

MAR 27 2012

## FRANCHISE DISCLOSURE DOCUMENT



Childrens Lighthouse Franchise Company

a Texas Corporation

101 South Jennings Avenue, Suite 209

Fort Worth, Texas 76104

888-338-4466

[www.childrenslighthousefranchise.com](http://www.childrenslighthousefranchise.com)

[www.childrenslighthouse.com](http://www.childrenslighthouse.com)

[www.twitter.com/clighthouse](http://www.twitter.com/clighthouse)

You will operate a high-quality childcare and developmental learning center providing affordable childcare for children ranging from six weeks through age five.

The total investment necessary to begin operation of a Childrens Lighthouse Learning Center franchise is as follows: (1) for a leased Learning Center, the estimated initial investment ranges from \$493,500 to \$719,000 which includes the \$85,500 to be paid to the franchisor or affiliate, or (2) for an owned Learning Center, the estimated initial investment ranges from \$2,180,500 to \$3,343,000, which includes the \$85,500 to be paid to the franchisor or affiliate.

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 can sign a binding agreement with, or make any payment to the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no 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 the Franchise Administration Department at 101 South Jennings Avenue, Suite 209, Fort Worth, TX 76104.

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 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 home page 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.

ISSUANCE DATE: March 24, 2012

## STATE COVER PAGE

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

Call the state franchise administrator listed in Exhibit F for the 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 OUR 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 NON-BINDING MEDIATION WITH RESPECT TO CERTAIN DISPUTES NOT RESOLVED BY PRIVATE NEGOTIATION. MEDIATION SHALL OCCUR IN THE COUNTY AND STATE WHERE OUR PRINCIPAL BUSINESS OFFICE IS LOCATED, WHICH IS CURRENTLY TARRANT COUNTY TEXAS. OUT-OF-STATE MEDIATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT AND IT MAY ALSO COST YOU MORE TO MEDIATE WITH US IN TEXAS THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY LITIGATION ONLY IN THE STATE WHERE OUR PRINCIPAL BUSINESS OFFICE IS LOCATED, WHICH IS CURRENTLY IN FORT WORTH, TEXAS. OUT-OF-STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO LITIGATE WITH US IN TEXAS THAN IN YOUR OWN STATE.
3. THE FRANCHISE AGREEMENT STATES THAT TEXAS LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
4. 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.**

Effective Date: See State Effective Dates Page

### STATE EFFECTIVE DATES

The following states require that the disclosure document be registered or filed with the state or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

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

State	Effective Date
California	
Illinois	
Indiana	
Maryland	
Minnesota	
South Dakota	
Virginia	
Washington	

In all other states, the effective date of this disclosure document is the issuance date of March 24, 2012.

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### SPECIFIC STATE ADDENDUM

#### EXHIBITS

- A. Financial Statements
- B. Franchise Agreement
  - Attachments:
    - A. Disclosure Acknowledgment Statement
    - B. Lease Rider
    - C. Confidentiality and Non-Competition Agreement
    - D. Guaranty
    - E. Collateral Assignment of Tenant's Interest in Lease
    - F. Subordination Agreement
    - G. Non-Disturbance and Attornment Agreement
    - H. State Specific Addendum (if applicable)
- C. List of Current/Past Franchisees
- D. Software License Agreement
- E. Release
- F. List of State Administrators
- G. Agents for Service of Process
- H. Receipts

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

To simplify the language in this disclosure document, the term "we" means Childrens Lighthouse Franchise Company. The term "you" means the person or entity buying the franchise – the franchisee. If the franchisee is a corporation, partnership, limited liability company, or other business entity, the term "you" does not include the business entity's owners, unless otherwise stated.

**Franchisor, Parent, Predecessor, and Affiliates**

We are a Texas corporation that was incorporated on August 29, 2001. We conduct business only under the name Childrens Lighthouse Franchise Company. Our principal business address is 101 South Jennings Ave, Suite 209, Fort Worth, Texas 76104. Our agents for service of process are identified in Exhibit G to this disclosure document.

Our predecessor is Childrens Lighthouse Management, Inc. ("Predecessor") whose principal address was 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104. The Predecessor offered Childrens Lighthouse franchises from August 1999 until August 2001. The Predecessor was dissolved on March 5, 2007.

We have been offering franchises for the type of learning center described in this disclosure document since our inception. We have never operated a business of the type being franchised, but our Affiliates have operated similar businesses, as described below. Neither we nor our Predecessor or Affiliates have ever offered franchises in any other line of business.

We have the following Affiliates:

Childrens Lighthouse Management I, LTD. serves as a management company to operational Childrens Lighthouse Centers operated by our Affiliates, listed below. The services rendered by the management company include accounting services and general operational support. The Affiliates pay a monthly management fee to the management company:

Childrens Lighthouse, Inc. is operated at 4636 Hwy 360 South, Grand Prairie, TX 75052; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse I, Inc. is operated at 2029 W. Hebron Pkwy, Carrollton, TX 75010; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse II, Inc. is operated at 6250 Matlock Rd, Arlington, TX 76002; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse III, Inc. is operated at 4095 Eldorado Pkwy, McKinney, TX 75070; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse V, Inc. is operated at 5025 Teasley Lane, Denton, TX 76210; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse VI, Inc. is operated at 1001 Point Vista, Hickory Creek, TX 75065; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse VII, Inc. is operated at 3001 West Bay Area Blvd, Friendswood, TX 77546; however, its principal business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

Childrens Lighthouse VIII, Inc. is operated at 3470 W. Risinger Rd, Fort Worth, TX 76123; however, its business address is 101 S. Jennings Ave, Ste. 209, Fort Worth, TX 76104.

### The Business We Offer

You will operate a childcare and learning center (a Childrens Lighthouse "Learning Center" or "Center") under our designated trademarks, service marks, logos, slogans, catch phrases, and other indicia of origin we adopt ("Marks") and using our operating procedures, marketing concepts, business strategies, management techniques, and proprietary programs, methods, and systems for the purposes of providing each child a daily, structured environment that provides an age-appropriate atmosphere similar to an elementary school with opportunities for learning in a variety of fields such as math, science, reading, computers, crafts, arts, or physical education; all of which we may change, improve, or further develop ("System"). The typical range of ages for enrolled children is from six weeks through five years. Additionally, Centers offer after school care for children up to 12 years old.

Founders of the company, Mike and Pat Brown, have owned and managed many businesses in the past. Taking this knowledge from other businesses, they researched the childcare industry throughout the United States for several years prior to opening their first Center.

After accumulating all of the data, they developed a new state-of-the-art program and facilities that would take childcare to a new level in the United States, yet still are affordable for the average working family. Their philosophy was to give the highest quality educational childcare, the best learning curriculum, and state-of-the-art security for the best price.

Through Childrens Lighthouse Management I, LTD. and its Affiliates (collectively, "CLLC"), the Browns have owned and operated eight Learning Centers of the type you will operate under this franchise, dating back to August 1997.

### Market and Competition

The primary market for the services of a Childrens Lighthouse consists of working parents. It is well established and continues to grow as increasing numbers of mothers enter the work force. Because of the substantial demand for childcare services in the United States, a number of such services have developed. Your Childrens Lighthouse Learning Center will compete with other daycare facilities and preschools.

### Applicable Regulations

All states require licenses for the operation of childcare centers. Criteria for issuance of licenses vary from state to state, but customarily include compliance with building improvements and child safety standards, playground dimensions, and background checks of franchise owners' principals and employees. Childcare facilities must be licensed under applicable regulations administered by county and state government agencies for a specified Licensed Capacity. "Licensed Capacity" means the maximum number of students permitted in a facility at any given time. You must comply with state regulations and local health department regulations concerning the operations of a childcare facility. You should investigate the application of these laws further.

## **ITEM 2 BUSINESS EXPERIENCE**

### **G. Michael Brown, President and Director**

Mr. G. Michael Brown, Sr. has served as Chairman of the Board, Chief Executive Officer, and a Director of Childrens Lighthouse Learning Centers, Inc. and its Predecessor, Childrens Lighthouse, Inc., since their inception in April 1996. Mr. Brown has also served as our President since its inception in August 2001.

### **G. Patrick Brown, Vice President and Director**

Mr. G. Patrick Brown has served as President and a Director of Childrens Lighthouse Learning Centers, Inc. and its Predecessor since their inception in April 1996. As Chief Operating Officer, Mr. Brown manages the company's business operations, monitors growth and development, and oversees Human Resources. Mr. Brown also has served as our Vice President since its inception in August 2001.

### **Rose Morelock, Vice President of Operations**

Rose Morelock joined us in August 2001. Ms. Morelock started as our Director of Operations and was promoted to Vice President of Operations in December 2004.

### **Donna Prince, Director of Personnel and Training**

Ms. Prince has been our Director of Human Resources and Personnel since December 2010. She served as our Director of Education and Training from February 2001 to December 2010.

### **Stephen Dixon, Vice President of Franchise Development**

Mr. Dixon joined us in April 2010 as our Director of Franchise Development and was promoted to Vice President of Franchise Development in October 2011. From October 2008 to May 2009, Mr. Dixon served as the Regional Sales Manager, Western Region, for Authoria, Inc., Dallas, Texas. From September 2007 to October 2008, Mr. Dixon was Director of Franchise Development for Gold's Gym International, headquartered in Irving, Texas. From September 2002 to September 2007, Mr. Dixon was Franchise Development Director for Nick-N-Willy's Pizza Franchise Company, headquartered in Centennial, Colorado.

### **Michael Brown, Jr., Director of Finance, Director**

Mr. Brown joined us in June 2006 and as our Finance/Real Estate Administrator, and he served as a Director. He was promoted in 2011 to his current position of Director of Finance and remains a Director.

### **Hunter Brown, Director of Real Estate, Director**

Mr. Brown joined us in January 2008 as our Franchise Administrative Support representative and Director. He was promoted to Director of Real Estate in March 2011. Prior to joining us, Mr. Brown was a full-time student.

### **Charles Brown, Director**

Mr. Brown has served as our Director since May 2010. He works with us part time as he completes his college education and has worked with us in various positions every summer throughout high school and college.

Daelyn Dillahunt, Director of Franchise Training and Support

Ms. Dillahunt has been our Director of Franchise Training and Support since December 2010. She served as our Franchise Consultant from August 2007 to December 2010. She served as the Center Director for our Affiliate, Childrens Lighthouse VIII, Inc., from June 2005 to August 2007.

Christy Matthews, Franchise Consultant

Ms. Matthews has been our Franchise Consultant since February 2012. She was a Center Director for our affiliate, Childrens Lighthouse IV, Inc., in Hickory Creek, Texas from August 2004 to February 2012.

**ITEM 3  
LITIGATION**

*Arif Fazal and Ripika Fazal v. Children's Lighthouse Franchising Company, Michael Brown, Patrick Brown, and Raymond Orgera*; No.06-067-218945-06, District Court, 67<sup>th</sup> Judicial District, Tarrant County, Texas. On July 20, 2006, our franchisees, Arif Fazal and Ripika Fazal, sued us alleging (1) violation of the Texas Deceptive Trade Practices and Consumer Protection Act; (2) negligence; (3) breach of the franchise agreement; (4) unjust enrichment; and (5) fraudulent concealment. Our franchisees sought refund of the initial franchise fee, damages, and costs. The action arose out of our refusal to refund the initial franchise fee to our franchisees after our franchisees failed to secure a site for the franchised business. We denied all of the allegations and filed a counterclaim against our franchisees. On May 16, 2007, the parties entered into a compromise settlement agreement; which did not constitute an admission that any law had been broken or that the Franchise Agreement with our franchisees was breached by us, our officers, and employees. We agreed to pay to our franchisees the amount of \$20,000.00. Our franchisees dismissed their lawsuit with prejudice, agreeing that (1) their Petition failed to state a claim for which relief could be granted; (2) the franchise agreement had been terminated; and all parties executed general mutual releases. The Court approved the settlement on July 22, 2007. All amounts due under the settlement agreement have been paid.

Other than this one action, no litigation is required to be disclosed in this Item.

**ITEM 4  
BANKRUPTCY**

No bankruptcy information is required to be disclosed in this Item.

**ITEM 5  
INITIAL FEES**

Initial Franchise Fee:

The initial franchise fee is \$60,000. At the time you sign the Franchise Agreement, you must pay us \$25,000.00. The \$35,000 balance is due and payable on the date you acquire the site we have approved for the Learning Center, or the date you close on your loan with your third-party lender, whichever occurs first.

You will be eligible for a discount for any additional franchises for which you are awarded in the future if you are awarded your next franchise within 18 months of the opening of your current Learning Center. At this time, the franchise fee for additional franchises awarded within the 18-month grace period is \$45,000. You must pay us \$10,000 at the time you sign the Franchise



Agreement, and the \$35,000 balance is due and payable on the date you acquire the site we have approved for the Learning Center, or the date you close on your loan with your third-party lender, whichever occurs first.

#### Administration Assistance Fee

With regard to your first Learning Center, whether you elect to lease or purchase the premises, you must pay us a \$10,000 Administration Assistance Fee by no later than the date you close on your loan. This fee is used, in part to cover our travel, lodging, food, and transportation for the assistance we provide to you prior to and during the initial opening of the Learning Center. Our fee for each additional Learning Center we grant you to operate is \$7,500 and is due on the date you close each respective loan.

#### Web Site Fee

Before you open your Learning Center, you must pay us \$500 set-up fee to list your Center on our Web site.

#### Real Estate Fee

You must pay us a one-time fee of \$15,000 for our proprietary architectural plans, counsel, and travel costs for site selection services by no later than the date you close on your loan.

You will be eligible for a discount of \$5,000 off this fee for any additional franchises you are awarded in the future, if you are awarded your next franchise within 18 months of the opening of your current Learning Center.

The initial fees described above are uniform for all franchisees, and these fees are not refundable under any circumstances.

### **ITEM 6 Other Fees**

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Royalties	7% of Gross Revenue	Payable monthly on the tenth day of the month following the month earned, but no payment due until the start of the fourth month of operations or the month when enrollment reaches 100 children the first time, whichever is first	See Note 2.

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Local Advertising; Advertising Fund	Until an Advertising Fund is implemented, you must spend 1% of Gross Revenues on local advertising; when an Advertising Fund is implemented, we can require you to contribute up to 2% of Gross Revenues, and there will be no local advertising requirement	Monthly, when implemented	See Note 3
Advertising Cooperative	Presently none; if required, contribution in an amount we establish		See Item 11 for more information about our right to form advertising cooperatives
Non-Attendance Fee	\$500	On demand	Unless we excuse your attendance, you must pay a nonattendance fee if you fail, on more than one occasion in any one-year period, to attend a mandatory continuing education program; see Note 4
Audit	Currently estimated between \$2,000 and \$5,000	Immediately after audit	If an underpayment in excess of 3% is revealed, we may charge you for all of our expenses related to the audit; see Note 5
Late Fee	Interest of one and one half percent each month, plus a ten percent late fee on past due amounts	Payable when past due amount is paid.	Applies to all payments to be made by you to Childrens Lighthouse Franchise Company
Additional Assistance	\$500 a day, plus all expenses incurred by us	Payable when services are provided.	See Note 6
Software Fees and Upgrades	Actual cost of software plus Texas sales tax	On demand	Made available to all Franchisees as and when developed

Type of Fee <sup>(1)</sup>	Amount	Due Date	Remarks
Transfer Fee	\$25,000	A non-refundable deposit of \$5,000 is payable when you notify us that you wish to sell your franchise. The remaining \$20,000 is payable when the transaction closes	Applies to any sale or transfer of the franchise or Franchise Agreement
Insurance	Premiums vary depending on location	On demand if you have failed to pay premiums	See Note 7
Insurance Administrative Charge	25% of expenses incurred by us	On demand	See Note 7
Supplier Inspection and Testing Fee	Currently estimated between \$500 and \$1,500	When billed	If you ask us to approve an alternative product or supplier, we may require you to pay for the actual cost of inspection or testing; see Item 8

**Notes:**

- All fees or payments are uniformly imposed by and payable to us and are non-refundable.
- "Gross Revenues" includes all revenues earned on the cash basis of accounting directly or indirectly resulting from the operation of your Learning Center, including, but not limited to, income from sales, services, lease/rental payments and barter (exchange of tuition for services or products and including tuition payments for staff children) as they are paid or earned. No deductions may be made from the calculation of Gross Revenues, except for the following which are not included in your Gross Revenues: (a) uncollectible debts in the form of insufficient funds, (b) sales tax and other taxes lawfully collected by your Learning Center for transmittal to the appropriate taxing authorities, and (c) customer refunds only for the month of actual refund.
- See Item 11 for more information about our right to implement an Advertising Fund.
- We may offer local or regional continuing education programs on matters related to the operation or promotion of your Learning Center on a mandatory basis. There will be no charge for the programs, but you must pay all costs incurred by you or your employees while attending.
- If the underpayment exceeds 3%, we may also require that all of your future annual financial statements be audited and certified at your own expense, unless your work papers and financial records are acceptable in form and substance to us and are available for inspection by us upon reasonable notice.
- This is required for each day we operate your franchise if you default under the Franchise Agreement.
- If you fail to purchase or maintain any required insurance, we may do so at your expense. You must reimburse us and pay an additional 25% as an administrative charge. Insurance coverage requirements are uniformly imposed on all Franchisees, but the cost of coverage may not be uniform. See Item 8 for required insurance coverage.

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

**Leased Childrens Lighthouse Learning Center**

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Franchise Fee	\$60,000.00 (Note 1)	Installments of \$25,000 then \$35,000	\$25,000 at Execution of Franchise Agreement; \$35,000 at the earlier of your Loan Closing or the date you acquire the site for the Learning Center.	Us
Real Estate and Improvements	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Utility and Security Deposits	\$2,000 - \$10,000	As Arranged	Before Opening	Utility Companies
Real Estate Fee	\$15,000 (Note 3)	Lump Sum	At Loan Closing	Us
Furniture, Fixtures, and Equipment	\$155,000 - \$203,000 (Note 4)	Lump Sum	As Invoiced	Independent Vendors
Playground Equipment	\$75,000 - \$130,000	Lump Sum or Negotiable	As Invoiced	Independent Vendors
Financing Costs	\$13,000 - \$16,000 (Note 5)	Lump Sum	As Incurred	Lender
Administration Assistance Fee	\$ 10,000 (Note 6)	Lump Sum	At Loan Closing	Us
Buses	\$2,500 - \$80,000 (Note 7)	As Arranged	As Incurred	Independent Vendor
Additional Funds (3 months)	\$125,000 - \$150,000 (Note 8)	Cash	As Needed	Various Payees
Promotional and Pre-Opening Expenses	\$30,000 - \$35,000 (Note 9)	Cash	As Incurred	Independent Vendors
Travel and Living Costs while Training	\$5,000 - \$7,500 (Note 10)	Cash	As Needed	Independent Vendor/Employees
Professional Fees	\$500 - \$2,000 (Note 11)	As Arranged	As Arranged	Independent Vendors
Web Site Fee	\$500	Lump Sum	At Loan Closing	Us

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
TOTAL	\$493,500 - \$719,000 (Note 12)			

**Notes:**

1. See Item 5 for more information about the initial franchise fee and payment terms.
2. If you lease your Learning Center, you may have to pay a security deposit equivalent to 2 to 3 months rent. Rent is estimated to be approximately \$156,000 to \$276,000 per year, depending on factors such as the location of the property and your personal credit worthiness. No dollar amount for leasehold improvements is included in this line item. Our business model dictates that the real estate developer pays for all build-out and/or leasehold improvements.
3. The real estate fee covers the cost of our proprietary architectural plans for use in building your Learning Center. This fee is also paid to us in return for providing information and counsel to you in helping you identify potential locations that meet our general standards, taking into account traffic patterns, size, layout and other characteristics, including lease terms. The information provided to you will include, in part, an analysis of demographic studies, competitors in the market, review of licensing and zoning requirements, and general compliance with state and local regulations which may help you prepare a comprehensive business plan to give to lenders.
4. These amounts include costs for tables, chairs, lighting fixtures, cabinets, and decor items required for the Learning Center, costs for computer hardware and software system and for a security system. These figures are our best estimate based on equipment costs and financing conditions in several metropolitan areas. Costs may vary substantially depending on geographic location, creditworthiness, and financing arrangements.  
  
These amounts include interior and exterior signage, including a pole or monument sign, as well as the cost of a Childrens Lighthouse facade. The cost of signage may vary significantly depending on the location of the Learning Center, landlord and municipal requirements, and market conditions.
5. This is an estimate of finance charges and SBA charges you may incur prior to and at the closing of your loan. There may be additional costs and expenses incurred in obtaining financing imposed by your lender.
6. This fee covers our transportation, lodging, and food expenses we incur when we provide you assistance in opening your Learning Center. Our assistance is for a period of up to 10 days.
7. You must use a bus that meets our specifications and requirements in the operation of your Childrens Lighthouse Learning Center. These buses must comply with all state and federal guidelines. These buses can be leased or purchased. Under a lease/purchase arrangement, we estimate you will pay monthly installments of approximately \$650, plus another \$650 as a security deposit. Likewise, if you purchase a bus, we estimate the cost to be \$40,000 per bus, and depending on your credit history and purchase terms, we estimate the monthly installments to be \$500 per month, plus an initial down payment of \$5,000.
8. The amounts provided will be used by you to cover costs and expenses such as rent, debt service, wages, insurance, rent, and other occupancy costs and other operating expenses during the initial three months of operations. These amounts may vary depending upon your sales volume, your management skill, how much you follow our methods and procedures, local economic conditions and wage rates, competition, and your financing costs. The original inventory of toys, educational materials, software and related equipment and supplies must be approved by us and maintained by you in safe and usable condition. You must purchase replacement toys, approved curriculum and teaching materials, equipment and supplies that meet our specifications from approved vendors. You may be required to add new toys, educational materials and related items to the inventory yearly. You

must purchase food that meets our standards. You may purchase food from any source, though we will assist in locating food suppliers in your area. Cleaning supplies may be purchased from any source but must be non-toxic and stored out of the reach of children. The costs of insurance may vary substantially depending on the insurer, the location of the Learning Center, the value of the equipment and improvements, and your claims history. These amounts are estimates, and we cannot guarantee that you will not have additional expenses starting the Learning Center.

9. You must spend at least \$25,000 in promotional expenses prior to opening. We estimate this amount will be sufficient to cover necessary pre-opening advertising and marketing materials necessary to building advance enrollments. This investment also covers proprietary products (such as T-shirts, brochures, and flyers), teaching aids, and advertising and promotional materials for the first three months of operations. Your requirements may vary according to your sales volume during the indicated period. Additionally, you must spend at least \$5,000 for one post-opening grand opening event.
10. This estimate reflects the cost of two persons to attend and complete the initial training. These amounts include transportation costs, the cost of lodging and meals, employee wages (but no salary for you if you are the Franchisee), and incidental expenses. Your costs may be greater depending upon your distance from Fort Worth, Texas, lodging and meals chosen, and your employee wages.
11. These amounts are our best estimate of legal and accounting fees associated with the review of this Disclosure Document and other organizational costs and expenses associated with the start-up of the Learning Center. Your actual costs may vary substantially depending on the individual professionals you use and the entity structure you choose.
12. We relied on our management's more than 150 combined years of experience in the childcare business to compile these estimates. Still, we cannot assure you that you will experience the same level of costs. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. The initial investment estimates relate to a single Learning Center.

Unless otherwise stated above, these estimates are subject to increases based on changes in market conditions, our cost of providing services, and future policy changes. At the present time, we have no plans to increase payments we control.

We do not offer any financing for your initial franchise fee or any portion of your initial investment. Unless otherwise stated, the amounts described above are not refundable.

**Owned Childrens Lighthouse Learning Center**

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Franchise Fee	\$60,000.00 (Note 1)	Installments of \$25,000 then \$35,000	\$25,000 at Execution of Franchise Agreement; \$35,000 at the earlier of your Loan Closing or the date you acquire the site for the Learning Center.	Us
Real Estate and Improvements	\$1,260,000- \$1,500,000 (Note 2)	Negotiable	Negotiable	Vendor, Contractors
Land	\$400,000 - \$1,000,000	Negotiable	Negotiable	Vendors, Contractors
Real Estate Fee	\$15,000	Lump sum	At Loan Closing	Us
Utility and Security Deposits	\$2,000 - \$10,000	As Arranged	Before Opening	Utility Companies
Construction Administration	\$15,000 – 75,000 (Note 3)	As Arranged	As Invoiced	Independent Vendor
Furniture, Fixtures and Equipment	\$155,000 - \$203,000 (Note 4)	Lump Sum	As Invoiced	Independent Vendors
Playground Equipment	\$75,000 – 130,000	Lump Sum or Negotiable	As Invoiced	Independent Vendors
Financing Costs	\$50,000 - \$90,000 (Note 5)	Lump Sum	As Incurred	Lender
Administration Assistance Fee	\$ 15,000 (Note 6)	Lump Sum	At Loan Closing	Us
Buses	\$2,500 - \$80,000 (Note 7)	As Arranged	As Incurred	Independent Vendor
Additional Funds (3 months)	\$100,000 - \$125,000 (Note 8)	Cash	As Needed	Various Payees
Promotional and Pre-Opening Expenses	\$30,000 - \$35,000 (Note 9)	Cash	As Incurred	Independent Vendors
Travel and Living Costs while Training	\$5,000 - \$7,500 (Note 10)	Cash	As Needed	Independent Vendor/Employees

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Professional Fees	\$500 - \$2,000 (Note 11)	As Arranged	As Arranged	Independent Vendors
Web Site Fee	\$500	Lump Sum	At Loan Closing	Us
TOTAL	\$2,180,500 - \$3,343,000 (Note 12)			

**Notes:**

1. See Item 5 for more information about the initial franchise fee and payment terms.
2. These amounts assume that you will purchase raw land and build the Learning Center. The amounts provided are based on a learning center of approximately 10, 500 square feet. These amounts are our best estimate based upon commercial real estate and construction costs in various metropolitan areas and may vary substantially based upon local commercial and labor conditions and the availability and prices of materials. You will incur architectural and engineering costs associated with building your learning center. You will be responsible for adapting the plans (subject to our approval) to meet local construction codes. Your lender will require a survey and environmental site assessment of the property.

The real estate fee covers the cost of our proprietary architectural plans for use in building your Learning Center. This fee is also paid to us in return for providing information and counsel to you in helping you identify potential locations that meet our general standards, taking into account traffic patterns, size, layout and other characteristics, including lease terms. The information provided to you will include, in part, an analysis of demographic studies, competitors in the market, review of licensing and zoning requirements, and general compliance with state and local regulations which may help you prepare a comprehensive business plan to give to lenders.

3. You must employ one of our approved vendors for program and construction management of your project. The vendor will guide the project from site determination to grand opening and will serve as liaison between franchisee, consultants, and us.
4. These amounts include costs for tables, chairs, lighting fixtures, cabinets, and decor items required for the Learning Center, costs for computer hardware and software system and for a security system. These figures are our best estimate based on equipment costs and financing conditions in several Texas metropolitan areas. Costs may vary substantially depending on geographic location, creditworthiness, and financing arrangements.

These amounts include interior and exterior signage, including a pole or monument sign, as well as the cost of a Childrens Lighthouse facade. The cost of signage may vary significantly depending on the location of the Learning Center, landlord and municipal requirements, and market conditions.

5. This is an estimate of finance charges and SBA charges you may incur prior to and at the closing of your loan. There may be additional costs and expenses incurred in obtaining financing imposed by your lender.
6. This fee covers our transportation, lodging, and food expenses that we incur when we provide you assistance in opening your center for a period of up to 10 days as needed.
7. You must use a bus that meets our specifications and requirements in the operation of your Childrens Lighthouse Learning Center. These buses must comply with all state and federal guidelines. These buses can be leased or purchased. Under a lease/purchase arrangement, we estimate you will pay monthly installments of approximately \$650, plus another \$650 as a security deposit. Likewise, if you



purchase a bus, we estimate the cost to be \$40,000 per bus, and depending on your credit history and purchase terms, we estimate the monthly installments to be \$500 per month, plus an initial down payment of \$5,000.

8. The amounts provided will be used by you to cover costs and expenses such as debt service, wages, insurance, rent, and other occupancy costs and other operating expenses during the initial three months of operations. These amounts may vary depending upon your sales volume, your management skill, how much you follow our methods and procedures, local economic conditions, and wage rates, competition, and your financing costs. The costs of insurance may vary substantially depending on the insurer, the location of the Learning Center, the value of the equipment and improvements, and your claims history. These amounts are estimates, and we cannot guarantee that you will not have additional expenses starting the Learning Center. The original inventory of toys, educational materials, software and related equipment and supplies must be approved by us and maintained by you in safe and usable condition. You must purchase replacement toys, approved curriculum and teaching materials, equipment and supplies that meet our specifications from approved vendors. You may be required to add new toys, educational materials and related items to the inventory yearly. You must purchase food that meets our standards. You may purchase food from any source, though we will assist in locating food suppliers in your area. Cleaning supplies may be purchased from any source but must be non-toxic and stored out of the reach of children.
9. You must spend at least \$25,000 in promotional expenses prior to opening. We estimate this amount will be sufficient to cover necessary pre-opening advertising and marketing materials necessary to building advance enrollments. This investment also covers proprietary products (such as T-shirts, brochures, and flyers), teaching aids, and advertising and promotional materials for the first three months of operations. Your requirements may vary according to your sales volume during the indicated period. Additionally, you must spend at least \$5,000 for one post-opening grand opening event.
10. This estimate reflects the cost of two persons to attend and complete the initial training. These amounts include transportation costs, the cost of lodging and meals, employee wages (but no salary for you if you are the Franchisee), and incidental expenses. Your costs may be greater depending upon your distance from Fort Worth, Texas, lodging and meals chosen, and your employee wages.
11. These amounts are our best estimate of legal and accounting fees associated with the review of this Disclosure Document and other organizational costs and expenses associated with the start-up of the Learning Center. Your actual costs may vary substantially depending on the individual professionals you use and the entity structure you choose.
12. We relied on our management's more than 150 combined years of experience in the childcare business to compile these estimates. Still, we cannot assure you that you will experience the same level of costs. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. The initial investment estimates relate to a single Learning Center.

Unless otherwise stated above, these estimates are subject to increases based on changes in market conditions, our cost of providing services, and future policy changes. At the present time, we have no plans to increase payments we control.

We do not offer any financing for your initial franchise fee or any portion of your initial investment. Unless otherwise stated, the amounts described above are not refundable.

## ITEM 8

### RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

#### Purchases from Approved Suppliers

You must purchase the following from a supplier we require: your initial furniture and equipment, your initial inventory, and the curriculum for your Learning Center. You must purchase the following from any of our approved suppliers: T-shirts, aprons, brochures, business forms, and flyers ("Proprietary Products"), and customized computer software we require, including the security system, whether these items bear our Marks or not. Information concerning approved and designated suppliers will be communicated to you via the Manual.

You must, at a minimum, purchase three computers for your office staff to use and six classroom computers. We do not specify the brand of the computers or the Internet service provider that you must use.

You must also purchase other basic initial inventory supplies (i.e. scissors, pens, chalk, kitchen utensils, etc.) detailed in the list we provide to you. You may purchase these items and services for which we have not identified approved suppliers from any supplier, if the items and services meet our specifications. These specifications may include brand requirements. If brand requirements have been identified, you may purchase and use only approved brands.

You are required to spend at least 3% of your annual Gross Revenues on curriculum, equipment, general supplies (such as tissues, hand sanitizer, and soap), and educational consumables (such as art supplies and construction paper).

Currently, neither we nor any of our Affiliates are designated or approved suppliers for any products or services, and neither we, nor any of our officers owns an interest in any privately-held suppliers or a material interest in any publicly-held suppliers of our franchise system. If we or our Affiliates become approved suppliers, we may derive revenue from required purchases when you buy through us or our Affiliates. We reserve the right to increase the price of such purchases from 1% to 10% to help offset our expenses related to these transactions.

#### Approval of Alternate Suppliers

Uniform standards and specifications for other products and services used in Childrens Lighthouse Learning Centers are formulated by us through physical inspection and testing for safety, longevity, and marketability. These specifications and any modifications of them will be communicated to you through the Manual or otherwise in writing. We reserve the right to utilize electronic communication resources to distribute any new writings. You may dispense, sell, or offer for sale to the public from your Childrens Lighthouse Learning Center only approved products.

If you wish to use or sell any product not previously certified by us to meet our specifications or which is sold by a supplier not previously approved by us, you must advise us of this fact and must give to us, upon request, product specifications, sample products, and/or information about the supplier. Our criteria for approving suppliers are not available to franchisees, but we will express to you either our approval or our reasons for withholding approval within 30 days. As a condition of approving a supplier or product, you must reimburse us for any expenses we reasonably incur in inspecting the supplier's premises, checking the supplier's credentials, or testing the product. As a condition of approving a supplier of any product that bears the Trade Name or Marks, we may require that the supplier sign a Childrens Lighthouse License

Agreement. We may revoke our approval of a supplier or product if either or both no longer meet our standards or specifications. If this occurs, we will provide you written notice of the revocation. However, we will not review an alternate supplier for the curriculum that is required to be used in the Center.

### Insurance

You must purchase and maintain insurance with commercially reasonable deductibles, which protects you and us against loss or liability for personal injury, death, or property damage or expense relating to the operation of your Learning Center. All liability policies must name us and certain of our Affiliates as additional named insured and must provide that we will receive notice of any payment defaults and 30 days' advance written notice of termination, cancellation, expiration or change in the policy.

Your liability policy must be written by a licensed insurance company with a Best rating of "A" or higher and must include, at a minimum, the following coverages:

Type of Insurance	Minimum Limit
Comprehensive General Liability Coverage	\$1 million per occurrence, \$3 million aggregate limit including: (a) Products and Completed Operations, and (b) Personal and Advertising Injury
All Risk Property Insurance Coverage (including Business Interruption Coverage)	Replacement costs basis
Professional Liability Coverage	\$1 million single limit
Sexual Abuse Coverage	\$1 million per occurrence with \$1 million aggregate
Auto Combined Liability (personal injury by state statute)	\$1 million combined single limit owned auto with \$1 million for hired and non-owned auto
Accident Coverage	\$250,000 per incident
Workers' Compensation Coverage	\$1 million limit
Umbrella Coverage for Comprehensive General Liability, Auto Combined Liability and Workers' Compensation	\$1 million single limit

Your liability policy must provide that your insurance coverage is primary to any coverage that we maintain. All liability policies must provide broad form contractual coverage. You and your insurers shall agree to waive rights of subrogation against us and our affiliates. We may unilaterally modify the insurance minimum coverage requirements which may include an increase to the minimum coverage requirements to reflect changes in inflation or as market conditions warrant.

### Revenue Derived from Franchisee Purchases and Leases

We and our Affiliates may derive revenue from your purchases and leases to the extent that you purchase products or services from us or our Affiliates. During our fiscal year ending December 31, 2011, we did not derive any revenue from such purchases or leases.

We and our Affiliates may also derive revenue from rebates received as a result of your purchases and leases from approved suppliers. Each year, we enter into an agreement with one of our approved suppliers in which we receive a rebate equal to 3% of the eligible net sales volume on franchisee purchases. In fiscal year 2011, we derived no revenue from this rebate program. We may, but are not required, to use the revenue derived from such sources to make brand improvements for the benefit of the franchise system.

We also have negotiated national pricing and distribution contracts with various suppliers, and we contemplate earning rebates of up to 5% of franchisee purchases made in conjunction with these contracts.

#### Estimated Proportion of Required Purchases and Leases to all Purchases and Leases

We estimate that required purchases or leases will represent less than 10% of all of your purchases and leases of goods and services in establishing and operating your Childrens Lighthouse Learning Center, but these will vary with each Center.

#### Description of Purchasing Cooperatives; Purchasing Arrangements

We may negotiate purchase arrangements with primary suppliers for the benefit of franchisees. If we negotiate a purchase agreement for the region where your Center is located, you may be required to participate in the purchasing program. We do not provide material benefits to you (for example, renewal or granting additional franchises) based on your purchase of particular products or services or use of particular suppliers.

Currently, no purchasing or distribution cooperatives exist in the franchise system.

### **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 in Franchise Agreement	Disclosure Document Item
a. Site selection and acquisitions/lease	Article 4	Items 7 and 11
b. Pre-opening purchase/leases	Sections 4.2, 4.4, and 6.4	Items 6, 7, and 11
c. Site development and other pre-opening requirements	Article 4	Items 6, 7, and 11
d. Initial and ongoing training	Article 5	Items 6, 7, and 11
e. Opening	Section 4.2.2	Items 6, 7, and 11
f. Fees	Sections 3.1, 7.1, 7.3, 8.2.11, 10.1.6, and 11.11	Items 5, 6, and 7
g. Compliance with standards and policies/operating manual	Article 6	Items 8, 15, and 16
h. Trademarks and proprietary information	Article 14	Items 13 and 14
i. Restrictions on products/services offered	Article 12	Items 8 and 16
j. Warranty and customer service requirements	Section 6.3.10	Item 16
k. Territorial development and sales quotas	Section 2.2	Item 12

Obligation	Section in Franchise Agreement	Disclosure Document Item
l. Ongoing product/ service purchases	Section 12.2	Items 8 and 16
m. Maintenance, appearance and remodeling requirements	Sections 6.3.13 and 6.	Item 17
n. Insurance	Article 9	Items 6 and 7
o. Advertising	Sections 11.5 to 11.14	Items 6 and 11
p. Indemnification	Section 9.17	Item 11
q. Owner's participation/management/ staffing	Section 6.3	Item 15
r. Records and reports	Article 8	Item 6
s. Inspections and audits	Sections 8.2.11, 6.3.13, and 6.3.14	Items 6 and 11
t. Transfer	Article 10	Items 6 and 17
u. Renewal	Article 16	Item 17
v. Post-termination obligations	Section 15.4	Item 17
w. Noncompetition and confidentiality covenants	Sections 9.5 to 9.9	Item 17
x. Dispute Resolution	Article 17	Item 17
y. Guaranty	Attachment D	Item 15

## ITEM 10 FINANCING

We do not offer direct or indirect financing. We do not guarantee your notes, leases, or obligations.

## 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 Assistance.

Before you open your business, we will:

- (1) Designate your protected territory. (Franchise Agreement, Sections 2.1 and 21)
- (2) Provide you written site selection guidelines and site selection counseling and assistance. We will supply you with our exclusive review package to assist you in assessing demographic data, nearby neighborhoods and businesses, growth trends, traffic patterns, neighborhood schools, and competition from other childcare providers that are similar to a Childrens Lighthouse Learning Center. (Franchise Agreement, Section 4.1)

You must, on your own initiative and at your own expense, locate, obtain, and occupy the site and negotiate the purchase or lease for your Childrens Lighthouse Learning Center ("Approved Location"). You may not sign a lease for or contract to purchase the premises of your Learning Center until you have obtained our written approval of your location. Additionally, you must not invest money for a location in which you have not

received Childrens Lighthouse approval. We may not unreasonably withhold our approval.

To seek our approval, you must provide us with a Site Analysis Manual for the site, prepared by you in accordance with our written instructions. We will respond in writing with approval or disapproval within 30 days of receipt of the completed Site Analysis Manual. When we agree in writing to approve a qualified site for your Childrens Lighthouse Learning Center, a Protected Area as described your Franchise Agreement, together with an Area of Primary Responsibility, will be established. By approving a particular site, we do not warrant that your Childrens Lighthouse Learning Center operating at that location will be successful. If we are unable to agree upon a suitable location within 120 days from the effective date of the franchise agreement, your franchise agreement will be terminated, and your initial franchise fee will not be refunded. At our discretion, we may offer extensions of time for you to provide us an acceptable site. Without limiting other reasons we may have for not approving a particular location, we are under no obligation to approve a location in any state (or for a resident of any state) for which this franchise is not currently registered and where registration is a prerequisite for offering and selling this franchise. (Franchise Agreement, Sections 4.1)

The site must conform to the general guidelines for suitable franchise premises that are set out in the Manual, including demographic characteristics of the nearby population, traffic patterns, parking, predominant character of the neighborhood, competition from other businesses providing similar services within the area, proximity of competing businesses, the nature of nearby businesses, other commercial or residential characteristics, and the size, appearance, and other physical characteristics of the site. (Franchise Agreement, Section 4.1)

- (3) Review the proposed lease for your proposed Learning Center. A lease must contain language and terms satisfactory to us. Among other things, we must have the right to assume or authorize our assignee to assume the lease if the Franchise Agreement is terminated for any reason or if you should be in default under the lease. The execution by you and your lessor of a Lease Rider in the form of Attachment B to the Franchise Agreement is one way in which this condition may be met (Franchise Agreement, Section 4.1). We will provide you a copy of a pre-approved lease that you may use.

In addition, you and your lessor must execute our then-current form of Collateral Assignment of Tenant's Lease, Subordination Agreement, and Non-Disturbance and Attornment Agreement. Any lender holding a mortgage on your Childrens Lighthouse Learning Center must execute our then-current form of Subordination Agreement and Non-Disturbance and Attornment Agreement. Copies of these documents are attached as Attachments E, F, and G to the Franchise Agreement. (Franchise Agreement, Section 4.1)

It will typically take 12 to 18 months to open your franchise from the point of execution of the Franchise Agreement. You will have 12 months to open your facility from the date of formal site approval. In the event you are unable to construct and open your Learning Center at the approved location within 12 months, we reserve the right to offer an extension to the 12 months if both you and we agree you will be able to open your Learning Center within a reasonable time. (Franchise Agreement, Section 4.2.2)

- (4) Furnish to you at your expense prototype or sample plans and specifications for one or more of our existing Learning Centers, including requirements for dimensions, exterior design, interior layout, building materials, equipment, signs, and color scheme. (Franchise Agreement, Section 4.2)

You must engage a local architect firm to customize your plans for local codes and provisions. You will not be permitted to change our prototype design, other than to meet local, state, or development requirements. We must approve these changes; such changes must be submitted in writing from your architect with supporting documentation from the agency requiring the modification. You must submit a final set of your architectural drawings and plans to us before submitting them for approval with local agencies and once again upon permitting. Failure to submit the drawings and plans will be considered a material default of the franchise agreement. (Franchise Agreement, Section 4.2)

- (5) Provide you with the initial inventory list to be ordered from an approved supplier. (Franchise Agreement, Section 11.2)
- (6) Provide you initial training. (Franchise Agreement, Sections 5.1 and 5.2)
- (7) Assist you in preparing and arranging your Center and classrooms in preparation of opening your Learning Center and obtaining your required operational license. (Franchise Agreement, Section 5.2)
- (8) Cooperate with you and the appropriate governmental licensing authority to establish your Childrens Lighthouse Learning Center Licensed Capacity. We estimate that the total License Capacity will vary from 160 to 225 children. (Franchise Agreement, Section 5.3)

#### Continual Assistance.

During the operation of your franchised business, we will:

- (1) Research and develop products, curricula, and techniques for operating and promoting a Childrens Lighthouse Learning Center. When we accept any such developments for ongoing use in our Affiliate Learning Centers, they will be provided to you upon the same terms and conditions as those applicable to other Childrens Lighthouse Franchisees. Some of these developments might be required for the operation of your Learning Center. In the event that the implementation of these developments requires a monetary investment, you will have 90 days to fully implement the change in your Learning Center. (Franchise Agreement, Section 6)
- (2) Return during the first 90 days of operation to offer onsite training for your staff and management team. (Franchise Agreement, Section 5.2)
- (3) Provide you ongoing operational assistance from time to time, as we deem necessary, and at no additional charge, by means of telephone support and periodic visits by a field representative, and by maintenance of an office staff at our headquarters. (Franchise Agreement, Section 5.12)
- (4) At our discretion, offer local or regional continuing education programs on matters related to the operation or promotion of your Childrens Lighthouse<sup>®</sup> Learning Center. (Franchise Agreement, Sections 5.7, 5.8, and 5.9)

### Advertising.

Prior to opening your Learning Center, you must spend at least \$25,000 on the implementation of the pre-opening advertising program as set forth in the Manuals. The program may include newspaper, radio, television, direct mail, electronic or other media. The pre-opening marketing program must be submitted to us for approval, you may not conduct any pre-opening marketing until you have received our written approval.

You must spend at least \$5,000 on a grand opening marketing program and submit a detailed written plan which we may require you to alter. You may not begin any grand opening marketing without our written approval.

We may from time to time develop and administer advertising and sales promotion programs in which you must participate in accordance with the terms and conditions we establish for each program. Our current advertising program is local in nature. Advertising materials are created by our in-house marketing department with the help of an outside advertising agency.

You may use your own advertising material, but only if we approve your use of it. We will use good faith efforts to approve materials submitted for approval within 30 days after receiving them, but you may not assume that we have approved the materials if you have not received our approval within the 30-day time period. Advertising materials that contain only date or prices changes from previously approved materials will be considered to be approved. Even if we have approved specified materials, we may later withdraw that approval if we reasonably believe it is necessary to make the advertising conform to changes in the System or to correct unacceptable features.

### Advertising Council.

There currently is no advertising council composed of franchisees that advise us on advertising.

### Advertising Cooperatives.

We have the right to implement marketing area advertising cooperatives in a specific marketing area. You must participate in any advertising cooperative developed for the marketing area in which your Childrens Lighthouse Learning Center is located. We have the right to decide the area or membership of the cooperatives and to determine the amount of required contributions. We anticipate that all franchisees will contribute on the same basis. Affiliate-owned Learning Centers are not contractually required to contribute to any advertising cooperative, but we anticipate that they will contribute on the same basis as our franchisees if they are located within the marketing area of the cooperative.

Cooperatives will be governed by written bylaws in a form that we prepare or approve, and we anticipate that we will administer the cooperatives. Because we have never implemented a cooperative, there are no governing documents available for your review. Advertising cooperatives are not required to prepare annual or periodic financial statements for review by franchisees.

### Advertising Fund.

We have the right to implement an advertising fund for the benefit of the franchise system. When implemented, we can require you to contribute up to 2% of Gross Revenues to the fund on a monthly basis. We will give you at least 90 days written notice before we implement the fund. Company and Affiliate-owned Learning Centers are not contractually required to contribute



to the fund, but we anticipate that they will contribute on the same basis as our franchisees. Until such time as an advertising fund is implemented, you must spend one percent of your Gross Revenues on local advertising and provide us written documentation of your expenditures on a quarterly basis.

There is no requirement that the Fund be audited, but we will make available to our franchisees, once a year, an Advertising Fund report reflecting the total amount of money collected and spent by the Fund during the past year and list, by general category, the manner in which the money was spent. We are not required to spend any Fund monies specifically for your Learning Center or in your Territory.

#### Computer Requirements.

You must purchase for use in your Childrens Lighthouse Learning Center three computers for your office staff to use. These computers must have access to the Internet and Microsoft Office. You will be required to purchase a minimum of six classroom computers. We do not specify the brand of the computers or the Internet service provider that you must utilize, but your computer must be a PC (versus a Mac). We estimate the cost to purchase the nine required computers to range from \$7,000 to \$9,000. You must also purchase and use proprietary software in connection with the security system and licensed software (which is not proprietary to us but which we are licensed to use). The cost for the initial purchase of software is approximately \$15,000 and the related security system may range from \$0 to \$10,000 depending if you already have an acceptable security system. The software is capable of generating daily management reports and weekly and monthly attendance reports and providing electronic time recording, professional accounting, check printing, and automated uploading of data to our home computer system, as well as parents' access and management programs. There are a number of comparable accounting software packages that perform essentially the same functions as the required software, but we do not currently approve those packages for your use due to the importance of maintaining compatibility and minimizing training on multiple software packages. The integrated computer system will provide you with detailed operation summaries that you will use to prepare your Learning Center's financial statements. The system is web-based, and the data is stored on a server for the Franchisor's retrieval on demand. There are no contractual limitations on our right to download information from the secure server. We will have the right to require you to upgrade or update your Learning Center's computer hardware and software. Your computer must be in good repair, with sufficient memory to carry out ordinary business functions, as provided in the Manual. A copy of our Software License Agreement is attached as Exhibit D to this Disclosure Document.

We are not obligated to provide maintenance, support, upgrades, or updates to our software; however, we have the right to do so. Computer manufacturers typically offer a maintenance and support contract. We recommend that you take part in this program; however, we do not require that you enter into one.

We currently use Pro Care as our Center Management Software. Pro Care may from time to time release updated versions of the Center Management Software. The last software version was released in 2010, and the cost for this upgrade was approximately \$700 per location. We do not anticipate another modification to the Pro Care Software for at least another 10 years. We are unable to predict what the cost for the updated version may be at that time. We reserve the right to change our Center Management Software at any time.

Customer lists and all customer information generated at your Childrens Lighthouse Learning Center will be our exclusive Confidential Information, and it may not be disclosed or used in any way we do not authorize. Your employees who have access to our Confidential Information must sign a confidentiality agreement.

#### Operations Manual.

We will have online access to a multi-volume Manual containing explicit instructions for use of the Marks, specifications for goods that will be used in or sold by your Childrens Lighthouse Learning Center, sample Childrens Lighthouse forms, educational techniques, curricula, information on marketing, management, and administration methods developed by us for use in your Childrens Lighthouse Learning Center, names of approved suppliers, and other information that we believe may be necessary or helpful to you in the operation of your Childrens Lighthouse. We will revise the Manual periodically to conform to the changing needs of the franchise system and will distribute updated pages containing these revisions to you. We reserve the right to utilize electronic means to distribute updates to the Manual.

The table of contents for the operations manual is listed below:

Section		Number of Pages
Chapter 1	Introduction	4
Chapter 2	Center Management	14
Chapter 3	Center Maintenance and Safety	33
Chapter 4	Finance	22
Chapter 5	Enrollment Building	21
Chapter 6	Staff Management	15
Chapter 7	Class Management	16
Chapter 8	Parent Relations	4
Chapter 9	Quality Assessment	2
Total		131

Our initial training programs are conducted under the supervision of Daelyn Dillahunt, our Director of Franchise Training and Support. Ms. Dillahunt's has 25 years of experience in the childcare and developmental industry, and she has been with us since 2005. She is assisted by our Franchise Consultant, Christy Matthews, who has 17 years of experience in the childcare industry. Ms. Matthews has worked in the Childrens Lighthouse system since 2001. Our instructional materials include the Manual and other materials. The initial training programs cover the following subjects:

#### **INITIAL TRAINING PROGRAM**

Subject	Hours of Classroom Training	Hours of Training On-The-Job	Location
Business Management	10	5	Fort Worth, TX
Computer Training	5	5	Fort Worth, TX
Staff Hiring, Training, and Screening	8	5	Fort Worth, TX
Government Regulations	2	5	Fort Worth, TX

Marketing/ Enrollment	5	5	Fort Worth, TX
Curriculum	4	5	Fort Worth, TX
Center Management	6	10	Fort Worth, TX
Totals	40	40	

We will provide initial training in the day-to-day management and operation of a Childrens Lighthouse Learning Center for a maximum of three individuals. If this is your first Learning Center, you, or if you are an entity, at least one of your owners, and your Center Director (the person who will be responsible for managing the Learning Center) must attend and successfully complete to our satisfaction the 40 hours of classroom training that is part of the initial training we offer. Additionally, all new or replacement Center Directors must attend and successfully complete to our satisfaction the 40 hours of on-the-job training that is part of the initial training. The classroom training will be conducted at our home office in Fort Worth, Texas and the on-the-job training will be conducted at our designated training locations in the Dallas/Fort Worth, Texas area. You, or at least one of your owners, may also attend the on-the-job portion of the initial training, but we do not require it. We do not charge a fee for initial training for you and your original Center Director, but you will be responsible for paying for all transportation, lodging, meals, and other travel-related expenses incurred by attendees. In addition to the initial training, you, or at least one of your owners, and your Center Director must attend and successfully complete to our satisfaction the 40 hours of onsite post-opening assistance and training that we provide at your Learning Center. This onsite training will be conducted within the first 90 days of operation.

## ITEM 12 TERRITORY

Except for the territorial protection described below, you will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Each Childrens Lighthouse franchise is granted for a specific location, which is identified in the Franchise Agreement upon site approval.

The Accepted Location of your franchise will be located in a protected territory ("Territory"), which will be designated in the Franchise Agreement, signed by both parties, at the time you sign the lease or purchase agreement for the premises of the first Accepted Location. The minimum Territory is a 2.5 mile diameter which is used as the general guideline for establishing the Territory for each Childrens Lighthouse; however, the Territory can vary depending upon the site, natural boundaries, nearby residences and businesses, and the Territory's demographics.

With the exceptions described below, we agree not to authorize any other franchisee to establish a Childrens Lighthouse within the Territory, base any company-owned Learning Center that uses the System within the Territory, nor allow any other franchisee or company-owned Learning Center using the System to relocate to a site within the Territory as long as you are in Good Standing. "Good Standing" means that you have been in timely compliance with and are not in default of the Franchise Agreement, the Manual, and any other agreement with us or one of our Affiliates.

You will have the exclusive right to develop one Childrens Lighthouse within your Territory. You will not have a right of first refusal or option to acquire additional franchises in nearby territories

or to develop more than one Childrens Lighthouse Learning Center within your Territory. You may relocate your Learning Center in your Territory only with our prior consent and only if you are in Good Standing. As a result of the proposed relocation, we may require a change in the Territory at our discretion. If we consent to the relocation, you must execute our then-current form of franchise agreement, and you must agree to construct and equip the new Learning Center according to our then-current standards.

You will not be prohibited or restricted from soliciting business from outside your Territory. Neither we nor any of our Franchisees are restricted from soliciting business inside your Territory whether by the use of other channels of distribution, such as the Internet, catalog sales, telemarketing, other direct marketing sales or otherwise.

There are no other circumstances under which we may modify your Territory as long as the franchise agreement remains in effect.

Normally, we do not compete with our franchisees under other trade names or marks, and we have no present plans to do so. If, however, we acquire a competing childcare system or center and one of the competitor's company-owned childcare centers is located in your Territory, we will not allow our Marks or System to be used by a third party at that center. We will use best efforts to sell the competing center within one year from the date of acquisition of the competing system. We may operate the center under a different name and marks in the interim without being in default under the franchise agreement. Our failure to sell the competing center, despite best efforts, will not be a default under the franchise agreement.

You will not be required to meet any quota or conditions to maintain the exclusivity of your Territory.

### **ITEM 13 TRADEMARKS**

On January 24, 2012 the Mark consisting of the words "Childrens Lighthouse" and containing an image of a lighthouse with birds in flight used for the letter "l" in the word "Lighthouse" was registered with the U.S. Patent and Trademark Office. The Mark is registered on the USPTO's Principal Register for the entire United States with the exception of the State of Oklahoma:

<b>Mark</b>	<b>Registration Number</b>	<b>Registration Date</b>	<b>International Class</b>
Childrens Lighthouse (stylized design)	4089376	January 24, 2012	035,041,043

On April 20, 2009, the standard character and stylized design "Childrens Lighthouse" trademark was registered with the Texas Secretary of State in connection with three classes of service, as follows:

Mark	Registration No.	Registration Date	International Class
Childrens Lighthouse	801112349	April 20, 2009	035
Childrens Lighthouse	801112345	April 20, 2009	041
Childrens Lighthouse	801112351	April 20, 2009	043

No application for the registration of our principal mark "Childrens Lighthouse" has been filed with any other state trademark registry.

There are no currently effective determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court, no pending infringement, opposition or cancellation proceedings, and no pending litigation involving any of the Marks that may significantly affect the ownership or use of any Mark listed above.

The Marks are owned by Childrens Lighthouse Management I, Ltd ("CLM") and have been licensed to us under a perpetual license agreement dated January 1, 2005. CLM may terminate the license agreement at any time in its sole discretion. In the event of termination, however, CLM must honor any and all sublicenses for use of the Marks granted by us through franchise agreements. Upon termination of the license agreement, CLM also agrees to be bound by the terms and provisions of all franchise agreements then in effect, so long as each franchisee is in compliance with the terms and provisions of its respective franchise agreement. Under the license agreement, we are specifically permitted to license the use of the Marks to you and others who purchase a Childrens Lighthouse® franchise. Any assignment or transfer of our rights under this license agreement requires the prior written consent of CLM. If CLM assigns or transfers its rights in the license agreement, assignee or transferee is required to assume all CLM's rights and obligations under the license agreement, including the assumption of all obligations under existing franchise agreements.

On September 30, 2009 we instituted a concurrent use proceeding with the Trademark Trial and Appeal Board through which it is our intent to obtain a federal registration of our stylized design "Childrens Lighthouse" trademark for the United States, except for the State of Oklahoma. The opposing party to the concurrent use proceeding is Children's Lighthouse Harbor, an Oklahoma company that also provides childcare services. This company currently operates four childcare centers in Oklahoma under the trademark "Children's Lighthouse Harbor" and has registered its mark on the Oklahoma state trademark registry. As a result of this proceeding, we may elect not to grant Childrens Lighthouse® franchises in the State of Oklahoma or, if we do, we may require that all Oklahoma franchisees operate their business under a different trademark. Except for the use of the trademark "Children's Lighthouse Harbor" in Oklahoma, we are not aware of any infringing or superior uses of the Marks.

You must notify us immediately in writing if you become aware of any unauthorized use of our Trade Name, Marks or System, or if you receive notice of any claim, demand, or suit against you or your owners based upon or arising from your use of the Marks. We may select legal counsel and have the right to control the proceedings. We are not required to defend or indemnify and hold you harmless with respect to liabilities you incur to third parties in defending your right to use the Marks.

Except as provided above, we are not obligated by the Franchise Agreement to protect any rights granted to you to use the Marks or to protect you against claims of infringement or unfair

competition with respect to them. Although we are not contractually obligated to protect the Marks or your right to use them, as a matter of corporate policy, we intend to defend the Marks vigorously.

We and our Affiliates have invested substantial time, energy, and money in the promotion of the Marks. We have no present intention of altering them. However, we recognize that rights in intangible property such trademarks are often difficult to establish and defend, and that changes in the cultural and economic environment within which the System operates may make changes of the Marks desirable or necessary. Accordingly, we reserve the right to change the Marks and the specifications for each when we believe such changes will benefit the Franchise System. You are required to promptly conform, at your own expense, to any such changes.

#### **ITEM 14**

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

We do not own any patents that are material to the franchise, nor do we have any pending patent applications. We do claim copyright protection and proprietary rights in the original materials used in the System, including our curriculum, Manual, bulletins, correspondence, and communications with our franchisees, training, advertising, and promotional materials, the content and designed of our Web site, and other written materials relating to the operation of Childrens Lighthouse Learning Centers and the System ("Copyrighted Works").

There is no presently effective determination of the U.S. Copyright Office (Library of Congress) or any court affecting our copyrights. There is no currently effective agreement that limits our right to use and/or license our copyrights. We have no actual knowledge of any infringements that could materially affect the ownership, use, or licensing of the copyrights. You may not use any of our copyrighted works on the Internet without our written permission. This includes display of the copyrighted works on commercial, gaming, advertising and promotion, and social networking Web sites.

You and your employees must maintain the confidentiality of all information contained in the Manual and other information that we consider confidential, proprietary, or trade secret information. Confidential Information means all trade secrets; all elements of the System; all customer information; all information contained in the Manual; our proprietary methods and standards for teaching and directing activities; financial information; marketing data; vendor and supplier information; all other knowledge, trade secrets, or know-how concerning the methods of operation of the Learning Centers which may be communicated to you, or of which you may be apprised, by virtue of their operation under the terms of the franchise agreement, and all other information that we designate (collectively, "Confidential Information").

You must notify us promptly if you are served with a complaint in any legal proceeding that relates to our copyrights, Confidential Information or in any other way to your Childrens Lighthouse Learning Center.

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

You must devote adequate time, energy, and efforts to the management and supervision of your Childrens Lighthouse Learning Center to satisfy and honor your obligations under the Franchise Agreement. We do not require that you personally be involved in the day-to-day, direct operations of your Learning Center, but your Learning Center must at all times be under the operation of a full-time, state qualified director ("Center Director"), whose identity you must at all times disclose to us. Your Center Director must devote all his or her productive time (at least 40 hours per week) and effort to the personal supervision of your Center. The Center Director or another employee who has successfully completed our initial training program must be present at the Accepted Location whenever your Learning Center is open for business. You must obtain our written acceptance of the person you choose to be your Center Director.

You must require your Center Director and Assistant Director to sign the Confidentiality and Non-Competition Agreement in the form of Attachment C to the franchise agreement. Each individual who owns a 5% or greater interest in the franchisee entity must also sign the Confidentiality and Non-Competition Agreement in the form of Attachment C to the franchise agreement and the Guaranty in the form of Attachment D to the franchise agreement. We may also require each of your other affiliates (owners, employees, partners, and agents) to sign the Confidentiality and Non-Competition Agreement.

If we, in our sole discretion, find that a Center Director is not properly performing his or her duties, we will advise you, and you must immediately take steps to correct the situation. You must keep us informed as to the identity of your Center Director. Upon termination of employment of a Center Director, you must appoint a successor within 30 days.

There is no requirement that your Center Director have an equity interest in your Center, nor are there any other limitations on who you may hire as your Center Director except as specific state and federal laws may require.

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

You must offer and sell all products and services that we require, and only those products and services that we have approved, and in the method or manner we determine.

You may not conduct any business from your Childrens Lighthouse Learning Center other than one that is consistent with the franchise agreement and the Manual. You must operate your Childrens Lighthouse Learning Center in complete compliance with the System and specifications set out in the Manual, as well as meeting local and state codes and maintaining compliance with all state and federal laws. We may make changes in these standards and specifications, when, in our reasonable discretion, change is needed for the continued success and development of the franchise system. These changes may require the purchase of equipment, supplies, furnishings, or other goods, completion of additional training by your employees, or other costs to you. The changes may also require the modification or discontinued use of certain products and services. You must promptly conform to the modified standards and specifications at your own expense. We may add, eliminate, or modify authorized goods and services, in our sole discretion. There are no contractual limitations on our rights to make these changes.

In addition, we will, from time to time send you promotional materials, new curricula, and bulletins on new systems and new sales and marketing developments and techniques. You must use the ideas and implement the changes described in these materials within your Childrens Lighthouse Learning Center in a commercially reasonable manner.

You must seek our acceptance prior to offering care in exchange for city, state, and/or federal funding.

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

## **THE FRANCHISE RELATIONSHIP**

**This table list certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this disclosure document.**

Provisions	Section in Franchise Agreement	Summary
a. Length of franchise term	16.1	Term is 20 years.
b. Renewal or extension	16.2	If you meet conditions, you can add unlimited additional 10-year terms.
c. Requirements for Franchisee to renew or extend	16.2 - 16.5	You are in good standing, give us written notice 180 days before end of term, Sign a new franchise agreement, the terms of which may vary significantly from your existing franchise agreement., remodel, sign release, and furnish evidence of lease renewal for same term or longer.
d. Termination by Franchisee	15.3	Must give 30-day notice to cure to franchisor.
e. Termination by franchisor without cause	None	Not applicable.
f. Termination by franchisor with cause	4.1.3, 4.5.1, 15.1 and 15.2	We can terminate if you don't acquire an Accepted Location within 120 days from the date of the Franchise Agreement or if you don't complete training at least 90 days prior to your Commencement Date (both times subject to extension in our discretion); otherwise, we can terminate only if you default.
g. "Cause" defined - curable defaults	15.1.1 and 15.2	You have 10 days to cure material breaches that impairs the goodwill of the brand; you have 30 days to cure other defaults other curable defaults.



Provisions	Section in Franchise Agreement	Summary
h. "Cause" defined - non-curable defaults	15.1	Non-curable defaults include conviction of felony, misrepresentation in securing franchise, abandonment, repeated defaults (even if cured), misuse of Marks, unapproved transfer, insolvency, violation of non-compete covenants, failure to get our prior written approval when required by the franchise agreement, cessation of operations, your operation in our reasonable opinion poses a threat to public health or safety.
i. Franchisee's obligations on termination/non-renewal	15.4	Obligations include complete de-identification, final accounting and payment of amounts due, return of Manual and other property belonging to us, maintaining records for four years and making same available for audit, honoring option to purchase or lease, assigning phone numbers.
j. Assignment of contract by franchisor	10.9	May assign to financially responsible company that assumes obligations.
k. "Transfer" by Franchisee - defined	10.1	Includes transfer of contract or assets or ownership change.
l. Franchisor approval of transfer by Franchisee	10.1.2	We have the right to approve all transfers but will not unreasonably withhold approval.
m. Conditions for franchisor approval of transfer	10.1.1 – 10.1.11	New franchisee qualifies, payment of all amounts owing to us, transfer fee paid, purchase agreement approved, completion of training, new franchisee remodels and signs current franchise agreement, you sign release.
n. Franchisor's right of first refusal to acquire Franchisee's business	10.1.11	We have the right to match any offer to buy your business; you must give us 30 days' notice of proposed transfer.
o. Franchisor's option to purchase Franchisee's business	15.5	We have option to buy your business upon Termination.
p. Death or disability of Franchisee	10.5	Heirs, other than pre-approved spouse or child, must qualify or have six months to sell to a qualified buyer (see "m" above).

Provisions	Section in Franchise Agreement	Summary
q. Noncompetition covenants during term of franchise	9.5, 9.8, and Attachment C	No involvement in any competing business.
r. Noncompetition covenants after franchise is terminated or expires	9.6, 9.9, and Attachment C	No involvement in competing business for two years at the Childrens Lighthouse Learning Center or within a 10-mile radius of any other Childrens Lighthouse Learning Center.
s. Modification of agreement	19.9	Modification only by agreement of parties; Manual may change.
t. Integration/merger clause	19.9	Only the terms contained in the Franchise Agreement are binding. Nothing in the Franchise Agreement or any other related written agreement is intended to disclaim representations made in the franchise disclosure document.
u. Dispute resolution by arbitration or mediation	17.2.1	Except for certain claims, all disputes must be mediated in the city and state of our principal business office at the time mediation occurs (subject to state law).
v. Choice of forum	17.4	Litigation must be in the county and state of our principal business office at the time litigation is filed (subject to state law).
w. Choice of law	19.1	Texas law governs (subject to state law).

## ITEM 18 PUBLIC FIGURES

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

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

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

As of December 31, 2011, there were 28 Learning Centers operating in five states. Of these Learning Centers, eight were Affiliate-owned and 20 were franchised. The following summary reflects the historical financial performance of both Affiliate-owned franchised Learning Centers.

The summaries are divided into four categories:

1. Mature Franchise Learning Centers (Learning Centers that have been operational for more than 18 months),
2. Mature Affiliate Owned Schools (Schools that have been operational for more than 18 months),
3. Developing Franchise Schools (Schools that have been operational for 7 months to 18 months), and
4. New Franchise Schools (Schools that have been operational for 6 months or less).

The information listed below has been prepared from information reported to us during the 2011 fiscal year. The reported figures have not been audited by us or by an independent auditor. The information is available in printed copy and will be made available for your review upon request.

These financial performance representations do not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenues or gross sales figures to obtain your net income or profit. It is important to note that franchisees pay royalties which is a cost not incurred by Affiliate-owned Learning Centers; however, Affiliate-owned Learning Centers pay a management fee of 15% to Childrens Lighthouse Management I, LTD. You should conduct an independent investigation of the costs and expenses you will incur in operating your Learning Center. Franchisees or former franchisees listed in the disclosure document may be one source of information.

[TEXT CONTINUES]

## FISCAL YEAR ENDING DECEMBER 31, 2011

<b>MATURE FRANCHISE LEARNING CENTERS</b> (Operational for more than 18 months)	
Average Gross Revenue for Franchise Owned Units during 2011 Fiscal Year <sup>1</sup>	\$1,567,361
Average Franchise Owned Units Enrollment during 2011 Fiscal Year	179
Number of Franchise Owned Units Reporting	19 of 19
Number of Franchise Owned Units operating above Average Gross Revenue	10
Number of Franchise Owned Units operating below Average Gross Revenue	9

<b>MATURE AFFILIATE-OWNED LEARNING CENTERS</b> (Operational for more than 18 months)	
Average Gross Revenue for Affiliate Owned Units during 2011 Fiscal Year <sup>2</sup>	\$1,377,538
Average Affiliate Owned Units Enrollment during 2011 Fiscal Year	165
Number of Affiliate Owned Units Reporting	8 of 8
Number of Affiliate Owned Units operating above Average Gross Revenue	3
Number of Affiliate Owned Units operating below Average Gross Revenue	5

### Notes:

1. Of the 19 reporting Mature Franchise Learning Centers, 53% attained or surpassed the stated results.
2. Of the eight reporting Affiliate-owned Learning Centers, 37.5% attained or surpassed the stated results.

Other than the preceding financial, Childrens Lighthouse Franchise Company, does not make any representations about a franchisee's future financial performance or the past financial performance of Affiliate-owned or franchised Learning Center. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of future income, you should report it to the franchisor's management by contacting Stephen Dixon, Chief Development Officer, Childrens Lighthouse Franchise Company, 101 South Jennings Avenue, Suite 209, Fort Worth, Texas 76104, 817-338-4422, and the Federal Trade Commission, and the appropriate state regulatory agencies.

# ITEM 20

## OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1**  
**System-wide Outlet Summary**  
**For Years 2009 to 2011**

Outlet Type	Year	Outlets at Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2009	14	19	+5
	2010	19	20	+1
	2011	20	21	+1
Company-Owned	2009	9	9	0
	2010	9	8	-1
	2011	8	8	0
Total Centers	2009	23	28	5
	2010	28	28	0
	2011	28	29	+1

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than Franchisor)**  
**For Years 2009 to 2011**

State	Year	Number of Transfers
California	2009	0
	2010	0
	2011	0
Florida	2009	0
	2010	0
	2011	0
Georgia	2009	0
	2010	0
	2011	0
North Carolina	2009	0
	2010	0
	2011	0
Texas	2009	0
	2010	0
	2011	0
Total	2009	0
	2010	0
	2011	0

**Table No. 3**  
**Status of Franchised Outlets**  
**For Years 2009 to 2011**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
California	2009	0	1	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Florida	2009	2	0	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Georgia	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Indiana	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Maryland	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
North Carolina	2009	1	1	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Texas	2009	11	3	0	0	0	0	14
	2010	14	0	0	0	0	0	14
	2011	14	1	0	0	0	0	15
Total	2009	14	5	0	0	0	0	19
	2010	19	1	0	0	0	0	20
	2011	20	1	0	0	0	0	21

**Table No. 4**  
**Status of Company-Owned Outlets**  
**For Years 2009 to 2011**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Texas	2009	9	0	0	0	0	9
	2010	9	0	0	1	0	8
	2011	8	0	0	0	0	8
Total	2009	9	0	0	0	0	9
	2010	9	0	0	1	0	8
	2011	8	0	0	0	0	8

Our fiscal year ends on December 31<sup>st</sup> of each year. Our Company-Owned Centers are operated by our Affiliates.

**Table No. 5**  
**Projected Openings As of December 31, 2011**  
**For following 12 month period ending December 31, 2012**

<b>State</b>	<b>Franchise Agreements Signed But Outlet Not Opened as of December 31, 2011</b>	<b>Projected New Franchised Outlets in the Next Fiscal Year</b>	<b>Projected New Company– Owned Outlets in the Next Fiscal Year</b>
California	4	1	0
Colorado	1	0	0
Florida	1	0	0
Georgia	0	0	0
Illinois	0	0	0
Kansas	1	0	0
New Jersey	3	1	0
North Carolina	1	1	0
Texas	8	7	0
Virginia	1	0	0
<b>Total</b>	<b>20</b>	<b>10</b>	<b>0</b>

A list of all current Franchisees (by name, address, and telephone number for each Learning Center) is attached as Exhibit C to this Disclosure Document.

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

No Franchisee of Childrens Lighthouse has had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business during the most recently completed fiscal year or has not communicated with Childrens Lighthouse within 10 weeks of the date of this Disclosure Document.

During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system.

There is no trademark-specific franchise organization associated with the Childrens Lighthouse franchise system at this time.

## ITEM 21 FINANCIAL STATEMENTS

Exhibit A to this Disclosure Document is Childrens Lighthouse audited financial statements for its fiscal years ended December 31, 2011, 2010, and 2009.

**ITEM 22**  
**CONTRACTS**

Attached as Exhibits to this Franchise Disclosure Document are the following contracts and their exhibits:

**Exhibit B Franchise Agreement**

Attachments:

- A. Disclosure Acknowledgment Statement
- B. Lease Rider
- C. Non-Disclosure and Non-Competition Agreement
- D. Guaranty
- E. Collateral Assignment of Tenant's Interest in Lease
- F. Subordination Agreement
- G. Non-Disturbance and Attornment Agreement
- H. State Specific Addendum (if applicable)

**Exhibit D Software License Agreement**

**Exhibit E Release**

**ITEM 23**  
**RECEIPTS**

See the receipts at the end of this disclosure document.



## **STATE ADDENDUM**

### **CALIFORNIA**

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT.

The California Corporations Code, Section 31125, requires that we give you a disclosure document, approved by the Department of Corporations, prior to solicitation of a proposed material modification of your Franchise Agreement or Development Agreement.

The following is added to Item 3 of the disclosure document:

Neither the franchisor, nor any person identified in Item 2 of the disclosure document, is subject to any current effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, U.S.C.A., 78a et. seq., suspending or expelling such persons from membership in such association or exchange.

Item 17 of the Disclosure Document is supplemented by the following:

California Business and Professions Code, Section 20000 through 20043 provides rights to the franchisee concerning termination or nonrenewal of a franchise. If the Franchise Agreement or Development Agreement contains a provision that is inconsistent with the law, the law will control.

You must sign a release if you renew or transfer your franchise. California Corporations Code voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

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

Certain liquidated damages clauses are unenforceable under California Civil Code Section 1671.

The Franchise Agreement requires application of the laws of Texas. This provision may not be enforceable under California law.

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

Our Web site can be found at [www.childrenslighthouse.com](http://www.childrenslighthouse.com). 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).

### **ILLINOIS**

The following is added to Item 17 of the disclosure document:

In accordance with Illinois law, any provision in the Franchise Agreement that designates jurisdiction or venue in a forum outside Illinois is void with respect to any action which is

otherwise enforceable in Illinois. In addition, Illinois law will govern the Franchise Agreement with respect to those claims arising under the Illinois Franchise Disclosure Act or any other Illinois statute or regulation.

## **MARYLAND**

Item 17 of the Disclosure Document is supplemented by the following:

- (a) Any release required as part of the Franchise Agreement or as a condition of the sale, renewal, and/or assignment/transfer of the franchise shall not apply to any liability incurred under the Maryland Franchise Registration and Disclosure Law.
- (b) If any contrary provision in the Franchise Agreement, any claims arising under the Maryland Franchise Law must be brought within three (3) years after the grant of the franchise.
- (c) Any provision in the Agreement which requires litigation may be conducted in a forum other than the State of Maryland will not limit any rights you may have under the § 14-216(c)(25) of the Maryland Franchise Law to bring suit in the State of Maryland.
- (d) The Franchise Agreement provides for termination upon bankruptcy. This provision might not be enforceable under federal bankruptcy law (11 U.S.C.A. § 101 *et seq.*).
- (e) The Franchise Agreement requires application of the laws of Texas, although claims arising under the Maryland Franchise and Disclosure Law shall be governed by such law.

## **MINNESOTA**

The following is added to Item 13 of the disclosure document:

We will protect your right to use the trademarks, service marks, trade names, logos, or other commercial symbols or will indemnify you from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the marks to the extent required by Minnesota law.

The following is added to Item 17 of the disclosure document:

Under Minnesota law, and except in certain specified cases, we must give you 90 days' notice of termination with 60 days to cure. We also must give you at least 180 days' notice of our intention not to renew a franchise and sufficient opportunity to recover the fair market value of the franchise as a going concern. To the extent that the Franchise Agreement is inconsistent with the Minnesota law, the Minnesota law will control.

To the extent that any condition, stipulation, or provision contained in the Franchise Agreement or Development Agreement (including any choice of law provision) purports to bind any person who, at the time of acquiring a franchise is a resident of Minnesota, or, in the case of a partnership or corporation, organized or incorporated under the laws of Minnesota, or purporting to bind a person acquiring any franchise to be operated in Minnesota to waive compliance with the Minnesota Franchises Law, such condition, stipulation, or provision may be void and unenforceable under the non-waiver provision of the Minnesota Franchises Law.

## **VIRGINIA**

The following is added to Item 1 of the disclosure document:

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Childrens Lighthouse Franchise Company for use in the Commonwealth of Virginia shall be amended as follows:

The following statements are added to Item 17.h. of the disclosure document:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the law of Virginia, that provision may not be enforceable.

## **WASHINGTON**

If any of the provisions in the Franchise Agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the Franchise Agreement with regard to any franchise sold in Washington.

Item 6 is supplemented by the following:

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Item 17 is supplemented by the following:

Notwithstanding the provisions of the Franchise Agreement, in the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the 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.