advance notice to Mathnasium if the Center Director plans to be absent from your Center for a period of two weeks or more. You must make arrangements to ensure that operation of the Center is in full compliance with our standards during your Center Director's absence, and your notice to Mathnasium must describe those arrangements. We have the right to terminate this Agreement if your Center Director is absent from the Center for two weeks or more without notice or without adequate arrangements for operation of the Center, or if your Center Director has excessive absences of any period (with or without notice) that effectively constitute a violation of this Section 11.

11.4. Corporation or Other Legal Entity. If you are a corporation or other legal entity (or if you wish to assign this Agreement to a corporation or other legal entity under Section 18.6), you must satisfy the following requirements:

(a) We must be given a copy of the organizational and governing documents of the corporation or other legal entity, documents showing all owners of the legal entity and their ownership interest, and documents identifying the persons authorized to execute agreements on behalf of the entity.

(b) We must receive proof that the corporation or other legal entity is in existence and in good standing before you transfer the Agreement to the corporation or other legal entity.

(c) All owners of the entity must personally guarantee all of the entity's obligations under this Agreement by signing the *Guaranty and Assumption of Obligations*, attached as Attachment 7 to this Agreement.

(d) You must designate an individual that Mathnasium approves to act as the Center Director, and he or she must successfully complete the Initial Training Program or the Center Director Training Program (if he or she was previously an instructor at a Mathnasium center for at least six (6) months). You must identify and obtain Mathnasium's approval of all owners, officers, and managers, and explain their management role in the business, on the Schedule of Owners, Officers and Managers attached as Attachment 6 to this Agreement. All such approvals will not be unreasonably delayed or withheld. The Center Director must complete the Initial Training Program or the Center Director Training Program as a condition to operating the Center.

(e) Owners, officers and managers must sign the Confidentiality/Non-Competition Agreement attached as Attachment 3 to this Agreement.

(f) You must complete the *Schedule of Owners, Officer and Managers*, attached as Attachment 6 to this Agreement.

(g) Stock certificates or other documents evidencing an ownership interest in the corporation or other legal entity must include the following specific statement on the certificates:

"THE TRANSFER OF THE EQUITY INTEREST IN THE COMPANY REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF THAT CERTAIN FRANCHISE AGREEMENT DATED \_\_\_\_\_, 20 \_\_\_\_ BETWEEN THIS COMPANY AND MATHNASIUM CENTER LICENSING, LLC. REFERENCE IS MADE TO SUCH FRANCHISE AGREEMENT AND THE RESTRICTIVE PROVISIONS CONTAINED THEREIN AND AS MAY BE OTHERWISE SET FORTH IN THE ARTICLES OF INCORPORATION OR ORGANIZATION AND BYLAWS OR OPERATING AGREEMENT OF THIS COMPANY."

11.5. Entity Name. The legal name of a franchisee must not contain the word "Mathnasium" or our Marks or any similar words or wording that may be confusing. However, your "doing business as" name must be the same name as your officially designated Center name, which must contain the word "Mathnasium".

## **XII. INDEPENDENT BUSINESS; TAXES**

12.1. Independent Business. You acknowledge that, as a franchisee of Mathnasium, you are the owner and operator of an independent business and not an employee or agent of Mathnasium. You alone have the power to hire and fire your employees and you alone are responsible for complying with any and all applicable local, state, and federal laws, including those pertaining to the employment of your employees (such as minimum wage, federal and state withholding taxes, overtime compensation, child labor, and workers compensation insurance laws).

12.2. Taxes. You agree to pay all applicable taxes and other fees due to any local, state, or federal government arising from the operation of your Center. You agree to hold us harmless from all claims and demands with respect to taxes that you owe arising from the operation of your Center.

12.3. Reimbursement of Payments by Mathnasium. You must pay or reimburse us on demand for any taxes assessed against Mathnasium based on payments that you make to us or on the operation of your Center, including withholding tax on royalties, but not including Mathnasium's corporate income taxes or any sales tax. You must also pay or reimburse us on demand for all amounts advanced by us, or which we have paid, or which we have become obligated to pay on your behalf. You must also pay us on time for products and services you purchase from us.

### **XIII. INDEMNIFICATION AND INSURANCE**

13.1. Indemnification. You agree to hold harmless and indemnify Mathnasium, its affiliates, and their respective past, present, and future officers, directors, shareholders, agents and employees for any loss, liability, damages, cost, or expense (including attorneys fees) that we or they may incur arising out of the operation of your Center, including any act or omission of your employees, contractors and agents that causes injury to any person or property. This indemnity is not limited by the amount of any insurance that you or we carry. Your obligation to indemnify us survives the expiration, termination, or non-renewal of this Agreement.

13.2. Insurance. You must obtain and keep in force at all times the insurance coverage that we require, as specified in the Manuals, PROVIDED ALWAYS that you maintain at least the minimum insurance coverage required by law. Your obligation to obtain insurance coverage does not relieve you of any liability under Section 13.1. We may change the required types and minimum limits of insurance coverage from time to time in our reasonable business judgment. We will notify you in writing of any changes, which will be effective thirty (30) days after you receive the notice.

### **XIV. TERM, RENEWAL PROCESS, AND RENEWAL CONDITIONS**

14.1. Term. The term of this Agreement is five (5) years from the Effective Date.

14.2. Renewal Process. You have the right to renew this Agreement for up to two (2) additional terms of five (5) years each if you satisfy the renewal conditions in Section 14.3 below. If we have not renewed your Agreement by the time the term expires under Section 14.1, we may allow you to continue operating your Center under the terms of this Agreement on a month-to-month basis. We are not obligated to allow a month-to-month situation, however, and allowing your contract to expire without renewal could result in our requiring you to cease all operations as a Mathnasium franchisee. Either party may terminate a month-to-month agreement, effective the last day of any calendar month, upon thirty (30) days notice to the other party.

14.3. Renewal Conditions. We may refuse to renew this Agreement if you have not met any of the renewal conditions specified below:

(a) You must be in full compliance with this Agreement, the Manuals, and any other agreements you have with us at the time of renewal.

(b) You must not have received more than one written notice of default from us during any calendar year of the term that is expiring. If you received any such notices, you must have been diligent and timely in curing the defaults.

(c) Throughout the term that is expiring, you must have been current with all monetary obligations that you owe us.

(d) You must have had a satisfactory record of customer service and of compliance with our operating standards during the term that is expiring, without regard to actual notices of default.

(e) You must execute our *General Release Form* (Attachment 2 to this Agreement).

(f) You must sign our then current form of renewal franchise agreement. The renewal franchise agreement may contain terms and conditions that are materially different from this Agreement and no initial franchise fee will be due.

## **XV. TERMINATION AND OBLIGATIONS UPON TERMINATION**

15.1. Termination by Us with No Opportunity to Cure. Mathnasium can terminate this Agreement immediately upon notice to you if any of the following events occurs:

(a) You made any misrepresentations or omitted material information in applying for the franchise.

(b) You misrepresent the performance of your Center by underreporting the Gross Receipts of your Center, the number of students enrolled at your Center, or any quantitative measurement used for evaluating your Center, including but not limited to spending on advertising and number of leads generated.

(c) You fail to obtain Mathnasium's written approval of your Center site prior to entering into a commitment with the landlord or site owner.

(d) You attempt to relocate your Center without first obtaining our written permission.

(e) You fail to begin operating the Center within six (6) months from the Effective Date without an extension from us, in writing, or you fail to begin operating the Center by the end of an extension period granted by us.

(f) You attempt to copyright, trademark, or patent or otherwise infringe our rights on any programs, services, products or materials that you develop arising out of the franchise relationship.

(g) Any transfer of an interest in your franchise occurs that does not comply with Section 18 of this Agreement.

(h) You fail to respond to e-mails or telephone calls from us for a period of two (2) weeks.

(i) You repeat a default listed in 15.2 after being given an opportunity to cure.

(j) You are in default under Section 15.2 three (3) or more times within any twelve (12) month period, whether the defaults are the same or different and whether or not you cured them.

(k) Beginning with your twenty-first (21<sup>st</sup>) full calendar month after the Opening Date, your enrollment either falls below fifty (50) for two (2) successive months or your Center's Gross Receipts are in the bottom four percent (4%) of centers in the United States operating for at least twelve (12) month for two (2) successive months if there are at least fifty (50) or more centers operating in the United States.

(l) You violate the *Communications Policy* in the Manuals, or the *Franchise Council Policy* in the Manuals, which prescribe acceptable standards of behavior in written or verbal communications within the franchise system, and control the process for establishing all franchise councils and like organizations.

(m) You are in breach of any legal requirement which, in our reasonable discretion, requires that termination must occur.

15.2. Termination by Us with an Opportunity to Cure. Mathnasium can terminate this Agreement by written notice if you fail to cure any monetary breach within ten (10) days from the day that we send you written notice of default. Mathnasium can terminate this Agreement by written notice if you fail to cure any of the breaches specified below within thirty (30) days from the day that we send you written notice of default:

- (a) You fail to submit accurate and timely monthly and yearly reports specified in this Agreement or the Manuals.
- (b) You fail a review of your Center. You will be given an opportunity to cure any failing areas, with time to cure for each failure at our sole discretion varying from one month to six months.
- (c) You fail to complete any of the training requirements specified in this Agreement (including those specified in Sections 4.1, 4.2, 4.3 and 4.5 hereof) or in the Manuals.
- (d) You fail to comply with the requirements in Section 11.3.
- (e) You advertise your Center jointly with any other program or business, without our permission.
- (f) You or your Center Director violates the restriction on competition in Section 16.1.
- (g) You fail to adhere to the requirements for advertising approval (including approval of websites) specified in this Agreement and in the Manuals.
- (h) You fail to comply with any other provision or requirement of this Agreement.

15.3. Automatic Termination with No Notice. Except as otherwise provided by applicable law, the Agreement will terminate automatically without any notice to you, under the following circumstances:

- (a) You abandon your Center. Abandonment will be deemed to occur when your Center does not hold class sessions for five (5) or more consecutive days without our prior written approval.
- (b) A receiver or trustee is appointed to take charge of your business, or your interest in this Agreement or the Center is levied or attached.
- (c) You are convicted or plead guilty to a felony or any other crime involving dishonesty, breach of trust, bodily harm, any crime against children under the age of eighteen, or crime as we, in our reasonable discretion deem serious enough that it would affect your ability to properly run your Center.

15.4. Your Obligations Upon Termination. If this Agreement expires or if either you or we terminate it, you must comply with the following obligations:

- (a) You must promptly pay all Monthly Royalties, Base Royalties and other payments due to us.
- (b) You must immediately discontinue use of all parts of the System including, but not limited to, canceling any advertising that uses the Marks. You must send proof within thirty (30) days of your efforts to remove all advertising including internet advertising (regardless of whether you created the listing).
- (c) You must immediately return to us your copy of the Manuals and all information related to the System in your possession or control.
- (d) You must immediately remove all interior and exterior signs and other items containing Marks from the Center. You must send digital photographs of your Center within thirty (30) days that indicate that items containing Mathnasium Marks or designs have been removed.

(e) You must immediately notify all students, their parents, and your landlord that you no longer are a franchisee of Mathnasium and therefore not licensed to use the System or Marks and provide proof of this notification within thirty (30) days.

(f) You must immediately submit to us a list containing all students' names, addresses, and telephone numbers and all information on each student's testing and assessments, learning plan, measurements of progress, and current lesson plans.

(g) You must immediately transfer to us all business, financial, accounting, and marketing records relating to your Center.

(h) You must submit monthly reports, as specified in the Manuals, for your final month of operation.

(i) You must fulfill your lease obligations.

(j) At our request, you must transfer to us your rights in the telephone numbers, directory listings, domain names (including Facebook and Twitter accounts), and e-mail addresses associated with the Center.

(k) You must continue to indemnify us as provided in Section 13.1.

(l) You must pay the Base Royalty for the duration of the term of this Agreement unless waived by us in writing.

(m) You must repay to customers of the Center any amounts prepaid for services that you will not be able to provide due to the termination of this Agreement

15.5. Termination by You. This Agreement may be terminated by you if we fail to substantially comply or correct within thirty (30) days, after written notice from you, failure to comply with any material obligation, duty or promise we have or make under this Agreement. In addition to your right to terminate this Agreement in the event of such default, you would also be entitled to seek any and all remedies available under law and equity.

## **XVI. RESTRICTIONS ON COMPETITION**

16.1. During the Term of Agreement. During the term of this Agreement, neither you nor your Center Director nor any instructors may, without Mathnasium's prior written consent, own, operate, be employed by, provide financing or other assistance or facilities to, or have any interest in any Competing Business.

16.2. After Expiration, Termination, Non-Renewal, or Transfer. For one (1) year following the expiration, termination, or non-renewal of this Agreement or the approved Transfer of this Agreement by you to a new franchisee, neither you nor your Center Director may, without Mathnasium's prior written consent, own, operate, be employed by, provide financing or other assistance or facilities to, or have any interest in, any Competing Business that is operating within fifty (50) miles of the Center or within fifty (50) miles of any other franchised or company owned Center. You agree that this restriction will not keep you or your Center Director from earning a livelihood, and you acknowledge that its purpose is to protect the goodwill of Mathnasium and its other franchisees. It is not a breach of this Section 16 for you to accept employment as a teacher in a full-time daytime school or a school that is approved by us in writing.

16.3. Non Solicitation of Students. For two (2) years following the expiration, termination, or non-renewal of this Agreement or the approved Transfer of this Agreement by you to a new franchisee, neither you nor your Center Director may have any contact with any students enrolled at any Center for the purpose of enrolling such students in any Competing Business.

16.4. Time Periods. The running of the time periods in Sections 16.2 and 16.3 will be suspended during any period in which you are not in compliance with those sections. In addition, if a

court proceeding or the mediation process in Section 20 results in enforcement of Section 16.2 or 16.3, any portion of the time periods in those sections that has not yet run will run from the date of the court order or mediation settlement permitting enforcement.

16.5. Indirect Violations Prohibited. Neither you nor your Center Director may attempt to circumvent the restrictions in Sections 16.1 through 16.3 by engaging in prohibited activity indirectly through any other person or entity.

## **XVII. CONFIDENTIALITY**

17.1. Confidential Information. You acknowledge that as an authorized Mathnasium franchisee, you have access to, and are making use of, Confidential Information relating to Mathnasium and the System. Neither you nor your Center Director may, either during the term of this Agreement or after its expiration, termination, or non-renewal, use or disclose any Confidential Information that you have obtained as a result of being a Mathnasium franchisee, except in carrying out your statutory responsibilities and responsibilities as a Mathnasium franchisee as specified in the Manuals or by court order. You, and each owner, officer and manager must each sign the *Confidentiality/Non-Competition Agreement* in the form of Attachment 3 to this Agreement. Your Center Director must sign the *Confidentiality/Non-Competition Agreement* in the form of Attachment 4 to this Agreement. Subsequent Center Directors, owners, officers and managers must also sign the *Confidentiality/Non-Competition Agreement*, and you must deliver a copy of the signed agreement to us within thirty (30) days after that individual's association with you begins.

17.2. Assistants and Instructors. All assistants and instructors over the age of 18 who are working at your Center must sign the *Confidentiality Agreement* in the form of Attachment 5 to this Agreement before starting employment. You must keep the original signed agreement in the employee's personnel file, and you must deliver a copy of the signed agreement to us within thirty (30) days after (i) the Effective Date with respect to existing assistants and instructors or (ii) the date a subsequent hired assistant's or instructor's employment with you begins. Any other employees who have not previously signed the *Confidentiality Agreement* must do so before attending any training program or convention.

## **XVIII. TRANSFER BY YOU**

18.1. No Transfer Without Mathnasium's Consent. Neither you nor any of your owners (if you are a corporation or other legal entity) may make any Transfer or permit any Transfer to occur, including a Transfer of an ownership interest in you (if you are a corporation or other legal entity), without obtaining Mathnasium's prior written consent as provided in Sections 18.2 through 18.4. We have the right to communicate with and counsel both you and the proposed transferee on any aspect of a proposed Transfer. Mathnasium will not unreasonably withhold, delay or condition its consent to any proposed transfer outlined below.

18.2. Transfer of Entire Business Tentative Approval. If you propose to Transfer your entire Center business, the following conditions apply (unless the majority equity interest in the proposed transferee is owned by you, or any of these conditions are waived by Mathnasium in writing):

(a) You must have owned the Center and the Center must have been in operation for at least six (6) months.

(b) You must be in compliance with all of your obligations to Mathnasium, including all monetary obligations, as of the date of the request for our approval of the Transfer, or you must make arrangements satisfactory to Mathnasium to come into compliance by the date of the Transfer.

(c) You must give us advance notice of the proposed Transfer and submit a copy of all proposed contracts and other information concerning the Transfer that we may request. We will have a reasonable time (not less than fifteen (15) days) after we have received all requested information 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 Mathnasium's final approval in writing. You must comply with the requirements in Section 18.3 before Mathnasium will give its final approval.

18.3. Transfer of Entire Business Final Approval. Unless the majority equity interest in the proposed transferee is owned by you, or any of the following conditions are waived by Mathnasium in writing, the following conditions must be satisfied before Mathnasium will give its final approval of a Transfer:

(a) The proposed transferee must demonstrate to Mathnasium's satisfaction that he or she meets all of our then current requirements for becoming a Mathnasium franchisee. Mathnasium may reject the proposed transferee on any pertinent grounds at their discretion but will not unreasonably do so. At a minimum, the proposed transferee must, at his or her own expense:

(i) Travel to Los Angeles, California for interviews and receive Mathnasium's prior written consent;

(ii) Himself or herself, in addition to, as applicable, any Center Director, successfully complete the Initial Training Program.

If the proposed transferee is currently a Mathnasium franchisee in good standing, he or she need not complete requirements of (i) and (ii) above, but the proposed transferee must: (1) meet the second Center requirements set forth in Section 10 of this Agreement; (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 comprehensive plan for both financial and operational takeover of the additional unit.

(b) The proposed transferee must:

(i) Sign our then current form of franchise agreement, which may have different terms than this Agreement and no initial franchise fee will be due;

(ii) Make arrangements to upgrade the Center, at the transferee's expense, to conform to our then current standards and specifications for new Centers, if such upgrades are necessary to bring the Center into compliance with our then current standards; and

(c) You must pay us a Transfer Fee (no Transfer Fee is required if the Transfer is to a corporation or other legal entity that is owned by all or a majority of the current owners).

(d) You and the transferee must sign an assignment and assumption agreement in a form acceptable to us, where the transferee assumes all of your rights and obligations under this Agreement and agrees to be bound by all of the terms and obligations under this Franchise Agreement. All individuals that have an ownership interest in the transferee entity must sign a personal guarantee whereby such owners jointly and severally guarantee the full payment and performance of transferee's obligations to us under this Agreement.

(e) You and the transferee must provide us with documents providing evidence of the completion of the transfer from you to the transferee.

(f) You and your owners must sign a general release in favor of Mathnasium, its affiliates, and their respective officers, directors, shareholders, legal representatives, agents, and employees. The release must be in a form that Mathnasium provides or approves.

(g) You must provide us with written notice from your landlord indicating that the landlord has agreed to the transfer of the lease for the Center to your transferee.

(h) If you owe Mathnasium a balance on a loan or promissory note, you must pay the entire remaining principal balance and interest on or before the effective date of the Transfer.



18.4. Transfer of Less Than Entire Business. For any proposed Transfer that is not covered by Section 18.2, you must give us advance notice and submit a copy of all proposed contracts and other information concerning the Transfer that we may request. If you are proposing to bring in a partner, you must also comply with Section 11.5. We will have a reasonable time (not less than fifteen (15) days) after we have received all requested information to evaluate the proposed Transfer. We may withhold our consent on any reasonable grounds or give our consent subject to reasonable conditions. At a minimum, you must comply with Sections 18.2(b), 18.3(c) (if transferring 50% or more ownership of the business), and 18.3(d).

18.5. Transfer to Spouse or Adult Child. If you propose to Transfer to your spouse or adult child, all applicable conditions in Sections 18.2 through 18.4 will apply, except that:

(a) Your spouse or adult child will not be required to pay a Transfer Fee under Section 18.3(c).

(b) Your spouse or adult child will continue at the pre Transfer royalty rate for the balance of your original franchise term.

18.6. Transfer to a Corporation or Other Legal Entity. Mathnasium will consent to the Transfer of this Agreement to a corporation or other legal entity that you form for the convenience of ownership, at no charge to you, provided that you comply with the requirements in Section 11.4, Section 18.2(b) and Section 18.2(c), and provided that you and the transferee sign an assignment and assumption agreement in a form acceptable to us, where the transferee assumes all of your rights and obligations under this Agreement and agrees to be bound by all of the terms and obligations under this Franchise Agreement. All individuals that have an ownership interest in the transferee entity must sign a personal guarantee whereby such owners jointly and severally guarantee the full payment and performance of the transferee entity's obligations to us under this Agreement.

18.7. Death, Incapacity, or Bankruptcy. If you or any of your Principals die, become incapacitated, or enter bankruptcy proceedings, that person's executor, administrator, personal representative, or trustee must apply to Mathnasium in writing within three months after the event (death, declaration of incapacity, or filing of a bankruptcy petition) for consent to Transfer the person's interest to his or her heir, beneficiary, devisee, or other successor. The Transfer will be subject to the provisions of Sections 18.2 through 18.6. In addition, if the deceased or incapacitated person is you, a partner, or the Center Director, Mathnasium has the right (but not the obligation) to take over operation of the Center until the successor has completed the Initial Training Program as required by Section 18.3a). For purposes of this Section, "incapacity" means any physical or mental infirmity that will prevent the person from performing his or her obligations under this Agreement (i) for a period of thirty (30) or more consecutive days or (ii) for sixty (60) or more total days during a calendar year. In the case of Transfer by bequest or by intestate succession, if the heirs or beneficiaries are unable to meet the conditions of Sections 18.2 through 18.6, the executor may Transfer the decedent's interest to another successor that Mathnasium has approved, subject to all of the terms and conditions for Transfers contained in this Agreement. If an interest is not disposed of under this Section 18.7 within a reasonable time after the date of death or appointment of a personal representative or trustee, Mathnasium may terminate the deceased Principal's interest in this Agreement or may terminate this Agreement under Section 15.1.

18.8. Non Conforming Transfers. Any purported Transfer that is not in compliance with this Section 18 is null and void and constitutes a material breach of this Agreement, for which Mathnasium may terminate this Agreement without opportunity to cure under Section 15.1. Mathnasium's consent to a Transfer does not constitute a waiver of any claims that Mathnasium may have against the transferor, nor is it a waiver of Mathnasium's right to demand exact compliance with the terms of this Agreement.

## **XIX. TRANSFER BY US**

We have the right to Transfer our rights and/or to delegate performance of our obligations under this Agreement, provided that the Transfer does not materially increase your obligations. No Transfer by Mathnasium will relieve you of your obligations under this Agreement. Mathnasium will have no liability to you under this Agreement after the effective date of the Transfer or assignment.

## **XX. DISPUTE RESOLUTION**

20.1. Mediation. Except to the extent precluded by applicable law and except for claims of trademark infringement or arising from violations of Articles XVI and XVII herein on Restrictions on Competition and Confidentiality, the parties to this Agreement and their Principals will first attempt to resolve any Dispute pursuant to mediation conducted before a mediator with the American Arbitration Association (“AAA”) in accordance with AAA Mediation Guidelines, unless the parties agree on a different mediator within fifteen (15) days after either party first gives notice of mediation. Mediation will be conducted in the county where our principal place of business is then located, and will be conducted and completed within forty-five (45) days following the date either party first gives notice of mediation. The fees and expenses of the mediator will be shared equally by the parties. The mediator will be disqualified as a witness, expert, or counsel for any party with respect to the Dispute and any related matter. The entire mediation process will be confidential.

### 20.2. Arbitration.

(a) Any Dispute between (i) us or our related entities, and (ii) you, your Principals, any other of your equity owners, or your related entities and not resolved by mediation within forty-five (45) days in accordance with Section 20.1, must be resolved by submission to binding arbitration before one arbitrator referred by and in accordance with the rules of the AAA.

(b) All hearings and other proceedings will take place in the county where our headquarters is then located.

(c) The arbitration award will be final and binding on the persons or entities bound by this arbitration section, and judgment on the award may be entered in any federal or state court having jurisdiction. Any arbitration will be conducted individually and not as a class, and will not have any binding effect on other court actions or arbitrations.

(d) If any person or entity bound by this arbitration provision fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party by default or otherwise notwithstanding said failure to appear.

(e) The provisions of this Section 20.2 are intended to benefit and bind certain third-party non-signatories.

(f) No party is prohibited from seeking a full or partial summary judgment disposing finally of part or all of a claim or defense in an arbitration proceeding. The arbitrator is empowered to grant or deny such summary judgment motions under the same procedures and standard of proof as are then used under the Federal Rules of Civil Procedure. Such motions may be submitted through written submissions and brief telephone conference oral presentations by counsel, without live witness testimony.

### 20.3. Injunctive Relief and Summary Judgment Motions in Arbitration.

(a) Any party has the right in a proper case (including without limitation (i) any Dispute involving the ownership, right to use, or enforcement of the System or Marks and (ii) any request for preliminary injunctive relief under Section 23.4 of this Agreement) to attempt to obtain temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction, without the necessity of posting any bond, and if bond is nevertheless required by a court of competent jurisdiction, the parties agree that the sum of One Thousand Dollars (\$1,000) will be sufficient bond (this amount may be adjusted according to changes in the CPI since the Effective Date). You acknowledge that you are one of a number of licensed franchisees using the System and Marks and that failure on your part to comply fully with any of the terms of this Agreement respecting the foregoing obligations regarding examinations, audits and Marks could cause irreparable damage to us or other Mathnasium franchisees and businesses. If an arbitration proceeding has started pursuant to Section 20.2 above, then the party seeking such injunctive relief agrees to contemporaneously submit the merits of its dispute to the

arbitrator. This covenant is independent, severable, and enforceable notwithstanding any other rights or remedies that any party may have.

(b) No party is prohibited from seeking in an arbitration proceeding a full or partial summary judgment disposing finally of part or all of a claim or defense. The arbitrator is empowered to grant or deny such summary judgment motions under the same procedures and standards of proof as are then used under the Federal Rules of Civil Procedure. Such motions may be submitted to the arbitrator through written submissions and brief telephone conference oral presentations by counsel, without live witness testimony.

20.4. Business Judgment. When under this Agreement or under applicable law we must be reasonable or act in good faith, we may exercise our business judgment and thereby satisfy our duty. Business involves subjective judgment, and we do not indicate or guarantee, to any degree, your success or profitability.

20.5. Survival. The terms of this Article XX, including but not limited to the arbitration provision of Section 20.2, will survive and remain in full force and effect following termination, expiration, or non-renewal of this Agreement.

## **XXI. APPLICABLE LAW; VENUE**

Federal law governs trademark issues arising under this Agreement. Otherwise, the law of the state where your Center is located governs this Agreement and the legal relationship between you and us. If any provision of this Agreement is impermissible under the governing laws of the state where the Center is located, the provision will be deemed amended to conform to that law while maintaining to the maximum extent possible the original intent of the provision, or if the provision as amended cannot substantially maintain the original intent, then the provision will be deemed deleted. The parties agree that in any legal action under Section 20.3 the federal and state courts located in the county of our headquarters will be a proper venue, and will have personal and subject matter jurisdiction.

## **XXII. LEGAL FEES**

The prevailing party or parties in any arbitration, suit, action, or appeal to enforce any term of this Agreement will be entitled to recover from the non-prevailing party reasonable attorneys' fees and costs.

## **XXIII. MISCELLANEOUS**

### 23.1. Notices.

(a) All notices that the parties to this Agreement give under this Agreement shall be in writing and shall be sent by either (i) E-mail or fax service with proof of receipt or (ii) reliable courier service (such as Federal Express) that obtains a receipt upon delivery and addressed as follows:

(i) If to us, to:

MATHNASIUM CENTER LICENSING LLC  
5120 W GOLDLEAF CIRCLE, SUITE 300  
LOS ANGELES CA 90056  
E-mail address: gabe.wintner@mathnasium.com

(ii) If to you, to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

E-mail address: \_\_\_\_\_

(b) The addresses herein given for notices may be changed at any time by either party by written notice given to the other party as herein provided. Notices shall be deemed given on the earlier of (i) when actually delivered, (ii) at the sender’s local time on which RPost’s Registered Receipt e-mail indicates that the authorized electronic mail agent of the recipient has accepted the Registered E-mail message, or (iii) two business days after deposit with a reliable overnight delivery service.

23.2. Construction and Severability. The language of this Agreement will in all cases be construed according to its fair and plain meaning and not strictly for or against either you or us. Each clause or any part at all of this Agreement is to be regarded as severable from and independent of the others. This means that should any clause or any part at all of this Agreement be found to be unenforceable or invalid, it will not affect the enforceability or validity of the rest of this Agreement.

23.3. Waiver. No course of dealing between you and us will operate as a waiver of any right, power, or remedy conferred by this Agreement or by any existing or future statute or law.

23.4. Injunctive Relief. You agree that in the event of a violation of this Agreement, the remedies available to us at law may be inadequate, and we will be entitled to specific performance of any term contained in this Agreement or a preliminary or permanent injunction against the breach of any such term.

23.5. Entire Agreement. This Agreement contains all of the terms and conditions agreed upon by the parties hereto with reference to the subject matter hereof; provided, however, that nothing in this sentence is intended to disclaim the representations we made in the FDD that we provided to you. No other agreements oral or otherwise shall be deemed to exist or to bind any of the parties hereto and all prior agreements and understandings are superseded hereby. No officer or employee or agent of ours has any authority to make any representation or promise not contained in this Agreement. You acknowledge and agree that you have signed this Agreement without reliance upon any such unauthorized representation or promise. This Agreement cannot be modified or changed except by a written instrument signed by all of the parties hereto. Nothing in this Agreement or any related agreement is intended to disclaim any representation made by Mathnasium in the FDD.

23.6. Amendments. This Agreement can be modified only by a written amendment signed by authorized representatives of each party.

**THIS AGREEMENT IMPOSES IMPORTANT LEGAL OBLIGATIONS ON YOU. THEREFORE WE STRONGLY ADVISE YOU TO OBTAIN COMPETENT AND INDEPENDENT LEGAL AND BUSINESS COUNSEL BEFORE ENTERING INTO THIS AGREEMENT.** We believe that fully understanding your rights and obligations before entering into the Agreement is the best way to avoid conflicts. We look forward to a mutual, beneficial relationship.

You represent that the persons signing this Agreement on your behalf have full authority to do so.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and accepted as of the Effective Date.

**FRANCHISEE:**

**MATHNASIUM CENTER LICENSING, LLC:**

By \_\_\_\_\_

By \_\_\_\_\_

Entity Name \_\_\_\_\_

Signatory's Title:

Signatory's Title \_\_\_\_\_

Printed Name:

Printed Name \_\_\_\_\_

**If one or more individuals will own the Franchise and will be the Franchisee under this Agreement, all such individual owners must execute this Agreement and accompanying attachments (by signing below and wherever else is required) and agree to be bound as individuals by each and every obligation and covenant under this Agreement and accompanying attachments. If an entity will be the Franchisee under this Agreement, an authorized officer of the entity must execute this Agreement on behalf of the entity and all owners of the entity must personally guarantee every obligation of the Franchisee entity under this Agreement by executing the Guaranty and Assumption of Obligations attached hereto as Attachment 7.**

x \_\_\_\_\_

Printed Name \_\_\_\_\_

x \_\_\_\_\_

Printed Name \_\_\_\_\_

x \_\_\_\_\_

Printed Name \_\_\_\_\_

x \_\_\_\_\_

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Printed Name \_\_\_\_\_

x \_\_\_\_\_

Printed Name \_\_\_\_\_

List of Attachments to Franchise Agreement:

Attachment 1 - Territory

Attachment 2 - General Release for Renewal

Attachment 3 - Confidentiality/Non-Competition Agreement – Owners/Officers/Managers

Attachment 4 – Confidentiality/Non-Competition Agreement – Center Directors

Attachment 5 – Confidentiality/Non-Competition Agreement – Employees

Attachment 6 – Schedule of Owners, Officers and Managers

Attachment 7 – Guaranty and Assumption of Obligations

Attachment 8 – Conditional Assignment of Telephone and Directory Listings

Attachment 9 – Electronic Funds Transfer Authorization Form

## **ATTACHMENT 1 - TERRITORY**

The Territory is an area mutually agreed to and initially described in the following map depiction (you and we acknowledge and agree that the Territory may be adjusted based on the final location of your Center, and if so, a replacement map will be inserted into this Attachment, and we may require that you acknowledge the change by initialing the final map):

**ATTACHMENT 2 - GENERAL RELEASE FOR RENEWAL**

MATHNASIUM CENTER LOCATION: \_\_\_\_\_

The individuals or entities that have signed this general release (the "Release") agree as follows:

1. As required by the original Mathnasium Center Franchise Agreement (the "Franchise Agreement") for the Mathnasium Center identified above (the "Center"), and in consideration for Mathnasium's willingness to renew the Franchise Agreement, we hereby release MATHNASIUM CENTER LICENSING, LLC, and Related Parties (as defined below) from any and all claims, demands, actions, causes of action, debts, obligations, and liabilities, whether known or unknown, vested or contingent (collectively, "Claims") arising out of or related to the Franchise Agreement or the Center identified above. We acknowledge that Mathnasium is not required to give us, and is not giving us, a reciprocal release.

We give this Release on behalf of ourselves, our heirs, executors, administrators, successors and assigns, and any other person claiming through or under us. The "Related Parties" covered by this Release include all affiliates of Mathnasium and all of Mathnasium's (and affiliates) past and present officers, directors, shareholders, agents, lawyers, contractors and employees.

This Release applies to any transaction, event, or circumstance relating to the Franchise Agreement or the Center on or before the date of this Release. This Release does not apply to Claims that we may have in the future based on events occurring after the date of this Release.

Franchisee hereby expressly waives any and all rights conferred upon Franchisee by any statute or rule of law which provides that a release does not extend to claims which the claimant does not know or suspect to exist in its favor at the time of executing the release, which if known by it might have materially affected its settlement with the released party, including without limitation provisions of the California Civil Code Section 1542.

2. We understand that we may be wrong about facts that we know or believe to be true at the time of signing this Release. We accept and assume the risk of the facts turning out to be different, and we agree that this Release will not be subject to termination or rescission by virtue of any such difference in facts.

3. We each represent that we have not assigned to any person or entity any Claim covered by this Release. We acknowledge that this Release will be a complete defense to any Claim that it covers, and each of us consents to the entry of a temporary or permanent injunction to prevent or end the assertion of any such Claim.

DATED: \_\_\_\_\_

Printed Name of Entity (if applicable):  
\_\_\_\_\_

\_\_\_\_\_  
Signature

Printed Name of Signer:  
\_\_\_\_\_

\_\_\_\_\_  
Signature

Printed Name of Signer:  
\_\_\_\_\_

To be signed by all persons who have an ownership in the franchise or in the entity that is the franchisee.



**ATTACHMENT 3 - CONFIDENTIALITY/NON-COMPETITION AGREEMENT**  
**OWNERS, MANAGERS, OFFICERS, AND THEIR SPOUSES**

**MUST BE SIGNED BY ALL OWNERS AND SPOUSES OF OWNERS, MANAGERS, OFFICERS. USE A SEPARATE AGREEMENT FOR EACH INDIVIDUAL**

**YOUR NAME:** \_\_\_\_\_ (“Signer”)

**YOUR ASSOCIATION TO FRANCHISEE:** \_\_\_\_\_

**HOME ADDRESS:** \_\_\_\_\_

**FRANCHISEE’S LEGAL NAME:** \_\_\_\_\_

**MATHNASIUM CENTER LOCATION:** \_\_\_\_\_

In consideration of Mathnasium Center Licensing, LLC (“Mathnasium”) granting Signer access to Mathnasium’s Confidential Information based on the Franchise Agreement between Mathnasium and the above named Franchisee (“Franchisee”) and Signer’s relationship with the Franchisee, the parties agree as follows:

1. Signer acknowledges that in his/her position as owner (or a spouse or legal domestic partner of owner), manager, or officer of Franchisee, Signer will have access to, and may make use of, Confidential Information of Mathnasium and the Mathnasium System that Franchisee is licensed to use during the term of Franchisee’s Franchise Agreement. “Confidential Information” means confidential information owned by Mathnasium Center Licensing, LLC and relating to its business and its franchisees’ businesses. “Confidential Information” includes (but is not limited to) the Manuals, System, customer data, and any data or procedures to which Signer would not have had access if Signer were not associated with a Mathnasium franchisee.
2. During the term of this Agreement or after its expiration, termination, or non-renewal, Signer will not directly or indirectly disclose to any unauthorized person, copy or reproduce, or use for any purpose other than the operation of the Mathnasium Center identified above any Confidential Information that Signer has obtained or had access to as a result of the association with Franchisee, except by court order.
3. Signer agrees that he/she shall not, either directly or indirectly through another person or entity:
  - a) Have any interest in or association with a business similar to or competing with the franchise system of Mathnasium while Signer is associated with Mathnasium or Franchisee. Signer further agrees not to teach or assist in teaching students of the Mathnasium center location (the “Center”) named above outside the Center.
  - b) For one (1) year after ending the association with Franchisee or the expiration, termination, or non-renewal of Franchisee’s Franchise Agreement with Mathnasium, own, operate, be employed by or have any other interest in or association with a similar or competing business that is operating within fifty (50) miles of the Center identified above, or within fifty (50) miles of any other franchised or company-owned Mathnasium Center. “Competing Business” means any business that offers math education, or that offers to children any academic instruction, self guided instruction, tutoring, test preparation, or supplemental educational services. Signer agrees that this restriction will not keep Signer from earning a livelihood, and Signer understands that its purpose is to protect the goodwill of Mathnasium and its other franchisees.
  - c) For two (2) years after ending the association with Franchisee or the expiration, termination, or non-renewal of Franchisee’s Franchise Agreement with Mathnasium, have any

contact with any students enrolled at any Mathnasium Center for the purpose of soliciting their enrollment or enrolling them in any similar or competing business.

d) At any time during or after the association with Franchisee and/or Mathnasium, disclose to any unauthorized person, copy or reproduce, or use for any purpose other than the operation of a Mathnasium Center, any confidential information of Mathnasium that may be communicated to Signer.

4. The running of the time periods in Paragraph 3b and 3c above will be suspended during any period in which Signer is not in compliance with those sections. In addition, if a court proceeding or the mediation process results in enforcement of Paragraph 3b or 3c, any portion of the time periods in those sections that has not yet run will run from the date of the court order or mediation settlement permitting enforcement.

5. This Agreement will be governed by the laws of the state where the Center is located as identified above.

6. If a court or arbitrator determines that any of these restrictions are overbroad, the parties agree to be bound by any lesser restriction that the court or arbitrator determines to be enforceable. **Signer acknowledges that violation of any of these restrictions would result in immediate and irreparable injury to Mathnasium. Accordingly, Signer consents to the entry of an injunction prohibiting him/her from violating these restrictions.**

DATED: \_\_\_\_\_

SIGNER:

MATHNASIUM CENTER LICENSING, LLC

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

\_\_\_\_\_  
Printed Name of Signer

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Printed Name of Witness

**ATTACHMENT 4 - CONFIDENTIALITY/NON-COMPETITION AGREEMENT**  
**CENTER DIRECTORS**

**YOUR NAME:** \_\_\_\_\_

**YOUR ASSOCIATION TO FRANCHISEE:** Center Director

**HOME ADDRESS:** \_\_\_\_\_

**FRANCHISEE'S LEGAL NAME:** \_\_\_\_\_

**MATHNASIUM CENTER LOCATION:** \_\_\_\_\_

In consideration of the employment or contractual relationship between me and the Mathnasium Center franchisee identified above (the "Franchisee"), I agree as follows:

As a result of my relationship with the Franchisee, I may receive or otherwise become aware of confidential information of Franchisee's national franchisor, Mathnasium Center Licensing, LLC ("Mathnasium"). I agree that I may not at any time during or after my association with the Franchisee, either directly or indirectly, disclose to any unauthorized person, copy or reproduce, or use for any purpose other than the operation of the Mathnasium center location (the "Center") named above, any confidential information of Mathnasium that may be communicated to me, or that I otherwise receive or become aware of. "Confidential Information" means confidential information owned by Mathnasium and relating to its business and its franchisees' businesses. "Confidential Information" includes (but is not limited to) the Manuals, System, customer data, and any data or procedures to which I would not have had access if I were not associated with a Mathnasium franchisee.

During my association with Franchisee, I will not (i) have any interest in or association with a business similar to or competing with Franchisee, Mathnasium or its franchise system, or (ii) divert any prospective students or existing students of the Center to any Competing Business. "Competing Business" means any business that offers math education, or that offers to children any academic instruction, self guided instruction, tutoring, test preparation, or supplemental educational services.

I agree not to solicit parents of Center students for educational services outside of the Center and not to teach students privately outside the Center whom I met through my work at the Center.

I agree that I shall not, either directly or indirectly through another person or entity:

a) For one (1) year after ending my association with Franchisee or the expiration, termination, or non-renewal of Franchisee's Franchise Agreement with Mathnasium, own, operate, be employed by or have any other interest in or association with a similar or competing business (which does not include teaching at a not-for-profit public school) that is operating within fifty (50) miles of the Center identified above, or within fifty (50) miles of any other franchised or company-owned Mathnasium Center. I agree that this restriction will not keep me from earning a livelihood, and I understand that its purpose is to protect the goodwill of Franchisee and Mathnasium and its franchisees.

b) For two (2) years after ending my association with Franchisee or the expiration, termination, or non-renewal of Franchisee's Franchise Agreement with Mathnasium, have any contact with any students enrolled at any Mathnasium Center for the purpose of soliciting their enrollment or enrolling them in any similar or competing business.

I understand and agree that the running of the time periods in paragraphs a and b above will be suspended during any period in which I am not in compliance with those sections. In addition, if a court proceeding or the mediation process results in enforcement of paragraph a or b above, any portion of the time periods in those sections that has not yet run will run from the date of the court order or mediation settlement permitting enforcement.

This Agreement will be governed by the laws of the state where the Center is located as identified above.

If a court or arbitrator determines that any of these restrictions are overbroad, I agree to be bound by any lesser restriction that the court or arbitrator determines to be enforceable. **I acknowledge that violation of any of these restrictions would result in immediate and irreparable injury to Mathnasium. Accordingly, I consent to the entry of an injunction prohibiting me from violating these restrictions.**

I understand that Mathnasium Center Licensing, LLC is a third party beneficiary of this Agreement and that the restrictions in this Agreement are intended for both the benefit of Franchisee and of the franchisor, Mathnasium Center Licensing, LLC and that Mathnasium Center Licensing, LLC is expressly authorized to independently enforce the restrictions set forth in this Agreement.

**CENTER DIRECTOR:**

\_\_\_\_\_  
Signature

DATED: \_\_\_\_\_

\_\_\_\_\_  
Printed Name of Signer

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Printed Name of Witness

**FRANCHISEE:**

\_\_\_\_\_  
Signature

DATED: \_\_\_\_\_

\_\_\_\_\_  
Printed Name of Signer

Individually, if Franchisee is an individual, or as an authorized officer if Franchisee is an entity

**ATTACHMENT 5 – CONFIDENTIALITY/NON-COMPETITION AGREEMENT**  
**EMPLOYEES**

**MUST BE SIGNED BY ALL INSTRUCTORS, ASSISTANT INSTRUCTORS, AND OTHER EMPLOYEES WHO WILL BE GIVEN ACCESS TO THE MATHNASIUM MANUALS OR TRAINING. USE A SEPARATE AGREEMENT FOR EACH INDIVIDUAL.**

**YOUR NAME:** \_\_\_\_\_

**YOUR ASSOCIATION TO FRANCHISEE:** Employee \_\_\_\_\_

**HOME ADDRESS:** \_\_\_\_\_

**FRANCHISEE’S LEGAL NAME:** \_\_\_\_\_

**MATHNASIUM CENTER LOCATION:** \_\_\_\_\_

In consideration of the employment or contractual relationship between me and the Mathnasium Center franchisee identified above (the “Franchisee”), I agree as follows:

As a result of my relationship with the Franchisee, I may receive or otherwise become aware of confidential information of Franchisee’s national franchisor, Mathnasium Center Licensing, LLC (“Mathnasium”). I agree that I may not at any time during or after my association with the Franchisee, either directly or indirectly, disclose to any unauthorized person, copy or reproduce, or use for any purpose other than the operation of the Mathnasium center location (the “Center”) named above, any confidential information of Mathnasium that may be communicated to me, or that I otherwise receive or become aware of. “Confidential Information” means confidential information owned by Mathnasium and relating to its business and its franchisees’ businesses. “Confidential Information” includes (but is not limited to) the Manuals, System, customer data, and any data or procedures to which I would not have had access if I were not associated with a Mathnasium franchisee.

During my association with Franchisee, I will not (i) have any interest in or association with a business similar to or competing with Franchisee, Mathnasium or its franchise system, or (ii) divert any prospective students or existing students of the Center to any Competing Business. “Competing Business” means any business that offers math education, or that offers to children any academic instruction, self guided instruction, tutoring, test preparation, or supplemental educational services.

I agree not to solicit parents of Center students for educational services outside of the Center and not to teach students privately outside the Center whom I met through my work at the Center.

This Agreement will be governed by the laws of the state where the Center is located as identified above.

If a court or arbitrator determines that any of these restrictions are overbroad, I agree to be bound by any lesser restriction that the court or arbitrator determines to be enforceable. **I acknowledge that violation of any of these restrictions would result in immediate and irreparable injury to Mathnasium. Accordingly, I consent to the entry of an injunction prohibiting me from violating these restrictions.**

I understand that Mathnasium Center Licensing, LLC is a third party beneficiary of this Agreement and that the restrictions in this Agreement are intended for both the benefit of Franchisee and of the franchisor, Mathnasium Center Licensing, LLC and that Mathnasium Center Licensing, LLC is expressly authorized to independently enforce the restrictions set forth in this Agreement.

**EMPLOYEE:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name of Signer

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Printed Name of Witness

DATED: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name of Signer

Individually, if Franchisee is an individual, or as an authorized officer if Franchisee is an entity

DATED: \_\_\_\_\_

**ATTACHMENT 6 – SCHEDULE OF OWNERS, OFFICERS AND MANAGERS**

List below the names, titles, residential addresses and respective percentage ownership interests of each owner of the Franchise, member of the LLC or shareholder of the Corporation (attach additional sheets if necessary):

Ownership of this Franchise:

1. _____ _____ _____ %	2. _____ _____ _____ %
3. _____ _____ _____ %	4. _____ _____ _____ %
5. _____ _____ _____ %	

Owners or Members of LLC/Shareholders of Corporation (if an entity is the contracting party for this Franchise Agreement)(may be different from above):

1. _____ _____ _____ %	2. _____ _____ _____ %
3. _____ _____ _____ %	4. _____ _____ _____ %
5. _____ _____ _____ %	

Officers, Managers, Center Director:

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Title

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Title

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Title

4. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Title



**ATTACHMENT 7 – GUARANTY AND ASSUMPTION OF OBLIGATIONS**

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by ***[insert names of each guarantor]***  
\_\_\_\_\_.

In consideration of, and as an inducement to, the execution of that certain Franchise Agreement to which this Guaranty is attached (the "Agreement") by Mathnasium Center Licensing, LLC ("Mathnasium"), each of the undersigned hereby personally and unconditionally, jointly and severally: (a) guarantees to Mathnasium, and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that ***[insert name of Franchisee entity]*** ("Franchisee") will punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities.

Each of the undersigned waives: (1) acceptance and notice of acceptance by Mathnasium of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations hereby guaranteed; (4) any right he or she may have to require that an action be brought against Franchisee or any other person as a condition of liability; and (5) any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that: (1) his or her direct and immediate liability under this Guaranty will be joint and several with all other current and future guarantors of Franchisee's obligations; (2) he or she will render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (3) such liability will not be contingent or conditioned upon pursuit by Mathnasium of any remedies against Franchisee or any other person; (4) such liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Mathnasium may from time to time grant to Franchisee or to any other person, including without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which will in any way modify or amend this Guaranty, which will be continuing and irrevocable during the term of the Agreement; and (5) this Guarantee shall apply to any amounts recovered from Mathnasium as a preference, fraudulent transfer or otherwise in a bankruptcy or similar proceeding.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his or her signature on the same day and year as the Agreement was executed.

GUARANTOR(S)	% OF INTEREST IN FRANCHISEE ENTITY

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(Percentage must equal 100)

**ATTACHMENT 8 – CONDITIONAL ASSIGNMENT OF TELEPHONE AND DIRECTORY LISTINGS**

In consideration of Mathnasium Center Licensing, LLC (“Assignee”) concurrently granting a Mathnasium franchise (“Franchised Business”) to \_\_\_\_\_ (“Assignor”), and other valuable consideration, Assignor assigns to Assignee all telephone numbers, directory listings, fax numbers, e-mail addresses, Internet website addresses and domain names, and other listings, whether in electronic or other media, used or to be used by Assignor in the operation of the Franchised Business. This assignment will take Effective Date. Assignee assumes the performance of all of the terms, covenants, and conditions of the telephone or directory company with respect to these listings with the same force and effect as if they had been originally issued to Assignee. This Assignment is valid on the date signed and is irrevocable. Assignee may fill in, add or change the effective date and the listings at any time. The telephone or directory company is authorized to rely on this Assignment. The parties will hold harmless and indemnify the telephone or directory company from any claims based on reliance on this Assignment.

**ASSIGNOR:**

\_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**ASSIGNEE:**

MATHNASIUM CENTER LICENSING, LLC

By: \_\_\_\_\_

Printed Name:

Title:

Effective Date: \_\_\_\_\_  
(to be filled in by Assignee on the date of termination, expiration or non-renewal of the Franchise Agreement as determined in the sole discretion of Assignee)

To be signed by all persons who have an ownership in the franchise or in the entity that is the franchisee.

**ATTACHMENT 9 – ELECTRONIC FUNDS TRANSFER AUTHORIZATION**



5120 West Goldleaf Circle, Suite 300, Los Angeles, CA 90056  
Tel: (323) 421-8000 Fax: (323) 417-1555

**ELECTRONIC FUNDS TRANSFER**  
**AUTHORIZATION FORM**

With our secure Web servers, network, and firewalls, your information is safe. You have less to worry about when paying by Electronic Funds Transfer (EFT) than you do when paying by check. When a check is issued for payment, many different people handle it before it is returned to your bank, and security problems can occur because your information is printed on it. With EFT, your information is encrypted and sent to the Federal Reserve through secure wires of the ACH Network. There is an immediate record of who initiated the payment and the account to be debited. If a fraudulent debit is made to your account, contact your bank to have the transaction reversed. NACHA regulations that govern ACH transactions are designed to protect check writers.

I, \_\_\_\_\_, authorize MATHNASIUM to initiate variable data entries to my account identified below in payment for **monthly royalties, monthly fees, late fees and other authorized amounts**, when applicable. I understand that MATHNASIUM will debit my account once I have submitted my Royalty Report. If my Royalty Report has not been submitted by the 20<sup>th</sup> of the month, I understand that Mathnasium will debit my account on or after the 22<sup>nd</sup> of the month by up to 110% of the Percentage Royalty fees, plus the Base Royalty and Monthly Fees paid in the prior month, or a late fee of \$300 every two weeks until payment is made. I authorize my financial institution identified below to debit my account each month.

I understand that I am in full control of my payment, that I have a right to hold or stop this electronic payment by giving MATHNASIUM written timely notice to [reports@mathnasium.com](mailto:reports@mathnasium.com), and that I may revoke this authorization by notifying them by the 25<sup>th</sup> of the current month to be effected for the following month. In addition, I will immediately notify MATHNASIUM at reports@mathnasium.com of any changes in the information provided on this authorization form. All returned items are subject to an automatic debit from my account, including a maximum returned check fee as permitted by law.

**PLEASE COMPLETE SECTIONS 1 & 2, SIGN SECTION 2, AND ATTACH A COPY OF A VOIDED CHECK BELOW. THEN FAX BACK TO**

**(323) 417-1555. THIS FORM WILL OVERRIDE ANY CREDIT CARD AUTHORIZATION FORM OR PREVIOUSLY SUBMITTED EFT FORM ON FILE IF SUBMITTED. ANY INCOMPLETE FORMS WILL BE SENT BACK TO BE REDONE.**

<b><u>SECTION 1</u></b>		<b><u>FINANCIAL INSTITUTION INFORMATION</u></b>	
Bank Name		Phone #	
Type of Account-Checking/Savings/Money Market (CIRCLE)			
ABA Routing # (first 9 digits lower left corner of check)			
Account #			
<b><u>SECTION 2</u></b>		<b><u>AUTHORIZATION</u></b>	
Signature		Date	/ /
Print Name		Phone #	
<b>A VOIDED CHECK FROM THIS ACCOUNT MUST BE ATTACHED.</b>			

**Attach Voided Check Here**

NOTE: Voided Check must be **PREPRINTED** with the following information:

- Account Holder's Name or Business Name
- Address
- Phone Number (optional)
- Bank Name and Phone Number
- ABA Routing Number
- Bank Account Number



**EXHIBIT D  
 NAMES AND ADDRESSES OF STATE REGULATORY AUTHORITIES  
 AND AGENTS FOR SERVICE OF PROCESS IN STATES**

<b>STATE</b>	<b>AGENTS FOR SERVICE OF PROCESS</b>	<b>REGULATORY AUTHORITIES</b>
CALIFORNIA	<p>California Commissioner of Corporations:</p> <p>Los Angeles:            320 West 4th Street, Suite 750            Los Angeles, CA 90013-2344            (213) 576-7505 or (866) 275-2677</p> <p>Sacramento:            1515 K Street, Suite 200            Sacramento, CA 95814-4052            (916) 445-7205or (866) 275-2677</p> <p>San Diego:            1350 Front Street, Suite 2034            San Diego, CA 92101-3697            (619) 525-4233or (866) 275-2677</p> <p>San Francisco:            One Sansome Street, #600            San Francisco, CA 94104            (415) 972 8559or (866) 275-2677</p>	<p>Corporations Commissioner            Department of Corporations            320 West 4th Street, Suite 750            Los Angeles, CA 90013-2344            (213) 576-7505or (866) 275-2677</p>
CONNECTICUT	<p>Connecticut Department of Banking            260 Constitution Plaza            Hartford, CT 06103-1800            (860) 240-8230</p>	<p>Banking Commissioner            260 Constitution Plaza            Hartford, CT 06103-1800            (860) 240-8230</p>
FLORIDA	<p>[Not Applicable]</p>	<p>Senior Consumer Complaint Analyst            Department of Agriculture and Consumer Services            Division of Consumer Services            2005 Apalachee Pkwy.            Tallahassee, Florida 32399-6500            (850)-922-2966 or (850) 488-2221</p>
HAWAII	<p>Commissioner of Securities            Hawaii Dept. of Commerce &amp; Consumer Affairs            335 Merchant Street, Room 204            Honolulu, HI 96813            (808) 586-2722</p>	<p>Business Registration Division            Hawaii Dept. of Commerce &amp; Consumer Affairs            335 Merchant Street, Room 204            Honolulu, HI 96813            (808) 586-2722</p>

STATE	AGENTS FOR SERVICE OF PROCESS	REGULATORY AUTHORITIES
ILLINOIS	Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465
INDIANA	Secretary of State Administrative Offices of the Secretary of State Room E-111 302 West Washington Street Indianapolis, IN 46204 (317) 232-6681	Securities Commissioner Securities Division Room E-111 302 West Washington Street Indianapolis, IN 46204 (317) 232-6681
IOWA	[Not Applicable]	Director of Regulated Industries Unit Iowa Securities Bureau 340 East Maple Des Moines, Iowa 50319-0066 (515) 281-4441
MARYLAND	Maryland Securities Commissioner Securities Division 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Office of Attorney General Securities Division 200 St. Paul Place Baltimore, MD 21202 (410) 576-6360
MICHIGAN	Michigan Department of Commerce, Corporations and Securities Bureau 525 W. Ottawa G. Mennen Law Building, 1 <sup>st</sup> Floor Lansing, MI 48913 (517) 373-7117	Franchise Administrator Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 525 W. Ottawa G. Mennen Law Building, 1 <sup>st</sup> Floor Lansing, MI 48913 (517) 373-7117
MINNESOTA	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328
NEBRASKA	[Not Applicable]	Staff Attorney Department of Banking and Finance Commerce Court 1230 "O" Street, Suite 400 PO Box 95006 Lincoln, NE 68509-5006 (402) 471-3445

STATE	AGENTS FOR SERVICE OF PROCESS	REGULATORY AUTHORITIES
NEW YORK	Secretary of State of the State of New York 41 State Street Albany, NY 11231	Assistant Attorney General Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23rd Floor New York, NY 10271 (212) 416-8211
NORTH DAKOTA	North Dakota Securities Department Fifth Floor 600 East Boulevard Bismarck, ND 58505	Franchise Examiner North Dakota Securities Department 600 East Boulevard, 5th Floor Bismarck, ND 58505 (701) 328-4712
OREGON	Director of Oregon Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, OR 97310 (503) 378-4387	Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building Salem, OR 97310 (503) 378-4387
RHODE ISLAND	Director of Rhode Island Department of Business Regulation Division of Securities 1511 Pontiac Avenue John O. Pastore Complex – Bldg. 69-1 Cranston, RI 02920 (401) 462-9527	Associate Director and Superintendent of Securities Division of Securities 1511 Pontiac Avenue John O. Pastore Complex–Bldg. 69-1 Cranston, RI 02920 (401) 462-9527
SOUTH DAKOTA	Director of South Dakota Division of Securities 445 East Capitol Pierre, SD 57501 (605) 773-4823	Director Division of Securities 445 East Capitol Pierre, SD 57501 (605) 773-4823
TEXAS	[Not Applicable]	Secretary of State Statutory Document Section P.O. Box 12887 Austin, TX 78711 (512) 475-1769
UTAH	[Not Applicable]	Division of Consumer Protection Utah Department of Commerce 160 East Three Hundred South P.O. Box 45804 Salt Lake City, Utah 84145-0804 (801) 530-6601



STATE	AGENTS FOR SERVICE OF PROCESS	REGULATORY AUTHORITIES
VIRGINIA	Clerk of the State Corporation Commission 1300 E. Main Street, 1st Floor Richmond, VA 23219 (804) 371-9733	State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 (804) 371-9051
WASHINGTON	Director of Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760	Administrator Dept. of Financial Institutions Securities Division 150 Israel Rd. SW Olympia, WA 98501 (360) 902-8760
WISCONSIN	Wisconsin Commissioner of Securities P.O. Box 1768 345 W. Washington Avenue, 4 <sup>th</sup> Floor Madison, WI 53703 (608) 261-9555	Franchise Administrator Securities and Franchise Registration Wisconsin Securities Commission 345 W. Washington Avenue, 4 <sup>th</sup> Floor Madison, WI 53703 (608) 261-9555

**EXHIBIT E**  
**TO DISCLOSURE DOCUMENT**  
**OF**  
**MATHNASIUM CENTER LICENSING, LLC**  
**STATE ADDENDA TO FRANCHISE DISCLOSURE DOCUMENT**  
**AND FRANCHISE AGREEMENT**

The following modifications are to Mathnasium Center Licensing, LLC's Franchise disclosure document and may supersede, to the extent then required by valid applicable state law, certain portions of the Franchise Agreement dated \_\_\_\_\_, 20\_\_.

These states have statutes which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise. The following is applicable to you only if you are covered by the franchise law of the referenced state: ARKANSAS (Stat. Section 70-807); CALIFORNIA (Bus. & Prof. Code Sections 20000-20043), CONNECTICUT (Gen. Stat. Section 42-133e et seq.), DELAWARE (Code tit. 6, Ch. 25, Sections 2551-2556), HAWAII (Rev.Stat. Section 482E-1), ILLINOIS (815 ILCS 705/1-44), INDIANA (Stat. Section 23-2-2.7 and 23-2-2.5), IOWA (Code Sections 523H.1-523H.17), MARYLAND (Maryland Franchise Registration and Disclosure Law, MD. CODE ANN., BUS. REG. Sections 14-201 to 14-233 (2004 Repl. Vol.)), MICHIGAN (Stat. Section 19.854 (27)), MINNESOTA (stat. Section 80C.14), MISSISSIPPI (Code Section 75-24-51), MISSOURI (stat. Section 407.400), NEBRASKA (Rev. Stat. Section 87-401), NEW JERSEY (Stat. Section 56.10-1), NORTH DAKOTA (N.D.C.C. Franchise Investment Law Section 51-19), RHODE ISLAND [Code 19-28.1-14], SOUTH DAKOTA (Codified Laws Section 37-5A-51), VIRGINIA (§§ 13.1-557 through 13.1.574 of the Code of Virginia), WASHINGTON (Code Section 19.100.180), WISCONSIN (Stat. Section 135.03).

These and other states may have court decisions that may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise.

The following is applicable to you only if you are covered by the franchise law of the referenced state:

**CALIFORNIA**

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

Neither we, nor any person or franchise broker disclosed in Item 2 of the disclosure document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling these persons from membership in this association or exchange.

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

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

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

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in the form and containing the information as the Commissioner may by rule or order require, before we ask you to consider a proposed material modification of your franchise agreement.

The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The Franchise Agreement requires you to execute a general release of claims upon renewal or transfer of the Franchise Agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

The following is added to the disclosure in Item 19 of the FDD: The financial information provided in this Item 19 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. You should conduct an independent investigation of the costs and expenses you will incur in operating your center. Franchisees or former franchisees, listed in the disclosure document, may be one source of this information.

OUR WEB SITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEB SITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT [www.corp.ca.gov](http://www.corp.ca.gov).

## HAWAII

The following is added to the Cover Page:

**THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED IN THIS DISCLOSURE DOCUMENT IS TRUE, COMPLETE AND NOT MISLEADING.**

**THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO YOU, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS BEFORE THE EXECUTION BY YOU, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS BEFORE THE PAYMENT OF ANY CONSIDERATION BY YOU, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.**

**THIS DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH US AND YOU.**

## ILLINOIS

The following is added to the disclosure in Item 11 of the FDD: Currently franchisees in the Illinois counties of Cook, DuPage, Kane, Kendall, Lake, McHenry and Will and the Indiana county of Lake must participate in an advertising cooperative covering those counties ("Chicagoland Co-Op"). Currently all members are contributing \$150 per month but this amount is subject to change. However, you will not be required to contribute more than \$18,000 in any calendar year. There are currently no franchisor-owned outlets in the area covered by the cooperative, but if there were, those outlets would contribute in the same manner as other members. Elected board members of the cooperative are responsible for managing the business affairs of the cooperative. The cooperative operates from bylaws that are available to franchisees to review. Pursuant to the bylaws, financial statements will be prepared annually and will be distributed to the members.

The following is added to the disclosure in Item 22 of the FDD: If your franchise is located in the area covered by the Chicagoland Co-Op, you must sign the Chicagoland Mathnasium Advertising Cooperative Subscription Agreement below when you sign the Franchise Agreement.

Any provision in a franchise agreement that designates jurisdiction or venue in a forum outside the State of Illinois is not enforceable and is amended to the extent required by Illinois law.

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Act or any law of Illinois is void.

Section 19 of the Illinois Franchise Disclosure Act provides that it shall be a violation of the Act for us to terminate your franchise before expiration of its term except for good cause, including a reasonable opportunity to cure certain defaults.

## INDIANA

Franchisees in Lake County, Indiana will be required to participate in the advertising cooperative and sign the Subscription Agreement described above under ILLINOIS.

## CHICAGOLAND MATHNASIUM ADVERTISING COOPERATIVE

### SUBSCRIPTION AGREEMENT

This Agreement, made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by the undersigned franchisee of Mathnasium Learning Centers, LLC or its affiliates (“Franchisee”) and Chicagoland Mathnasium Advertising Cooperative (“Co-op”), is made with reference to the following facts:

- (a) The undersigned Franchisee is a Franchisee of Mathnasium Learning Centers, LLC or its affiliates (the “Franchisor”).
- (b) The undersigned Franchisee owns and operates at least one Mathnasium Learning Center in the Area of Dominant Influence (“ADI”) in which the Co-op operates, more fully described as follows: the Illinois counties of Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will and the Indiana county of Lake.
- (c) The Co-op was formed in order to allow franchisees throughout the ADI to contribute to a joint advertising and marketing effort to more fully advertise, promote and build brand awareness for each franchisee's Mathnasium Learning Center business in the ADI. The undersigned Franchisee agrees to join and contribute to the Co-op for the mutual benefit of all franchisees who own and operate Mathnasium Learning Centers in the ADI, and Franchisor, if Franchisor or a subsidiary or affiliate of the Franchisor shall own and operate one or more Mathnasium Learning Centers in the ADI. NOW, THEREFORE, in consideration of the foregoing, the parties hereto hereby agree as follows:

1. The undersigned Franchisee agrees to become a member of the Co-op, and the Co-op accepts the membership of the undersigned Franchisee.

2. The undersigned Franchisee acknowledges they have received a copy of the current bylaws of the Co-op and accepts the provisions contained therein.

3. Any controversy or claim arising out of or relating to membership in the Co-op, or to this Agreement, or any breach thereof, including, without limitation, any claim that said agreement, or any part thereof, is invalid, illegal or otherwise voidable or void, or any dispute arising out of or relating to any subscriber's membership in the Co-op shall be submitted in writing to informal mediation before the Franchisor. The Franchisor may choose to mediate, or not to mediate the dispute. Decisions of the franchisor, either electing not to mediate the dispute, or the results of its mediation, shall be delivered in writing and via electronic mail. If, on the thirtieth day after electronic delivery of the decision of the Franchisor, no member or the Co-op shall have, in writing, rejected the Franchisor's decision, the Franchisor's decision shall be binding upon the parties. Otherwise, the dispute shall be submitted to arbitration before and in accordance with the rules of the American Arbitration Association, and judgment upon the award may be entered in any court of competent jurisdiction. Such arbitration shall take place in Chicago, Illinois, or if no office of the American Arbitration Association shall be located in said city then in the city nearest Chicago, Illinois which has an office of the American Arbitration Association. This arbitration proceeding shall be deemed to be self executing, and in the event that either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party notwithstanding said failure to appear. The prevailing party in arbitration shall receive his costs, including arbitration fees, reasonable attorneys' fees, collections fees, and other reasonable costs incurred in the arbitration process. This section shall be given effect as to all claims, controversies or disputes arising out of or relating to membership in the Co-op, or to this Agreement, even if membership has terminated and this Agreement is no longer in force.

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4. The board of directors of the Co-op may enforce by appropriate legal action, through the Arbitration provisions contained in paragraph 3 hereof, the payment of all due and unpaid dues, assessments, and fees, including late fees, attorneys' fees, collections fees, and arbitration fees and costs, for which a member or former member has become obligated by virtue of his execution of this Agreement.

5. This Agreement may be executed by facsimile and in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this Agreement on the day and year set forth above.

Entity: \_\_\_\_\_  
**Franchisee**

Territory: \_\_\_\_\_  
Territory Name

By: \_\_\_\_\_  
Name of Authorized Signatory

Title: \_\_\_\_\_  
Title of Authorized Signatory

Signature: \_\_\_\_\_

**For the Co-op:**

By: \_\_\_\_\_  
Name of Authorized Signatory

Title: \_\_\_\_\_  
Title of Authorized Signatory

Signature: \_\_\_\_\_

## MARYLAND

Item 17 of the disclosure document and Sections of the Franchise Agreement requiring that you sign a general release as a condition of renewal, sale and assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law, to the extent required by this law.

Item 17 of the disclosure document and any provision in the Franchise Agreement that provides for termination upon your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

The Franchise Agreement is revised to state that any claims under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

Item 17 of the disclosure document and any provisions of the Franchise Agreement requiring you to file any lawsuit in a court in the State of California may not be enforceable under the Maryland Franchise Registration and Disclosure Law. Item 17 of the disclosure document and Section 21 of the Franchise Agreement are amended to state that you may sue in Maryland for claims under the Maryland Franchise Registration and Disclosure Law, to the extent required by Maryland law.

Nothing in the Franchise Agreement or related agreements is intended to disclaim any representations that we may have made in the latest franchise disclosure document that we delivered to you prior to signing the agreement.

## MINNESOTA

We will comply with Minnesota Statute 80C.14 subdivisions 3, 4, and 5, which require except in certain specific cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement.

Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J, may prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

In accordance with Minnesota Rule 2860.4400J, to the extent required by law, the disclosure document and the Franchise Agreement are modified so that we can not require you to waive your rights to a jury trial or to waive rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or to consent to liquidated damages, termination penalties, or judgment notes; provided that this part shall not bar an exclusive arbitration clause.

Minnesota Rule 2860.4400D prohibits us from requiring you to assent to a general release. The disclosure document and Franchise Agreement are modified accordingly, to the extent required by Minnesota law.

Pursuant to Minn. Stat. Sec. 80C.12, Subd. 1(g), to the extent required by law, the Franchise Agreement and Item 13 of the disclosure document are amended to state that we will protect your right to use the primary trademark, service mark, trade name, logotype or other commercial symbol or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of our primary trade name.

## NEW YORK

The cover page of the disclosure document will be supplemented with the following, inserted at the bottom of the cover page:

**WE MAY, IF WE CHOOSE, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, WE CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON YOU TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE IN THIS PROSPECTUS.**

Add to Item 3 of the franchise disclosure document as follows, as the last paragraph:

A. Except as described above, neither we, our predecessors, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark has an administrative, criminal or civil action pending against that person alleging: a felony; a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations; or any pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.

B. Except as described above, neither we, our predecessors, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

C. Except as described above, neither we, our predecessor, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling the person from membership in the association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including actions affecting a license as a real estate broker or sales agent.

Add the following language to Item 4 of the franchise disclosure document, the last paragraph:

Except as described above, neither we, our affiliates, predecessors, officers, nor general partner during the ten-year period immediately before the date of the disclosure document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S.



Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner held this position in the company or partnership.

Add at the end of the first paragraph of Item 5 of the disclosure document:

The purpose of the initial fee is to pay for our training, sales, legal compliance, salary, and general administrative expenses, and profit.

The first paragraph of Item 17 of the disclosure document is modified to read as follows:

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS DISCLOSURE DOCUMENT.

Add in Item 17d of the disclosure document:

You may terminate the agreement on any grounds available by law.

Add at the end of the choice of law clause in the Franchise Agreement and in Item 17w of the disclosure document:

The foregoing choice of law should not be considered a waiver of any right conferred upon either you or us by the General Business Law of the State of New York, Article 33.

## NORTH DAKOTA

Sections of the disclosure document and Franchise Agreement requiring you to consent to the jurisdiction of courts outside of North Dakota or providing for resolution of disputes to be outside North Dakota may not be enforceable under North Dakota law, and are amended accordingly to the extent required by law.

Sections of the Franchise Agreement requiring you to arbitrate or mediate disputes may require you to consent to a waiver of trial by jury. A waiver of trial by jury may not be enforceable under North Dakota law and any such provisions are amended accordingly to the extent required by law.

Sections of the disclosure document and Franchise Agreement relating to choice of law, may not be enforceable under North Dakota law, and are amended accordingly to the extent required by law.

Sections of the disclosure document and Franchise Agreement requiring you to sign a general release upon renewal of the Franchise Agreement may not be enforceable North Dakota law, and are amended accordingly to the extent required by law.

Sections of the disclosure document and Franchise Agreement requiring you to consent to termination or liquidated damages may not be enforceable under North Dakota law. The

disclosure document and Franchise Agreement are revised to state that the prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

Sections of the Franchise Agreement requiring you to consent to a waiver of exemplary and punitive damages may not be enforceable under North Dakota law, and any such provisions are amended accordingly to the extent required by law.

Covenants restricting competition contrary to Section 9-08-06 of the North Dakota Century Code, without further disclosing that such covenants may be subject to the statute, have been determined to be unfair, unjust, or inequitable in North Dakota. Sections of the disclosure document and Franchise Agreement containing covenants restricting competition to which you must agree may not be enforceable under North Dakota law, and are amended accordingly to the extent required by law.

## RHODE ISLAND

§ 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act." The disclosure document and Franchise Agreement are amended accordingly to the extent required by law.

## WASHINGTON

A release or waiver of rights executed by you shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the Franchise Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable and are amended to the extent required by law.

Transfer fees are collectible to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer, to the extent required by Washington law.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

## WISCONSIN

With respect to franchise agreements governed by Wisconsin law, the following shall supersede any inconsistent provision:

The Wisconsin Fair Dealership Law applies to most franchise agreements in the state and prohibits termination, cancellation, nonrenewal or substantial change in the competitive circumstances of a dealership agreement without good cause. The Law further provides that 90 days' prior written notice of the proposed termination, etc. must be given to the dealer. The dealer has 60 days to cure the deficiency and if the deficiency is so cured the notice is void. The disclosure document and Franchise Agreement are hereby modified to state that the Wisconsin Fair Dealership Law, to the extent applicable, supersedes any provisions in the Franchise

Agreement that are inconsistent with that Law. Wis. Stats. Ch. 135, The Wisconsin Fair Dealership Law. SEC 32.06(3), Wis. Adm. Code.

**ACKNOWLEDGMENT:**

It is agreed that any applicable part of the foregoing state law addendum supersedes any inconsistent portion of the Franchise Agreement dated the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, and of the Franchise disclosure document, but only to the extent they are then valid requirements of an applicable and enforceable state law, and for only so long as such state law remains in effect.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

FRANCHISOR

MATHNASIUM CENTER LICENSING, LLC

By: \_\_\_\_\_  
Printed Name: Peter Markovitz  
Title: CEO

FRANCHISEE

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_



**PROMISSORY NOTE**

[For additional centers for \$26, 500 initial franchise fee]

Los Angeles, California

\$15,000.00

FOR GOOD AND VALUABLE CONSIDERATION, the undersigned ("Borrower") promises to pay to the order of Mathnasium Center Licensing LLC ("Lender"), at 5120 West Goldleaf Circle, Suite 300, Los Angeles, California 90056, or other place that Lender may designate, the principal sum of Fifteen Thousand Dollars (\$15,000.00).

Principal shall be paid in lawful money of the United States of America in twenty-four (24) monthly payments of Six Hundred Twenty-Five Dollars (\$625.00), with the first payment commencing on \_\_\_\_\_ **{the 1<sup>st</sup> day of the next calendar month following the date of this Note}**, and continuing on the 1st day of each successive month until [\_\_\_\_\_] ("Final Payment Date"), at which date any unpaid balance of principal hereof shall be due and payable. **No interest will accrue or be payable through the Final Payment Date;** however, if any amount remains unpaid after the Final Payment Date or if this Note becomes immediately due and payable at the option of Lender upon Borrower's default, interest shall accrue and be payable on the unpaid balance at the rate of 10% *per annum*, and each subsequent payment shall be applied first against any interest then accrued and the remainder against principal.

The note can be prepaid in full at any time without penalty.

At the option of the Lender, the whole of the principal sum then remaining unpaid shall become immediately due and payable, without demand or notice (1) in the event Borrower fails to open the Mathnasium Center (the Center for which this note is in partial payment of the initial franchise fee) within three (3) months from the date of this Note, (2) upon default in payment of any installment when due, or (3) upon termination of the Franchise Agreement between Borrower and Lender. The remedies of Lender are not exclusive, and election by Lender of any remedy hereunder shall not be deemed a waiver of any other remedies that Lender may have. If any payment herein provided for shall not be made at maturity, Borrower further promises to pay all costs of collection and reasonable attorney's fees. Borrower and all endorsers of this Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and specifically consent to and waive notice of any renewals, extensions, amendments or modifications of this Note whether made to or in favor of Borrower or any other person or persons. Borrower or any endorser expressly waives the claiming of any statute of limitations as a defense to any demand against each and both of them. This Note shall be construed and enforced in accordance with the laws of the State of \_\_\_\_\_ **{state were Borrower's center located}**.

Any notice to Borrower shall be given by mailing such notice via overnight commercial delivery service or U.S. certified or registered mail to Borrower at \_\_\_\_\_ **{street address}** or to such other address as Borrower may designate by notice to Lender. Any notice to Lender shall be to the address stated in this first paragraph of this Note, or to such other address as may have been designated by notice to Borrower.

If more than one person signs this Note, the obligations and authorizations hereunder shall be joint and several.

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Entity: \_\_\_\_\_  
(if applicable)

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

If the Borrower is not an entity, this promissory note must be signed by all owners of the entity and their spouse or legal domestic partner. If Borrower is an entity, this promissory note must be signed by an authorized signatory and all owners of the entity and their spouse or legal domestic partner must sign the Guaranty attached to this Promissory Note.





**PROMISSORY NOTE**

[For additional centers that qualify for \$19,500 initial franchise fee]

Los Angeles, California

\$15,000.00

FOR GOOD AND VALUABLE CONSIDERATION, the undersigned ("Borrower") promises to pay to the order of Mathnasium Center Licensing LLC ("Lender"), at 5120 West Goldleaf Circle, Suite 300, Los Angeles, California 90056, or other place that Lender may designate, the principal sum of Fifteen Thousand Dollars (\$15,000.00).

Principal shall be paid in lawful money of the United States of America in thirty (30) monthly payments of Five Hundred Dollars (\$500.00), with the first payment commencing on \_\_\_\_\_ **{the 1<sup>st</sup> day of the next calendar month following the date of this Note}**, and continuing on the 1st day of each successive month until [\_\_\_\_\_] ("Final Payment Date"), at which date any unpaid balance of principal hereof shall be due and payable. **No interest will accrue or be payable through the Final Payment Date;** however, if any amount remains unpaid after the Final Payment Date or if this Note becomes immediately due and payable at the option of Lender upon Borrower's default, interest shall accrue and be payable on the unpaid balance at the rate of 10% *per annum*, and each subsequent payment shall be applied first against any interest then accrued and the remainder against principal.

The note can be prepaid in full at any time without penalty.

At the option of the Lender, the whole of the principal sum then remaining unpaid shall become immediately due and payable, without demand or notice (1) in the event Borrower fails to open the Mathnasium Center (the Center for which this note is in partial payment of the initial option fee) within twelve (12) months from the date of this Note, (2) upon default in payment of any installment when due, or (3) upon termination of the Franchise Agreement between Borrower and Lender. The remedies of Lender are not exclusive, and election by Lender of any remedy hereunder shall not be deemed a waiver of any other remedies that Lender may have. If any payment herein provided for shall not be made at maturity, Borrower further promises to pay all costs of collection and reasonable attorney's fees. Borrower and all endorsers of this Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and specifically consent to and waive notice of any renewals, extensions, amendments or modifications of this Note whether made to or in favor of Borrower or any other person or persons. Borrower or any endorser expressly waives the claiming of any statute of limitations as a defense to any demand against each and both of them. This Note shall be construed and enforced in accordance with the laws of the State of \_\_\_\_\_ **{state where Borrower's center located}**.

Any notice to Borrower shall be given by mailing such notice via overnight commercial delivery service or U.S. certified or registered mail to Borrower at \_\_\_\_\_ **{street address}** or to such other address as Borrower may designate by notice to Lender. Any notice to Lender shall be to the address stated in this first paragraph of this Note, or to such other address as may have been designated by notice to Borrower.

If more than one person signs this Note, the obligations and authorizations hereunder shall be joint and several.

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Entity: \_\_\_\_\_  
(if applicable)

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

If the Borrower is not an entity, this promissory note must be signed by all owners of the entity and their spouse or legal domestic partner. If Borrower is an entity, this promissory note must be signed by an authorized signatory and all owners of the entity and their spouse or legal domestic partner must sign the Guaranty attached to this Promissory Note.





EXHIBIT G

ACKNOWLEDGMENT OF RECEIPT  
OF COMPLETED AGREEMENTS

The undersigned, personally and as an officer of or manager in any proposed franchisee, if applicable, does hereby acknowledge receipt of the following agreements:

Franchise Agreement, with the following exhibits:

- Attachment 1: Territory
- Attachment 2: General Release
- Attachment 3: Confidentiality/Non-Competition Agreement – Owner/Officer/Manager
- Attachment 4: Confidentiality/Non-Competition Agreement – Center Directors
- Attachment 5: Confidentiality/Non-Competition Agreement - Employee
- Attachment 6: Schedule of Owners, Officers and Managers
- Attachment 7: Guaranty and Assumption of Obligations
- Attachment 8: Conditional Assignment of Telephone and Directory Listings
- Attachment 9: Electronic Funds Transfer Authorization Form

State Addenda (if applicable)

with all blanks completely filled in and any and all exhibits or addendums in the completed form in which they are intended to be executed by the undersigned. (Note: This receipt must be signed and dated at least seven calendar days before the undersigned executes the Franchise Agreement and related agreements. Do not sign and return documents until at least seven calendar days have elapsed from the date of this receipt.)

I acknowledge that I should review all such documents personally or have my attorney or other advisor review such documents so that I am fully familiar with the franchise and documents prior to signing them or paying any money.

I hereby agree that all information and materials given to me will be used only in conjunction with my consideration of the franchise. All such information and materials shall not be disseminated other than to my advisors, and will be returned to Mathnasium Center Licensing, LLC promptly if I decide not to purchase a Mathnasium franchise.

DATE I RECEIVED THE COMPLETED AGREEMENTS: \_\_\_\_\_, 20\_\_.

SIGNED: \_\_\_\_\_

SIGNED: \_\_\_\_\_

NAME (Please print)

NAME (Please print)

Address

Address

(Attach additional signatures if necessary.)

## RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Mathnasium Center Licensing, LLC offers you a franchise, it must provide this disclosure document to you at least 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

Michigan, New York, Oregon, and Rhode Island require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. New York and Rhode Island also require that we give you this disclosure document at your first personal meeting with us.

If Mathnasium Center Licensing, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to the relevant state agency listed in Exhibit D.

The franchise sellers with whom you worked are: ***[Initial and fill in as applicable]***

\_\_\_ Peter Markovitz, 5120 West Goldleaf Circle, Suite 300, Los Angeles, CA 90056 USA; (877) 531-6284  
\_\_\_ David Ullendorff, 5120 West Goldleaf Circle, Suite 300, Los Angeles, CA 90056 USA; (877) 531-6284  
\_\_\_ Larry Martinek, 5120 West Goldleaf Circle, Suite 300, Los Angeles, CA 90056 USA; (877) 531-6284  
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\_\_\_ Steven Tanaka, 5120 West Goldleaf Circle, Suite 300, Los Angeles, CA 90056 USA; (877) 531-6284

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Date of Issuance: March 2, 2012 as amended August 6, 2012. The state cover page of the disclosure document lists various Effective Dates for Registration States.

I received the disclosure document dated March 2, 2012 as amended August 6, 2012 that included the following Exhibits:

- "A-1" List of Franchised Outlets
  - "A-2" List of Certain Former Franchisees
  - "B" Financial Statements
  - "C" Franchise Agreement
- Attachments to Franchise Agreement:*
- Attachment 1: Territory
  - Attachment 2: General Release for Renewal
  - Attachment 3: Confidentiality/Non-Competition Agreement – Owners/Officers/Managers
  - Attachment 4: Confidentiality/Non-Competition Agreement – Center Directors
  - Attachment 5: Confidentiality Agreement – Employees
  - Attachment 6: Schedule of Owners, Officers and Managers
  - Attachment 7: Guaranty and Assumption of Obligations
  - Attachment 8: Conditional Assignment of Telephone and Directory Listings

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- "D" Attachment 9: Electronic Funds Transfer Authorization Form  
List of Certain State Franchise Authorities (Government Offices) and Registered Agents in Certain States
- "E" State Addenda
- "F" Promissory Notes for Additional Centers
- "G" Acknowledgment of Receipt of Completed Agreements
- "H" Receipt of Disclosure Document

DATE DISCLOSURE DOCUMENT RECEIVED: \_\_\_\_\_

SIGNED: \_\_\_\_\_

SIGNED: \_\_\_\_\_

DATE SIGNED: \_\_\_\_\_

DATE SIGNED: \_\_\_\_\_

\_\_\_\_\_  
NAME (Please print)

\_\_\_\_\_  
NAME (Please print)

\_\_\_\_\_  
Address

\_\_\_\_\_  
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DATE SIGNED: \_\_\_\_\_

DATE SIGNED: \_\_\_\_\_

\_\_\_\_\_  
NAME (Please print)

\_\_\_\_\_  
NAME (Please print)

\_\_\_\_\_  
Address

\_\_\_\_\_  
Address

Please sign and date this Receipt (with the date that you received the disclosure document), and if you received it electronically via email, also:

1. Open the attached disclosure document, to verify that you can download it; then immediately Reply to All, with a cc to the email address listed on the state cover page of this disclosure document, stating that you received and downloaded this disclosure document; AND:

2. Also print, sign, and date a copy of the Receipt (with the date that you received this disclosure), and return via mail or fax to us at the address or fax number on the state cover page of this disclosure document.

**KEEP THIS COPY FOR YOUR RECORDS**

## RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Mathnasium Center Licensing, LLC offers you a franchise, it must provide this disclosure document to you at least 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

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List of Certain State Franchise Authorities (Government Offices) and Registered Agents in Certain States
- "E" State Addenda
- "F" Promissory Notes for Additional Centers
- "G" Acknowledgment of Receipt of Completed Agreements
- "H" Receipt of Disclosure Document

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SIGNED: \_\_\_\_\_

SIGNED: \_\_\_\_\_

DATE SIGNED: \_\_\_\_\_

DATE SIGNED: \_\_\_\_\_

\_\_\_\_\_  
NAME (Please print)

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NAME (Please print)

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Address

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Address

DATE DISCLOSURE DOCUMENT RECEIVED: \_\_\_\_\_

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1. Open the attached disclosure document, to verify that you can download it; then immediately Reply to All, with a cc to the email address listed on the state cover page of this disclosure document, stating that you received and downloaded this disclosure document; AND:
2. Also print, sign, and date a copy of the Receipt (with the date that you received this disclosure), and return via mail or fax to us at the address or fax number on the state cover page of this disclosure document.

**PLEASE SIGN THIS COPY, DATE AND RETURN IT TO MATHNASIUM CENTER LICENSING, LLC, 5120 WEST GOLDLEAF CIRCLE, SUITE 300, LOS ANGELES, CALIFORNIA 90056.**

**E-Signed** : 12/17/2012 03:46 PM CST

*Benedict Zoe*

benedictzoe@hotmail.com

IP: 173.54.93.245

**Sertifi Electronic Signature**

**DocID: 20121217123128181**