

FRANCHISE DISCLOSURE DOCUMENT

Pro Martial Arts Franchise Corporation
a Pennsylvania corporation
630 Freedom Business Center Drive, 3rd Floor
King of Prussia, PA 19406
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Franchisor offers franchises for the right to operate martial arts studios that offer physical fitness classes and character building education using Tang Soo Do, Tae Kwon Do, and Hapkido martial arts techniques, as well as Grandmaster Samane's Karate methods.

The total investment necessary to begin operation of a GRANDMASTER SAMANE'S PRO MARTIAL ARTS KARATE® Studio is \$126,055 to \$154,675, including the \$49,000 that must be paid to the franchisor and its affiliates.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make 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 Pro Martial Arts Franchise Corporation at 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406, or by telephone at (610) 722-5600.

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your entire 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, D.C. 20580. You can also visit the FTC's home page at

www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: April 30, 2012

STATE COVER PAGE

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

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

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

Please consider these RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION, AT OUR OPTION, IN PHILADELPHIA, PENNSYLVANIA. OUT-OF-STATE MEDIATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO MEDIATE WITH US IN PENNSYLVANIA THAN IN YOUR OWN STATE.

2. ANY DISPUTES WITH US NOT SUBJECT TO MEDIATION MUST BE RESOLVED VIA LITIGATION IN PENNSYLVANIA. IT MAY COST YOU MORE TO LITIGATE WITH US IN PENNSYLVANIA THAN IN YOUR OWN STATE.

3. THE FRANCHISE AGREEMENT IS GOVERNED BY PENNSYLVANIA LAW. THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW.

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.

STATE EFFECTIVE DATES

The following states require that this 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 either registered or not registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California	Pending
Hawaii	Pending
Illinois	Effective
Indiana	Effective
Maryland	Pending
Michigan	March 13, 2012
Minnesota	Pending
New York	Pending
North Dakota	Pending
Rhode Island	Pending
South Dakota	Effective
Virginia	Effective
Washington	Pending
Wisconsin	April 4, 2012

This Disclosure Document is not required to be registered in the following states, but an exemption has been filed as required by the state's business opportunity laws and this Disclosure Document is effective as of the date specified below:

Florida	December 15, 2011
Kentucky	Effective
Nebraska	Effective
Texas	Effective
Utah	April 17, 2012

This Disclosure Document is not required to be registered and an exemption is not required to be filed in the following states and this Disclosure Document is effective as of the Issuance Date: Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Idaho, Iowa, Kansas, Louisiana, Maine, Massachusetts, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Vermont, West Virginia and Wyoming.

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EXHIBITS:

- A – List of State Administrators/Agents for Service of Process
- B – State Specific Addenda
- C – Franchise Agreement
- D – List of Franchisees
- E – Franchisees Who Have Left the System
- F – Financial Statements
- G – Form of General Release
- H – Table of Contents to the Operations Manual

RECEIPTS

Item 1

THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

THE FRANCHISOR

Pro Martial Arts Franchise Corporation is the franchisor, and is referred to in this Franchise Disclosure Document as “we”, “us”, “our”, or “Pro Martial Arts.” “You” means the person who buys the franchise and includes your owners and principals if you are a corporation or other business entity.

We are a Pennsylvania corporation formed on January 28, 2008, and do business under our corporate name and the name “Pro Martial Arts.” We do not do business under any other name. We maintain our principal business address at 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, Pennsylvania 19406. Since August of 2008, we have been offering franchises for the establishment, development, and operation of a physical fitness business incorporating karate training and self defense regimens under the “GRANDMASTER SAMANE'S PRO MARTIAL ARTS KARATE[®]” name and mark (each a “Studio”). We do not engage in any other line of business and have never offered franchises in any other line of business.

THE FRANCHISED BUSINESS

Studios offer physical fitness and self-defense classes to children and adults in a safe, healthy, and enjoyable environment. Classes focus not only on physical fitness, but also on developing participants’ self-discipline, confidence and self-esteem using a mixture of Tang Soo Do, Tae Kwon Do, and Hapkido martial arts techniques. Each Studio operates according to our proprietary system, the characteristics of which include: (a) GRANDMASTER SAMANE'S PRO MARTIAL ARTS[®] karate training and self-defense regimens; (b) uniform specifications for furniture, fixtures and equipment; (c) sales and marketing techniques; and (d) other procedures for the operation and management of a physical fitness studio (the “System”). If you purchase an individual franchise, you will sign our Franchise Agreement, which is attached to this Disclosure Document as Exhibit C.

All weapons are strictly prohibited in any Studio, except those authorized in writing by us. Those authorized weapons will be incorporated into the martial arts training and all instructors must be approved by us.

We identify the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including “GRANDMASTER SAMANE'S PRO MARTIAL ARTS KARATE[®]” and design elements including the rhinoceros logo, and any other marks we may now or in the future designate for use in connection with the system (the “Marks”). We will continue to develop, use, and control the use of the Marks in order to identify for the public the source of products and services marketed under the System, and to represent the System’s high standards of quality, appearance and service.

In addition to our single unit franchise agreement, we offer discounts to franchisees who purchase additional units from us, as described in Item 5. The option to purchase additional franchises with a reduced franchise fee must be exercised when the first franchise is purchased.

OUR PARENTS, PREDECESSORS AND AFFILIATES

Our affiliate, Ed Samane Karate, Inc. (“Affiliate”), is a Pennsylvania corporation headquartered at 300 West Swedesford Road, Berwyn, Pennsylvania 19312. Our Affiliate has owned and operated a

business of the type being franchised since August 1997, and became our franchisee in October 2009. Our Affiliate has never offered franchises in this or any other line of business.

OUR AGENTS FOR SERVICE OF PROCESS

Our agents for service of process are listed in Exhibit A.

GENERAL MARKET AND COMPETITION

The general market for the products and services to be offered by you includes adults and children of various ages and fitness levels. The fitness and exercise business is competitive. You will have to compete with other businesses selling similar fitness and health services and products. Competitors include other karate schools, training gyms, fitness centers, health clubs, health spas, and other companies offering similar fitness services, some of which may be regional or national in size and some of which may be other franchise systems.

INDUSTRY SPECIFIC REGULATIONS

You must comply with all local, state, and federal laws that apply to your ownership and operation of a Studio, including health, sanitation, anti-smoking, EEOC, discrimination, employment, and sexual harassment laws.

You may need to comply with your state, city, and county statutes or regulations regulating Health Spas, Health Clubs and Health Centers, and/or Child Care, if these laws exist in your state. For example:

Texas. Tex. Rev. Civ. Stat. Ann. art. 5221L entitled the Health Spa Act requires health spas to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

Florida. Sections 501.012 through 501.019 of the Florida Statutes entitled the Health Studio Act requires health spas to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

Kentucky. KY. Rev. Civ. Stat. Ann. art. KRS 367.900-367.930 entitled the Health Spa Act requires health spas to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

Pennsylvania. PA. Rev. Civ. Stat. Ann. P. L. 672, No. 87, 73 P.S. 2161-2174 entitled the Health Club Act requires health spas to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

Tennessee. TN. Rev. Civ. Stat. Ann. Sec. 47-18-301 through 47-18-320 entitled the Health Club Act requires health spas to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

California. CA. Civil Code Section 1812.80-1812.98 entitled Contracts for Health Studio Services requires health studios to provide certain disclosures to prospective members and provide certain financial guarantees including obtaining certain bonds and imposing certain restrictions.

In addition, certain states and municipalities require that a fitness facility must have an employee at the fitness facility at all times it is open, and in some cases this person may need to be certified in cardio pulmonary resuscitation. In addition, some states have laws requiring a fitness facility to have an automated external defibrillator (AED) and other first aid equipment on the premises, and a trained AED user on duty.

Other states may also have laws or regulations that regulate health spas and may define health spas differently. These laws or regulations may also affect the financial requirements for opening a franchise (see Item 7). You may not rely on our opinion concerning this or any other legal compliance matter and must solely rely on your own counsel for legal advice.

You must comply with all other local, state and federal laws in the operation of your Studio, which may include state laws or regulations regarding health clubs. You are advised to examine these laws and regulations before purchasing a franchise from us.

You must investigate all applicable federal, state, and local laws and regulations, and your cost to comply with such laws and regulations, with an attorney and/or financial advisor before purchasing a Studio from us. Applicable laws and regulations are subject to change.

Item 2 **BUSINESS EXPERIENCE**

CHIEF EXECUTIVE OFFICER AND PRESIDENT, ED SAMANE

Mr. Samane has been our Chief Executive Officer and President since our incorporation on January 28, 2008. Since August 1997, Mr. Samane has also held the position of President of Ed Samane Karate, Inc., and has owned and operated 5 other karate studios during the past 5 years.

VICE PRESIDENT OF FRANCHISE SALES AND DEVELOPMENT, MATT DILLON

Mr. Dillon has been our Vice President of Franchise Sales and Development since February 2011. Since July 2002, Mr. Dillon has also been Vice President of Franchise Development for Rhino 7 Consulting located in Apex, North Carolina.

VICE PRESIDENT OF OPERATIONS, KRIS SMITH

Mr. Smith has been our Vice President of Operations since February 2011. From July 2010 to February 2011, Mr. Smith was a Consultant for SMB Franchise Advisors in Doylestown, Pennsylvania. From July 2008 to July 2010, he was Vice President, Brand Services for Saladworks, LLC in Conshohocken, Pennsylvania. From September 2007 to July 2008, he was Director, Real Estate and Construction for Hollywood Tans, LLC in Sewell, New Jersey. From August 2006 to September 2007, he was Manager of Development for Dunkin Brands in Canton, Massachusetts. From March 2004 to August 2006, he was Regional Manager for Saladworks, LLC in Conshohocken, Pennsylvania.

CHIEF TRAINING INSTRUCTOR, LOUIS MARVIL

Mr. Marvil has been our Chief Training Instructor since January 2012. From January 1992 to December 2011, Mr. Marvil was the owner of Top Gun Karate located in Delaware County, Pennsylvania.

DIRECTOR OF FINANCE, HOWARD L. SOLOWAY

Mr. Soloway has been our Director of Finance since our incorporation on January 28, 2008. Since 1996, Mr. Soloway has also been Executive Vice President of the Delaware Valley Financial Group located in Philadelphia, Pennsylvania.

Item 3
LITIGATION

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

All franchisees must pay a \$49,000 lump sum “Initial Franchise Fee” when they sign a franchise agreement. The Initial Franchise Fee is deemed fully earned and non-refundable when you sign a Franchise Agreement.

ADDITIONAL UNIT FRANCHISE FEES

If you purchase multiple Franchise Agreements when you sign your first Franchise Agreement, we will discount the Initial Franchise Fee to \$31,000 for the second Franchise Agreement purchased, and \$20,000 for the third and subsequent Franchise Agreements purchased, which must be paid in one lump sum when you sign the Franchise Agreements. For two Studios, the total Initial Franchise Fee payable is \$80,000. For three Studios, the total Initial Franchise Fee payable is \$100,000.

In addition to providing you with a discount off of the Initial Franchise Fee, if you purchase multiple Studios at the same time, we will extend your time frame for opening the second and subsequent Studios. The first Studio must be open within the timeframe described in the Franchise Agreement and in Item 11 below. The second Studio must be open and operating within two years after you sign the Franchise Agreements and your third Studio must be open and operating within four years after you sign the Franchise Agreements. All Initial Franchise Fees are uniformly imposed and deemed fully earned and non-refundable upon payment.

Item 6
OTHER FEES

Name of Fee	Amount	Due Date	Remarks
Royalty Fee	7.5% of monthly Gross Revenues or the required minimum, whichever is higher	By the first day of each month	“Gross Revenues” are defined in Note 2 immediately following this table. After your 13 th month of operations, the Royalty Fee will be the greater of 7.5% of your Gross Revenues or \$1,000.
Advertising Contributions to the Marketing Fund	1% of monthly Gross Revenues	By the first day of each month	We have created a national marketing fund (the “Marketing Fund”) for the common benefit of the System. You must contribute 1% of your Gross Revenues to the Marketing Fund.
Local Advertising	<ul style="list-style-type: none"> • \$2,775 in months 3-12 of operation; • \$2,400 in months 13-24 of operation; • \$2,100 in month 25 onward You must also actively participate in grass roots public relations activities in your Exclusive Territory (as defined in Items 11 and 12).	By the first day of each month	You must participate in the local advertising programs we designate in connection with local advertising in your Exclusive Territory (“Local Advertising Programs”). Presently, we collect the Local Advertising funds and implement Local Advertising Programs in your Exclusive Territory on your behalf. You can spend any additional sums you feel are necessary on local advertising. We also require you to participate in public relations activities in your Exclusive Territory to promote your Studio to the community. See Note 4.
Regional Cooperative Advertising	Will be derived from your Local Advertising	By the first day of each month	Cooperatives have not been established at this time. Once formed, company-owned units will have the same voting power as franchise units. Payments to the Cooperative will be provided through the Local Advertising budget.
PRO MARTIAL ARTS Products	Will vary under the circumstances, based on usage	Immediately upon receipt of invoice or as otherwise arranged	You must purchase the PRO MARTIAL ARTS Products, including branded apparel, from our designated and approved suppliers.

Name of Fee	Amount	Due Date	Remarks
Training Fees	Our then-current per diem training fee, plus expenses Current fee = \$500	Immediately upon receipt of invoice	For any Training required for new Program Directors, or refresher training programs or seminars we offer or require, you must pay our standard training fee. You must pay for all travel, meals and lodging costs and applicable wages for your attendees. See Note 3 regarding the method of payment of fees due to us.
Insurance Coverage	Cost of the insurance, interest on the monies we advance and a reasonable fee	Immediately upon receipt of invoice	If you fail to maintain the insurance required by the Franchise Agreement, we may obtain the required insurance and charge you the cost of the insurance, interest on the monies we advance, and a reasonable fee for our efforts.
Reimbursement of Audit Costs	Actual cost to us	Immediately upon receipt of invoice	We have the right to have an audit made of your records and conduct a physical inventory. If any inspection discloses an understatement of any reported amount of any type, in any report, of 2% or more of Gross Revenues, you must, in addition to paying us the amount of the understatement, reimburse us for all expenses of the inspection (including reasonable accounting and attorneys' fees and costs).
Deficiencies	Actual cost to us	Immediately upon receipt of invoice	If you do not satisfy your obligations under the Franchise Agreement, we may perform your obligations for you. You must reimburse us for our costs in performing your obligations.
Renewal Fee	None	Not Applicable	Not Applicable
Transfer Fee	\$7,500 plus any broker fees if applicable	At the time of transfer	Upon a transfer, you or your personal representative or other legal representative must pay a Transfer Fee in lieu of an Initial Franchise Fee.
Fee for Lost Manuals	\$200 for each Manual	Immediately upon receipt of invoice	Upon the theft, loss or destruction of any of the Manuals, a replacement copy will be loaned to you at a fee of \$200 for each Manual. A partial loss or failure to update any Manual is considered a complete loss.

Name of Fee	Amount	Due Date	Remarks
Interest on Late Payments	The lesser of: (i) 18% per annum; or (ii) the maximum rate of interest permitted by law.	Immediately upon receipt of invoice	Although each failure to pay monies when due is an Event of Default, to encourage prompt payment and to cover the costs involved in processing late payments, if any payment under the Franchise Agreement or any other agreement between us and you is overdue for any reason, you must pay to us, on demand, in addition to the overdue amount, any insufficient funds (NSF) charges we incur and interest on the overdue amount from the date it was due until paid equal to the lesser of: (i) 18% per annum; or (ii) the maximum rate of interest permitted by law.
Late Charge	\$250	Immediately upon receipt of invoice	In addition to interest on overdue amounts, you must pay a late charge for each payment that is more than 5 days overdue to cover our administrative costs in dealing with the late payment.
Prohibited Products or Services Fee	\$100 per day that unauthorized products or services are offered	Immediately upon receipt of invoice	Payable if you offer or sell any product or service that we have not approved for offer or sale in the System
Indemnification	Varies	Immediately upon receipt of invoice	You indemnify and hold us harmless from all damages (including reasonable attorneys' fees and costs, even if incident to appellate, post-judgment or bankruptcy proceedings), from claims brought by third parties involving your ownership or operation of your Studio. This indemnity obligation continues in full effect after the expiration or termination of your Franchise Agreement.

Name of Fee	Amount	Due Date	Remarks
Enforcement Costs	Varies	Immediately upon receipt of invoice	If any arbitration, legal action or other proceeding is begun for the enforcement of your Franchise Agreement, or for an alleged dispute, breach, default or misrepresentation under any provision of your Franchise Agreement, the prevailing party is entitled to recover reasonable pre-institution and post-institution attorneys' fees, court costs and all expenses even if not taxable as court costs. If we engage legal counsel for your failure to pay when due any monies owed under your Franchise Agreement or submit when due any reports, information or supporting records, or for any failure otherwise to comply with your Franchise Agreement, you must reimburse us for all of the Enforcement Costs we incur.
Business Management Software	\$49 per month	Immediately upon receipt of invoice	Business management software to help you manage your franchise operations. Payable to third-party suppliers.

1. Unless stated otherwise, all fees in this Item 6 are payable to us and are non-refundable.

2. This fee is payable to us. "Gross Revenues" means the entire amount of all of your revenues from the ownership or operation of your Studio or any business at or about the Premises including the proceeds of any business interruption insurance and any revenues received from the lease or sublease of a portion of the Premises, whether the revenues are evidenced by cash, credit, checks, services, property or other means of exchange, excepting only the amount of any sales taxes that are collected and paid to the taxing authority (based on the cash method of accounting). Cash refunded and credit given to customers and receivables uncollectible from customers will be deducted in computing Gross Revenues to the extent that the cash, credit or receivables represent amounts previously included in Gross Revenues where Royalty Fees and Advertising Contributions were paid. Gross Revenues are deemed received by you at the time the goods, products, merchandise or services from which they derive are delivered or rendered or at the time the relevant sale takes place, whichever occurs first. Gross Revenues consisting of property or services (for example, "bartering" or "trade outs") are valued at the prices applicable, at the time the Gross Revenues are received, to the products or services exchanged for the Gross Revenues.

3. All required monthly payments to us must be submitted to us by the first day of each month (or the next business day if the first day of any month is not a business day). All other amounts owed to us are due as specified above. If no time is specified, these payments are due upon receipt of our invoice. At our option, your payments to us, including the Royalty Fee and the Advertising Contributions, must be made by the use of pre-authorized transfers from your operating account through the use of special checks or electronic funds transfer that we will process at the time any payment is due. You must sign any forms required by us, our bank or your bank to accomplish electronic funds transfer.

4. If we notify you that we will cease implementing Local Advertising Programs in your Exclusive Territory using your Local Advertising funds, you must develop your own advertising materials or use

any approved advertising materials we provide in marketing your Studio within the Exclusive Territory, and provide us with proof of Local Advertising expenditures along with your gross revenues reports.

Item 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee ¹	\$49,000	Lump Sum	On signing the Franchise Agreement	Us
Misc. Supplies ²	\$500	Lump sum	When ordered	Suppliers
Opening Inventory ³	\$500	Lump sum	As Incurred	Suppliers
Insurance – 3 Months ⁴	\$255 to \$375	As Agreed	As Incurred	Insurer
Printing and Signage ⁵	\$4,000 to \$7,500	Lump sum	As Incurred	Suppliers
Computer System ⁶	\$750	Lump Sum	As Incurred	Suppliers
Leasehold and Security Deposits ⁷	\$4,000 to \$6,000	Lump sum	As Incurred	Third Parties
Grand Opening ⁸	\$14,500	As Incurred	As Incurred	Suppliers
Site Selection ⁹	\$5,000	Lump Sum	As Incurred	Designated Vendor
Leasehold Improvements ^{10a}	\$8,500 to \$16,000	As Incurred	As Incurred	Various contractors/ Suppliers
Architect Fee ^{10b}	\$750 to \$1,500	Lump Sum	As Incurred	Architect
Equipment ^{11a}	\$13,000 to \$15,000	Lump Sum	As Incurred	Suppliers
Web Camera ^{11b}	\$1,300	Lump Sum	As Incurred	Suppliers
Licenses and Permits ¹²	\$500 to \$750	Lump sum	As Incurred	Governmental Agencies
Legal and Professional Fees ¹³	\$1,000 to \$2,000	Lump Sum	As Incurred	Attorney
Travel, Lodging, Meals, Etc. for Initial Training ¹⁴	\$1,500 to \$3,000	As Incurred	During Training	Suppliers
Mascot Costume ¹⁵	\$1,000	As Incurred	As Incurred	Suppliers

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Additional Funds ¹⁶ (3 months)	\$20,000 to \$30,000	As Incurred	As Incurred	Third Parties
TOTAL	\$126,055 to \$154,675			

Unless otherwise indicated below, all of the fees listed below are imposed by, payable to, and collected by us and are non-refundable.

1 Initial Franchise Fee. See Item 5 for a discussion of the Initial Franchise Fee.

2 Misc. Supplies. The supplies include housekeeping, janitorial disinfectants and other miscellaneous supplies.

3 Opening Inventory. The typical for-sale items held in opening inventory are protective gear, and PRO MARTIAL ARTS wearing apparel. The inventory does not fluctuate as a function of seasonal sales.

4 Insurance. As discussed in Item 8 of this disclosure document and Section 10 of the Franchise Agreement, you must carry certain specified insurance for a Studio, which will vary depending on the number of students you have. The method and timing of payments for your insurance policies may vary based on the insurance company's practices and your credit history. Because the selection of the carrier, size of the Studios, value of the leasehold improvements, amount of inventory, amount of wages and other related conditions will vary, it is difficult to estimate the ultimate cost to you. Therefore, we can only estimate the total cost with the caution that you should obtain quotes from carriers of choice before proceeding.

5 Printing & Signage. We will designate the indoor and outdoor signage and graphics to be used at your Studio. You must obtain your landlord's approval of our proposed graphics and prepare, construct and erect our designated signs and graphics at your expense, in accordance with applicable laws and regulations. The costs of fabricating and installing approved signs and graphics can vary depending upon local market conditions.

6 Computer System. You must purchase the computer system that we specify. Our specifications for your computer system are included in Item 11.

7 Lease, Utility, and Security Deposit. You must operate your Studio from a dedicated facility. We expect that you will lease a Studio space, rather than own real estate and construct a building. Lease costs will vary based upon variances in: (i) size in square feet to be leased; (ii) cost per square foot; and (iii) common area maintenance costs. These variances are determined by location, the length of the lease, the age of the leased property, local market conditions, the size of the Studio and the bargaining power of the developer or property management company. Our estimate assumes that the landlord will require first and last months' rent and a security deposit equal to one months' rent. We expect that you will need approximately 2,000 square feet of space for the Studio. Lease costs will vary in each market.

8 Grand Opening. You must aggressively promote your Studio's opening and general awareness of the Studio among large numbers of potential customers in your Exclusive Territory. Grand

opening promotional activities include advertising, direct mail marketing, making promotional offers for classes, and media management. We must approve of your grand opening promotional campaign before it is conducted.

9 Site Selection. We will designate a vendor who will provide, for a fee paid to the vendor, certain site selection and lease negotiation assistance. You must use our designated vendor for these services.

10 Leasehold Improvements; Architect Fee. The cost of leasehold improvements for your Studio will vary based on the size, condition and location of the Studio, price differences among contractors, local wage rates and material costs, other local conditions and the nature of your leasehold improvements. The previous tenant or landlord may have installed leasehold improvements that are compatible to your needs, which may reduce your costs. All leasehold improvements must meet our current standards for layout, traffic flow and other specifications. We must approve of your construction plans to ensure that they comply with our standards and specifications prior to implementation, but you and your architect must make sure that the construction plans comply with all applicable laws, ordinances and building codes. Your landlord may provide many of these tenant improvements at no additional cost to you. Franchisees who opened last year received in average of \$18,720 in tenant improvement funding from landlords, in addition to rent subsidies.

11 Equipment; Web Camera. You must purchase certain equipment including mats, karate equipment, furniture and cleaning equipment. You must also purchase and install a Web based camera system for security. The Web based camera system must be purchased from our approved supplier, and must be installed so that we will have access to this camera system and its images at any time.

12 Licenses and Permits. Local, municipal, county and state regulations vary on what licenses and permits are required to operate a Studio. Classification of various types of fitness centers by local governments can cause the cost of licenses to vary. You must make sure of the specific licenses and permits you will need, and the availability and cost of these licenses and permits.

13 Legal and Professional Fees. We believe that it is important for you to consult with your own accountant, attorney, risk management and/or business advisor before making any decision to enter into a Franchise Agreement with us. You should also use an attorney or other business advisor to review any lease or other agreements that you enter in connection with your Studio or other independent business relationship.

14 Travel, Lodging and Meals While Attending Training. We will provide our initial training program at no additional charge for up to three people (you, an instructor and a salesperson), but you must pay for all out-of-pocket expenses, such as travel, lodging and meals, workers' compensation insurance and all employee compensation along with federal and state taxes for you and your trainees. The total amount of your expenses will vary depending on the distance the trainees must travel and the type of accommodations chosen.

15 Mascot Costume. You must purchase the Rocky the Rhino mascot costume for your Studio.

16 Additional Funds. You will need additional funds to support ongoing expenses, such as payroll and local advertising, if these costs are not covered by sales revenue, for your first three months of operation. New businesses often generate a negative cash flow. We estimate that the amount given will be sufficient to cover ongoing expenses for the start-up phase of the business, which we calculate to be

three months. This is only an estimate and there is no guarantee that additional working capital will not be necessary during this start-up phase or after. We do not guarantee that you will not have greater start-up expenses than these estimates, or that you will not need more operating funds than these estimates. We do not imply or guarantee that you will “break even” by any particular time.

We relied on our management staff’s experience since 1997 as owners and operators of karate schools in the Philadelphia metropolitan area, utilizing the Marks, to compile these estimates. You should review these figures carefully with a business advisor before making any decisions to purchase a Studio.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

PURCHASES FROM US OR OUR DESIGNEE

You must purchase or lease the following goods, services, supplies, equipment (including computer hardware and software) or inventory for the establishment of your Studio from us or from suppliers approved by us or under our specifications. Currently neither we nor our affiliate is a supplier of any products or services. None of our officers has an ownership interest in any approved supplier.

PRO MARTIAL ARTS PRODUCTS

We have approved certain private label products for use in the System (the “PRO MARTIAL ARTS Products”), and you must purchase PRO MARTIAL ARTS Products from us or from an approved source we designate. All PRO MARTIAL ARTS Products sold by or through us to you must be sold under the terms we or the manufacturer of the private label products states in writing. Except as we state in writing and sign, we do not make any express or implied warranties for these private label products, but you will be entitled to any manufacturer’s warranties for PRO MARTIAL ARTS Products and subject to the manufacturers’ return policies.

The cost of inventory and equipment purchased from us, from our affiliates or from approved suppliers, or according to our specifications, will represent approximately 35% of your total purchases in connection with the establishment of your Studio, and less than 5% of your total purchases in the operation of your Studio.

OTHER ITEMS

You must use a membership billing service for items purchased from us or from suppliers approved by us or under our specifications.

SPECIFICATIONS AND STANDARDS

To help retain the uniform and high standards necessary to retain and enhance the goodwill of the System and your acceptance in your market, we provide specifications and/or required suppliers for the purchase or lease of certain items. Specifications may include standards for enhancing the System’s image and minimum standards for safety, appearance and other factors. We design and modify specifications based upon the uniform and high standards necessary to retain and enhance the goodwill of the System. Specifications are issued to you in the Manuals or otherwise in writing. The categories for these purchases or leases are as follows:

FLOOR PLAN AND DESIGN SPECIFICATIONS

We will loan to you a sample set of our standard recommended floor plan for you to conform to your Studio. We will also loan to you specifications of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for your Studio, some of which must be purchased from approved suppliers.

Before you may use them, you must submit your construction plans to us for our review. Our review will only assess whether the construction plans accurately and effectively promote the Marks and the System. Our review is not meant to verify compliance with any applicable laws, ordinances or building codes. You and your architect must make sure that the construction plans comply with these.

SPECIFICATIONS FOR PRO MARTIAL ARTS UNIFORMS

We will loan you specifications for uniforms for your employees that you must purchase directly from our approved suppliers.

INSURANCE

You must obtain and maintain insurance, at your expense, as we require, in addition to any other insurance that may be required by applicable law, your landlord, lender or otherwise. The policies must be written by an insurance company reasonably satisfactory to us with an A.M. Best rating of "A" or better, and include the risks, amount of coverage and deductibles as stated in the Manuals. We reserve the right to modify our insurance requirements at any time and you must comply with our changed requirements. All insurance must name us as an additional named insured and include a waiver of subrogation in our favor.

ADVERTISING

You must submit to us, for our approval, all materials to be used for Local Advertising, unless they have been approved before or they consist only of materials we have provided. All materials containing Marks must comply with the specifications stated in the Manual and according to Section 8.1 of the Franchise Agreement. At our request, you must include certain language in your Local Advertising materials, such as "Franchises Available" and our telephone number and website address.

APPROVED SUPPLIES AND SUPPLIERS

You must purchase or lease equipment, supplies, inventory, advertising materials, construction services and other products and services used for the operation of your Studio only from authorized manufacturers, contractors and other suppliers who demonstrate, to our continuing reasonable satisfaction, that they: (i) have the ability to meet our reasonable standards and specifications for the items; (ii) possess adequate quality controls and capacity to supply your needs promptly and reliably; and (iii) have been approved in writing by us and not later disapproved. We have the right to require, as a condition of our approval of any particular product, service, or supplier, that our representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, at our option, either to us or to an independent, certified laboratory we designate for testing. We will not be liable for damage to any sample that may result from the testing process. You must also, as a condition to our approval, have the supplier present satisfactory evidence of insurance, for example, product liability insurance, protecting us and you from all claims from the use of the item within the System. We will give approval or disapproval in writing, which will be delivered to you by regular mail within 30 days after all testing and the above conditions have been completed.

We may approve a single supplier for any brand and may approve a supplier only as to a certain brand or brands. In approving suppliers for the System, we may take into consideration the price and quality of the products or services offered by the supplier, the reliability of the supplier, the supplier's production and delivery capability, overall business reputation, and financial condition. We have the right to receive payments from suppliers on account of their dealings with you and other franchisees and to use the amounts we receive without restriction. We will not approve an unreasonable number of suppliers for any given item which, in our reasonable judgment, would result in higher costs or prevent the effective or economical supervision of suppliers. We may concentrate purchases with one or more suppliers to obtain the lowest prices and/or the best advertising support and/or services for any group of Studios in the System. Approval of a supplier may be conditioned on requirements for the frequency of delivery, standards of service, including prompt attention to complaints, and concentration of purchases, as stated above, and may be temporary, pending our additional evaluation of the supplier. If we later disapprove a supplier, we will notify you in writing of the disapproval. You must stop purchasing from that supplier within a reasonable time after your receipt of our notice of disapproval. We are not required to approve any particular good, product, or supplier.

We provide material benefits to you based on your use of designated or approved suppliers through negotiated purchase arrangements with suppliers for your benefit and the benefit of the other franchisees. We do not provide you with other material benefits, such as the grant of additional or renewal franchises, based on your use of designated or approved suppliers.

REVENUE FROM APPROVED SUPPLIES AND SUPPLIERS

Our equipment vendors and suppliers pay us rebates ranging from 1% to 10% on required franchisee purchases. During our fiscal year ended December 31, 2011, we derived \$7,900, or 1.5% of our total revenue of \$524,234 from required franchisee purchases. We do not presently require franchisees to enter into leases for required goods or services. We reserve the right to receive compensation from suppliers for creating or maintaining purchasing relationships. If we create an arrangement with an approved supplier where the approved supplier pays to us rebates or other compensation based on purchases by our franchisees, we cannot estimate the amount of these potential rebates or payments. If we receive these rebates or payments, there will be no restriction on our use of these monies.

PURCHASING OR DISTRIBUTION COOPERATIVES

There are currently no purchasing or distribution cooperatives that you must join or in which you may participate.

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 acquisition/ lease	Section 3.1, 5.1-5.3, Exhibits 1 and 2 to the Franchise Agreement	ITEMS 6, 7, 8 and 11.
b. Pre-opening purchases/ leases	Sections 3.2, 3.2, 5.9	ITEMS 5, 7, 8 and 11.
c. Site development and other pre-opening requirements	Sections 5.1-5.3, Exhibits 1 and 2 to the Franchise Agreement	ITEMS 5, 7, 8 and 11.
d. Initial and ongoing training	Sections 3.5 and 5.23	ITEMS 6, 7, 8 and 11.
e. Opening	Section 5.4	ITEMS 7, 8 and 11.
f. Fees	ARTICLE 3 and ARTICLE 8	ITEMS 5, 6 and 7.
g. Compliance with standards and policies/ Operating Manual	Section 3.4, ARTICLE 5	ITEMS 8, 11 and 14.
h. Trademarks and proprietary information	ARTICLES 6	ITEMS 13 and 14.
i. Restrictions on products/ services offered	Sections 5.9 and 5.10	ITEMS 8 and 16.
j. Warranty and customer service requirements	Section 5.10	ITEM 8.
k. Territorial development and sales quotas	ARTICLE 1	ITEM 12.
l. Ongoing product/ service purchases	Sections 5.9 and 5.10	ITEMS 6 and 8.
m. Maintenance, appearance and remodeling requirements	Sections 5.6 and 5.19	ITEMS 6, 7 and 8.
n. Insurance	ARTICLE 10	ITEMS 6, 7 and 8.
o. Advertising	ARTICLE 6	ITEMS 6, 7, 8 and 11.
p. Indemnification	Section 15.2	ITEMS 6 and 8.
q. Owner's participation/ management/ staffing	Section 5.8	ITEMS 6 and 15.

Obligation	Section In Franchise Agreement	Disclosure Document Item
r. Records and reports	Section 9.1	ITEM 8.
s. Inspections and audits	Section 9.2	ITEMS 6, 8 and 11.
t. Transfer	ARTICLE 11	ITEMS 6 and 17.
u. Renewal	Section 2.2	ITEMS 6 and 17.
v. Post-termination obligations	ARTICLE 13	ITEM 17.
w. Non-competition covenants	ARTICLE 14	ITEM 17.
x. Dispute resolution	ARTICLE 16	ITEMS 6 and 17.

Item 10
FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease or other obligations.

Item 11
FRANCHISEE'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

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

PRE-OPENING OBLIGATIONS

Before you begin operating your Studio, we or our designee will provide you with the following assistance and services:

(a) **Site Selection Assistance.** We must approve the proposed site for your Studio in writing before you begin any construction of improvements. Our site selection process is described below. (Sections 3.1 and 5.1-5.3 of the Franchise Agreement.)

(b) **Plans and Specifications.** We will loan to you our standard recommended floor plan. (Section 3.2 of the Franchise Agreement)

(c) **Design Specifications.** We will loan to you our specifications for design, decoration, layout, equipment, furniture, fixtures and signs for your Studio. (Section 3.2 of the Franchise Agreement.)

(d) **Uniform Requirements.** We will provide you with specifications for uniforms for your employees that you must purchase from our approved suppliers. (Section 3.2 of the Franchise Agreement.)

(e) **Accounting, Cost Control and Inventory Control Systems.** We will provide you with standardized member billing and accounting systems. (Sections 3.2 and 5.22 of the Franchise Agreement.)

(f) **Lists, Forms and Schedules.** We will loan to you a list of required equipment, supplies, materials, inventory and other items necessary to operate your Studio, a list of approved suppliers of all items, and an initial set of forms, including the standard brochure and various operation forms, including standardized periodic reporting forms for reporting accounting information, cost analysis and purchase order forms. We will also make available to you a schedule of items that must be purchased from us and/or third-party suppliers. These forms and schedules are listed in the Manuals. We do not warrant the completeness, legality or enforceability of any agreements or forms. You must retain your own counsel to review and conform such agreements and documents to all applicable federal and state laws. (Section 3.2 of the Franchise Agreement.)

(g) **Initial Training.** We will provide Initial Training for up to three trainees. (Section 5.23 of the Franchise Agreement.)

(h) **Loan of the Manuals.** We will loan you one registered copy of each volume of the Manuals. To protect our reputation and goodwill and to maintain uniform standards of operation under the Marks, you must conduct your business according to the Manuals. You must at all times treat and maintain the Confidential Information as confidential and our trade secrets. The Manuals must, at all times, be kept in a secure area within the Studio. You must strictly limit access to the Confidential Information to your employees, to the extent they have a “need to know” in order to perform their jobs. You must report the theft, loss or destruction of the Manuals, or any portion of the Manuals, immediately to us. Upon the theft, loss or destruction of any Manuals, we will loan you a replacement copy at a fee of \$200 for each Manual. A partial loss or failure to update any Manual is considered a complete loss. You must not at any time, without our written consent, copy, record or otherwise reproduce any of the Confidential Information. All persons whom you permit to have access to the Manuals or any other Confidential Information must first sign a confidentiality agreement. Our Manuals contain proprietary information and you must keep this information confidential as described in Item 14. The current Operations Manual is 132 pages, with 42 pages of the actual Manual and 90 pages of Appendices, which include signage criteria, marketing materials, forms, sales scripts, etc. The table of contents to our Operations Manual is attached as Exhibit H to this Disclosure Document.

(i) **Pre-Opening Inspection.** We have the right to inspect your Premises before you open to insure that you conform to applicable franchisee standards before the Opening Date. (Section 5.4 of the Franchise Agreement.) You may not open your Studio for business until we permit you to do so.

Except as otherwise stated above, these obligations of ours will be satisfied at Initial Training, or within 30 days after Initial Training.

CONTINUING OBLIGATIONS

During the operation of your Studio, we or our designee will provide you with the following, if you are not in default under your Studio Agreement:

(a) **Accounting Services.** We will provide you with a bookkeeping format for reporting Gross Revenues utilizing forms that we develop, and may periodically modify, for membership sales, product sales, and general and administrative activities. (Section 9.1 of the Franchise Agreement.)

(b) **Ongoing Assistance.** We will provide you with continuing consultation and advice, as we deem necessary in our sole discretion, regarding the management and operation of the Studio. We may provide this assistance by telephone, facsimile, and intranet communications, as we deem advisable and subject to the availability of our personnel. Our information assistance will include communications

on new developments, improvements in equipment and supplies, and new techniques in advertising, service and management relevant to the operation of the Studio. (Section 3.6 of the Franchise Agreement.) We will provide on-site assistance upon request, and subject to the availability of our personnel, at our then-current rate for such assistance.

(c) **Advertising and Public Relations Campaigns.** We will generally promote Studios through advertising and public relations campaigns at our option. (Subsection 2.11(d) of the Franchise Agreement.) We make no guarantee that any individual Studios will benefit directly or indirectly from the promotions we conduct.

(d) **Local Advertising.** We will provide you advice on Local Advertising. (Section 8.1 of the Franchise Agreement.)

(e) **Promotional Methods and Materials.** We will provide you with promotional methods and materials we may develop. (Section 3.10 of the Franchise Agreement.)

(f) **Research and Development.** We will continue to research and develop new equipment, products, services, introductions and techniques, as we deem appropriate in our sole discretion. We may conduct market research and testing to determine consumer trends and the salability of new products and services. If we choose you, and if you accept, you must participate in our market research programs by test marketing new products and services in the Studio and by providing us with periodic reports and other relevant information regarding that market research. If you participate in any test marketing, you must purchase a reasonable quantity of the products or services being tested and effectively promote and make a good faith effort to sell them. (Subsection 3.8 of the Franchise Agreement.)

(g) **Refresher or Additional Training.** We may provide refresher training programs, seminars, or advanced management training for you and your employees at our headquarters or any other location we may designate, as may be required at our option, which you or your Program Director and/or Chief Instructor must attend. Training is not required more often than once a year. However, if you receive an unsatisfactory inspection report from us and fail to promptly remedy the deficiencies, your Program Director, Chief Instructor and/or designated employees must attend refresher training as soon as reasonably possible. You must pay for all expenses associated with these programs including the then prevailing standard training fee we charge for these programs and all travel, meals and lodging costs of your attendees. (Section 5.23 of the Franchise Agreement.)

ADVERTISING PROGRAMS

LOCAL ADVERTISING (Section 8.1 of the Franchise Agreement.)

You must spend the following on local advertising within your Exclusive Territory (the “Local Advertising”):

Months of Operation	Local Advertising Expenditure
3 rd - 12 th Months of Operation	\$2,775
13 th - 24 th Months of Operation	\$2,400
25 th and Subsequent Months of Operations	\$2,100

You will be required to use the Local Advertising to participate in mandatory marketing plans for your Studio, which may include placing certain amounts and types of television, radio, print, billboard, internet, and other advertisements through our approved and designated vendors (“Local Advertising

Programs”). While we are not obligated to do so, we currently collect the Local Advertising on the first of each month to implement Local Advertising Programs on your behalf.

You may spend any additional amounts you deem necessary on advertising. All self-generated advertising materials must be completely factual, conform to the highest standards of ethical marketing, and comply with applicable law. You must submit self-generated advertising materials to us for our approval, and cannot use any self-generated advertising materials without our approval. If you have not received the written or oral disapproval of materials submitted within 15 days from the date we received the materials, the materials are deemed not approved. Any proposed advertising materials you submit to us for our review will become our property, and there will be no restriction on our use or distribution of these materials. At our request, you must include certain language in your Local Advertising, such as “Franchises Available” and our Website address and telephone number. We may require you to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved, if in our judgment, the materials or advertising may injure or be harmful to the System. We must make this requirement in writing, and you have 5 days after receipt of notice to withdraw and discontinue use of the materials or advertising, unless otherwise agreed in writing. The submission of advertising to us for our approval does not affect your right to determine the prices at which you sell your products or services. We will notify you in writing if we cease to collect the Local Advertising from you. If, at any time, we cease to collect the Local Advertising, you must provide us with proof of your Local Advertising expenditures in the manner and time frames that we require. You must also participate in grass roots public relations activities to promote your Studio. (Section 8.1 of the Franchise Agreement.)

WEBSITE ADVERTISING (Section 8.3 of the Franchise Agreement.)

You must have and maintain adequate hardware and software in order to access the Internet at the bit speed we require from time to time. We have the right, but not the obligation, to establish and maintain a website that provides information about the System and the products and services offered by Studios. If we exercise our right to create such a website, we will have sole discretion and control over it. We also have the right, but not the obligation, to create interior pages on our website(s) that contain information about your Studio and other PRO MARTIAL ARTS Studios. If we do create such a page, we may require you to prepare all or a portion of the page for your Studio, at your sole expense, and may require you to use a template that we provide.

Unless you obtain our prior written consent, you are prohibited from establishing or maintaining a separate website, or otherwise maintaining a splash page or other presence on the Internet through any social networking site in connection with the operation of your Studio, including without limitation, Facebook, LinkedIn, MySpace, Plaxo, Twitter and YouTube, that uses any variation of the Marks or references the System. If you seek and obtain our approval to create a separate website or other web presence, you must: (i) establish and operate the website according to our standards and policies as we describe the Manuals or otherwise in writing from time to time; and (i) utilize any templates that we provide to you to create and/or modify your site(s).

We have the right to modify our policies regarding both our and your use of Internet websites as we deem necessary or appropriate for the best interests of the System. We or our affiliate will be the sole registrant of any other domain names we decide to register in connection with the System in the future. You are prohibited from registering any domain name that contains words used in, or similar to, any trademark or service mark owned or used by us or our affiliate, or any colorable variation thereof (including any abbreviation, acronym, phonetic variation or visual variation).

There may be additional advertising requirements contained in your Studio lease. The extent of these advertising requirements may be subject to negotiation; consequently, the extent of any advertising obligation, if any, may be unknown to us.

REGIONAL COOPERATIVE ADVERTISING (Section 8.2 of the Franchise Agreement.)

We have the right, in our discretion, to establish a regional advertising cooperative in any geographical area where there are multiple franchisees. You must immediately upon our request become a member of the Cooperative for the area where some or all of your Exclusive Territory is located. Your Studio will not need to be a member of more than one Cooperative. You must contribute to the Cooperative the amount the Cooperative determines and that amount will be credited against your obligation for Local Advertising. We will determine who is responsible for the administration of each Cooperative. Cooperatives are not required, but are expected, to operate subject to the terms of written documents. Upon the establishment of your Cooperative, you will be provided a copy of any written document governing the Cooperative. The Cooperative will determine whether and when financial statements of the Cooperatives' activities will be prepared; however, we have the right to inspect the financial records of any Cooperative. We also have the right to change, dissolve or merge any Cooperatives. Each Cooperative will render quarterly reports to us of its advertising expenditures. We do not receive any portion of the contributions to the Cooperative. (Section 8.2 of the Franchise Agreement.)

MARKETING FUND (Section 8.4 of the Franchise Agreement.)

(a) We have created a special fund called the "PRO MARTIAL ARTS Marketing Fund" (the "Marketing Fund"), into which the Advertising Contributions are deposited, which is for the benefit of all Studios in the System who contribute to the Marketing Fund. The Marketing Fund was established in the fiscal year ending December 31, 2011, but we did not spend any contributions during the 2011 fiscal year.

(b) We have the right to use the Marketing Fund contributions, in our sole discretion, to develop, produce, and distribute national, regional and/or local marketing materials and to create advertising materials and public relations materials which promote, in our sole judgment, the services offered by System franchisees. We may use the Marketing Fund to satisfy any and all costs of maintaining, administering, directing, preparing, and producing advertising, including (a) the cost of preparing and producing television, radio, magazine, and newspaper advertising campaigns; (b) the cost of direct mail; (c) the cost of soliciting National Accounts; (d) the cost of public relations activities and advertising agencies; (e) the cost of developing and maintaining an Internet website; (f) the cost of the annual convention; and (g) personnel and other departmental costs for advertising that we internally administer or prepare. Not all System franchisees will benefit directly or on a pro rata basis from such expenditures. (Subsection 7.6(b) of the Franchise Agreement.) While we do not anticipate that any part of Marketing Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Marketing Fund for public relations or recognition of our brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available."

(c) We will use the Marketing Fund contributions to develop and prepare advertising which we will distribute to System franchisees for their placement in the local media. The advertising will be prepared by us and by outside sources. If we do not spend all Marketing Fund contributions by the end of each fiscal year, the funds will be carried forward into the next fiscal year. You must contribute to the Marketing Fund regardless of amounts due from other System franchisees. There is no requirement that the Marketing Fund be audited. Upon your written request, we will provide you with an unaudited

accounting of Marketing Fund expenditures within 60 days after the end of each fiscal year. We have the right to incorporate the Marketing Fund as a separate business entity. The Marketing Fund is not a trust or our asset and we are not a fiduciary to you with respect to, or a trustee of, the Marketing Fund or the monies therein.

(d) You must authorize us to act as your sole agent to enter into contracts with parties offering promotions, discounts or other programs whereby you would receive marketing rebates or marketing allowances (“Rebates”) from handling items offered for sale by the parties. You must assign all of your right, title and interest in all Rebates to us, and authorize us to furnish any proof of purchase evidence as may be required according to the contracts. Non-marketing related rebates received by us will not be contributed to the Marketing Fund.

(e) We may periodically assist franchisees to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives (“Surveys”). The cost of such programs will be borne by the Marketing Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below System-established minimum standards for such Surveys.

(f) There is presently no franchisee advisory council associated with the Marketing Fund, but it is our intention to form a franchisee advisory council once we have a sufficient number of franchisees to form such an organization. If formed, it will consist of 2 members elected by franchisees for a term of 1 year, with each franchisee having one vote per franchise agreement, and 2 council members selected by us. In the event of any deadlock, our President will cast the deciding vote. We have the right to require that an advertising cooperative and/or franchisee advisory council be formed, changed, dissolved or merged. Other than operating the Marketing Fund, we are not required to spend any amount on advertising in your area or territory.

(g) PRO MARTIAL ARTS businesses owned by us or our affiliates will contribute to the Marketing Fund and any Cooperative on the same basis as you. (Section 7.8 of the Franchise Agreement.)

(h) Any monies not spent by either the Marketing Fund or any Regional Cooperative Advertising Fund in any particular year are carried over to fund advertising expenses in the next year.

COMPUTER SYSTEMS (Section 5.22 of the Franchise Agreement.)

(a) Before the Opening Date you must procure and install at your Studio a Windows based computer system. The minimum requirements are that you obtain a PC running Windows 2007 (or a more current version) and Member Management Solutions, which is a web-based software program. While there is no set-up charge for installing this software program, there will be a \$49 monthly fee for its use, which is paid directly to the vendor. Our specifications and requirements for your computer system will be included in the Manual, and are subject to change based on improvements or changes in technology, the needs of the System and other factors. You must purchase or lease the computer hardware we specify, and you must have Microsoft Office and QuickBooks pre-loaded on the computer. You must at all times have a high speed internet connection and a dedicated e-mail address for your Studio. We anticipate the initial cost of your computer system will be \$750. You may purchase your computer system from the supplier of your choice.

(b) You must install and maintain, at your own expense, an e-mail link with us and all other Studios. Reasonable minimum hardware and software standards for these connections will be set by us and may be periodically revised, and you will have reasonable time to upgrade when standards change. Standards will include current uniform communications software in use by the System; word processing

and spreadsheet software that is either the same as that in use at our office or capable of reading and converting files created by our office; and a computer capable of running the software and containing reasonable minimums for memory and data storage and a modem connected via network links to our System. You must pay for all normal communications charges from the networks making connection to our System, for example phone bills or bills from an online service. Information important to the System will be sent to your e-mail address. In order to stay informed on developments affecting the System and your Studio, you must check your electronic mailbox for system communications on a regular basis.

(c) We have the right to require you, at your expense, to obtain updates and/or upgrades for your computer system (for either hardware or software components), to purchase additional hardware and/or software components for your computer system, including proprietary software, or to replace your computer system entirely with a new computer system. There are no contractual limitations concerning the frequency of these updates and/or upgrades. As described in Section 4.21 of the Franchise Agreement, your expenditures for improvements to your Studio generally will not exceed \$3,000 in any two year period. Upon termination or expiration of the Franchise Agreement, all software, disks, tapes and other magnetic storage media provided to you by us must be returned to us in good condition (reasonable wear and tear excepted). You must also forward to us your database of students, independent contractors, instructors, etc., all of which will be our property. You must delete and/or uninstall all software and applications from all memory and storage.

(d) Compatible equivalent hardware components and software that perform the same functions exist; we may approve compatible equivalent hardware components and software at our option.

(e) We require you to maintain high-speed internet access, and we reserve the right to have independent access to any data you collect electronically. You must install, at your expense, the necessary computer hardware and software to provide us with full and direct electronic access to all of your data, software systems, security camera footage, and related information.

(f) Neither we nor any affiliate of ours are contractually required to provide to you ongoing maintenance, repairs, upgrades or updates.

SITE SELECTION AND OPENING

You must operate the Studio from an approved location. You must obtain our written approval of the Studio's proposed location in accordance with the Site Selection Addendum, which is Exhibit 1 to the Franchise Agreement, before signing any lease, sublease, or other document for the site. The Site Selection Addendum will specify a geographic area (the "Search Area"), which will generally be a Designated Market Area ("DMA"), in which you search for and identify a proposed location for your Studio. The Search Area is established solely for the purpose of defining the area and DMA within which you may look for a possible site for the Studio, and you will not receive any exclusive territorial rights for the Search Area. We may permit other franchisees to look for prospective sites within an area which is the same as or overlaps with your Search Area, and we may establish, or franchise others to establish, a Studio under the System within the Search Area. Once we approve a location to be the "Premises", we will determine the portion of the geographic area that will constitute the territory that will be granted as the "Exclusive Territory" under the Franchise Agreement for the Studio. Please see Item 12 for additional information regarding the Exclusive Territory and your rights in the Exclusive Territory.

As described in the Site Selection Addendum, we may assist you in your site selection by providing you and/or our vendor with our site selection guidelines and criteria, and sources to obtain demographic information related to the Exclusive Territory. Our advice and information may include a demographic analysis of the proposed Exclusive Territory. We will provide you with certain

recommended or required specifications for your location. If we have completed any research on the market area that you are considering, we will provide you with this research for information and background purposes only. You should verify all information provided.

As discussed in Item 7 above, we will designate a vendor who will provide, for a fee paid to the vendor, certain site selection and lease negotiation assistance. You must use our designated vendor for these services. While we believe that the site selection advice and guidance you may receive from the vendor will be useful, we do not warrant or guarantee that the vendor's assistance will assure that the site you ultimately select for the Studio will be successful.

We will use reasonable efforts to approve or disapprove the proposed site within 30 days after your request for our approval. We consider factors such as square footage, nearby commercial and residential development, traffic patterns, parking availability, competitive studios in the potential market or area, demographics, and the proximity of existing Studios in approving any given site. We and our designated suppliers will provide the assistance described above, but you must secure (by either by leasing or purchasing the location) an approved site within 270 days of signing the Franchise Agreement. Failure to do so and cure the default within 30 days may result in termination of your Franchise Agreement. Upon our approval of a site, and after you secure the site, we will insert its address into the Franchise Agreement, and it will be the Premises. You must complete all preparations and open the Studio within the later of (a) 90 days of securing the Premises, or (b) 365 days of signing the Franchise Agreement. If you do not meet either deadline, you will be in default and we may terminate your Franchise Agreement.

If we recommend or give you (or our designated vendor) information regarding the Exclusive Territory, or a site for the Premises, and if we approve a site, our advice, action, or information is not a representation or warranty of any kind, express or implied, of the site's suitability for a Studio or any other purpose. Our recommendation indicates only that we believe that the site meets our then acceptable criteria. Applying criteria that have appeared effective with other sites and premises might not accurately reflect the potential for all sites and premises, and demographic and/or other factors included in or excluded from our criteria could change, altering the potential of a site and premises. The uncertainty and instability of these criteria are beyond our control, and we are not responsible if a site or premises we recommend or approve fails to meet your expectations. Your acceptance of the Premises should be based on your own independent investigation of the Exclusive Territory and the site. Our site-selection assistance is primarily for our benefit and not for your benefit.

You may operate the Studio only from the Premises. If you desire to move or relocate your location, you must provide us a written request for relocation and a detailed reason for relocation. You must receive our prior written approval before you can relocate. Any proposed move must be within your Exclusive Territory, and relocation will be subject to the same criteria, conditions, and procedures as we have established (and may in the future modify) for the initial approval of the Premises. The typical time from signing the Franchise Agreement and opening the Studio is approximately 180 to 270 days depending on the ability to obtain a lease, zoning and local ordinances, and other factors.

TRAINING PROGRAM (Section 5.23 of the Franchise Agreement.)

INITIAL TRAINING (MANDATORY)

We will provide you with approximately one week of initial training for up to three "Trainees", which will include: (a) you or your managing owner if you are a corporation, limited liability company, partnership, or other legal entity; (b) your "Program Director" who will manage the day to day operations of your Studio and assist in sales efforts; and (c) your "Chief Instructor" responsible for managing all

classes (the “Initial Training”). Initial Training will take place at our training facilities in our headquarters at 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406, or at another location that we may designate.

Unless otherwise agreed in writing by us, at least one trainee must be you, or your managing owner if you are a corporation, limited liability company, partnership, or other legal entity. Initial Training includes instruction in owner-operator responsibilities, instructor training, equipment, membership sales, administration, operations, product sales and marketing, and franchisor relations. Initial Training programs may differ in content and length for franchisees, Program Directors or employees depending upon their responsibilities at the Studio. We also reserve the right to modify our Initial Training based on the individual needs and/or experience of any individual Trainee. We will provide, at our expense, the instructors, facilities, equipment, training materials, manuals and technical training tools for Initial Training. You must pay for all expenses of the Trainees in attending Initial Training including all travel, lodging and meal expenses. You must pay all expenses incurred to have your additional employees or agents attend training, including reasonable training fees (currently \$500 per person.) (Section 5.23 of the Franchise Agreement.) All attendees must complete the training program to our satisfaction.

Training will occur two to four weeks after the Franchise Agreement is signed or two to four weeks before the opening of your Studio. We will hold training classes on an as-needed basis. The instructional material we use in Initial Training includes our Manuals and any other materials that we believe will be beneficial to trainees. Our current Initial Training program is as follows:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Introduction and General Training Overview	0.5	0	King of Prussia, PA or another designated location
Martial Arts History, Philosophy and Etiquette	0.75	0	King of Prussia, PA or another designated location
The System	0.5	0	King of Prussia, PA or another designated location
Employees	1	0	King of Prussia, PA or another designated location
Initial Sales	1.5	0	King of Prussia, PA or another designated location
Instructor Training	12.5	13	King of Prussia, PA or another designated location

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Operations	1.5	0	King of Prussia, PA or another designated location
Upgrades	3.5	0	King of Prussia, PA or another designated location
Student Maintenance	1	0	King of Prussia, PA or another designated location
Internal Selling	3	0	King of Prussia, PA or another designated location
Merchandising	1.5	0	King of Prussia, PA or another designated location
Leadership	0.5	0	King of Prussia, PA or another designated location
Disguising Repetition	0.5	0	King of Prussia, PA or another designated location
Special Events	1	0	King of Prussia, PA or another designated location
Office Procedures	1.5	0	King of Prussia, PA or another designated location
Review / Question and Answer Sessions	8	0	King of Prussia, PA or another designated location
Total	38.75	13	

Initial Training is overseen by our staff, and each instructor will have at least five years of experience in the area of their instruction. Certain franchisees in the System may assist in providing training.

FAILURE TO COMPLETE INITIAL TRAINING

If any Trainee fails to satisfactorily complete Initial Training, as reasonably determined by us, we may: (i) at your expense and direction, retrain the Trainee or train another Trainee; or (ii) elect to terminate the Franchise Agreement and refund the Initial Franchise Fee and other fees collected under the

Franchise Agreement to you without interest, less our out-of-pocket costs and our standard fees for the training provided. (Section 5.23 of the Franchise Agreement.)

REFRESHER OR ADDITIONAL TRAINING (MANDATORY)

We will provide refresher training programs, seminars, or advanced management training at the standard per diem rates for you and your employees at our headquarters or at another designated location, and this training is mandatory for you, your Program Director and your Chief Instructor. Additionally, if you receive an unsatisfactory inspection report from us and fail to promptly remedy the deficiencies, your Program Director must attend refresher training as soon as reasonably possible. You must pay for all expenses associated with these programs including our then-current standard training fee we charge for these programs and all travel, meals and lodging costs of your attendees. (Section 5.23 of the Franchise Agreement.) Generally, such training occurs at our annual conventions, to reduce your training costs.

NEW PROGRAM DIRECTOR TRAINING (MANDATORY)

If you employ a Program Director to oversee the daily operation of your Franchise, and your Program Director dies, becomes disabled, his/her employment is terminated, or for any other reason the Program Director cannot perform its duties, you must fulfill these obligations until you designate a new Program Director of your Studio acceptable to us who has successfully completed Initial Training. You must pay for the expenses associated with this Initial Training, including our then-current standard training fee we charge for Initial Training (currently \$500 per day per person). (Subsection 4.9(c) of the Franchise Agreement.)

Item 12

TERRITORY

You will be granted an exclusive territory (“Exclusive Territory”) for your Studio, and the written boundaries of your Exclusive Territory will be described as a 3-mile radius from your Premises. The boundaries of your Exclusive Territory will be described on the Data Sheet to your Franchise Agreement and may be depicted on a map. During the term of your Franchise Agreement, if you are not in default, we agree not to open or grant a franchise for another Studio within your Exclusive Territory, except for our reserved rights, as described below.

You must operate your Studio only at the approved location within your Exclusive Territory. The location cannot be changed without our prior written consent and compliance with our relocation procedures.

You may sell our products and services to customers who live anywhere but who choose to become a member of your Studio. You may not engage in any promotional activities or sell our proprietary products or similar products or services, whether directly or indirectly, through or on the Internet, the World Wide Web, or any other similar proprietary or common carrier electronic delivery system (collectively, the “Electronic Media”); through catalogs or other mail order devices sent or directed to customers or prospective customers located anywhere; or by telecopy or other telephonic or electronic communications, including toll-free numbers, directed to or received from customers or prospective customers located anywhere. While you may place advertisements in printed media and on television and radio that are targeted to customers and prospective customers located within your Exclusive Territory, and you will not be deemed to be in violation of the Franchise Agreement if those advertisements, because of the natural circulation of the printed media or reach of television and radio, are viewed by prospective customers outside of your Exclusive Territory, you may not make any sales or

deliver any products to customers located outside of your Exclusive Territory, unless the customer is located in an area where there is not another Studio in operation. You have no options, rights of first refusal, or similar rights to acquire additional franchises. You may not sell products to any business or other customer at wholesale.

There are no minimum gross sales, market penetration or other contingency you must meet to maintain your interest in the Exclusive Territory, but you must comply with your Franchise Agreement.

We and our affiliates may sell products under the Marks within and outside your Exclusive Territory through any method of distribution other than a dedicated Studio, including sales through channels of distribution such as the Internet, catalog sales, telemarketing or other direct marketing sales (together, "alternative distribution channels"). You may not use alternative distribution channels to make sales outside or inside your Exclusive Territory and you will not receive any compensation for our sales through alternative distribution channels. If we make sales of products through any alternative distribution channels, you are not entitled to any portion of our revenue from these sales, even if the products are sold or delivered to customers within your Exclusive Territory.

If we receive inquiries or leads through alternative distribution channels, including our Website, from potential customers within your Exclusive Territory, these inquiries and leads will be forwarded to you, and the potential customer will be referred to you. All inquiries and leads generated from alternative distribution channels will remain our property.

OUR RESERVED RIGHTS

Except for the Exclusive Territory granted to you, we have the right to ourselves establish, or to grant franchises to others to establish, Studios at any location outside of your Exclusive Territory and regardless of the potential impact on your Franchise. We have the right to sell products under the Marks anywhere, including within your Exclusive Territory, as described above.

We reserve the right to acquire or be acquired by any business, including any business that offers or sells goods and services substantially similar to Studios, regardless of their location.

We reserve the right to sell similar products and services using either the Marks or other trademarks through dissimilar channels of distribution or through a different franchised system, although we presently do not have any intention of doing so.

We reserve the right to engage in any other activities not expressly prohibited by the Franchise Agreement.

Item 13

TRADEMARKS

The Franchise Agreement grants to you the right to use the Marks we designate only in the manner we authorize and permit and only for the operation of your Studio. The following trademark is registered on the principal register of the United States Patent and Trademark Office ("USPTO"):

Mark	Registration Date	Registration Number	Register
Grandmaster Samane's Pro Martial Arts Karate® (design plus words) 	October 6, 2009	3,691,237	Principal

We have also filed an application to register the following Mark on the USPTO's Principal Register:

Mark	Application Date	Serial Number	Register
BUILDING CHARACTER FOR A LIFETIME	August 18, 2011	85401525	Principal

The Franchise Agreement grants you the non-exclusive right to operate your business under the current Marks, and any other Marks we may authorize in the future in connection with your operation of a Studio. We have filed all required affidavits and intend to renew our registrations for the Marks when they become due. We have not obtained a registration for our Mark "BUILDING CHARACTER FOR A LIFETIME". As a result, it may not afford you the same protections as a federally registered mark.

There are no currently effective material determinations of the USPTO, Trademark Trial and Appeal Board, the Trademark Administrator of any state or any court relating to the Marks. There are no currently pending infringement, opposition or cancellation proceedings. There is no currently pending material litigation involving the Marks. There are no decided infringement, cancellation or opposition proceedings where we unsuccessfully fought to prevent registration of a trademark in order to protect the Marks we sublicense.

There are no agreements currently in effect that limit our rights to use or license the use to you of the Marks and other proprietary materials.

To our knowledge, there are no infringing or prior superior uses actually known to us that could materially affect the use of the Marks in this state or any other state in which a Studio may be located.

Your rights to use the Marks are derived solely from your Franchise Agreement and are limited to the operation of your Studio under your Franchise Agreement and all applicable standards, specifications, and operating procedures we require. Any unauthorized use of our proprietary property, including the Marks, is a breach of your Franchise Agreement and an infringement of our rights in and to the Marks. Your use of the Marks and any goodwill established by your use inures to our exclusive benefit. The Franchise Agreement does not confer any goodwill or other interest in the Marks to you, other than the

right to operate a Studio in compliance with the Franchise Agreement. All provisions of the Franchise Agreement applicable to the Marks apply to any other trademarks, service marks, commercial symbols, designs, artwork, and logos that we may adopt, use, authorize and sublicense to you to use.

You must use the Marks as the sole trade identification of your Studio, and must identify your Studio in the form we require as the independent owner of the Studio. You must use all Marks and other commercial symbols that we may sublicense in full compliance with rules we enact. You must not use, and are prohibited from using, any Marks (including any future commercial marks we license) in the sale of any unauthorized product or service or in any manner we have not explicitly authorized. You cannot use the Marks as, or part of, your corporate or partnership name, if we permit you to organize as a corporate entity. You must follow our instructions in complying with any fictitious, trade or assumed name statutes for the Marks. You must not use the Marks or any of our proprietary property as security for any obligation or indebtedness. Without our prior written approval, you must not use the Marks as part of any e-mail address, Website, domain name or any other electronic media (including use with any prefix, suffix or other modifying words, term designs, or symbols), or in any other manner connected with a Website, advertisements on a Website, or other similar electronic media.

We are the lawful and sole owner of the domain names <http://www.promartialarts.com/>, www.promartialarts.net, and www.promartialarts.org. You cannot register any of the Marks now or hereafter owned by us or any abbreviation, acronym or variation of the Marks, or any other name that could be deemed confusingly similar, as Internet domain names. We retain the sole right to advertise the System on the Internet and to create, operate, maintain and modify, or discontinue using a website using the Marks. You may access our website through your assigned Studio web page. Except as we may authorize in writing in advance, you cannot: (i) link or frame our website; (ii) conduct any business or offer to sell or advertise any products or services on the worldwide web; or (iii) create or register any Internet domain name in connection with your franchise.

If there is any claim of infringement, unfair competition or other challenge to your right to use any Mark, or if you become aware of any use of or claims to any Mark by persons other than us or our franchisees, you must notify us promptly (within seven days) in writing. You must not communicate with anyone except us and our counsel in any infringement, challenge or claim except under judicial process. We have sole discretion as to whether we take any action in any infringement, challenge or claim, and the sole right to control any litigation or other proceeding involving any infringement, challenge or claim of any Mark. You must sign all instruments and documents, render all assistance, and do all acts that our attorneys deem necessary or advisable in order to protect and maintain our interest in any litigation or proceeding involving the Mark or otherwise to protect and maintain our interests in the Mark.

We will indemnify you against and will reimburse you for all damages for which you are held liable in any proceeding involving your use of any Mark according to the Franchise Agreement, provided that you: (a) have timely notified us of the claim; (b) are otherwise in compliance with your Franchise Agreement; (c) allow us sole control of the defense and settlement of any claim; and (d) cooperate fully with us and our counsel in the defense of the action.

If we deem it advisable, in our sole discretion, to modify or discontinue the use of any Mark and/or use one or more additional or substitute names or marks, including due to the rejection of any pending registration or revocation or cancellation of any existing registration of the Mark or the rights of senior users, you must comply with our instructions at your sole expense within 10 days of our request. We have no liability to reimburse you for any expenses in modifying or discontinuing the use of a Mark and substituting a different Mark.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

PATENTS

There are no patents that are material to the operation of PRO MARTIAL ARTS Studios.

COPYRIGHTS

We claim all common law copyrights covering various materials used in our business and the operation of Studios, including advertising and promotional literature and the Manuals. We do not license our copyrights in these materials to you under the Franchise Agreement.

There are no agreements currently in effect that significantly limit our rights to use or license the use to you of the copyrights in any manner material to you.

The Manuals are loaned to you as discussed in Item 11.

The copyrights have not been registered in the United States Copyright Office but may be at our sole discretion.

There are currently no effective determinations of the United States Copyright Office or any court regarding any of our copyrights, nor are there any currently effective agreements between us and third parties pertaining to our copyrights that will or may significantly limit your use of our copyrighted materials. Upon any infringement of or challenge to your use of any copyrighted work, you must immediately notify us. We have sole discretion to take any action as we deem appropriate.

If we deem it advisable to modify or discontinue use of any copyrighted work and/or use one or more new or derivative copyrighted work, you must do so at your expense within 30 days of our request.

Under the Franchise Agreement we will defend you against any infringement, unfair competition or other claim respecting your use of any copyrighted work. We are obligated to indemnify you against, and to reimburse you for, all damages for which you are held liable in any proceeding from the use of any patent or copyrighted work and of all costs you reasonably incur in the defense of any claim, provided that you have notified us of the claim as described in Item 13 and have used the copyrighted work according to the Franchise Agreement.

You must not contest, directly or indirectly, our ownership, title, right or interest in any copyrights, trade secrets, methods, procedures or any other intellectual property right that are part of our business or contest our sole right to register, use or license others to use the copyrights, trade secrets, methods, or any other intellectual property right procedures.

There are no infringing uses actually known to us that could materially affect your use of the copyrights in this state or any other state where your Studio is to be located.

CONFIDENTIAL INFORMATION

The Manuals and other copyrighted materials made available to you contain confidential and proprietary information and are our trade secrets. We possess and will develop and acquire certain confidential and proprietary information and trade secrets consisting of the following categories of information, methods, techniques, procedures and knowledge we or our franchisees develop (the

“Confidential Information”) including: (i) our methods, techniques, equipment and installation, specifications, standards, policies, procedures, information, concepts, systems, and knowledge of the experience in our development, operation and franchising; (ii) our marketing and promotional programs; (iii) knowledge of specifications for and knowledge of suppliers of certain materials, equipment, furniture and fixtures for Studios; (iv) knowledge of our customer lists, operating results and financial performance; and (v) any other information that we deem confidential or proprietary. Customer lists, including customer names, contact information, purchasing histories, and discounts offered to customers (the “Customer Lists”) also constitute part of our trade secrets and Confidential Information.

We will disclose to you all parts of the Confidential Information as are required for the operation of the Studio during Initial Training, in the Manuals, and in guidance and assistance furnished to you during your operation of the Franchise, and you may learn additional Confidential Information during your operation of the Franchise. You must disclose the Confidential Information to your employees only to the extent reasonably necessary. During and after the term of your Franchise Agreement, you, your owners, independent contractors, agents, and employees must: (i) not use the Confidential Information in any other business or capacity, including any derivative or spin-off of the System; (ii) maintain the absolute secrecy and confidentiality of the Confidential Information at all times; (iii) not make unauthorized copies of any portion of the Confidential Information disclosed or recorded in written or other tangible form; and (iv) adopt and implement all procedures that we prescribe to prevent unauthorized use or disclosure of, or access to, the Confidential Information.

All persons whom you permit to have access to the Manuals or any other Confidential Information must first sign our form of Confidentiality Agreement, and you must provide us with a copy of each signed Confidentiality Agreement. Nothing contained in the Franchise Agreement will be construed to prohibit you from using the Confidential Information in the operation of your Studio under your Franchise Agreement. We will be a third party beneficiary of all Confidentiality Agreements with the independent right to enforce their terms.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You are not our employee but are your own boss, subject to our rights under your Franchise Agreement. We encourage you to be active in the operation of your Studio but we do not require any personal participation on the Premises by you. Your Studio is not a “passive” investment and you or your designated Program Director must provide day-to-day supervision of the operation of your Studio.

Unless we otherwise agree in writing, you must be one of the three initial Trainees. Any of the Trainees may act as Program Director. The Program Director must devote his or her best full-time efforts to the management and operation of your Studio. You may hire any Program Director acceptable to us, instead of being the Program Director yourself, but this will increase the cost of operation of your Studio and may impair results. Any replacement or additional Program Directors that you hire must satisfactorily complete Initial Training before managing your Studio, unless we otherwise agree in writing. Your Program Director need not have any equity interest in your franchise. You must pay for the expenses of additional Initial Training, including tuition, travel, lodging, meals and salary. Your Program Directors and Chief Instructors must sign our form of Noncompetition and Confidentiality Agreement before you grant access to the Manuals or any other Confidential Information, and you must provide us with a copy of each signed agreement. We will be a third party beneficiary of each of these agreements with the independent right to enforce their terms.

If the Franchise Agreement is signed by two or more individuals, you must designate in writing an individual as the Program Director upon signing this Agreement. We have the right to rely solely on instructions of the Program Director concerning the operation of the Studio until we receive a duly signed written notice changing the designated Program Director.

If we have permitted the Program Director to be an individual other than you, and the Program Director fails to satisfy his or her obligations to operate the Studio due to his/her death, disability, termination of employment or for any other reason, the you must satisfy these obligations yourself until you designate a new Program Director of your Studio acceptable to us who has successfully completed Initial Training, at your expense.

Neither you nor any designated Program Director may act in the capacity of Program Director or Class Instructor without our approval. You may only hire or retain Program Directors and Class Instructors that meet the criteria, skill levels, and standards set by us and the System-wide recommendations in the Manuals.

All of your instructors must be approved by us.

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

USE OF THE PREMISES

You must use the Premises only for the operation of your Studio. You must keep your Studio open for business and in normal operation for the minimum hours and days as we reasonably require in the Manuals or otherwise in writing, except as may be limited by local law or the landlord's rules and regulations.

APPROVED PRODUCTS AND SERVICES

You must: sell or offer for sale to consumers only the products and services that meet our reasonable uniform standards of quality and quantity and have been expressly approved for sale in the Manuals or otherwise in writing by us, and only from your Studio; not sell any items for redistribution or resale; sell or offer for sale all approved products and services; refrain from any deviation from our standards and specifications for providing or selling the products and services without our written consent; and discontinue selling and offering for sale any products and services that we reasonably disapprove on a System-wide basis in writing at any time.

We have the right to change the types of authorized goods and services and there are no limits on our right to make changes.

SALES RESTRICTIONS

You are not restricted in the customers to whom you may sell approved products or services, except as described in Item 12, or the prices the products are sold or services are rendered.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Provision	Section in Franchise Agreement	Summary
a. Term of the franchise	2.1	The initial term of the Franchise Agreement is 20 years beginning on the Agreement Date.
b. Renewal or extension of the term	2.2	You have the right to renew for additional terms of five years each, if you meet the requirements for renewal.
c. Requirements for you to renew or extend	2.2	You must give us written notice of your intention to exercise the option, which grants you additional renewal terms of five years each; you must complete to our reasonable satisfaction, all maintenance, refurbishing, renovating and upgrading we require; if renovation or maintenance of your Studio is not possible or feasible, you must relocate your Studio within your Exclusive Territory but not within the exclusive territory of any other Studio; you must not be in default of your Franchise Agreement or any other agreement with us; you must sign and deliver to us a renewal Franchise Agreement, which may vary in the material business terms reflected in the original Franchise Agreement, including, but not limited to, a higher Royalty Fee and/or Advertising Contribution; you must comply with all other requirements we impose under the renewal Franchise Agreement; you must sign a general release of all claims against us and our officers, directors, shareholders, agents and employees; and you must be entitled to continue to occupy the approved location for the renewal term or must obtain our approval of a new location for your Studio within your Exclusive Territory but not within the exclusive territory of any other Studio. We may choose not to grant a renewal Franchise Agreement if: (i) we provide you with written notice of our intention not to sign a renewal Franchise Agreement at least 180 days before the end of your Franchise Agreement; (ii) we have no more than one Franchise (excluding Company Studios) then operating under the System in the Territory you serve; and (iii) our refusal to grant a renewal Franchise Agreement is not for the purpose of converting your Franchise to a company-owned Studio.

Provision	Section in Franchise Agreement	Summary
c. Requirements for you to renew or extend (continued)	2.2	You may be asked to sign a contract with materially different terms and conditions than your original contract, but the boundaries of your territory will remain the same, and the fees on renewal will not be greater than the fees that we then impose on similarly situated renewing franchisees
d. Termination by you	Not applicable	Not applicable.
e. Termination by us without cause	Not applicable	Not applicable.
f. Termination by us with cause	Article 12	We may only terminate your Franchise Agreement with cause.
g. “Cause” defined – curable defaults	12.3 and 12.4	If you breach the Franchise Agreement, and the breach is not considered non-curable, and you do not cure the breach within 30 days after notice from us, or any longer time period required by applicable law
h. “Cause” defined – non-curable defaults	12.1 and 12.2	Insolvency or general assignment for creditors; filing in bankruptcy; adjudication of bankruptcy; filing for appointment of a receiver or custodian; appointment of a receiver or custodian; filing for composition with creditors; judgment of \$25,000 or more remains unsatisfied; execution of levy; filing of foreclosure suit; sale of your assets after levy; abandonment; threat to public safety remains uncorrected; failure to maintain cleanliness or sanitation; conviction of any offense that might materially adversely affect the System; you deny us our right of inspection or audit; you engage in conduct that we determine is harmful to us, the System or the Marks; unauthorized assignment; breach of confidentiality or noncompetition provisions of your Franchise Agreement; you knowingly maintain false books or records ; failure to timely transfer on your death or incapacity; uncured default under your lease; you misuse any Marks or Confidential Information; two or more notices of default during any 12 consecutive months; failure to comply with applicable laws, including anti-terrorism laws; repeated failure to meet minimum performance requirements; if you, your owners or your Program Directors are convicted of a felony or a crime of moral turpitude.

Provision	Section in Franchise Agreement	Summary
i. Your obligations on termination/ non-renewal	Article 13	You must: not compete with us or any of our Studios for 24 months after the end of your Franchise Agreement within 25 miles of any Studio then in operation or under construction; indemnify us from any losses or damages we sustain as a result of your Studio; maintain confidentiality of all our Confidential Information; stop operating your Studio; pay all amounts you owe to us; comply with our option to purchase your Studio; distinguish your Premises from any indicia of the System; avoid unfair competition with us; return all Confidential Information, Manuals, customer databases and other proprietary property to us; discontinue use of the Marks; assign your lease to us, if we require this.
j. Assignment of contract by us	11.1	There are no restrictions on our right to assign our interest in your Franchise Agreement, provided that our transferee agrees in writing to assume our obligations under the Franchise Agreement.
k. "Transfer" by you definition	11.4	Transfer means any sale, assignment, transfer, conveyance or gift, whether voluntary or involuntary, directly or indirectly, by operation of law or otherwise, of any direct or indirect interest in your Franchise Agreement, the assets of the Studio, or in you if you are a corporate entity. A transfer of less than 25% of the voting rights or ownership interests in the above and a transfer to any other original owner of your Studio is not considered a transfer.
l. Our approval of transfer by you	11.2 and 11.3	We have the right to approve or disapprove of any transfers.
m. Conditions for our approval of transfer	11.4	We do not exercise our right of first refusal; you are not in default under any agreement you have with us or any affiliate; you must sign a general release of us; the transferee may not have any other business that competes with us or any Studio; the transferee must sign our then-current form of Franchise Agreement; the transferee must pay a transfer fee to us; we must interview and approve the transferee; the transferee must satisfactorily complete our application procedures; the transferee must renovate the Studio as we specify; the transferee must properly assume all your obligations, including your lease; the transferee must successfully complete Initial Training; and we must approve of the proposed terms of sale or other factors involved in the transfer.

Provision	Section in Franchise Agreement	Summary
n. Our right of first refusal to acquire your business	12.7	We have the option to purchase your business or assets on the same terms as contained in the third party offer made to you. We will give you written notice within 30 days after our receipt of the offer and all required information of whether we choose to purchase your business or assets on the same terms contained in the offer.
o. Our option to purchase your business	13.2	We have the right (but not the duty), exercisable upon written notice to you given within 30 days after termination of the Franchise Agreement, to purchase for cash all or a portion of the assets of your Studio at their book value.
p. Your death or disability	11.5	You or your representative must: provide a replacement Program Director satisfactory to us; and upon your death, your Studio must be transferred within 12 months of your death according to the transfer provisions of your Franchise Agreement.
q. Non-competition covenants during the term of the franchise	14.1	You must not: influence any business associate of ours to modify its relationship with us; have any involvement with any competitive business, including as an owner, partner, officer, advisor or otherwise; employ anyone currently employed by us or any of our franchisees; or interfere with our business or any of our other Studios.
r. Non-competition covenants after the franchise is terminated or expires	14.2	You must not, for 24 months after the end of your Franchise Agreement: influence any Business Associate of ours to modify its relationship with us; have any involvement with any competitive business, within 25 miles of any Studio then in operation or under construction; employ anyone currently employed by us or any of our franchisees; or interfere with our business or any of our other Studios.
s. Modification of the agreement	17.2	Your Franchise Agreement must not be modified without the consent of both you and us except: we may change the contents of the Manuals; we may modify the System; and a court may modify any provision of your Franchise Agreement according to applicable law.
t. Integration/ merger clause	17.2	Only the terms of the Franchise Agreement are binding (subject to state law). Any other promises may not be enforceable. Nothing in this or any related agreement, however, is intended to disclaim the representations made by us in the Franchise Disclosure Document that was furnished to you by us.

Provision	Section in Franchise Agreement	Summary
u. Dispute resolution by arbitration or mediation	16.2 and 16.3	At our option, all disputes must be resolved first by mediation before the American Arbitration in Philadelphia Pennsylvania, and, if mediation is not successful, then by litigation, except for claims involving: the Marks or any other proprietary property; any lease or sublease of real property; your obligations upon termination or expiration of your Franchise Agreement; any transfers; matters involving claims of danger, health or safety; and requests for restraining orders, injunctions or similar procedures.
v. Choice of forum	16.4	The United States District Court for the Eastern District of Pennsylvania, or any court of competent jurisdiction in Philadelphia, Pennsylvania.
w. Choice of law	16.1	Pennsylvania, subject to applicable state law.

Item 18

PUBLIC FIGURES

We do not use any public figure to promote our Studio, but reserve the right to do so in the future.

Item 19

FINANCIAL PERFORMANCE REPRESENTATIONS

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

BACKGROUND

This Item 19 presents historical revenue and expense information for the 3 Studios in which our Founder, President and Chief Executive Officer, Grandmaster Ed Samane, has an ownership interest, which are located in Berwyn and Bryn Mawr, Pennsylvania (suburban Philadelphia area) and in Wilmington, Delaware (the "Reporting Studios"), and which have provided us with complete gross sales and expense information

As described in Item 1, the Reporting Studios were previously company-owned units which entered into franchise agreements with us in October, 2009. Each Reporting Studio has been in operation for at least 6 years, and was open during the full 2011 calendar year. The Reporting Studios should be considered mature franchised units. We have excluded the financial performance data for our 6 franchisees that were not open and operating full-time for 48 months as of December 31, 2011 and/or did not provide us with complete gross sales and expense information.

This information was provided to us by the Reporting Studios. We have not audited or independently verified the data submitted by the Reporting Studios and no assurance can be offered that the data does not contain inaccuracies that an audit might disclose. We will provide you with written substantiation for the financial performance representation upon reasonable request.

Some units have earned as much these amounts. Your individual results may differ. There is no assurance you will earn as much. If you rely upon the information provided here, you must accept the risk of not doing as well.

AFFILIATE REVENUE AND SELECT EXPENSES

The table below sets our Reporting Studios' Revenues for the period from January 1, 2011 to December 31, 2011 (the "Measurement Period"). Also included are the Reporting Studios' Labor Expense¹; Billing Fees²; Royalties³; Rent⁴; Equipment/Supplies Expense⁵; Marketing Expense⁶; Maintenance Expense⁷; Utilities Expense⁸; Telephone Expense⁹; Insurance Expense¹⁰; Taxes¹¹; Professional Fees¹²; Office Expense¹³; and Seminar Fees and Costs¹⁴ during the Measurement Period. Also included is the average revenue and select expense information for the Reporting Studios during the Measurement Period.¹⁵

Revenue and Select Expenses **For the Period from January 1, 2011 to December 31, 2011**

Line Item	Studio 1	Studio 2	Studio 3	Reporting Studio Average
Revenue	\$277,322	\$292,525	\$339,724	\$303,190
Operating Expenses:				
Labor	\$64,476	\$26,105	\$40,538	\$43,706
Billing/Credit Card Fees	\$14,313	\$15,038	\$18,503	\$15,954
Royalties	\$16,639	\$16,831	\$20,383	\$17,951
Rent	\$39,219	\$26,100	\$35,750	\$33,690
Equipment/Supplies	12,689	\$13,145	\$16,546	\$14,127
Marketing	\$12,000	\$11,582	\$9,238	\$10,940
Maintenance	\$1,232	\$4,081	\$0	\$1,771
Utilities	\$2,472	\$2,472	\$2,364	\$2,436
Telephone	\$3,963	\$3,200	\$2,546	\$3,236
Insurance	\$3,718	\$3,747	\$1,100	\$2,855
Taxes	\$3,826	\$3,076	\$4,972	\$3,958
Professional Fees	\$2,325	\$2,400	\$3,000	\$2,575
Office Expenses	\$3,400	\$4,380	\$2,326	\$3,368

Line Item	Studio 1	Studio 2	Studio 3	Reporting Studio Average
Seminars	\$3,400	\$3,482	\$0	\$2,294
Total Operating Expenses	\$183,672	\$135,639	\$157,266	\$158,861
Net Income	\$93,640	\$156,886	\$182,458	\$144,328

FOOTNOTES

1. Revenues includes all amounts the Reporting Studios earned from providing goods and services at or through their respective Studios during the Measurement Period.

2. Billing Fees includes the cost of billing and payment processing incurred by the Reporting Studios during the Measurement Period.

3. "Labor Expense" is defined as both salary and hourly wages for in-Studio employees, as well as payroll taxes incurred by Reporting Studios during the Measurement Period. Labor Expense excludes bonuses, training costs, health insurance, recruiting costs, staff uniforms and meals, and the cost of training labor.

4. "Rent" is defined as the sum of rent, common area maintenance, and repairs and maintenance expenses incurred by the Reporting Studios during the Measurement Period. Rent does not include trash, cleaning, or equipment rental expenses.

5. "Equipment and Supplies Expense" includes the ongoing cost of fitness equipment incurred by the Reporting Studios during the Measurement Period.

6. "Marketing Expense" includes the cost of local advertising within the Reporting Studio's respective territories during the Measurement Period.

7. "Maintenance Expense" includes the cost of maintaining the Studio, including cleaning expenses incurred by the Reporting Studios during the Measurement Period.

8. "Utilities Expense" includes the cost of heat, electric and internet utility services incurred by the Reporting Studios during the Measurement Period.

9. "Telephone Expense" includes the Reporting Studio's respective costs of maintaining a dedicated telephone line for their Studios during the Measurement Period.

10. "Insurance Expense" includes the Reporting Studio's costs of maintaining insurance during the Measurement Period.

11. "Tax Expense" includes the sales tax, income tax, and property tax incurred by the Reporting Studios during the Measurement Period.

12. "Professional Fees" includes the cost of accounting and legal services incurred by the Reporting Studios during the Measurement Period.

13. “Office Expense” includes the cost of office supplies and the cost of stationery incurred by the Reporting Studios during the Measurement Period.

14. “Seminar Fees and Costs” include continuing education costs incurred by Reporting Studios in training their employees during the Measurement Period.

15. We calculated the average revenue and or expense for all of the Reporting Studios by taking the sum of each line item for all of the Reporting Studios, and dividing it by 3.

16. Your expenses will vary depending upon the location of your business. This analysis does not contain complete information concerning your potential operating costs. Operating costs may vary substantially from Studio to Studio. There may be costs and other expenses not identified above. Costs and expenses of affiliate-owned locations may differ from those of franchisee-owned locations.

17. Except as set forth above, revenue and expenses disclosed above do not reflect the start-up expenses, owners’ draws and salaries, or other costs or expenses that must be deducted from the gross revenues or net sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your Studio. Franchisees or former franchisees listed in the Disclosure Document may be one source of that information.

18. The above figures exclude start-up costs and living expenses which you will incur as a franchisee. There may be other costs and other expenses not identified in this Item 19. The costs of affiliate-owned locations may differ from franchisee owned locations.

19. The above figures exclude finance charges. Interest expense, interest income, depreciation, amortization and other income or expenses will vary substantially from business to business, depending on the amount and kind of financing you obtain to establish your Studio. You should consult with your tax advisor regarding depreciation and amortization schedules and the period over which the assets of your Studio may be amortized or depreciated, as well as the effect, if any, of recent or proposed tax legislation.

20. Actual results vary from Studio to Studio, and we cannot estimate the result of a particular Studio. Revenues and expenses may vary. In particular, the revenues and expenses of your business will be directly affected by many factors, such as: (a) geographic location; (b) competition from other similar martial arts facilities in your area; (c) advertising effectiveness based on market saturation; (d) whether you operate the business personally or hire a Program Director; (e) your product and service pricing; (f) vendor prices on materials, supplies and inventory; (g) employee salaries and benefits (life and health insurance, etc.) and the employment market in your area; (h) insurance costs; (i) ability to generate customers; (j) customer loyalty; and (k) employment conditions in the market.

21. **There is no assurance you will do as well. If you rely upon our figures, you must accept the risk of not doing as well.** Therefore, we recommend that you make your own independent investigation to determine whether or not the franchise may be profitable to you. You should use the above information only as a reference in conducting your analysis and preparing your own projected income statements and cash flow statements. We suggest strongly that you consult your financial advisor or personal accountant concerning financial projections and federal, state and local income taxes and any other applicable taxes that you may incur in operating a Studio.

22. Except as provided below, we do not make any representations about a franchisee’s future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally

or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Pro Martial Arts Franchise Corporation, 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, Pennsylvania 19406, telephone (610) 722-9690, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20

OUTLETS AND FRANCHISEE INFORMATION

**Table 1
Systemwide Outlet Summary
For years 2009, 2010, and 2011**

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised *	2009	6	6	0
	2010	6	7	+1
	2011	7	9	+2
Company-Owned	2009	0	0	0
	2010	0	0	0
	2011	0	0	0
Total Outlets	2009	6	6	0
	2010	6	7	+1
	2011	7	9	+2

* As described in Item 1, six of the Outlets in the above chart have been in operation for several years, and in October 2009 all six of the existing Outlets signed our form of Franchise Agreement.

**Table 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2009, 2010, and 2011**

Column 1 State	Column 2 Year	Column 3 Number of Transfers
Pennsylvania	2009	0
	2010	1
	2011	0
Total	2009	0
	2010	1
	2011	0

Table 3
Status of Franchised Outlets
For years 2009, 2010, and 2011

Col 1 State	Col 2 Year	Col 3 Outlets at Start of Year	Col 4 Outlets Opened	Col 5 Terminations	Col 6 Non-Renewals	Col 7 Reacquired by Franchisor	Col 8 Ceased Operations – Other Reasons	Col 9 Outlets at End of the Year
Colorado	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
Delaware	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Michigan	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	0	1
Pennsylvania	2009	5	0	0	0	0	0	5
	2010	5	1	0	0	0	0	6
	2011	6	0	0	0	0	0	6
Total	2009	6	0	0	0	0	0	6
	2010	6	1	0	0	0	0	7
	2011	7	2	0	0	0	0	9

Table 4
Status of Company-Owned Outlets
For years 2009, 2010, and 2011

Col 1 State	Col 2 Year	Col 3 Outlets at Start of Year	Col 4 Outlets Opened	Col 5 Outlets Reacquired from Franchisee	Col 6 Outlets Closed	Col 7 Outlets Sold to Franchisee	Col 8 Outlets at End of the Year
Total	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	0	0	0	0

Table 5
Projected Openings as of December 31, 2011

Column 1 State	Column 2 Franchise Agreements Signed but Outlet Not Opened	Column 3 Projected New Franchised Outlets in the Next Fiscal Year	Column 4 Projected New Company-Owned Outlets in the Next Fiscal Year
Colorado	1	1	0
Georgia	1	0	0
Michigan	1	0	0
Pennsylvania	2	1	0
Texas	0	1	0
Total	5	3	0

A list of the names of all franchisees and the addresses and telephone numbers of their businesses are provided in Exhibit D to this Disclosure Document.

The name, city, state and current business telephone number (or if unknown, the last known home telephone number) of every franchisee who had a business terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of the issuance date of this disclosure document will be listed on Exhibit E to this Disclosure Document if applicable. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three fiscal years, we have not had any franchisees sign confidentiality provisions that would restrict their ability to speak openly about their experience with the System.

There are no trademark-specific organizations formed by our franchisees that are associated with the System.

Item 21

FINANCIAL STATEMENTS

Attached as Exhibit F is our Independent Auditor's Report of audited financial statements for the period ending December 31, 2009, 2010, and 2011. Our fiscal year ends December 31st.

Item 22

CONTRACTS

The following contracts, agreements and other relevant documents are attached as Exhibits to this Franchise Disclosure Document:

- Exhibit C – Franchise Agreement
- Exhibit G – Form of General Release

Item 23
RECEIPTS

Two copies of an acknowledgment of your receipt of this Disclosure Document appear at the end of the Disclosure Document. Please return one signed copy to us and retain the other for your records.

EXHIBIT A TO THE DISCLOSURE DOCUMENT

LIST OF STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for franchising disclosure/registration laws and for service of process. We may not yet be registered to sell franchises in any or all of these states.

If a state is not listed, Pro Martial Arts Franchise Corporation has not appointed an agent for service of process in that state in connection with the requirements of franchise laws. There may be states in addition to those listed above in which Pro Martial Arts Franchise Corporation has appointed an agent for service of process.

There may also be additional agents appointed in some of the states listed.

<p><u>CALIFORNIA</u> California Commissioner of Corporations Department of Corporations 320 West 4th Street, Suite 750 Los Angeles, CA 90013 (213) 576-7500 Toll Free (866) 275-2677</p> <p>1515 K Street, Suite 200 Sacramento, CA 95814 (916) 445-7205</p> <p>1350 Front Street San Diego, CA 92101 (619) 525-4233</p> <p>One Sansome Street, Suite 600 San Francisco, CA 94104 (415) 972-8559</p>	<p><u>CONNECTICUT</u> State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230</p> <p>Agent: Banking Commissioner</p>
<p><u>HAWAII</u> (state administrator)</p> <p>Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p> <p>(agent for service of process)</p> <p>Commissioner of Securities State of Hawaii 335 Merchant Street Honolulu, Hawaii 96813 (808) 586-2722</p>	<p><u>ILLINOIS</u> Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p>

<p><u>INDIANA</u> (state administrator)</p> <p>Indiana Secretary of State Securities Division, E-111 302 Washington Street Indianapolis, Indiana 46204 (317) 232-6681</p> <p>(agent for service of process) Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531</p>	<p><u>MARYLAND</u> (state administrator)</p> <p>Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p> <p>(for service of process) Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360</p>
<p><u>MICHIGAN</u> (state administrator)</p> <p>Consumer Protection Division Michigan Department of Attorney General 525 W. Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, MI 48933 (517) 373-7117</p> <p>(for service of process) Corporations Division Bureau of Commercial Services Department of Labor and Economic Growth P.O. Box 30054 Lansing, Michigan 48909</p>	<p><u>MINNESOTA</u> (state administrator)</p> <p>Minnesota Department of Commerce 85 7th Place East, Suite 500 St. Paul, Minnesota 55101-2198 (651) 296-6328</p> <p>(for service of process) Minnesota Commissioner of Commerce</p>
<p><u>NEW YORK</u> (state administrator)</p> <p>New York State Department of Law Bureau of Investor Protection and Securities 120 Broadway, 23rd Floor New York, New York 10271 (212) 416-8211</p> <p>(for service of process) Secretary of State of New York 41 State Street Albany, New York 12231 (518) 474-4750</p>	<p><u>NORTH DAKOTA</u></p> <p>North Dakota Securities Department State Capitol, Fifth Floor, Dept. 414 600 East Boulevard Avenue Bismarck, North Dakota 58505 (701) 328-4712</p>

<p><u>OREGON</u></p> <p>Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, Oregon 97310 (503) 378-4387</p>	<p><u>RHODE ISLAND</u></p> <p>Securities Division Department of Business Regulation, Bldg 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9582</p>
<p><u>SOUTH DAKOTA</u></p> <p>Division of Securities Department of Revenue & Regulation 445 East Capitol Avenue Pierre, South Dakota 57501 (605) 773-4823</p>	<p><u>VIRGINIA</u></p> <p>State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051</p> <p>(for service of process) Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733</p>
<p><u>WASHINGTON</u> (state administrator)</p> <p>Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, Washington 98507-9033 (360) 902-8760</p> <p>(for service of process) Director, Department of Financial Institutions Securities Division 150 Israel Road S.W. Tumwater, Washington 98501</p>	<p><u>WISCONSIN</u> (state administrator)</p> <p>Division of Securities Department of Financial Institutions 345 W. Washington Ave., 4th Floor Madison, Wisconsin 53703 (608) 266-1064</p> <p>(for service of process) Administrator, Division of Securities Department of Financial Institutions 345 W. Washington Ave., 4th Floor Madison, Wisconsin 53703</p>

EXHIBIT B TO THE DISCLOSURE DOCUMENT

STATE SPECIFIC ADDENDA

EXHIBIT B TO THE DISCLOSURE DOCUMENT

ADDENDUM TO PRO MARTIAL ARTS FRANCHISE CORPORATION DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT REQUIRED BY THE STATE OF CALIFORNIA

CALIFORNIA APPENDIX

1. California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or non-renewal of a franchise. If the Franchise Agreement contains provisions that are inconsistent with the law, the law will control.
2. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law (11 U.S.C.A. Sec. 101 et seq.).
3. The Franchise Agreement contains covenants not to compete which extend beyond the termination of the agreements. These provisions may not be enforceable under California law.
4. Section 31125 of the California Corporation Code requires the franchisor to provide you with a disclosure document before asking you to agree to a material modification of an existing franchise.
5. Neither the franchisor, any person or franchise broker in Item 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 79a et seq., suspending or expelling such persons from membership in such association or exchange.
6. The franchise agreement requires binding arbitration. The arbitration will occur in Pennsylvania with the costs being borne by the franchisee and franchisor. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5 Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California. Business and Professions Code Section 20040.5 relating to forum selection clauses restricting venue outside the state of California or arbitration may be preempted by the Federal Arbitration Act. Section 20040.5 may still apply to any provision relating to judicial proceedings. A binding arbitration provision may not be enforceable under generally applicable contract defenses, such as fraud, duress, or unconscionability.
7. The Franchise Agreement requires application of the laws of Pennsylvania. This provision may not be enforceable under California law.
8. You must sign a general release if you renew or transfer your franchise. California Corporation Code 31512 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).
9. **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 DISCLOSURE DOCUMENT.**

10. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5 Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.
11. The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
13. OUR WEBSITE, www.promartialarts.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS at www.corp.ca.gov.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20____.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

**EXHIBIT B TO THE DISCLOSURE DOCUMENT
ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION DISCLOSURE
DOCUMENT AND FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF ILLINOIS**

1. The following item must be included within the Disclosure Document and shall replace the language that is in the Disclosure Document and the Franchise Agreement:

Section 4, Jurisdiction and Venue, of the Illinois Franchise Disclosure Act of 1987 (“Act”) states that “any provision in the franchise agreement which designates jurisdiction or venue in a forum outside of this State is void with respect to any cause of action which otherwise is enforceable in this State, provided that a franchise agreement may provide for arbitration in a forum outside of this State.” This Section of the Act replaces any contradictory language contained in the Franchise Agreement.

2. Illinois law governs the Franchise Agreement.

3. Any releases and/or waivers that we request you to sign must conform with Section 41, Waivers Void, of the Illinois Franchise Disclosure Act of 1987 which states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act or any other law of this State is void. This Section shall not prevent any person from entering into a settlement agreement or executing a general release regarding potential or actual lawsuit filed under any of the provisions of this Act, nor shall it prevent the arbitration of any claim pursuant to the provisions of Title 9 of the United States Code.”

4. Under Illinois law at 200.608, Jurisdiction and Venue, a franchise agreement may not provide for a choice of law of any state other than Illinois. The Summary column of Item 17(w) of the Disclosure Document is amended to state “Illinois law”. The appropriate sections of the Franchise Agreement are amended accordingly.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

EXHIBIT B TO THE DISCLOSURE DOCUMENT

**STATE ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF INDIANA**

1. To be added to Item 3 of the Disclosure Document, is the following statement:

There are presently no arbitration proceedings to which the Franchisor is a party.

2. Item 17 of the Disclosure Document is amended to reflect the requirement under Indiana Code 23-2-2.7-1 (9), which states that any post term non-compete covenant must not extend beyond the franchisee's exclusive territory.
3. Item 17 is amended to state that this is subject to Indiana Code 23-2-2.7-1 (10).
4. Under Indiana Code 23-2-2.7-1 (10), jurisdiction and venue must be in Indiana if the franchisee so requests. This amends Article 18 of the Franchise Agreement.
5. Under Indiana Code 23-2-2.7-1 (10), franchisee may not agree to waive any claims or rights.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20____.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

Witness

FRANCHISEE:

EXHIBIT B TO THE DISCLOSURE DOCUMENT

ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT REQUIRED BY THE STATE OF MARYLAND

This will serve as the State Addendum for PRO MARTIAL ARTS Franchise Corporation for the State of Maryland for its Franchise Disclosure Document and for its Franchise Agreement. The amendments to the Franchise Agreement included in this addendum have been agreed to by the parties.

1. The provision contained in the termination sections of the Franchise Agreement may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

2. Item 17 of the Franchise Disclosure Document shall be amended at the sections dealing with the issuance of general releases to the effect that the general release required as a condition of renewal and/or assignment/transfer are not intended to nor shall they act as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law. The appropriate sections of the Franchise Agreement and Area Development Agreement are hereby deemed to be amended accordingly.

3. Section 14-226 of the Maryland Franchise Registration and Disclosure Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise. Any disclaimer regarding the occurrence and/or acknowledgment of the non-occurrence of acts that would constitute a violation of the Franchise Law in order to purchase the franchise are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

4. Item 17 of the Franchise Disclosure Document and the appropriate sections of the Franchise Agreement are amended to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

5. Item 17 of the Franchise Disclosure Document is hereby amended to state that the Franchise Agreement require binding arbitration, the site of which is in the state of Pennsylvania, the costs of which are borne by the parties equally and any issues not decided by arbitration may be brought in a court of competent jurisdiction. The law of the State of Pennsylvania governs the arbitration. However, pursuant to Section 14-216(c)(25) of the Maryland Franchise Registration and Disclosure Law, a franchisee is permitted to enter into litigation with the Franchisor in the State of Maryland, regardless of the language in the Franchise Agreement.

6. The Franchise Agreement is hereby amended to state that any representations which require a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

Witness

FRANCHISEE:

EXHIBIT B TO THE DISCLOSURE DOCUMENT

**ADDENDUM TO DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF MINNESOTA**

This addendum to the Disclosure Document is agreed to this ___ day of _____, 20___, and effectively amends and revises said Disclosure Document and Franchise Agreement as follows:

1. Item 13 of the Disclosure Document and Article 5 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

“In accordance with applicable requirements of Minnesota law, Franchisor shall protect Franchisee’s right to use the trademarks, service marks, trade names, logotypes or other commercial symbols and/or shall indemnify Franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding such use.”

2. Item 17 of the Disclosure Document and Article 12 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

“Minnesota law provides franchisees with certain termination and non-renewal rights. Minnesota Stat. Sec. 80c.14, Subd.3, 4 and 5 require, except in certain specified cases, that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the Disclosure Document.”

3. Item 17 of the Disclosure Document and Article 18 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

“Minn. Stat. Sec. 80C.21 and Rule 2860.4400J prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreements can abrogate or reduce any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee’s rights to any procedure, forum, or remedies provided for by the laws of jurisdiction.”

4. Item 17 of the Disclosure Document and Article 12 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

“Minn. Rule 2860.4400D prohibits us from requiring you to assent to a general release.”

5. Any reference to liquidated damages in the Franchise Agreement is hereby deleted in accordance with Minn. Rule 2860.4400J which prohibits requiring you to consent to liquidated damages.

6. Article 18 of the Franchise Agreement is hereby deleted in accordance with Minn. Rule 2860.4400J which prohibits waiver of a jury trial.

7. Article 18 of the Franchise Agreement regarding Limitations of Claims is hereby amended to comply with Minn. Stat. §80C.17, Subd. 5.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

Witness

FRANCHISEE:

EXHIBIT B TO THE DISCLOSURE DOCUMENT

ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION FRANCHISE DISCLOSURE DOCUMENT REQUIRED BY THE DEPARTMENT OF LAW OF THE STATE OF NEW YORK

The following Items are required to be included within the Disclosure Document and shall be deemed to supersede the language in the Disclosure Document itself:

3. LITIGATION

Neither the Franchisor, its Predecessor nor any person listed under Item 2 or an affiliate offering franchises under Franchisor's principal trademark:

- (A) has an administrative, criminal or civil action pending against that person alleging: a felony; a violation of a franchise, antitrust or securities law; fraud; embezzlement; fraudulent conversion; misappropriation of property; unfair or deceptive practices; or comparable civil or misdemeanor allegations.
- (B) has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise; anti-fraud or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; unfair or deceptive practices; or comparable allegations.
- (C) is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

4. BANKRUPTCY

Neither the Franchisor, its affiliate, its predecessor, officers, or general partner during the ten year period immediately before the date of the disclosure document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code (or any comparable foreign law); (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one year after the officer or general partner of the Franchisor held this position in the company or partnership.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

Witness

FRANCHISEE:

EXHIBIT B TO THE DISCLOSURE DOCUMENT

ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF NORTH DAKOTA

This addendum to the Disclosure Document and Franchise Agreement effectively amends and revises said documents as follows:

1. Item 17(c) of the Disclosure Document and Article 17 of the Franchise Agreement are hereby amended to indicate that a franchisee shall not be required to sign a general release.

2. Covenants not to compete are generally considered unenforceable in the State of North Dakota, in accordance with Section 51-19-09 of the North Dakota Franchise Investment Law. Item 17(r) of the Disclosure Document and Article 14 of the Franchise Agreement are amended accordingly.

3. Item 17(i) of the Disclosure Document and Article 13 of the Franchise Agreement requires the franchisee to consent to termination or liquidated damages. Since the Commissioner has determined this to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law, these provisions are hereby deleted in each place they appear in the Disclosure Document and Franchise Agreement used in North Dakota.

3. Item 17(u) of the Disclosure Document and Article 18 of the Franchise Agreement are amended to provide that arbitration shall be held at a site that is agreeable to all parties.

4. Item 17(v) of the Disclosure Document and the provisions of Article 18 of the Franchise Agreement which require jurisdiction of courts in the State of Pennsylvania are deleted.

5. Item 17(w) of the Disclosure Document and Article 18 of the Franchise Agreement are amended to indicate that the agreements are to be construed according to the laws of the State of North Dakota.

6. Apart from civil liability as set forth in Section 51-19-12 N.D.C.C., which is limited to violations of the North Dakota Franchise Investment Law (registration and fraud), the liability of the franchisor to a franchisee is based largely on contract law. Despite the fact that those provisions are not contained in the franchise investment law, those provisions contain substantive rights intended to be afforded to North Dakota residents. Therefore, North Dakota franchisees will not be required to waive their rights under North Dakota law.

7. Item 6 of the Disclosure Document and Article 13 of the Franchise Agreement are hereby amended to delete all references to liquidated damages.

8. The provisions of Article 18 of the Franchise Agreement which require a franchisee to consent to (1) a waiver of trial by jury and (2) a waiver of exemplary and punitive damages are contrary to Section 51-19-09 of the North Dakota Franchise Investment Law and are hereby deleted.

9. The provisions of Article 18 of the Franchise Agreement which require a franchisee to consent to a limitation of claims are hereby amended to state that the statute of limitations under North Dakota law applies.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20____.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____

Name: _____

Title: _____

FRANCHISEE:

Witness

EXHIBIT B TO THE DISCLOSURE DOCUMENT

**ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF RHODE ISLAND**

The following amends Item 17 and is required to be included within the Disclosure Document and shall be deemed to supersede the language in the Disclosure Document itself:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that:

“A provision in a franchise agreement restricting jurisdiction or venue to a forum outside of this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20____.

ATTEST

PRO MARTIAL ARTS Franchise Corporation

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

EXHIBIT B TO THE DISCLOSURE DOCUMENT

**ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF WASHINGTON**

The State of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise.

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

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 or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

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

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE COMPANY

Witness

By: _____

Name: _____

Title: _____

FRANCHISEE:

Witness

EXHIBIT B TO THE DISCLOSURE DOCUMENT

**ADDENDUM TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
DISCLOSURE DOCUMENT REQUIRED BY THE COMMONWEALTH OF VIRGINIA**

1. In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for PRO MARTIAL ARTS Franchise Corporation for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure: The following statements are added to Item 17.h:

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 grounds for default or termination stated in the franchise agreement and development agreement does not constitute "reasonable cause," as that the term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, the provision may not be enforceable.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this _____ day of _____, 20__.

ATTEST

PRO MARTIAL ARTS FRANCHISE CORPORATION

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

Exhibit C to the Disclosure Document

FRANCHISE AGREEMENT



FRANCHISE AGREEMENT

Between

PRO MARTIAL ARTS FRANCHISE CORPORATION
a Pennsylvania corporation

(Franchisor)

and

(Franchisee)

Dated: _____, 20__

© PRO MARTIAL ARTS FRANCHISE CORPORATION
630 Freedom Business Center Drive, 3rd Floor
King of Prussia, PA 19406
(610) 722-5600

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EXHIBITS:

- EXHIBIT 1 – SITE SELECTION ADDENDUM
- EXHIBIT 2 – COLLATERAL ASSIGNMENT OF LEASE
- EXHIBIT 3 – EFT DOCUMENTATION
- EXHIBIT 4– CONFIDENTIALITY AND NON-COMPETITION AGREEMENT
- EXHIBIT 5 – COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS
- EXHIBIT 6 – PERSONAL GUARANTY

**PRO MARTIAL ARTS FRANCHISE CORPORATION
DATA SHEET**

Franchisee: _____

Guarantors: _____

Effective Date: _____

Premises: _____

Territory: _____

Telephone Number: _____

Facsimile Number: _____

Initial Franchise Fee: _____

The terms of this Data Sheet are hereby incorporated into the attached Franchise Agreement.

PRO MARTIAL ARTS FRANCHISE AGREEMENT

THIS PRO MARTIAL ARTS FRANCHISE AGREEMENT is signed this ____ day of ____, 20__ (the “Agreement Date”) by and between PRO MARTIAL ARTS Franchise Corporation (“we” or “us” and _____ (“Franchisee, “you”, or “your”).

BACKGROUND

A. We have developed and own a System for the operation of a business offering classes in karate training and self-defense that include Grandmaster Samane’s Karate methods and martial arts physical fitness techniques (each a “Studio”).

B. We grant franchises to operate a single Studio.

C. Each Studio operates pursuant to our proprietary system, the characteristics of which include: (a) GRANDMASTER SAMANE’S PRO MARTIAL ARTS® karate training and self-defense regimens; (b) uniform specifications for furniture, fixtures and equipment; (c) sales and marketing techniques; and (d) other procedures for the operation and management of a physical fitness studio (the “System”).

D. We identify the System by means of various trademarks and design marks, including the GRAND MASTER SAMANE’S PRO MARTIAL ARTS®” trademark and rhinoceros design mark, and our trade dress, as well any other trademarks, trade names, logos, emblems, and indicia of origin we may now or in the future designate in connection with the system (the “Marks”).

E. You recognize the benefits from receiving a Pro Martial Arts Studio and desire to enter into this Agreement subject to the terms of this Agreement and to receive the benefits provided by us under this Agreement.

F. You have applied for a franchise to operate a Studio, and we have approved your application in reliance on the representations made therein.

G. You hereby acknowledge that adherence to the terms of this Agreement and our standards and specifications are essential to the operation of Studio and our System as a whole.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, commitments and understandings contained herein, the parties hereby agree as follows:

ARTICLE 1 – GRANT OF FRANCHISE

SECTION 1.1 GRANT OF FRANCHISE

We hereby grant you, upon the express terms and conditions contained in this Agreement, and you hereby accept, a non-exclusive license to establish and operate one Studio under our System and Marks, and the right to use the System and Marks to operate the Studio. We have the right to supplement, improve or otherwise modify the System from time to time at our sole discretion; you must comply with all such changes, which may include, without limitation, the offer and sale of new or different products and services.

SECTION 1.2 EXCLUSIVE TERRITORY

Except as otherwise provided in this Agreement, as long as you comply with the terms of this Agreement, we will not establish and operate or license to third parties the right to establish and operate, any Studio under the System and Marks within the protected territory identified on the Data Sheet (the "Territory"). We and our affiliates retain all other rights, including the reserved rights and alternative channels of distribution described in Item 1.3 below, within your Territory.

SECTION 1.3 RESERVED RIGHTS AND ALTERNATIVE CHANNELS OF DISTRIBUTION

(a) You expressly understand and agree that we and our affiliates will have the right, in our sole discretion, to: (i) own and operate, or license others the right to own and operate, Studios at any location(s) outside of your Territory under the marks and System; (ii) the right to own and operate Studios under different Marks at any location(s) inside or outside of your Territory, or license to others the right to own and operate Studios under different marks at any location(s) inside or outside of your Territory; (iii) use the Marks and System in connection with services and products, promotional and marketing efforts, or related items, or in alternative channels of distribution as set forth in Section 1.3(b) below; and (iv) use the Marks and System, and license others to use the Marks and System to engage in any other activities not expressly prohibited in this Agreement.

(b) You acknowledge and agree that some of our products and services, whether now existing or developed in the future, may be distributed in your Territory by us or our affiliates, or any third parties we designate, in such manner and through such alternative channels of distribution as we may, in our sole discretion, determine. Such alternate channels of distribution shall include, but are not limited to, the sale products bearing the Marks (the "Proprietary Product's") such as fitness equipment, weaponry, instructional books and DVDs, online instructional courses, dietary supplements, energy drinks and other beverages, and protein bars through wholesale outlets, grocery stores and other retail outlets, via the Internet, and through mail order catalog, without regard to location.

(c) You understand and agree that nothing in this Agreement grants you the right to: (i) distribute products or services as described in this Section 1.3; or (ii) to share in the proceeds of such from such activities.

SECTION 1.4 LOCATION OF YOUR STUDIO

You must operate the Studio at the following approved location identified in the Data Sheet attached hereto (the "Premises"), the terms of which are incorporated in this Franchise Agreement as if full set forth herein. If we have not agreed upon a location for your Studio at the time you sign this Agreement, you must enter into the Site Selection Addendum attached as Exhibit 1 to this Agreement, the terms of which will govern the parties' site selection obligations. You cannot relocate your Studio without our permission.

SECTION 1.5 RELOCATION OF YOUR PRO MARTIAL ARTS STUDIO

If you lease the Premises and the lease expires or is terminated (provided that your lease was not terminated due to your default) before the expiration or termination of this Agreement, you must procure a new site for the operation of the Studio that meets our then-current standards and specifications and is located within the Territory before the termination of your lease for the existing Premises, and open your Studio at a new location approved of by us and built out to our standards and specifications within 90 days of closing operations at your old Premises. We must approve the new location in writing. Your

failure to secure a new location and begin operation within the specified times is an Event of Default on your part. You are solely responsible for any expenses we incur in approving a new Premises, including any travel, meal, lodging, and payroll expenses associated with approving the new location, and all costs relating to buildout.

ARTICLE 2 – TERM AND RENEWAL

SECTION 2.1 TERM

The initial term of this Agreement is twenty (20) years, which will begin on the Effective Date.

SECTION 2.2 RENEWAL

You have the right to renew this Agreement for two (2) successive, additional five (5) year periods, provided you meet all of the following conditions:

- (a) You give us written notice of such election to renew not less than 2 months nor more than 9 months, prior to the end of such term;
- (b) You demonstrate to our satisfaction that you have the right to operate the Studio at the Premises (defined in Section 1.4 above) for the duration of the renewal term; or, if you are unable to operate the Studio at the Premises, you have secured a substitute location meeting our then-current standards and specifications;
- (c) You complete to our satisfaction all maintenance, refurbishing, renovating, updating, and remodeling of the Studio premises required to bring the Studio and all of its equipment into full compliance with our then-current System standards and specifications no later than 90 days prior to the expiration of the then-current term;
- (d) You are not in breach of any of the provisions of this Agreement, or any other agreements between you and us, our affiliates, or our approved or designated suppliers, and you have substantially completed all such agreements during their respective terms;
- (e) You have satisfied all of your monetary obligations towards us, our affiliates, and our suppliers and vendors;
- (f) You execute our then-current form of Franchise Agreement, the terms of which may vary materially from the terms of this Agreement;
- (g) You satisfy our then-current training requirements, if any, for renewing franchisees at your expense; and
- (h) You sign a general release in the form we prescribe, which will not be inconsistent with any applicable state regulations relating to renewals.

ARTICLE 3 - OUR DUTIES

We will provide you with the following initial and ongoing assistance and services, as long as you are not in default under this Agreement:

SECTION 3.1 PREMISES APPROVAL

We will review and grant or withhold our approval of your Studio Premises in the manner specified in this Agreement and the Site Selection Addendum, if applicable.

SECTION 3.2 PLANS AND SPECIFICATIONS

We will loan to you:

- (a) A sample set of standard building plans and specifications and/or standard recommended floor plans;
- (b) Specifications of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for the Pro Martial Arts Studio (collectively, the “Design Specifications”); and
- (c) Specifications for PRO MARTIAL ARTS® uniforms for your employees, which are to be purchased directly from our approved suppliers.

SECTION 3.3 EQUIPMENT AND MERCHANDISE SELECTION

We will provide you with specifications and requirements for fitness equipment, mirrors, countertops, interior and exterior signage, protective gear and apparel, computer hardware and software, including a web-based accounting control system, first aid equipment, and any other fixtures or equipment required to operate your Studio. We will also provide you with specifications for and designate sources of supply from which you agree to purchase an inventory of Proprietary Products and other merchandise, towels and sanitary wipes, and other goods and supplies necessary for the start-up and ongoing operation of your Studio.

SECTION 3.4 OPERATIONS MANUAL

We will loan you one copy of our proprietary and confidential Operations Manual and any other manual we may now or hereafter designate for use in operating a Studio (collectively the “Operations Manual”). You must operate the Studio in strict compliance with the Operations Manual, as it may be reasonably changed from time to time. The Operations Manual must remain confidential and our exclusive property. You agree that you will not disclose, duplicate or make any unauthorized use of any portion of the Operations Manual. The provisions of the Operations Manual constitute provisions of this Agreement as if fully set forth herein. You must ensure that your copy of the Operations Manual is current and up to date, and keep a copy of the Operations Manual on the Studio’ premises at all times. If there is a dispute relating to the contents of the Operations Manual, the master copy that we maintain at our corporate headquarters, will control. We reserve the right to disclose updates to the Operations Manual via electronic means, including over our website or any intranet or extranet system established in connection with the System.

SECTION 3.5 INITIAL TRAINING

We will conduct a pre-opening training program as described in Section 5.23 below. In addition, we may, at our discretion, hold refresher and ongoing training courses. We may require you and your employees to attend training at the location we designate. All expenses, including you and your employee’s transportation, meal, and lodging expenses to attend such training will be your sole

responsibility. We will also provide training programs for employees and managers to complete over our intranet system.

SECTION 3.6 ONGOING ASSISTANCE

We will provide you with continuing consultation and advice as we deem necessary and appropriate regarding the management and operation of the Studio through our employees via telephone, facsimile, and Internet communication. If you require and request additional on-site assistance from us, we will provide you with such assistance at our then current rates, subject to the availability of our personnel.

SECTION 3.7 PRICING POLICY

We will provide you with information for your consideration in establishing prices for the products and services advertised, sold and offered for sale in your Studio. You will make the final decision as to the price of all goods and services offered at your Studio.

SECTION 3.8 DEVELOPMENT OF STANDARDS

We will develop standards, techniques, policies, regulations and procedures regarding the operation of Studios, which may include the addition, modification, substitution, and/or discontinuance of any training method, technique, regimen, or class; guidance on the selection, supervision and training of all personnel; sales, advertising and promotional techniques, programs and procedures; standards and specifications for the appearance of your Studio; payment, credit, accounting and financial reporting policies and procedures; standards and specifications for the purchase and maintenance of equipment and fixtures; merchandising of items held by you for resale; hours and manner of operations; and/or trademark and signage usage.

SECTION 3.9 ANNUAL CONFERENCE

We may, at our discretion, hold an annual conference at the location we designate. We may require you to attend the annual conference, and to pay our then-current registration fee. All expenses, including you and your employee's travel, meal, and lodging expenses associated with training will be your responsibility.

SECTION 3.10 APPROVAL OF MARKETING MATERIALS

You must obtain our approval of any marketing or public relations materials you prepare before the placement or use of such materials.

SECTION 3.11 DUTIES SOLELY TO YOU AND OUR RIGHT TO WITHHOLD SERVICES

All of our obligations under this Agreement are only to you. No other party is entitled to rely on, enforce, or obtain relief for breach of the obligations either directly or by subrogation. If you fail to pay any sums due us our affiliates under this Agreement or under any other Agreement between you and us or our affiliates, we can withhold any supervision, assistance or service provided to you under any provision of this Agreement, and prohibit your participation in any System programs.

SECTION 3.12 OUR RIGHT TO DELEGATE DUTIES

We have the right to outsource the provision of any service to be performed by us under this Agreement to an approved or designated vendor.

ARTICLE 4 - FEES AND PAYMENTS

In consideration of our signing this Agreement, you must pay to us the following fees, in addition to any others required under this Agreement, all payable in United States currency at our principal office:

SECTION 4.1 INITIAL FRANCHISE FEE

You must pay to us an lump sum Initial Franchise Fee of Forty Nine Thousand Dollars (\$49,000) lump sum initial franchise fee when you sign this Agreement (the "Initial Franchise Fee").

The Initial Franchise Fee is fully earned and non-refundable upon payment. If you are purchasing multiple franchise agreements at the same time, and this is your second Franchise Agreement being purchased at the same time, the Initial Franchise Fee will be Thirty One Thousand Dollars (\$31,000). If this is your third or subsequent franchise agreement being purchased at the same time, the Initial Franchise Fee will be Twenty Thousand Dollars (\$20,000). The first Studio must be open within the timeframe described in this Agreement. Your second Studio must be open and operating within two (2) years after you sign the Franchise Agreements, and your third Studio must be open and operating within four (4) years after you sign the Franchise Agreements. All Initial Franchise Fees are deemed fully earned and non-refundable upon payment.

SECTION 4.2 ROYALTY FEE

You will pay a continuing monthly non-refundable Royalty Fee during the Term as follows:

(a) During the first twelve (12) months of operation, the Royalty Fee shall be seven and one-half percent (7.5%) of "Gross Revenue" (as defined in Section 4.4 below);

(b) Beginning with the thirteenth (13th) month and for the remainder of the term of this Agreement, the Royalty Fee will be the greater of: (a) seven and one-half percent (7.5%) of Gross Revenue; or (b) One Thousand Dollars (\$1,000) per month.

SECTION 4.3 ADVERTISING CONTRIBUTIONS

You must pay a continuing monthly contribution to the National Marketing Fund described in Section 8.4 below (the "Advertising Contribution") equal to one percent (1.0%) of monthly Gross Revenues. We have the sole right to institute and enforce your obligations and all other franchisees that are required to make Advertising Contributions. Neither you, nor any other franchisee obligated to make Advertising Contributions, is a third party beneficiary of the funds or has any right to enforce any obligation to contribute the funds.

SECTION 4.4 GROSS REVENUES

"Gross Revenues" includes all revenues you generate from all business conducted at or your Studio, including amounts received from providing individual and group health and fitness consultations and training classes whether at the Premises or at a client location, the sale of Proprietary Products, and the sale and delivery of any other services, products, merchandise, and tangible property of any nature

whatsoever, whether in cash or for credit, and whether collected or uncollected. "Gross Revenues" does not include the amount of any applicable sales tax imposed by any federal, state, municipal, or other governmental authority if such taxes are stated separately when the customer is charged and you pay such amounts as and when due to the appropriate taxing authority. Also excluded from Gross Revenues is the amount of any documented refunds, chargebacks, credits, and allowances given to customers in good faith and only in accordance with our operating procedures. All barter and exchange transactions for which you furnish services or products in exchange for goods or services to be provided to by the vendor, supplier, or customer will be valued at the full retail value of the goods or services provided to you.

SECTION 4.5 PAYMENT SYSTEM

(a) The Royalty Fee and Advertising Contributions must be paid to us by the fifth (5th) day of each month during the Term for the previous calendar month (or the next Business Day if the fifth (5th) day of any month is not a Business Day). All other amounts due to us from you will be paid as specified in this Agreement. If no time is specified, these amounts are due upon receipt of an invoice from us. Any payment or report not actually received by us on or before the due date is overdue.

(b) Presently, the Royalty Fee and Advertising Contributions are collected via an electronic funds transfer program (the "EFT Program") under which we automatically deduct all payments owed to us under this Agreement, or any other agreement between you and us or our affiliates, from your bank account. You must deposit all revenues from the operation of your Studio into one bank account within 1 business day after receipt, including cash, checks, and credit card receipts. Prior to opening, you must provide us with your bank name, address and account number, a voided check from the bank account, and sign and give to us and your bank all documents, including Exhibit 3 to this Agreement, necessary to effectuate the EFT Program and our ability to withdraw funds from such bank account via electronic funds transfer. You must immediately notify us of any change in your banking relationship, including changes in account numbers and/or new or substitute bank accounts you may create. We may change the time and manner for payment of the Royalty Fee and Advertising Contributions, but not the amount of the contribution, from time to time at our discretion. We may require your financial institution to send a monthly statement of all activity in the designated account to us at the same time as it sends these statements to you, and any other reports of the activity in the operating account as we reasonably determine and request. You will pay all charges imposed by your financial institution in connection with the EFT Program, and we will pay the charges imposed by our financial institution for the EFT Program.

(c) If any taxing authority, wherever located, imposes any future tax, levy, or assessment on any payment you make to us, you must pay such tax, levy, or assessment. We will be responsible for all income taxes associated with receiving royalty and other fees from you.

SECTION 4.6 INTEREST ON LATE PAYMENTS; LATE CHARGE

Although each failure to pay monies when due is an event of default to encourage prompt payment and to cover the costs involved in processing late payments, if any payment under this Agreement or any other agreement between us or our affiliates and you for your Pro Martial Arts Studio is overdue for any reason, you must pay to us, on demand, in addition to the overdue amount, any insufficient funds ("NSF") charges we incur and interest on the overdue amount from the date it was due until paid equal to the lesser of: (i)) eighteen percent (18%) per annum; or (ii) the maximum rate of interest permitted by law. You must also pay a late charge of Two Hundred Fifty Dollars (\$250) for each payment that is overdue. If we owe you money, we will pay the same interest and late charge, if we pay you late.

SECTION 4.7 APPLICATION OF PAYMENTS

We have sole discretion to apply any payments you make to your past due indebtedness including the Royalty Fee, Advertising Contributions, purchases from us or our Affiliates, interest, NFS charges, or any other indebtedness of you to us or our Affiliates in any manner we choose regardless of your designation.

SECTION 4.8 NO WITHHOLDING

You agree that under no circumstances will you withhold or suspend payment of, or reduce the amount of the Royalty Fee and Advertising Contributions Fee, if instituted, or any other payments to us or our affiliates under this or any other agreement.

ARTICLE 5 - YOUR DUTIES

SECTION 5.1 ACQUISITION OF THE SITE, LEASE APPROVAL

You are solely responsible for securing, by purchase or lease, a Premises for the operation of your Studio. If a site for your Studio has not been approved by us on the Agreement Date, you will sign our Site Selection Addendum attached hereto as Exhibit 1, the terms of which shall govern the parties' site selection obligations. We have the right to review, evaluate and approve your lease for the Premises (the "Lease") before execution. We may condition our approval of any proposed lease on, among other factors, you and your landlord's execution of a Collateral Assignment of Lease (attached as Exhibit 2 to this Agreement) which (i) grants us the right, but not the obligation, to assume the Lease upon (a) your default on the lease, or (b) termination, transfer or expiration of this Agreement, and (ii) authorizes and requires your landlord to disclose to us, upon request, sales and other information you may furnish to your landlord. You must deliver an executed copy of the Lease and the Collateral Assignment of Lease to us within fifteen (15) days of execution of the Lease. Neither our review of the Lease nor our acceptance of the site you select constitutes a representation or guarantee that you will succeed at the selected Premises, or an express of our opinion regarding the Lease. We encourage you to seek independent counsel from a lawyer or business adviser to assist you in selecting a location and negotiating a lease for a Studio Premises.

SECTION 5.2 CONSTRUCTION PLANS AND PERMITS

The Studio must conform to our standards and specifications for the appearance, layout, and design of a Studio. We will provide you with a sample layout and standards and specifications for a Studio, which you must conform to your Premises. You are solely responsible for the preparation of architectural and working drawings necessary to complete plans for the layout of the Premises to comply with applicable ordinances, building codes, permits requirements, and any other applicable local, state, or federal law. Franchisor must approve all architects, plans, and construction supervisors before you begin the construction and/or build out of the Premises. We must approval all subsequent material changes to the plans and drawings before implementation, and you will be solely responsible for obtaining the necessary licenses and permits, and landlord approval for the build out of your Studio. You understand and acknowledge that our approval of your plans is only meant to verify that such plans accurately and effectively promote the Mark and the System, and that in no event will we review the plans related to, or ensure that the plans are compliant with, any applicable laws, ordinances and building codes, all of which is your sole responsibility. You must provide us with evidence that all necessary permits have been obtained and that all requirements for construction and operation have been met, including zoning, access, sign, fire, health, environmental and safety requirements.

SECTION 5.3 CONSTRUCTION REQUIREMENTS

You must begin construction within sixty (60) days after a site is obtained and provide written notice to us of the date construction of your Studio is completed. You will construct the Premises in accordance with the approved plans described in Section 5.2 above. You must maintain continuous construction of the Premises and must complete construction, including all exterior and interior carpentry, electrical, painting and finishing work and installation of all with the approved fixtures, equipment and signs, in accordance with the site plans and design specifications, at your expense, within 330 days from the Agreement Date. If you fail to complete construction timely, you are in material default of this Agreement and we have the right to terminate this Agreement. You agree that our representatives and we have the right to inspect the construction at all reasonable times. You will, within five (5) days after completion of construction, obtain a certificate of occupancy, and after obtaining our approval for opening, will open your Studio within ten (10) days after the date of the certificate of occupancy. You and we agree that time is of the essence in constructing and opening your Studio.

SECTION 5.4 OPENING

You must obtain our written permission before opening the Studio, which we will condition upon: (a) your completion complete all of your obligations under Sections 5.1 through 5.3; (b) you complete buildout of the Studio pursuant to our standards and specification; (c) you and your employees' completion of training to our satisfaction; (d) your full payment of all amounts owed to us and our affiliates; (e) our receipt of certificates of insurance and copies of all insurance policies or all other evidence of insurance coverage as we reasonably request; (f) our receipt of a certificate of occupancy for your Premises; and (g) your confirmation that you have obtained all necessary licenses and permits to operate your Studio. You must open your Studio by the later of (i) ninety (90) days of securing the Premises, or (ii) three hundred sixty five (365) days of signing this Agreement. If you do not meet either deadline, you will be in default and we may terminate this Agreement.

SECTION 5.5 USE OF THE PREMISES

You must use your Premises exclusively for the operation of your Studio. You must keep your Studio open for business and in normal operation for the minimum hours and days as we reasonably require in the Manuals or otherwise in writing except as may be limited by local law or the landlord's rules and regulations.

SECTION 5.6 MAINTENANCE AND REPAIRS

You must maintain your Pro Martial Arts Studio in the highest and most uniform degree of sanitation, repair, appearance, condition and security as stated in the Manuals and as a modern, clean, adequately lighted and efficiently operated Pro Martial Arts Studio providing high quality athletic fitness products and services with efficient, courteous and friendly customer service as we require. You must make all additions, alterations, repairs and replacements to your Pro Martial Arts Studio (but no others without our written consent) as reasonably required for that purpose, including all periodic repainting, changes in appearance, repairs to impaired equipment and replacement of obsolete signs as we direct subject to Capital Expenditure Limitation stated in Section 5.19. You must meet and maintain the highest safety standards and ratings applicable to the operation of your Pro Martial Arts Studio, as we reasonably require.

SECTION 5.7 OPERATIONAL REQUIREMENTS

You must operate your Studio for at least those months, hours and days that we specify in the Operations Manual.

(a) In order to ensure that all classes offered and merchandise and equipment sold by you through the Studio meet our high quality standards, and in order to protect the goodwill associated with our System and Marks, all classes offered and held by you, including any personal training classes must be carried out as set forth in the Operations Manual, and sold in conformity with our marketing plan and concept. You acknowledge that such methods are integral to the System and failure to strictly adhere to such standards and specifications will be detrimental to the System and Marks and will constitute a material default of this Agreement.

(b) You must employ a sufficient number of qualified, competent personnel, offer prompt, courteous and efficient service to the public, and otherwise operate the Studio in compliance with the System so as to preserve, maintain and enhance the reputation and goodwill of the System. All employees engaged in the operation of your Studio during working hours must dress in conformance with our standards, must present a neat and clean appearance in conformance with our reasonable standards and must render competent, efficient service to the customers of the Studio.

(c) You agree to operate the Studio in accordance with the Operations Manual. You must train and adequately instruct your employees prior to opening in accordance with the Operations Manual, and must continue such training and instruction for so long as the employee remains with the Studio. We have the right to require your employees to engage in mandatory training periodically. The Operations Manual will set forth the practices, procedures and methods to be utilized in operating a Studio and we may require you to conform your practices to national programs, which we may now or in the future design and promulgate as part of our System.

(d) You must at all times maintain such working capital as may be reasonably necessary to enable you to properly and fully carry out and perform all of your duties, obligations and responsibilities hereunder and to operate the business in a businesslike, proper and efficient manner.

(e) You must at all times maintain sufficient levels of inventory to adequately meet consumer demand.

(f) You must comply with all warranty policies and procedures we reasonably require in the Manuals or otherwise under authorized warranties on Pro Martial Arts Products.

SECTION 5.8 YOUR SUPERVISION OF THE STUDIO

(a) You or the owner you designate to manage Studio operations (if you are a corporation, partnership or other legal entity) (the "Managing Owner") must devote your personal full-time attention and best efforts to the management and operation of the Studio and successfully attend and complete our initial training program. You and/or your Managing Owner may, however, delegate the day-to-day operation of your Studio to a program director responsible for the general operation of the Studio (the "Program Director"). In addition, you must maintain another owner and/or employee to serve as your Studio's chief instructor, who will be primarily responsible for supervising classes held at the Studio (the "Chief Instructor"). We must approve any Program Director and Chief Instructor prior to hiring. Your Studio must, at all times, be staffed with at least 1 individual who has successfully completed our Initial Training Program, set forth in Section 5.23 below. If you operate more than one Studio, you must have a properly trained Managing Owner or Program Director and a Chief Instructor at

each location, who has been approved of by us and completed our training program. You will keep us informed at all times of the identity of any Managing Owner, Program Director, and Chief Instructor of each of your Studios. If a Managing Owner, Program Director, or Chief Instructor resigns or is otherwise terminated from your Studio, we must approve the replacement and the replacement must be trained pursuant to our then-current standards. Any Managing Owner, Program Director, and/or Chief Instructor must devote his or her full time and best efforts to the day-to-day operation and management of the Studio and cannot engage in any other business activity without our prior written consent. At any rate, you are personally responsible for the operation of your Studios.

(b) All of your instructors must be approved by us. For any weapons we permit you to use in your Pro Martial Arts Studio, your instructors must be trained and/or certified to our satisfaction before they may offer training to your students.

(c) You agree to refrain from committing any act or pursuing any course of conduct that tends to bring your Studio, us, the System, or the Marks into disrepute.

(d) You must use your best efforts to promote and increase the demand for the products and services offered by your Studio. All of your advertising and promotional efforts must be completely factual and conform to the highest standards of ethical advertising. You agree to refrain from any business or advertising practice that may be injurious to the Studio or the goodwill associated with the Marks and System.

SECTION 5.9 PURCHASING REQUIREMENTS

(a) You acknowledge and agree that your obligations set forth in this Agreement and the Operations Manual are reasonable and necessary for the operation of the Studio and to maintain uniformity throughout the System. You must adhere to the standards and specifications set forth in this Agreement and the Operations Manual and any revisions or amendments to same (including, without limitation, standards and specifications for the offer and sale of Proprietary Products and other merchandise authorized for sale through your Studio, as well as standards for inventory, merchandise and displays, equipment, fixtures, and signage. You must use signs, furnishings, fixtures, equipment, apparel, weaponry, and other goods that comply with our then-current standards and specifications, which we establish from time to time. We have the right to change our standards and specifications in our discretion. You acknowledge that you may incur increased costs to comply with such changes at your expense.

(b) Designated and Approved Suppliers. Recognizing that preservation of the System depends upon product and service uniformity and the maintenance of our trade dress, you agree to purchase Proprietary Products and other merchandise authorized for sale through your Studio, as well as standards for inventory, merchandise and displays, equipment, fixtures, and signage computer hardware and software, and other equipment from us, or from our approved and designated suppliers as we will specify in the Operations Manual or otherwise in writing from time to time. You acknowledge that we, our affiliates, and/or a third party may be one of several, or the only, approved supplier of any item. You further acknowledge and agree that we and/or our affiliates have the right to realize a profit on any items that we, our affiliates, or our approved and designated suppliers supply to you.

(c) Supplier Approval. In the event you wish to purchase any unapproved item and/or acquire approved items from an unapproved supplier, you must provide us with the name, address and telephone number of the proposed supplier, a description of the item you wish to purchase, and the purchase price of the item, if known. At our request, you must provide us with a sample of the item you wish to purchase for testing purposes. If we incur any costs in connection with testing particular product

or evaluating an unapproved supplier at your request, you must reimburse us for our reasonable testing costs, regardless of whether we subsequently approves the item or supplier. We may base our approval of any proposed item or supplier on considerations relating not only directly to the item or supplier itself (such as the quality of products, standards of service, the supplier's reputation in the marketplace, and the supplier's pricing), but also other factors such as the uniformity, efficiency and quality of operation we deem necessary or desirable in our system as a whole, the confidentiality of our standards and specifications, and our ability to earn revenue from your purchases of goods and services. We have no obligation to approve any particular product, services, or source. We and our affiliates have the right to receive payments from suppliers because of their dealings with you and other franchisees and to use all amounts we receive without restriction (unless instructed otherwise by the supplier) for any purposes we deems appropriate. We may require you to purchase any previously unapproved product or service from our approved or designated supplier. Nothing herein will require us to approve an unreasonable number of suppliers for a given item, which approval might, in our reasonable judgment, result in higher costs or prevent the effective or economical supervision of approved suppliers. We may revoke our approval of particular products or suppliers when we determine, in our sole discretion, that such products or suppliers no longer meet our standards. Upon receipt of written notice of revocation, you must cease purchasing products from such suppliers. You must use products purchased from approved suppliers solely in connection with the operation of your Studio and not for any competitive business purpose.

(d) System Suppliers. We may establish business relationships, from time to time, with suppliers who may produce, among other things, Proprietary Products, apparel, weaponry and safety equipment, fitness equipment, furnishings, fixtures, equipment and inventory according to our proprietary standards and specifications, from our approved and designated suppliers ("System Suppliers"). You recognize that such products are essential to the operation of the Studio and to the System generally. You further recognize that your failure to pay System Suppliers may interfere with such suppliers' willingness to supply the System which may result in other System franchisees' inability to obtain product or ability to obtain product only on less favorable credit terms. Accordingly, you agree to pay System Suppliers as and when due.

(e) You must use a membership billing service from us or from suppliers approved by us or under our specifications.

SECTION 5.10 PRO MARTIAL ARTS PRODUCTS

You agree that we have already developed or have distribution rights to the Proprietary Products and may continue to develop for use in the System certain additional products that are all highly confidential and constitute trade secrets. Due to the importance of quality control and uniformity of these products and the significance of the proprietary products to the System, it is to the mutual benefit of the parties that we closely control the production and distribution of the Proprietary Products. Accordingly, you will use the Proprietary Products and will purchase from us or from an approved source we designate and license all of your supplies of the Proprietary Products, all in accordance with our requirements then in effect. **EXCEPT AS WE STATE IN WRITING AND ON PRODUCT LABELS, WE DO NOT MAKE ANY EXPRESS OR IMPLIED WARRANTIES ON THESE PROPRIETARY PRODUCTS, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. OUR EXCLUSIVE LIABILITY FOR ANY WARRANTIES EXTENDED AS PROVIDED IN THIS AGREEMENT IS TO REPAIR OR REPLACE, AT OUR OPTION, ANY OF THE PROPRIETARY PRODUCTS WE SOLD TO YOU THAT DO NOT COMPLY WITH THIS WARRANTY, IF ANY. UNDER NO CIRCUMSTANCES WILL OUR LIABILITY EXCEED THE DOLLAR AMOUNT OF THE PURCHASE PRICE YOU PAID FOR ANY PROPRIETARY PRODUCTS NOT IN COMPLIANCE WITH THIS WARRANTY, IF ANY, WHICH MAY BE EXTENDED AS**

PROVIDED IN THIS AGREEMENT. WE WILL NOT BE LIABLE TO ANY PARTY, INCLUDING YOU AND YOUR CUSTOMERS, FOR ANY DAMAGES, DIRECT OR INDIRECT, SPECIAL, GENERAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOSS OF PROFITS OR ANTICIPATED PROFITS AND LOSS OF GOOD WILL, FROM THE USE OF (OR INABILITY TO USE) THE PROPRIETARY PRODUCTS FOR ANY PURPOSE.

SECTION 5.11 TELEPHONES AND ANSWERING SERVICE

You will:

(a) Maintain continuously no less than two (2) operating telephone lines and telephone numbers to be used exclusively for the operation of your Pro Martial Arts Studio as are reasonably required, with sufficient staff to handle telephone calls in an efficient and courteous manner at all times during normal business hours; and

(b) Maintain an answering machine or voice mail service after normal business hours.

SECTION 5.12 PROFESSIONAL AFFILIATION, LICENSES AND PERMITS

You will join, within thirty (30) days from written notice by us, if not already a member, any Association that we require as implemented on a System-wide basis, and maintain your membership in good standing throughout the Term. You must obtain and maintain in force all required licenses, permits and certificates relating to the operation of the Studio and shall operate the Studio in full compliance with all applicable laws, ordinances and regulations, workmen's compensation and unemployment insurance requirements, and withholding and payment of federal and state income, social security, sales, use, and property taxes.

SECTION 5.13 COMPLIANCE WITH LAWS, RULES AND REGULATIONS

You must comply with all applicable federal, state and local laws, ordinances and regulations regarding the operation of the Studio (including, without limitation, all government regulations relating to physical fitness facilities, the use of weaponry, occupational hazards and health, consumer protection, trade regulation, worker's compensation, unemployment insurance, withholding and payment of Federal and State income taxes and social security taxes and sales, use and property taxes, and the applicable provisions of the Americans with Disabilities Act ("ADA") regarding the construction, design and operation of the Studio.

SECTION 5.14 PAYMENT OF DEBTS

You are solely responsible for: (a) selecting, retaining and paying your employees; (b) paying all invoices for goods and services used in connection with operating the Studio; and (c) determining whether, and on what terms, to obtain any financing or credit which you deem advisable or necessary to establish and operate the Studio. You agree to pay all current obligations and liabilities to suppliers, lessor, and creditors on a timely basis. You agree to indemnify us in the event we are held responsible for your debts if we elect to pay your obligations in order to preserve the relationship between System Suppliers and other System franchisees. You agree to make prompt payment of all federal, state and local taxes, including individual and corporate taxes, sales and use taxes, franchise taxes, gross receipts taxes, employee withholding taxes, FICA taxes, personal property and real estate taxes arising from your operation of the Studio. You agree to indemnify us if we are held responsible for these taxes.

SECTION 5.15 CUSTOMER SURVEYS; CUSTOMER LIST

You acknowledge that Studio customer and student names, addresses, contact information, purchasing histories, and discounts offered to customers (the "Customer Lists") constitute our trade secrets and confidential information. You must record customer information in the manner we specify. You will present to customers any evaluation forms we require and will participate and/or request your customers to participate in any marketing surveys performed by or for us. You will maintain a current customer list containing each customer's or students' name, address, telephone number and zip code, email address and supply an updated copy of the list to us on a quarterly basis. You must participate in any process we develop to record all customer information, all of which will be our property.

SECTION 5.16 INSPECTIONS

You will permit us and/or our representatives to enter your Premises or office at any time during normal business hours upon reasonable notice for purposes of conducting inspections. The inspections will be performed in a manner that minimizes interference with the operation of your Pro Martial Arts Studio. You will cooperate fully with us and/or our representatives in inspections by rendering assistance as they may reasonably request and by permitting them, at their option, to observe how you are selling the products and rendering the services, to monitor sales volume, to conduct a physical inventory, to confer with your employees and customers and to remove samples of any products, supplies and materials in amounts reasonably necessary to return to our office for inspection and record-keeping. We and/or you may videotape the inspections. Upon notice from us, and without limiting our other rights under this Agreement, you will take all steps necessary to correct immediately any deficiencies detected during inspections, including immediately stopping use of any equipment, advertising, materials, products, supplies or other items that do not conform to our then-current requirements. If you fail or refuse to correct any deficiency, we have the right, without any claim to the contrary by you, to enter your Premises or office without being guilty of trespass or any other tort, for the purposes of making or causing to be made all corrections as required, at your expense, payable by you upon demand.

SECTION 5.17 NOTICES TO US

You must notify us, in writing, within 5 days of the commencement of any action, suit or proceeding and the issuance of any order, suit or proceeding of any court, agency or other government instrumentality, including the receipt of any notice or citation, which may adversely affect the operation or financial condition of the Studio.

SECTION 5.18 OPERATIONAL SUGGESTIONS

You are encouraged to submit suggestions in writing to us for improving elements of the System, including products, services, equipment, service format, advertising and any other relevant matters, so that we may consider adopting or modifying standards, specifications and procedures for the System. You agree that any suggestions you make become our exclusive property. We have no obligation to use any suggestions. You may not use any suggestions inconsistent with your obligations under this Agreement without our written consent.

SECTION 5.19 RENOVATION AND UPGRADING

You will abide by our requirements for alterations, remodeling, upgrading or any other improvements to your Pro Martial Arts Studio to achieve the strategic marketing goals of the System. Generally, the standards to comply satisfactorily will not exceed those applicable to new Studios, but no more than once every 2 years. You will bear the entire cost of changes or additions, for any changes in,

or additions of, equipment, furnishings, fixtures, lighting, carpeting, painting or the taking of other actions we specify to satisfy our then-current standards for image, positioning, marketing strategy, cleanliness or appearance but not to exceed total capital expenditures of Three Thousand Dollars (\$3,000) every two (2) years (the "Capital Expenditure Limitation") without your consent.

SECTION 5.20 PUBLICITY

You grant us the right to freely use, without your consent, any pictures, financial information, or biographical material relating to you or your Pro Martial Arts Studio for use in promotional literature or in any other way beneficial to the PRO MARTIAL ARTS® organization as a whole. You will cooperate in securing photographs, including obtaining consents from any persons appearing in photographs. If we publish anything you feel reflects unfairly or inaccurately on your Pro Martial Arts Studio or yourself, we will take all reasonable steps in our power to retract the material.

SECTION 5.21 INTRANET PARTICIPATION

You must participate in any System-wide computer network, intranet system or extranet system that we implement and may be required to use such networks to, among other things: (i) accept customer orders; (ii) submit reports to us; (iii) view and print updates to or portions of the Operations Manual; (iv) download approved local advertising materials; (v) communicate with us and other System franchisees; and (vi) complete training. You agree to use the facilities of any such computer network, intranet system or extranet system in strict compliance with the standards, protocols, and restrictions that we include in the Operations Manual, including those related to the encryption of confidential information and prohibitions against the transmission of libelous, derogatory or defamatory statements.

SECTION 5.22 COMPUTER HARDWARE AND SOFTWARE

(a) You must purchase and use all computer software programs ("Software") which we have developed or may develop and/or designate for use for the System, and must purchase such computer hardware as may be necessary for the efficient operation of the Software, including without limitation, a point of sale system and a credit card machine. You must obtain and maintain adequate hardware and software in order to access the Internet at the bit speed we require. We have the right to require you to update or upgrade computer hardware components and/or Software, as we deem necessary from time to time, with no limitations as to the number or cost of such updates or upgrades. While we do not presently do so, we have the right to require you to enter into a separate maintenance agreement for any required computer hardware and/or Software. We reserve the right to require you to install a "systems backup solution" which backs up critical data in your computer system using an off-premises storage scheme. Notwithstanding the fact that you must buy, use and maintain the computer hardware and Software under our standards and specifications, you are solely responsible for: 1) the acquisition, operation, maintenance and upgrading of the computer hardware and Software; and 2) any and all consequences that may arise if the computer hardware and Software is not properly operated, maintained and upgraded.

(b) If we develop or custom design a software program for conducting accounting, inventory and point-of-sale functions and/or related activities ("Proprietary Software Program"), you agree to obtain the Proprietary Software Program, the computer hardware required to implement the Proprietary Software Program into your Studio, and to comply with all specifications and standards we prescribe regarding the Proprietary Software Program as provided from time to time in the Operations Manual, at your expense. Our computer software and hardware requirements, including all standards and specifications related to Proprietary Software Programs are our proprietary and Confidential Information. It is possible that we might not be able to alter the Proprietary Software Program and system to

accommodate every franchisee of the System, and therefore, at such time that we require the implementation of such software, you will only utilize the program we prescribe.

SECTION 5.23 TRAINING

(a) We will provide up to one week of training to you and up to two additional trainees, which will consist of instruction in GRANDMASTER SAMANE'S PRO MARTIAL ARTS® karate training and self-defense regimens, other Tang Soo Do, Tae Kwon Do, and Hapkido martial arts techniques, sales and marketing techniques; and other procedures for the operation and management of a physical fitness studio. If you are a corporation, your Designated Owner and/or Program Director and Chief Instructor must attend our initial training program. Initial training will take place at our corporate headquarters or any other location we may designate. We will provide, at our expense, the instructors, facilities, equipment, training materials, manuals and technical training tools for Initial Training. You must pay for all expenses of the trainees in attending the initial training program, including their travel, meal, lodging, equipment, and payroll expenses. You must pay all expenses incurred to have your additional employees or agents attend our initial training program, including reasonable training fees (currently \$500 per person.) All attendees must complete the initial training program to our satisfaction before opening. If you or any party you designate fails to complete the initial training program to our satisfaction, the respective person may repeat the course, or in the case of a designee, you may send a replacement (the "Replacement Personnel") to the next available initial training program. We will charge a per person fee for Replacement Personnel attending an initial training program, which is presently \$500. We have the right to terminate this Agreement if you fail to complete training or any of your designated trainees fails to complete our training program to our satisfaction within the time frames we prescribe.

(b) You must train your other employees, or at your request, we will train additional employees at our then current fee, which is presently \$500.00 per diem. All training related expenses for any additional trainees you designate, including transportation to and from the training site, lodging, meals, and salaries during training, are your sole responsibility. We will provide you with training materials to use in training your employees, and will require certain employees to successfully complete our online training program. We will provide updated training materials, if any, to you upon request. All training materials provided to you by us will remain our property, and you agree not to challenge our rights in or to the training materials. You may not make any disclosure, duplication or other unauthorized use of any portion of the training materials.

(c) To assist you in operating the Studio pursuant to our standards and specifications, as they may be amended from time to time, we may offer additional training programs and/or refresher courses and may require you and/or your employees' attendance at these programs, at a rate of \$500 per diem. You are responsible for your expenses, as well as those of your Managing Owner, Program Director, Chief Instructor, and any other employees, including transportation to and from the training site and lodging, meals, and salaries during such training. We may also require your employees to complete Internet training to our satisfaction periodically.

ARTICLE 6 - INTELLECTUAL PROPERTY

SECTION 6.1 USE OF MARKS AND PROPRIETARY MATERIALS

(a) You must only use the Marks we designate, and must use them in only the manner we authorize and permit;

(b) You will use the Marks only for the operation of your Studio exclusively at the Premises, and in advertising your Studio in the Territory pursuant to our standards and specifications;

(c) You must use the marks without prefix or suffix, and in conjunction with the “TM,” “SM,” “S,” or “®” symbols, as applicable. You are prohibited from using the Marks in connection with the offer or sale of any unauthorized products or services. You may not use the Marks as part of your corporate or other legal name. Your corporate name and all fictitious names under which you propose to do business must be approved by us in writing before use. You must use your corporate or limited liability company name either alone or followed by the initials "D/B/A" and the business name “GRANDMASTER SAMANE’S PRO MARTIAL ARTS®.” You must promptly register your Studio as operating under an assumed business name.

(d) You must identify yourself as an owner of your Studio in the manner we specify in conjunction with any use of the Marks including, without limitation, on invoices, order forms, receipts, customer forms and questionnaires, business stationery, and advertisements, as well as at such conspicuous locations as we may designate in writing at the Studio Premises.

(e) Your right to use the Marks are limited to the uses Authorized in this Agreement, and any unauthorized use of the Marks will constitute infringement of our rights.

(f) You will not use the Marks to incur any obligation or indebtedness on our behalf.

(g) You will execute any documents we deem necessary to obtain protection for the Marks or to maintain their continued validity and enforceability.

(h) You must promptly notify us of any suspected unauthorized use of our marks, our methods and techniques for providing physical fitness and self defense classes, our copyrighted material or materials in which we claim a common law copyright interest, any proprietary software we may now or in the future create, and any other intellectual property that we may now or in the future designate in connection with the System (the “Proprietary Material”), any challenge to the validity of the Marks, or any challenge to our ownership of, our right to use and to license others to use, or your right to use the Proprietary Materials.

SECTION 6.2 USE OF MARKS AND PROPRIETARY MATERIALS

You expressly understand and agree that:

(a) We own all right, title, and interest in and to the Marks and Proprietary Material, and the goodwill associated with and symbolized by them, and we have the right to use and license others to use the Marks and Proprietary Materials.

(b) The Marks are valid and serve to identify the System and those who are authorized to operate under the System;

(c) Your use of the Proprietary Materials does not give you any ownership interest or other interest in or to the Proprietary Material. During the term of this Agreement and after its expiration or termination, you will not directly or indirectly contest the validity of, our ownership of, or our right to use and license others to use the Marks and other Proprietary Materials;

(d) Any and all goodwill arising from your use of the Proprietary Material and Marks will inure solely and exclusively to our benefit, and upon expiration or termination of this Agreement, no monetary amount shall be assigned as attributable to any goodwill associated your use of the System, the Marks, or any other Proprietary Material;

(e) Except as specified in Section 1 hereof, the license of the Marks granted to you hereunder is nonexclusive and we retain all other rights, including the right to: (i) to use the Marks ourselves in connection with selling products and services; (ii) grant others licenses for the Marks; and (iii) develop and establish other systems using the Marks, similar marks, or any other marks, and to grant licenses thereto without providing any rights therein to you; and

(f) We reserve the right in our sole discretion to substitute different proprietary marks for use in identifying the System and the businesses operating thereunder. You must discontinue using any particular Mark within 10 days of written notice from us, and begin using any additional, modified, or substituted Mark within the time frames we specify.

SECTION 6.3 TRADEMARK LITIGATION

We will defend you against any third-party claim, suit, or demand arising out of your use of the Marks. If we determine, in our sole direction, that you have used the Marks in accordance with this Agreement, we will bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used the Marks in accordance with this Agreement, you will bear the cost of such defense, including the cost of any judgment or settlement. In the event of any litigation relating to your use of the Marks, you will execute all documents and do such acts as may, in our opinion, be necessary to carry out such defense or prosecution including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out of pocket costs incurred in performing such acts.

ARTICLE 7 – CONFIDENTIAL INFORMATION

SECTION 7.1 CONFIDENTIALITY

(a) During the term of this Agreement, you will receive information which we consider our trade secrets and confidential information (“Confidential Information”). You will not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, partnership, association, corporation, or limited liability company any Confidential Information including, without limitation, GRANDMASTER SAMANE'S PRO MARTIAL ARTS® karate training and self-defense regimens and other standards and specifications for holding one-on-one and group training classes; Customer Lists; standards and specifications related to the Proprietary Products; our trade secrets, advertising strategies, price marketing mixes related to any apparel, equipment and merchandise sold through the Studio; supplier networks and pricing arrangements with suppliers; the Operations Manual; sales promotion aids, business forms, merchandising procedures, accounting procedures, marketing reports, inventory systems, copyrighted materials, and other methods, techniques and know-how concerning the operation of the Studio which may be communicated to you or of which you may be apprised by virtue of your operation of the Studio. You may divulge Confidential Information only to those of your employees as must have access to it in order to operate the Studio. All information, knowledge, know-how, techniques, and other data which we designate as confidential will be deemed Confidential Information for purposes of this Agreement.

SECTION 7.2 EMPLOYEE CONFIDENTIALITY

All Managing Owners, Program Directors, Chief Instructors, and other key personnel must execute covenants that they will maintain the confidentiality of the information they receive in connection with their employment by you at the Studio. Such covenants will be in a form we specify and

substantially similar to the Non-Compete and Confidentiality Agreement attached as Exhibit 4 to this Agreement. The Employee Non-Competes must include, without limitation, specific identification of us as a third party beneficiary of such covenants with independent rights to enforce them.

SECTION 7.3 NEW CONCEPTS

If you, your employees, or principals develop any new concept, process or improvement in the operation or promotion of the Studio, including fitness, self defense, or character building techniques, you will promptly notify us, and provide us with all of the information necessary to implement the improvement, without any compensation. Any such concept, process or improvement will become our sole property and we will be the sole owner of all patents, patent applications, trademarks, copyrights and other intellectual property rights related thereto. You and your principals and agents hereby assign to us any rights they may have or acquire therein, including the right to modify such concept, process or improvement, and otherwise waive and/or release all rights of restraint and moral rights therein and thereto. You and your principals and agents agree to assist us in obtaining and enforcing the intellectual property rights to any such concept, process or improvement in any and all countries and further agree to execute and provide us with all necessary documentations for obtaining and enforcing such rights. You and your principals and agents hereby irrevocably designate and appoint us as your agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property rights related to any such concept, process or improvement. In the event that the foregoing provisions of this Section 7.3 are found to be invalid or otherwise unenforceable, you and you principals and agents hereby grant to us a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the concept, process or improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe your rights therein.

ARTICLE 8 - ADVERTISING

SECTION 8.1 LOCAL ADVERTISING

(a) You must spend the following on local advertising within your Territory (the “Local Advertising”):

Months of Operation	Local Advertising Expenditure
3 rd – 12 th Month of Operation	\$2,775
13 th - 24 th Month of Operation	\$2,400
25 th and Subsequent Months of Operations	\$2,100

(b) You will be required to use the Local Advertising to participate in mandatory marketing plans for your Studio, may include placing certain amounts and types of television, radio, print, billboard, internet, and other advertisements through our approved and designated vendors (“Local Advertising Programs”). While we are not obligated to do so, we currently collect the Local Advertising on the first of each month to implement Local Advertising Programs on your behalf via EFT. You must submit the Local Advertising requirement to us each month.

(c) You may spend any additional amounts you deem necessary on advertising. All self-generated advertising materials must be completely factual, conform to the highest standards of ethical marketing, and comply with applicable law. You must submit to us for our approval, and cannot use any self generated advertising materials without our approval. If you have not received the written or oral disapproval of materials submitted within fifteen (15) days from the date we received the materials, the materials are deemed not approved. Any proposed advertising materials you submit to us for our

review will become our property, and there will be no restriction on our use or distribution of these materials. At our request, you must include certain language in your Local Advertising, such as “Franchises Available” and our Website address and telephone number. We may require you to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved, if in our judgment, the materials or advertising may injure or be harmful to the System. We must make this requirement in writing, and you have five (5) days after receipt of notice to withdraw and discontinue use of the materials or advertising, unless otherwise agreed in writing. The submission of advertising to us for our approval does not affect your right to determine the prices at which you sell your products or services.

(d) We will notify you in writing if we cease to collect the Local Advertising from you. If, at any time, we cease to implement the Local Advertising Programs on your behalf using your Local Advertising funds, you must provide us with proof of your Local Advertising expenditures in the manner and time frames that we require.

(e) You must also participate in grass roots public relations activities to promote your Studio.

SECTION 8.2 REGIONAL COOPERATIVE ADVERTISING

We have the right to designate any geographical area for purposes of establishing a regional advertising and promotional cooperative (“Cooperative”), and to determine whether a Cooperative is applicable to the Studio. If a Cooperative is established applicable to the Studio, you must participate in the Cooperative. Cooperative contributions will be credited towards the Local Advertising. Cooperative contributions will not exceed the Advertising Requirement unless a majority of the Cooperative votes to increase that requirement. The following provisions will apply to each Cooperative:

(a) Each Cooperative will be organized and governed in a form and manner, and will commence operation on a date, we approve in advance;

(b) Each Cooperative will be organized for the exclusive purpose of administering regional advertising programs and developing, subject to our approval, standardized advertising materials for use by the members in local advertising;

(c) No promotional or advertising plans or materials may be used by a Cooperative or furnished to its members without our prior approval. All such plans and materials must be submitted to us;

(d) Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative. All Cooperative contributions will be credited against the Advertising Requirement. The Cooperative may, by the majority vote of its members, require a Cooperative contribution in excess of the Local Advertising; and

(e) Each member franchisee must submit to the Cooperative, no later than the 10th of each month, for the preceding month, its respective contribution as provided in this Agreement together with such other statements or reports as we may require or as may be required by the Cooperative with our approval.

We may grant to you an exemption from participating in a Cooperative at its sole discretion, upon your written request stating reasons supporting such exemption. Our decision concerning such request for exemption will be final.

SECTION 8.3 WEBSITES

(a) We have established a website, <http://www.promartialarts.com/>, which provides information about the System and products and services sold under the System (the "Website"). We may use National Advertising Fund contributions to pay or reimburse ourselves for costs incurred in connection with the development, maintenance and update of the Website, or any additional websites we may create in the future in connection with the System. We will be the web master, either directly or through a third party, and will have sole discretion and control over our Website and any future websites we may create (including timing, design, contents and continuation).

(b) We will design and provide a web page for the promotion of your Studio on our website. You must give us the materials we request to develop, update, and modify your listing. We will remain the web master, either directly or through a third party, and will have absolute discretion and control over such a web page. We may require you to prepare all or a portion of the page for your Studio, at your expense, using the template we provide. All information on the website must be approved by us prior to posting. You are prohibited from maintaining an individual website related to the Studio, or establishing a URL incorporating any variation of the Marks, without our prior written approval. You cannot violate our privacy policies or user terms posted on our website. We may use part of the National Advertising Fund contributions to pay or reimburse ourselves for the costs associated with the development, maintenance and update of the website. We will own all intellectual property and other rights in the Franchise System Website and all information it contains (including, without limitation, the domain name or URL for your webpage, the log of "hits" by visitors, and any personal or business data that visitors supply). We may implement and periodically modify System Standards relating to the Website and your web page.

(c) You are prohibited from establishing or maintaining a separate website, splash page, blog, social networking page or profile or other presence on the Internet, or otherwise advertising on the Internet or any other public computer network in connection with the Studio, including any profile on Facebook, MySpace, Twitter, LinkedIn, Plaxo, YouTube or any other social media and/or networking site. If such approval is granted by us, you must: (i) establish and operate such World Wide Web or Internet site in accordance with System standards and any other policies we designate in the Operations Manual or otherwise in writing from time to time; (ii) utilize any templates that we provide to you to create and/or modify such site(s).

(d) We have the right to modify the provisions of this Section 8.3 relating to Internet websites as we deem necessary or appropriate in the best interest of the System. You acknowledge that we and/or our affiliates are the lawful, rightful and sole owner of the Internet domain name <http://www.promartialarts.com/>, www.promartialarts.net, www.promartialarts.org, and any other website we may now or in the future create in connection with the System, and you unconditionally disclaim any ownership interest in such domain names and any other domain names or URLs colorably similar thereto. You agree not to register any Internet domain name in any class or category that contains words used in or similar to any brand name owned by we or our affiliate or any abbreviation, acronym, phonetic variation or visual variation of those words. You cannot violate the privacy policies on our website.

SECTION 8.4 MARKETING FUND

We have established a National Marketing Fund (the "Fund") for the common benefit of System franchisees. You must participate in and contribute up to 1% of your Net Sales to the Fund in the manner we prescribe in the same manner as the Royalty Fee due under this Agreement. We have the right to

require that any advertising cooperative and/or franchisee advisory council be formed, changed, dissolved or merged.

(a) We will use Fund contributions, in our sole discretion, to develop, produce, and distribute national, regional and/or local advertising and to create advertising materials and public relations programs, which promote, in our sole judgment, the services offered by System franchisees. We have the sole right to determine contributions to and expenditures from the Fund, or any other advertising program, and the sole authority to determine, without limitation, the selection of the advertising materials and programs; provided, however, that we will make a good faith effort to expend Fund contributions in the general best interests of the System on a national or regional basis. We may use the Fund to satisfy any and all costs of maintaining, administering, directing, preparing, and producing advertising, including the cost of preparing and producing television, radio, magazine, Internet, and newspaper advertising campaigns, the cost of maintaining any toll free telephone number for the System, the cost of direct mail and outdoor billboard advertising; the cost of developing customer loyalty programs; the cost of public relations activities and advertising agencies; the cost of developing and maintaining an Internet website; and personnel and other departmental costs for advertising that we internally administer or prepare. Nevertheless, you acknowledge that not all System franchisees will benefit directly or on a pro rata basis from such expenditures. While we do not anticipate that any part of the Fund contributions will be used for advertising which is principally a solicitation for franchisees, we may use Fund contributions for public relationship activities or brand recognition activities. While we do not anticipate that any part of Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Fund for public relations or recognition of our brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available."

(b) We may periodically assist franchisees to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below System established minimum standards for such Surveys. We also have the right to use and publish customer testimonials in our marketing and promotional efforts.

(c) We have the right to reimburse ourselves from the Fund contributions for such reasonable costs and overhead, if any, as we may incur in activities reasonably related to the direction and implementation of the Fund.

(d) We will prepare on an annual basis, and will make available to you within 120 days of the end of the fiscal year, a statement of contributions and expenditures for the Fund. The statement will be presented to you upon your written request. The Fund is not required to be independently audited.

SECTION 8.5 GRAND OPENING ADVERTISING

You must aggressively promote your opening and general awareness of the Pro Martial Arts Studio among large numbers of potential customers in the Territory. Notwithstanding the generality of the foregoing, you agree to spend not less than Fourteen Thousand Five Hundred Dollars (\$14,500) for a grand opening promotional campaign to promote the opening of your Pro Martial Arts Studio. Grand opening promotional activities include advertising, direct mail, promotional items, and media management. We must approve of your grand opening promotional campaign before it is conducted.

ARTICLE 9 - ACCOUNTING AND RECORDS

SECTION 9.1 BOOKS AND RECORDS

You must maintain for at least 5 fiscal years from their preparation complete financial records for the operation of the Studio in accordance with generally accepted accounting principles and must provide us with: (i) a Net Sales Report in the form we specify which contains the sales information pertaining to the preceding week including, without limitation, Net Sales, the mix of products and services sold by the Studio, Customer Information, Local Advertising Expenditures, and any other additional information which we deem necessary to properly evaluate your performance; (ii) a monthly balance sheet and profit and loss statement, in a format we specify, prepared in accordance with any standard chart of accounts we may designate within 10 days after the end of each month; (iii) annual financial reports and operating statements in the form we specify, prepared by a certified public accountant or state licensed public accountant, on April 15 of each calendar year for the immediately preceding calendar year; (iv) state and local sales tax returns or reports and federal, state and local income tax returns for each year in which your Studio is operated, within 30 days after their timely completion; and (v) such other reports as we may require from time to time, in the form we prescribe. You agree to provide an unaudited quarterly profit and loss statement covering your Studio, which is due on the 15th day of each quarter. To assist you in recording and keeping accurate and detailed financial records for reports and tax returns, we may, at our discretion, specify the form in which the business records must be maintained and provide a uniform set of business record keeping forms for you to use. We will have full access at any time to all of your data, systems, and related information by means of direct access, whether in person or electronically. If you fail to provide any reports to us as required herein or in the Operations Manual, we will have the right, but not the obligation, to have our representative(s) enter the Premises and prepare required reports at your sole cost and expense.

SECTION 9.2 AUDIT AND INSPECTION

We and our agents will have the right at all reasonable times to examine and copy your books, records, accounts, and/or business tax returns. We also have the right, at any time, to have your books and records audited. If an inspection reveals that you understated Net Sales or the fees due under this Agreement, you must immediately pay us the understated amount, in addition to interest from the date such amount was due until paid, at the rate of eighteen percent (18%) per annum, or the maximum rate permitted by law, whichever is less. If an inspection discloses an understatement in any statement or report of more than two percent (2%), in addition to repaying us all amounts owed, you must pay for the cost of the audit and reimburse us for our expenses incurred in connection with the with the audit (including travel, lodging and wages expenses, and reasonable accounting and legal costs). The foregoing remedies shall be in addition to any other remedies we may have.

ARTICLE 10 - INSURANCE

SECTION 10.1 TYPES AND AMOUNTS OF COVERAGE

You must obtain and maintain the types and amounts of insurance we prescribe for your Studio in our Operations Manual. All insurance policies must be issued by an insurance company with a rating of A-VI or better as reporting in the most recent edition of A.M. Best's Insurance reports. Our acceptance of an insurance carrier does not constitute our representation or guarantee that the insurance carrier will be capable of meeting claims during the term of the insurance policy. You agree to carry such additional insurance as required by your Lease or applicable laws and regulations. All insurance policies must name us and any party we designate as additional insureds, and provide that the coverage afforded applies

separately to each insured against whom a claim is brought as though a separate policy has been issued to each insured. All insurance policies must contain a waiver of subrogation in our favor.

SECTION 10.2 NO REDUCTION

You will not reduce the policy limits, restrict coverage, cancel or otherwise alter or amend said policy without our written consent.

SECTION 10.3 CERTIFICATES OF INSURANCE

You must submit certificates of insurance to us as proof of insurance before you sign a lease for your Studio. You must deliver a complete copy of your then prevailing policy of insurance within 30 days following the delivery of the certificate of insurance. If you fail to comply with the minimum insurance requirements set forth herein, we have the right to obtain such insurance and keep the same in force and effect, and you must pay us, on demand, the premium cost thereof and an administrative fee equal to 18% of the cost of insurance.

ARTICLE 11 - TRANSFER OF INTEREST

SECTION 11.1 OUR RIGHT TO TRANSFER

This Agreement inures to our benefit and our successors and assigns. We have the right to sell, transfer, assign, and/or encumber all or any part of our assets or interest in, and rights and obligations under this Agreement in our absolute discretion, without obtaining your consent. You represent that you have not signed this Agreement in reliance on any particular shareholder, director, officer, or employee remaining with us in any capacity.

SECTION 11.2 YOUR RIGHT TO TRANSFER

You understand and acknowledge that your rights and duties set forth in this Agreement are personal to you, and that you have entered into this Agreement in reliance on your personal attributes and financial capacity. You will not, without our prior written consent, by operation of law or otherwise, sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any interest in this Agreement, nor offer, permit or suffer the same. You agree that any attempted or completed sale, assignment, transfer, or other act referred to in this Section 11 without our prior written consent will null and void and will constitute a material breach, which is good cause for immediate termination of this Agreement, without prior notice or opportunity to cure that material breach.

SECTION 11.3 DEFINITION OF TRANSFER

A sale, transfer or assignment requiring our prior written consent shall be deemed to occur: (i) if you attempt to sell, transfer, assign, or encumber any portion of the Studio or any interest in this Agreement or the Studio; (ii) if you are a corporation, upon any assignment, sale, pledge or transfer of any fractional portion of your voting stock or any increase in the number of outstanding shares of your voting stock which results in a change of ownership, (iii) if you are a partnership, upon the assignment, sale, pledge or transfer of any fractional partnership ownership interest; or (iv) if you are a limited liability company, upon the assignment, sale, pledge or transfer of any interest in the limited liability company. Any new partner, shareholder, or member or manager owning an interest in you will be required to personally guarantee your obligations under this Agreement. A transfer pursuant to (ii) and (iv) above shall not be subject to our right of first refusal as set forth in Section 11.7 below.

SECTION 11.4 CONDITIONS TO CONSENT TO TRANSFER

If you wish to engage in any transfer described in Section 11.3, you must provide us with written notice of the proposed transfer, setting forth in detail the nature of the items to be transferred, the name, address and background of the proposed transferee, the consideration for the transfer and any other information that we may reasonably require. A copy of any agreements relating to the proposed transfer must accompany the notice. After reviewing the notice, we will decide whether to grant our consent, which will not be unreasonably withheld. We will condition our approval of the transfer upon the fulfillment of the following conditions:

(a) The proposed transferee must follow the same application procedures as a new franchisee and must: (i) meet and satisfy our then-current educational, managerial and business standards; (ii) possess a good moral character, business reputation and credit rating; (iii) have the aptitude and ability to conduct the business to be transferred; (iv) have adequate financial resources and capital to meet the performance obligations under this Agreement; however, transferee cannot be in the same business as us as either a licensor, independent operator or licensee of any other Studio or chain of Studios which is similar in nature or in competition with us, except that the transferee may be our existing franchisee.

(b) We have not exercised the right of first refusal pursuant to Section 11.6 hereof.

(c) All of your accrued monetary obligations towards us and our affiliates and system suppliers have been paid in full.

(d) You have cured all existing defaults under this Agreement, or any other agreement between you and us, our affiliates, and our approved and designated suppliers and vendors, within the period permitted for cure and have substantially complied with all such agreements during their respective terms.

(e) You agree to comply with your post-termination obligations in this Agreement, including but not limited to your confidentiality, non-compete, and indemnity obligations contained in this Agreement.

(f) A transfer fee of \$7,500 plus any brokerage fees you or we incur in connection with the transfer. We will not charge an initial franchise fee to the transferee.

(g) The transferee must satisfactorily complete our initial training program at the transferee's expense within the time frame we specify.

(h) The proposed transferee must execute our then current form of Franchise Agreement for the remaining unexpired term of this Franchise Agreement.

(i) You provide us with a copy of the executed purchase agreement, which must include the transferee's assumption of and agreement to faithfully perform all of your obligations under this Agreement.

(j) You have brought the Premises to our then-current standards before the transfer, including updating or upgrading the Studio's signage, furniture, fixtures and equipment, interior and exterior décor, and layout.

(k) You and your principals (if you are a partnership, corporation, or limited liability company), and the transferee (if it has had any relationship with and/or our affiliates), must execute a general release under seal, in a form satisfactory to us, of any and all claims against us, our affiliates, and our respective officers, directors, shareholders, and employees, in their corporate and individual capacities, provided that this release will not be inconsistent with any applicable state statute regulating franchising.

(l) The transferee must obtain, within the time limits we specify, and maintain thereafter all permits and licenses required for the operation of the Studio.

(m) To the extent required by the terms of any leases or other agreements, all required consents are obtained.

(n) The transfer must be made in compliance with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

(o) The purchase price and the terms of the proposed transfer are not so burdensome to the prospective transferee as to impair or materially threaten its future operation of the Studio and performance under its franchise agreement.

(p) In any event, we may withhold or condition our consent to any transfer as we deem appropriate based on the circumstances of the transfer or otherwise.

(q) You must request that we provide the prospective transferee with our current form of franchise disclosure document. You must indemnify us for any representations you make to any transferee.

(r) We have the right to disclose to any prospective transferee any revenue reports and other financial information concerning the Studio that you provide to us.

SECTION 11.5 TRANSFER UPON DEATH OR INCAPACITY

(a) In the event of your death, disability or incapacitation (or the death, disability or incapacitation of your managing owner, partners, shareholders, members, or personal guarantors), your legal representative, or your partner's or guarantor's respective legal representative, as applicable, will have the right to continue operating the Studio as a franchisee under this Agreement if: (i) within 45 days from the date of death, disability or incapacity (the "45 day period"), such person has obtained our written approval and has executed our then-current franchise agreement for the unexpired term of the franchise, or has furnished a personal guaranty of any partnership, corporate or limited liability company franchisee's obligations towards us and our affiliates; and (ii) such person successfully completes our training program (which we will provide at our then-current tuition rate). Such assignment by operation of law will not be deemed in violation of this Agreement, provided such heirs or legatees accept the conditions imposed by the Franchise Agreement and are acceptable to us.

(b) We are under no obligation to operate the Studio, or to incur any obligation on behalf of any incapacitated franchisee, during or after the 45-day period. If necessary, you (or your legal representative, as applicable) will appoint a previously approved acting interim manager to operate the Studio during the 45-day period, if your manager owner is incapacitated. In the event of the death, disability, absence or otherwise of your managing owner, we may (but are not required to) operate the Studio on your behalf and at your expense for such period of time (and under such terms and conditions) as we determine, including paying out the assets and/or revenues of the Studio to cover any or

all past, current and/or future obligations of the Studio (including any amounts owed to us and our affiliates) in such priorities as we determine from time-to-time in our absolute discretion. We may pay ourselves a reasonable amount out of the Studio as reimbursement for our management services and other costs. We may obtain approval of a court or mediator for any such arrangements, the attorney's fees and other costs incurred in connection with obtaining such approval to be charged against the assets and/or revenues of your Studio. You (and/or your estate) will indemnify us against any costs and/or liabilities we incur in connection with, or related in any way to, the operation (or otherwise) of your Studio.

SECTION 11.6 TRANSFER TO A CONTROLLED ENTITY

You may assign or transfer your interest in this Agreement to a corporation, limited liability company or general or limited partnership formed by you for such purpose (a "Controlled Entity"), without our prior written consent, and without according us the Right of First Refusal required under Section 11.7 of this Agreement, provided that: (a) you, at all time, own and control not less than 51% percent of the voting power of the Controlled Entity. (b) the Controlled Entity conducts no business other than the operation of Studio; (c) all owners of the Controlled Entity possess good moral character; (d) any shareholder, general partner or member of a Controlled Entity designated by us must agree to be personally liable under this Agreement.

SECTION 11.7 OUR RIGHT OF FIRST REFUSAL

If you have received and desire to accept a signed, bona fide offer from any third party to purchase any interest in any legal entity you create to operate the franchise (including any partnership, limited liability company or corporation), the Studio or your interest in this Agreement, you must notify us in writing of each such offer, including a signed a copy of the offer. We will have the right and option, exercisable within 30 days after we receive the notice, to notify you in writing that we intend to purchase the assets of the Studio or your interest in this Agreement on the same terms and conditions offered by the third party. If the third party offers property, we will be entitled to offer cash or cash equivalents equal to the fair market value of the property. If we exercise our option, closing will occur within 60 days after we dispatch notice of our intent to exercise this option. If we do not exercise our option but have not consented to the proposed transfer as required under Section 11.4, and the terms of the offer from the third party go unaccepted, or if the offer from the third party is materially altered, or if the transaction is not consummated and closed within 6 months with the same third party, this right of first refusal will again pertain and we must, in each instance, be notified in writing of the terms offered and again have 30 days from the date of our receipt of the notice, to notify you that we intend to purchase on such modified terms. If we fail to exercise this option, the terms of this Section 11 will govern any subsequent transfer.

SECTION 11.8 CONSENT TO TRANSFER NOT WAIVER

Our consent to a transfer of the granted hereunder does not constitute a waiver of any claims we may have against you, nor will our consent to a transfer be deemed a waiver of our right to demand exact compliance with any of the terms of this franchise by the transferee.

ARTICLE 12 – DEFAULT AND TERMINATION

SECTION 12.1 TERMINATION WITHOUT NOTICE

This Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

(a) Voluntary Bankruptcy. If you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the Studio.

(b) Involuntary Bankruptcy. If proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for you or the Studio without your consent, and the appointment is not vacated within 60 days.

(c) Unauthorized Transfer. You purport to sell, transfer or otherwise dispose of any entity you create to operate the Studio or any interest in the Studio in violation of this Agreement.

SECTION 12.2 TERMINATION WITH NOTICE AND WITHOUT OPPORTUNITY TO CURE

We have the right to terminate this Agreement upon notice and without providing you with an opportunity to cure for any of the following breaches or defaults:

(a) Criminal Acts. If you or any of your principals are convicted of or plead guilty or no contest to a felony or take part in any criminal misconduct relevant to the operation of your Studio.

(b) Fraud. If you or any of your principals commit any fraud or misrepresentation in the operation of your Studio.

(c) Misrepresentation. If you or any of your principals make any misrepresentation or omission in connection with your franchise application, including but not limited to any financial misrepresentation.

(d) Failure to Complete Training. If you fail to complete initial training set forth in Section 5.23 within the time frames set forth therein.

(e) Repeated Breaches. If we send you 2 or more notices of default pursuant to Sections 12.3 and/or 12.4 hereof in any 12-month period.

(f) Breach of Other Agreements. If you or any of your principals materially breach any other agreement with us or our affiliates or your landlord, or threaten any material breach of any such agreement, including the Lease, and fail to cure such breach within any permitted period for cure.

(g) Misuse of the Marks or Confidential Information. If you or any of your principals materially violate any provisions hereof pertaining to the Mark, Proprietary Material, or our Confidential Information or misuse the same.

(h) Violation of Health Code. If you violate any health, safety or sanitation law, ordinance or regulation in the preparation, presentation, or delivery of any good or service through your Studio, or operate the Studio in a manner that presents a health or safety hazard to customers, or the general public.

(i) Violation of In-term Restrictive Covenant. If you violate the in term restrictive covenant set forth in Section 14.1 below.

(j) Liens. If a levy of writ of attachment or execution, or any other lien, is placed against you, any partnership, limited liability company, or corporation you create to operate the Studio, or any of your principals or any of their assets which are not released or bonded against within 30 days.

(k) Insolvency. If you or any of your principals guarantying your obligations under this Agreement become insolvent.

(l) Abandonment. If you voluntarily or otherwise abandon the Studio. The term "abandon" includes any conduct which indicates a desire or intent to discontinue operating the Studio in accordance with the terms of this Agreement and will apply in any event if you fail to operate the Studio as a "GRANDMASTER SAMANE'S PRO MARTIAL ARTS" Studio for a period of 2 or more consecutive days without our prior written approval.

(m) Proprietary Software. You misuse or make unauthorized use of any Proprietary Software we develop for use in connection with the System.

(n) Insurance. You fail to maintain insurance or repay us for insurance we pay for, or if you otherwise fail to adhere to the requirements of Section 10.

(o) Government Regulations. You fail, within 15 calendar days after notification of non-compliance by federal, state or local government authorities to comply with any law or regulation applicable to the Studio.

(p) Government Actions. Any government action is taken against you that results in any obligation upon us which in our sole judgment is uneconomical, not in the best interests of us, or would result in us having an unintended relationship or obligation.

(q) Anti-Terrorist Activities. You fail to comply with the provisions of Section 17.7 below.

(r) Personal Use of Studio Property. If you take employee taxes, FICA, insurance revenue or benefits, or any other assets of the Studio for personal use.

(s) Insufficient Funds. If there are insufficient funds in your bank account to cover a check or EFT payment to us or our affiliates 3 or more times within any 12 month period.

(t) Under-reporting of Net Sales. If any audit reveals that you have understated your Net Sales, Royalty Fees and other payments due to us by more than 2%, or if you have failed to submit timely reports and/or remittances for any 2 reporting periods within any 12-month period, or if you fail to report Customer Information as provided for the Operations Manual 3 or more times in any 12 month period.

SECTION 12.3 TERMINATION WITH NOTICE AND 15-DAY OPPORTUNITY TO CURE

We have the right to terminate this Agreement if any of the following defaults remains uncured after expiration of the 15-day cure period:

(a) Nonpayment. If you fail to pay as and when due any sums owed to us, any of our affiliates, or any of our system suppliers or vendors.

(b) Endorsement of Checks. You fail to immediately endorse and deliver to us any payments due to us from any third party that are erroneously made to you.

(c) Failure to Maintain Sufficient Inventory Level. If you fail to maintain sufficient levels of inventory to meet consumer demand, and deliver goods and services to customers in a timely manner, pursuant to our standards and specifications.

(d) Failure to Open. If you fail to commence operating your Studio within 12 months of the Effective Date.

(e) Interruption of Service. If you fail to maintain the prescribed months, days or hours of operation at the Studio, or cease to service customers through the E-Commerce Program.

(f) Failure to Personally Supervise Studio Operations or Employ Adequate Personnel. If you fail to personally supervise day-to-day operation of the Studio or fail to employ a sufficient number of qualified, competent personnel as we may require from time to time.

(g) Quality Control. If you fail to maintain the strict quality controls reasonably required by this Agreement and/or the Operations Manual.

(h) Other Conduct Reflecting Adversely on System. You conduct yourself or operate your Studio in a manner that, although not criminal, reflects adversely on the System, the Marks, or the products offered through the System.

(i) Licenses and Permits. You fail to procure or maintain any licenses, certifications, or permits necessary for the operation of your Studio.

(j) Banking Changes. You fail to notify us of any change in your banking relationships, including changes to your banking institutions or account numbers, or if you siphon any portion of the Net Sales of your Studio into a bank account not approved of by us or which is not accessible to us via EFT.

(k) Unauthorized Products or Services. If you offer any unauthorized or discontinued products or services at or from the Studio

(l) Unapproved Purchases. You order or purchase supplies, signs, furnishings, fixtures, equipment or inventory from an unapproved supplier.

SECTION 12.4 TERMINATION WITH 30 DAY NOTICE AND OPPORTUNITY TO CURE

We have the right to terminate this Agreement with 30 days' notice and opportunity to cure if you fail to perform or comply with any one or more of the terms or conditions of this Agreement or any other agreements between you and us or our affiliates.

SECTION 12.5 STEP IN RIGHTS

In addition to our right to terminate this Agreement, and not in lieu of such right or claim we may have against you, if you fail to cure any default within the applicable cure period specified above (if any), we have the right, but not the obligation, to enter the Studio premises and exercise complete authority with respect to the operation of the Studio until such time as we, at our discretion, determine that the default has been cured and you are otherwise compliant with this Agreement. If we exercise our right

described in this Section 12.5, you must reimburse us for all reasonable costs and overhead, if any, incurred in connection with our operation of your Studio including, without limitation, costs of personnel for supervising and staffing the Studio and their travel and lodging accommodations, and per diem rate of \$500 per day. If we undertake to operate the Studio pursuant to this Section 12.5, you agree to indemnify and hold us (and our representative(s) and employees) harmless from and against any fines, claims, suits or proceedings which may arise out of your operation of the Studio.

SECTION 12.6 NON-WAIVER

Our delay in exercising or failing to exercise any right or remedy under this Agreement or our acceptance of any late or partial payment due hereunder will not constitute a waiver of any of our rights or remedies against you.

ARTICLE 13 - YOUR OBLIGATIONS UPON TERMINATION DUE TO YOUR DEFAULT OR ON NONRENEWAL

Upon the termination of this Agreement due to your default or upon expiration and nonrenewal of the Agreement, the Sections of this Article apply to the rights and obligations of the parties.

SECTION 13.1 DE-IDENTIFICATION AND CEASING OPERATIONS

Upon termination of this Agreement, regardless of the cause, or upon expiration and nonrenewal or transfer of this Agreement, you must, at your expense, comply with all of the following:

- (a) Immediately cease operations under this Agreement;
- (b) Immediately pay us and our affiliates and approved and designated suppliers all monies owed;
- (c) Immediately discontinue use of the Marks and other Proprietary Material, and our Confidential Information;
- (d) Immediately return the Operations Manual and all other Proprietary Materials and Confidential Information loaned to you, and immediately and permanently cease the use of such information and materials;
- (e) Immediately cease using all telephone numbers, web sites, and listings used in connection with the operation of the Studio, and direct all telephone agencies and listing companies to transfer all numbers and listings, electronic or otherwise, to us or our designee pursuant to the conditional Assignment of Telephone Numbers attached hereto as Exhibit 5, or, if we direct, disconnect such numbers within 15 calendar days of termination or expiration of this Agreement;
- (f) If we exercise our collateral assignment of lease, arrange for the transfer of the Lease to us within 15 days of the termination or expiration of this Agreement and vacate the premises;
- (g) Immediately surrender all stationery, printed matter, signs, advertising materials and other items containing the Marks and all items which are a part of the trade dress of the System immediately, as we direct, no later than 5 calendar days after this Agreement is terminated or otherwise expires;

- (h) Immediately cease to hold yourself out as our franchisee;
- (i) Take such action as will be necessary to amend or cancel any assumed name, business name or equivalent registration which contains any trade name or other Mark we licensed to you and furnish us with satisfactory evidence of your compliance with this obligation within 15 calendar days after the termination, expiration or transfer of this Agreement;
- (j) Permit us to make a final inspection of your financial records, books, and other accounting records within 1 month of the effective date of termination, expiration, or transfer;
- (k) Comply with all of the provisions of this Agreement that survive, expressly or impliedly, the Term, including your covenants to maintain the confidentiality of the Confidential Information, covenant against competition, and your indemnity obligations, all of which will survive the transfer, termination or expiration of this Agreement;
- (l) Cease to use in advertising or in any other manner, any methods, procedures or techniques associated with us or the System; and
- (m) Execute from time to time any necessary papers, documents, and assurances to effectuate the intent of this Section 13.

SECTION 13.2 OUR OPTION TO PURCHASE ASSETS

Upon the termination or expiration of this Agreement, we or any party we designate will have the option, but not the obligation, to purchase any property used in connection with operation of the Studio by providing you with written notice of our election within 30 calendar days after such termination or expiration and paying you the book value for such property within 60 calendar days of such notice. For purposes of this paragraph, "book value" means the amount you actually paid for the property less depreciation (calculated by using the straight-line depreciation method on a 10-year depreciation schedule irrespective of the depreciation method or schedule you use for accounting purposes). Notwithstanding the foregoing, to the extent that we exercise our right to purchase any personal property that is subject to a lease or finance agreement, the purchase price will be net of the the remaining amounts due under the lease agreement or financing arrangement, including prepayment penalties. We will be entitled to offset the purchase price by amounts you owe to us and our affiliates, and any payments necessary to acquire clear title to property or for any other debt. If we exercise our option to purchase, pending the closing of such purchase, we have the right to appoint a manager to maintain the operation of the Studio or may require you to close the Studio during such period without removing any assets. You are required to maintain in force all insurance policies required under this Agreement until the date of such closing. We have the unrestricted right to assign our rights under this Section 15.2. We will be entitled to all customary warranties and representations in connection with our purchase of your property, including, without limitation, representations and warranties as to ownership and condition of and title to the property; liens and encumbrances on the property; validity of contracts and agreements; and liabilities affecting the property, contingent or otherwise. We may exclude from the personal property purchased under this Section 15.2 cash or its equivalent and any equipment, signs, inventory, materials and supplies that are not reasonably necessary (in function or quality) to the Studio operations or that we have not approved as meeting our then-current standards for a Studio.

SECTION 13.3 DAMAGES AND EXPENSES

If this Agreement is terminated due to your default, you will promptly pay us for all damages, costs and expenses, including reasonable attorneys' fees, that we incur as a result of the default, which

obligation will give rise to and remain, until paid in full, a lien in our favor against any and all of the Studio's personal property, furnishings, equipment, signs, fixtures and inventory related to the operation of the Studio.

SECTION 13.4 SAVINGS CLAUSE

To the extent that it is determined by any court or any other tribunal having jurisdiction over the subject matter of this Agreement that any provision of this Agreement provides for notice less than that required by applicable law, or provides for termination, cancellation or non-renewal other than in accordance with applicable law, such provision, to the extent that it is determined by such court or other tribunal to be not in accordance with applicable law, will be deemed to be modified to the extent that such court or other tribunal determines to be necessary to bring such provision into accordance with applicable law.

ARTICLE 14 - YOUR INDEPENDENT COVENANTS

You acknowledge that as a participant in our System, you and your employees and principals will receive proprietary and confidential information and materials, trade secrets, and access to the unique methods, procedures and techniques for operating a Studio that we have developed. Therefore, to protect us, the System, and other System franchisees, you agree as follows:

SECTION 14.1 IN-TERM NON-COMPETE

During the term of this Agreement, neither you nor your owners, officers, directors, principals, Project Managers, Chief Instructors, nor any member of your immediate family or the immediate family of your owners, officers, directors, principals, Project Managers, or Chief Instructors may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

(a) Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to or have any interest in any other business which operates or licenses the sale of businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees; provided, however, that this Section does not apply to your operation of any other Studio under the System;

(b) Solicit customers, or contact our suppliers or vendors for any competitive purpose.

(c) Employ or seek to employ any person who is at that time employed by us, our affiliates, or other System franchisees, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat.

SECTION 14.2 POST-TERM NON-COMPETE

For a period of 2 years after the expiration, nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither you nor your owners, officers, directors, principals, Project Managers, Chief Instructors, nor any member of your immediate family or the immediate family of your owners, officers, directors, principals, Project Managers, or Chief Instructors may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

(a) Enter into any business competing in whole or in part with us in granting franchises or licenses for businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees at the time this Agreement is terminated or otherwise not renewed; or

(b) Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to or have any interest in any other businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees at the time this Agreement is terminated or otherwise expires and is not renewed: (i) at the Premises; (ii) within the Territory; or (iii) within a 25 mile of the radius of (a) the Territory being granted hereunder or (b) any other Territory licensed by us as of the date of expiration or termination of this Agreement.

(c) Solicit the Studio's customers or contact any of our suppliers or vendors for any competitive business purpose; or

(d) Employ or seek to employ any person who is at that time employed by us or our affiliates or any other franchisees, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat.

SECTION 14.3 INTENT AND ENFORCEMENT

It is the parties' intent that the provisions of this Section 14 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein will not render any other part unenforceable. In the event of the actual or threatened breach of this Section 14 by you, any of your principals, or any member of the immediate family of you or your principals, we will be entitled to an injunction restraining such person(s) from any such actual or threatened breach. You acknowledge that the covenants contained herein are necessary to protect the goodwill of the Studio, other System franchisees, and the System as a whole. You further acknowledge that the covenants contained in this Section 14 are necessary to protect our procedures and know-how transmitted during the term of this Agreement. You agree that in the event of the actual or threatened breach of this Section 14, our harm will be irreparable, and that we have no adequate remedy at law to prevent such harm. You acknowledge and agree on your behalf and on behalf of the persons who are liable under this Section 14 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 14 in no way prevent any such person from earning a living. You further acknowledge and agree that the time limitation of this Section 14 will be tolled during any default under this Section.

SECTION 14.4 EMPLOYEE NON-COMPETE

You will ensure that your principals, employees and members of their immediate families who have access to our Confidential Information, including your owners, officers, Managing Owners, Project Managers, and Chief Instructors, will sign and comply with the Confidentiality and Non-Compete Agreement attached as Exhibit 4 hereto, or as we, in our sole discretion, otherwise prescribe. You must provide us with a copy of each executed agreement.

SECTION 14.5 NO DEFENSE

You hereby agree that the existence of any claim you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of the covenants contained in this

Section 14. You agree to pay all costs and expenses (including reasonable attorney's fees), which we incur in connection with the enforcement of this Section 14.

SECTION 14.6 CONCLUSIVE PRESUMPTION

If you or any of the shareholders, officers, directors or partners of any entity established by you to operate your Studio engages in the operation of a competing business in violation of Section 14, it will be conclusively presumed that such person(s) or entity is using our trade secrets in such business.

ARTICLE 15 – RELATIONSHIP OF THE PARTIES/INDEMNIFICATION

SECTION 15.1 INDEPENDENT CONTRACTORS

You are an independent contractor responsible for full control over the internal management and daily operation of your Studio, and neither party to this Agreement is the agent, principal, partner, employee, employer or joint venture partner of the other party. You must not act or represent yourself as our agent, partner, employee, or joint venture partner, directly or by implication. You must not incur any obligation on our behalf or in our name. All of your stationery, business cards and contractual agreements entered must contain your corporate name and a conspicuously display notice in the place we designate that you operation your Studio as an independently owned and operated franchised business and that you independently own and operate the Studio as a System franchisee. Nothing in this Agreement authorizes you to make any contract, agreement, warranty, or representation on our behalf, or to incur any debt or other obligation in our name; and we will not, in any event, assume liability for, or be deemed liable hereunder as a result of, any such action; nor will we be liable by reason of any of your acts or omissions in the operation of the franchised business or for any claim or judgment arising therefrom against us.

SECTION 15.2 INDEMNIFICATION

You and your principals agree to indemnify, defend and hold us, our affiliates, and our respective shareholders, directors, officers, employees, agents, successors and assignees ("Indemnitees") harmless against and to reimburse them for all claims, obligations, liabilities and damages ("Claims"), including any and all taxes, directly or indirectly arising out of, in whole or in part: (a) the operation of your Studio, including hosting any on site or in home classes, injuries to 3rd parties attending classes, the construction of the Studio, and your advertising; (b) the use of the Marks and other Proprietary Material; (c) the transfer of any interest in this Agreement or your Studio in any manner not in accordance with this Agreement; (d) the infringement, alleged infringement, or any other violation or alleged violation by you or any of your principals of any patent, mark or copyright or other proprietary right owned or controlled by third parties; or (e) libel, slander or any other form of defamation of us, the System, our franchisees or developers you or by any of your principals. For purposes of this indemnification, "Claims" will mean and include all obligations, actual, consequential, punitive and other damages, and costs reasonably incurred in the defense of any action, including attorneys', attorney assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether or not such claims exceed the amount of insurance coverage available to us through you. We have the right to defend any such claim against us in the manner we deem appropriate or desirable in our sole discretion. Such an undertaking by us will, in no manner or form, diminish your and each of your principals' obligations to indemnify the Indemnitees and to hold them harmless. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

ARTICLE 16 - DISPUTE RESOLUTION

SECTION 16.1 CHOICE OF LAW

This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania (without reference to its conflict of laws principles).

SECTION 16.2 INTERNAL DISPUTE RESOLUTION

You must first bring any claim or dispute between you and us to our President and Chief Executive Officer, and provide us with a 30 day notice and opportunity to cure. You must exhaust this internal dispute resolution procedure before you may bring your dispute before a third party. This agreement to first attempt resolution of disputes internally will survive termination or expiration of this Agreement.

SECTION 16.3 MEDIATION

At our option, all claims or disputes between you and us or our affiliates arising out of or in any way relating to this Agreement or any other agreement between you and us or our affiliates, or any of the parties' respective rights and obligations arising from such agreements, which are not first resolved through the internal dispute resolution procedure set forth in Section 16.2 above, must be submitted first to mediation, in Philadelphia, Pennsylvania under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against us or our affiliates with respect to any such claim or dispute, you must submit a notice to us, which specifies, in detail, the precise nature and grounds of such claim or dispute. We will have a period of 30 days following receipt of such notice within which to notify you whether we or our affiliates elect to exercise our option to submit claims or disputes to mediation. You may not commence any action against we or our affiliates with respect to any such claim or dispute in any court unless we fail to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of our written declaration. Our right to mediate, as set forth herein, may be specifically enforced by us. Each party will bear its own cost of mediation you and we will be share mediation costs equally. This agreement to mediate will survive any termination or expiration of this Agreement. The parties agree that there will be no class action mediation.

(a) The parties will not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 16.3 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

(1) Any federally protected intellectual property rights in the Marks, E-Commerce Program, the System, Proprietary Materials, Proprietary Software, or in any Confidential Information;

(2) Any claims pertaining to or arising out of any warranty issue;

(3) Any of the restrictive covenants contained in this Agreement; or

(4) Any claims to collect past due amounts owed to us or our affiliates.

SECTION 16.4 INJUNCTIVE RELIEF, VENUE FOR LITIGATION

Nothing contained in this Agreement will prevent us from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect our interests, without bond, against conduct or threatened conduct that will cause us loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, your only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, you expressly waive all claims for damages you incurred as a result of the wrongful issuance. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in Pennsylvania and the jurisdiction and venue of the United States District Court for the Eastern District of Pennsylvania. You acknowledge that this Agreement has been entered into in the Commonwealth of Pennsylvania, and that you are to receive valuable and continuing services emanating from our headquarters in Pennsylvania, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, you hereby irrevocably consent to the personal jurisdiction of the state and federal courts of Pennsylvania set forth above. The parties agree that all proceedings will be conducted on an individual, not a class-wide basis, and that any proceeding between you, your guarantors, and we or our affiliates or employees may not be consolidated with any other proceeding between us and any other party or entity.

SECTION 16.5 THIRD PARTY BENEFICIARIES

Our officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in this Section 16, each having authority to specifically enforce the right to mediate/arbitrate claims asserted against such person(s) by you.

SECTION 16.6 NO RIGHT TO WITHHOLD PAYMENT

You are prohibited from withholding all or any part of any payment to us or any of our affiliates on the grounds our alleged non-performance or as an offset against any amount we or our affiliates may allegedly owe you under this Agreement or any related agreements.

SECTION 16.7 LIMITATION ON ACTION

You further agree that no cause of action arising out of or under this Agreement may be maintained by you against us unless brought before the expiration of 1 year after the act, transaction or occurrence upon which such action is based or the expiration of one 1 year after you become aware of facts or circumstances reasonably indicating that you may have a claim against us hereunder, whichever occurs sooner, and that any action not brought within this period will be barred as a claim, counterclaim, defense, or set-off. You hereby waive the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by us, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

SECTION 16.8 WAIVER OF PUNITIVE DAMAGES

You hereby waive, to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against us arising out of any cause whatsoever (whether such cause be based in contract,

negligence, strict liability, other tort or otherwise) and agree that, in the event of a dispute, your recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions will continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

SECTION 16.9 JURY TRIAL WAIVER

THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER WILL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR YOUR PURCHASE OF A FRANCHISE OR ANY GOODS OR SERVICES FROM US OR OUR AFFILIATES.

SECTION 16.10 COSTS

All costs incurred by the prevailing party in litigation, including without limitation, all obligations, actual, consequential, punitive and other damages, and costs reasonably incurred in the defense of any action, including attorneys', attorney assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, shall be paid by the non-prevailing party.

SECTION 16.11 WAIVER OF OBLIGATIONS

Either party to this Agreement may, by written instrument, unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice to the other or another effective date stated in the notice of waiver. Any waiver granted will be without prejudice to any other rights they have, will be subject to continuing review, and may be revoked at any time and for any reason effective upon delivery of ten (10) days' prior written notice.

SECTION 16.12 RIGHTS ARE CUMULATIVE

Our rights under this Agreement are cumulative, and their exercise or enforcement of any right or remedy under this Agreement will not preclude their exercise or enforcement of any other right or remedy which we are entitled by law to enforce.

ARTICLE 17 - GENERAL PROVISIONS

SECTION 17.1 BINDING EFFECT

This Agreement is binding upon the parties and their respective executors, administrators, heirs, beneficiaries, permitted assigns, and successors in interest. Subject to our right to modify the Operations Manual and System Standards, this Agreement may not be modified except by a written agreement signed by your and our duly authorized officers.

SECTION 17.2 ENTIRE AGREEMENT

This Agreement contains the entire Agreement of the parties. There are no representations either oral or written, except those contained in this Agreement. This written Agreement includes all representations between the parties. This agreement may not be modified except by a written document

signed by both parties. Nothing in the Agreement is intended to disclaim the representations we made in the franchise disclosure document furnished to you.

SECTION 17.3 CONSTRUCTION OF LANGUAGE

The language of this Agreement shall be construed according to its fair meaning, and not strictly for or against either party. All words in this Agreement refer to whatever number or gender the context requires. If more than one party or person is referred to as "you", their obligations and liabilities shall be joint and several. Headings are for reference purposes and do not control interpretation. Reference to your "immediate family" means your spouse, parents, children and siblings and your spouse's parents, children and siblings. Reference to your "principals" means your partners, officers, directors, shareholders, members and managers, as applicable. References to "we", "us" or "our" includes our successors, assigns or transferees.

SECTION 17.4 STATE LAW APPLIES

If any provision of this Agreement, including but not limited to its provisions for transfer, renewal, termination, notice of termination, or cure rights, is inconsistent with any valid law or regulation of the state in which the Studio is located, then the valid law or regulation of that state applicable to the franchise will supersede any provision of this Agreement that is less favorable to you.

SECTION 17.5 ADDITIONAL DOCUMENTATION

At our request, you must from time to time and without further consideration execute and deliver such other documentation or agreements and take such other action as we may reasonably require in order to make the transactions contemplated herein. In the event that you fail to comply with the provisions of this Section, you hereby appoint us as your attorney-in-fact to execute any and all documents on your behalf, reasonably necessary to effectuate the transactions contemplated herein.

SECTION 17.6 FORCE MAJEURE

Neither you, we, nor our affiliates will be liable for loss or damage or deemed to be in breach of this Agreement or any related agreement if its failure to perform its obligations is not the fault nor within the reasonable control of the person due to perform but results from, without limitation, fire, flood, natural disasters, acts of God, governmental acts or orders, or civil disorders. Any delay resulting from any such cause will extend the time of performance for the period of such delay or for such other reasonable period of time as the parties agree in writing or will excuse performance, in whole or in part, as we deem reasonable.

SECTION 17.7 ANTI-TERRORIST LAWS

You certify that neither you nor your owners, principals, employees or anyone associated with you is listed in the Annex to Executive Order 13224. You agree not to hire or have any dealings with a person listed in the Annex. You certify that you have no knowledge or information that, if generally known, would result in you or your owners, principals, employees, or anyone associated with you being listed in the Annex to Executive Order 13224 as amended or superseded. You agree to comply with and/or assist us to the fullest extent possible in our efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, you certify, represent, and warrant that none of your property or interests are subject to being "blocked" under any of the Anti-Terrorism Laws and that you and your owners or principals are not otherwise in violation of any of the Anti-Terrorism Laws. You are solely responsible for ascertaining what actions must be taken by you to comply with all such Anti-

Terrorism Laws, and you specifically acknowledge and agree that your indemnification responsibilities as provided in Section 15.2 of this Agreement also pertain to your obligations under this Section 17.7. Any misrepresentation by you under this Section or any violation of the Anti-Terrorism Laws by you or your owners, principals or employees shall constitute grounds for immediate termination of this Agreement and any other agreement you have entered into with us or our affiliates. As used herein, "Anti-Terrorism Laws" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists and any other requirements of any Governmental Authority (including without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

SECTION 17.8 ATTORNEY'S FEES

If you are in breach of any monetary or non-monetary material obligation under this Agreement or any related agreement between you and us and/or our affiliates, and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all of our reasonable attorneys' fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of this Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

SECTION 17.9 UNIFORMITY

You acknowledge that current and future franchisees may operate under different forms of agreement, and our obligations towards them may differ materially in certain circumstances.

SECTION 17.10 NUMBERS AND GENDERS

Any gender references in this Agreement include the masculine, feminine and neuter. Any numeric reference also includes the singular or plural, as the case may be.

SECTION 17.11 HEADINGS

The Article and Section headings herein are for convenience only and do not affect the construction of the terms of this Agreement.

SECTION 17.12 TIME IS OF THE ESSENCE

TIME IS OF THE ESSENCE WITH RESPECT TO YOUR PERFORMANCE UNDER THIS AGREEMENT.

SECTION 17.13 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will constitute a duplicate original.

SECTION 17.14 NOTICES

All notices, requests, consents and other communications to you required or permitted under this Agreement must be in writing (including telex, telecopied and telegraphic communication) and must be (as elected by the person giving the notice) hand delivered by messenger or courier service, telecopied, telecommunicated, or mailed (airmail if international) by registered or certified mail (postage prepaid), return receipt requested, addressed to:

If to you: _____

or to any other address any party designates by notice complying with the terms of this Section. Each notice is deemed received: (a) on the date delivered if by personal delivery; (b) on the date of transmission with confirmed answer back if by telex, fax, email or other electronic method; and/or (c) on the date the return receipt is signed or delivery is refused or the notice is designated by the postal authorities as not deliverable if mailed.

All notices to us must be sent via registered, certified mail to the addresses below, and will be deemed received on the date we receive it:

If to us: PRO MARTIAL ARTS Franchise Corporation
630 Freedom Business Center Drive, 3rd Floor
King of Prussia, PA 19406
Attn: Ed Samane, President

With a copy to: Lane Fisher, Esq.
FisherZucker, LLC
21 South 21 Street
Philadelphia, PA 19103

ARTICLE 18 – PERSONAL GUARANTEE

If you are a corporation, limited liability company, or general or limited partnership, or other legal entity, or if subsequent to the execution of this Agreement, you assign this Agreement to a corporation, limited liability company, general or limited partnership, or other legal entity, all of your owners and their spouses must execute personally and unconditionally guarantee without notice, demand, or presentment, the payment of all of your monetary obligations under this Agreement, and any other agreement between you and us and/or our affiliates, as if each were an original party to this or any other agreement in their individual capacity. If you are an individual, your spouse must do the same. All such personal guarantors further agree to be bound by the restrictions upon your activities upon transfer, termination, or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in the personal guarantor’s individual capacity. All such personal guarantors and their spouses must execute a continuing personal guarantee in the form attached hereto as Exhibit 6.

ARTICLE 19 – FRANCHISEE ACKNOWLEDGEMENTS

SECTION 19.1 NO AUTHORITY.

NO SALESPERSON, REPRESENTATIVE OR OTHER PERSON HAS THE AUTHORITY TO BIND OR OBLIGATE US EXCEPT OUR AUTHORIZED OFFICER BY A WRITTEN DOCUMENT. YOU

ACKNOWLEDGE THAT NO REPRESENTATIONS, PROMISES, INDUCEMENTS, GUARANTEES, OR WARRANTIES OF ANY KIND WERE MADE BY US OR ON OUR BEHALF, WHICH INDUCED YOU INTO ENTERING INTO THIS AGREEMENT. YOU UNDERSTAND THAT WHETHER YOU SUCCEED AS A FRANCHISEE IS DEPENDENT ON YOUR EFFORTS AND BUSINESS JUDGMENT, THE PERFORMANCE OF YOUR EMPLOYEES, MARKET CONDITIONS, AND VARIABLE FACTORS BEYOND OUR CONTROL OR INFLUENCE. YOU FURTHER UNDERSTAND THAT SOME FRANCHISEES ARE MORE OR LESS SUCCESSFUL THAN OTHER FRANCHISEES AND THAT WE HAVE MADE NO REPRESENTATION THAT YOU WILL DO AS WELL AS ANY OTHER FRANCHISEE.

SECTION 19.2 RECEIPT

YOU ACKNOWLEDGE RECEIPT OF THE PRO MARTIAL ARTS FRANCHISE CORPORATION FRANCHISE DISCLOSURE DOCUMENT WITHIN 14 CALENDAR DAYS PRIOR TO THE EXECUTION OF THIS AGREEMENT. YOU FURTHER ACKNOWLEDGE THAT YOU RECEIVED A COMPLETED COPY OF THIS AGREEMENT, AND ALL RELATED AGREEMENTS ATTACHED TO THE FRANCHISE DISCLOSURE DOCUMENT, WITH ANY CHANGES TO SUCH AGREEMENTS UNILATERALLY AND MATERIALLY MADE BY PRO MARTIAL ARTS FRANCHISE CORPORATION AT LEAST SEVEN (7) CALENDAR DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT AND ALL RELATED AGREEMENTS WERE EXECUTED.

SECTION 19.3 OPPORTUNITY TO REVIEW BY YOU AND YOUR ADVISOR

YOU ACKNOWLEDGE THAT WE HAVE RECOMMENDED, AND THAT YOU HAVE HAD THE OPPORTUNITY TO OBTAIN, REVIEW OF THIS AGREEMENT AND THE FRANCHISE DISCLOSURE DOCUMENT BY YOUR LAWYER, ACCOUNTANT, OR OTHER BUSINESS ADVISOR BEFORE EXECUTING THIS AGREEMENT.

SECTION 19.4 EXECUTION OF AGREEMENT

EACH OF THE UNDERSIGNED PARTIES WARRANTS THAT IT HAS THE FULL AUTHORITY TO SIGN AND EXECUTE THIS AGREEMENT. IF YOU ARE A PARTNERSHIP OR CORPORATION THE PERSON EXECUTING THIS AGREEMENT YOUR BEHALF WARRANTS TO US, BOTH INDIVIDUALLY AND IN SUCH PERSON'S CAPACITY AS A PARTNER OR OFFICER, THAT ALL OF THE PARTNERS OF THE PARTNERSHIP OR ALL OF THE SHAREHOLDERS OF THE CORPORATION, AS APPLICABLE, HAVE READ AND APPROVED THIS AGREEMENT, INCLUDING ANY RESTRICTIONS WHICH THIS AGREEMENT PLACES UPON RIGHTS TO TRANSFER THEIR INTEREST IN THE PARTNERSHIP OR CORPORATION.

SECTION 19.5 NO PERSONAL LIABILITY

You agree that the fulfillment of any and all of our obligations written in this Agreement or based on any oral communications which may be ruled to be binding in a Court of Law will be your sole responsibility and none of our agents, representatives, nor any individuals associated with us will be personally liable to you for any reason. This is an important part of this Agreement. You agree that that nothing that you believe you or your representatives have been told by us or our representatives will be binding unless it is written in this Agreement. This is an important part of this Agreement. Do not sign this Agreement if there is any question concerning its contents or any representations made.

SECTION 19.6 NO GUARANTEE OF EARNINGS

You understand that we and any of our representatives and/or agents that you have met have not made and are not making any guarantees as to the extent of your success in operating a Studio, and have not and are not in any way representing or promising any specific amount of earnings or profits in association with your Studio.

IN WITNESS WHEREOF, the parties have duly signed this Agreement.

FRANCHISEE:

FRANCHISOR:

PRO MARTIAL ARTS Franchise Corporation

By: _____
Ed Samane, President

**EXHIBIT 1
TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
FRANCHISE AGREEMENT
SITE SELECTION ADDENDUM**

This agreement is entered into this _____ day of _____, 20__ by and between Pro Martial Arts Franchise Corporation (“we”, “us” or “our”) and _____ (“you”).

BACKGROUND

On _____, the parties entered into a franchise agreement (the “Franchise Agreement”) pursuant to which you obtained the right and undertook the obligation to operate a GRANDMASTER SAMANE’S PRO MARTIAL ARTS® Studio (the “Studio”). The parties desire to desire to supplement its terms, as set forth below.

AGREEMENT

NOW THEREFORE, the parties agree as follows:

1. Within 270 days after the effective date of the Franchise Agreement, you must obtain a site, at your expense, for the Studio (the “Site”), which we must approve as hereinafter provided. The site must be within the following territory: _____ (the “Site Selection Territory”). Time is of the essence.
2. Before your acquisition of a Site by purchase or lease, you must submit to us, in the form we specify, a completed site review for and any other information or materials we may reasonably requirement, and a letter of intent or other evidence satisfactory to us which confirms your favorable prospects for obtaining a site within 270 days after execution of this Site Selection Addendum. We will have 15 days from the receipt of such information from you to approve or disapprove, in our sole discretion, any proposed site as a Site. No proposed site will be deemed approved unless we have expressly approved it in writing.
3. We will furnish to you such site selection guidelines, consultation and on-site evaluation as we deem advisable as part of our evaluation of your request for site approval. We will not, however, provide as we deem advisable as part of our evaluation of your request for Site approval. We are not required to provide on-site evaluations. If we deem it necessary, however, we may conduct up to one (1) on-site visit at our cost. You must pay our travel, meal, and lodging expenses associated with any additional on-site visits we deem necessary, plus our then-current per diem fees for such services, which is presently \$500 per diem.
4. If you occupy the Site pursuant to a lease, we must approve the lease and the lease must contain a collateral assignment in the form attached as Exhibit 2 to your Franchise Agreement.

5. After we have approved a site for the Studio in writing and you acquire the site, the site will constitute the Premises referred to in Section 1.4 of the Franchise Agreement and referenced on the data sheet to the Franchise Agreement.

8. You acknowledge and agree that our approval of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Studio or for any other purpose. Our approval of the site indicates only that we believe that the site complies with acceptable minimum criteria established by us solely for our purposes at the time of evaluation. Both parties to this Agreement acknowledge the application of criteria that have been effective with respect to other sites and premises may not be predictive of potential for all sites and that, subsequent to our approval of a site, demographic and/or economic factors, such as competition from other similar businesses, included in or excluded from our criteria could change thereby altering the potential of a site. Such factors are unpredictable and are beyond our control. We will not be responsible for the failure of a site approved by us to meet your expectations as to revenue or operational criteria. You further acknowledges and agrees that your acceptance of a franchise for the operation of the Studio at the site is based on your own independent investigation of the suitability of the site.

9. This Site Selection Addendum constitutes an integral part of the Franchise Agreement between the parties hereto, and terms of this Site Selection Addendum will be controlling with respect to the subject matter hereof. Except as modified or supplemented by this Site Selection Addendum, the terms of the Franchise Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto have duly executed this Addendum on the day and year first above written.

Dated: _____

Pro Martial Arts Franchise Corporation

By: _____

Name: _____

Title: _____

FRANCHISEE

By: _____

EXHIBIT 2
TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION FRANCHISE
AGREEMENT
COLLATERAL ASSIGNMENT OF LEASE

FOR VALUE RECEIVED, the undersigned ("Assignor") hereby assigns and transfers to Pro Martial Arts Franchise Corporation ("Assignee"), all of Assignor's right, title and interest as tenant in, to and under the lease, attached hereto as Exhibit 1 (the "Lease") respecting premises commonly known as _____ ("Studio Site"). This Assignment is for collateral purposes only and except as specified herein, Assignee has no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee takes possession of the premises demised by the Lease pursuant to the terms hereof and assumes the obligations of Assignor thereunder.

Assignor represents and warrants to Assignee that it has full power and authority to so assign the Lease and its interest therein and that Assignor has not previously assigned or transferred, and is not obligated to assign or transfer, any of its interest in the Lease or the Studio Site demised thereby.

Upon a default by Assignor under the Lease or under the franchise agreement for a between Assignee and Assignor (the "Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, or upon expiration or termination of the Franchise Agreement or this Agreement, Assignee has the right and is hereby empowered to take possession of the Studio Site, expel Assignor therefrom, and, in such event, Assignor will have no further right, title or interest in the Lease. Assignor hereby authorizes the Lessor to disclose to Assignee, upon its request, sales and other information furnished to the Lessor by Assignor.

Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any renewals thereto, Assignor agrees that it must elect and exercise all options to extend the term of or renew the Lease not less than 30 days prior to the last day that the option must be exercised, unless Assignee otherwise agrees in writing.

If Assignee does not otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place and stead of Assignor for the purpose of effecting such extension or renewal.

ASSIGNOR:

Dated: _____

SIGNED AND SEALED this ___
day of _____, 20_

Notary Public: _____

CONSENT AND AGREEMENT OF LESSOR

The undersigned Lessor under the afore described Lease hereby:

(a) Agrees to notify Assignee in writing of and upon the failure of Assignor to cure any default by Assignor under the Lease;

(b) Agrees that Assignee has the right, but must not be obligated, to cure any default by Assignor under the Lease within 30 days after delivery by Lessor of notice thereof in accordance with paragraph (a) above;

(c) Consents to the foregoing Collateral Assignment and agrees that if Assignee takes possession of the Studio Site and confirms to Lessor the assumption of the Lease by Assignee as tenant thereunder, Lessor must recognize Assignee as tenant under the Lease;

(d) Agrees that Assignee may further assign the Lease to a person, firm or corporation who must agree to assume the tenant's obligations under the Lease and who is reasonably acceptable to Lessor and upon such assignment Assignee will have no further liability or obligation under the Lease as assignee, tenant or otherwise.

LESSOR: _____

By: _____
Title: _____

**PRO MARTIAL ARTS FRANCHISE CORPORATION
FRANCHISE AGREEMENT
EXHIBIT 3
AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS**

_____ (Name of Legal Entity)
_____ (ID Number)

The undersigned depositor (“**Depositor**”) hereby authorizes Pro Martial Arts Franchise Corporation (“**Franchisor**”) to initiate debit entries and/or credit correction entries to the undersigned’s checking and/or savings account(s) indicated below and the depository designated below (“**Depository**”) (“**Bank**”) to debit or credit such account(s) pursuant to Franchisor’s instructions. This Authorization does not grant any ownership or control over the Depositor’s account, except as provided in this Authorization.

_____	_____	
Depository	Branch	
_____	_____	_____
City	State	Zip Code
_____	_____	
Bank Transit/ABA Number	Account Number	

This authorization is to remain in full and force and effect during the term of this Agreement and until all amounts owed to Franchisor are paid in full.

Depositor

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT 4
TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
FRANCHISE AGREEMENT
CONFIDENTIALITY AND NON-COMPETITION AGREEMENT
(for trained employees, shareholders, officers, directors,
general partners, members and managers of Franchisee)

In consideration of my being a _____ of _____, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree that:

1. Pursuant to a Franchise Agreement dated _____, 20__ (the "Franchise Agreement"), _____ (the "Franchisee"), has acquired the right and franchise from Pro Martial Arts Franchise Corporation (the "Company") to establish and operate a GRANDMASTER SAMANE'S PRO MARTIAL ARTS studio (the "Studio" or "Studio") and the right to use in the operation of the Studio the Company's trade names, service marks, trademarks, logos, emblems, and indicia of origin (the "Marks"), as they may be changed, improved and further developed from time to time in the Company's sole discretion, only at the following authorized and approved location: _____ (the "Premises").

2. The Company, as the result of the expenditure of time, skill, effort and resources has developed and owns a distinctive format and system (the "System") relating to the establishment and operation of Studios, which feature and offer martial arts and physical fitness training classes and related goods and services to the public. The Company possesses certain proprietary and confidential information relating to the operation of the System, which includes certain proprietary trade secrets, methods, techniques, formats, specifications, systems, procedures, methods of business practices and management, sales and promotional techniques and knowledge of, and experience in, the operation of the Studio (the "Confidential Information").

3. Any and all information, knowledge, know-how, and techniques which the Company specifically designates as confidential shall be deemed to be Confidential Information for purposes of this Agreement.

4. As _____ of the Franchisee, the Company and Franchisee will disclose the Confidential Information to me in furnishing to me training programs, GRANDMASTER SAMANE'S PRO MARTIAL ARTS Operating Manuals (the "Manuals"), and other general assistance during the term of the Franchise Agreement.

5. I will not acquire any interest in the Confidential Information, other than the right to utilize it in the operation of the Studio during the term of the Franchise Agreement, and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition.

6. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information and all other information designated by the Company as confidential. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties as _____ of the Franchisee, and will continue not to disclose any such information even after I cease to be in that position and will not use any

such information even after I cease to be in that position unless I can demonstrate that such information has become generally known or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement.

7. Except as otherwise approved in writing by the Company, I shall not, while in my position with the Franchisee, either directly or indirectly for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation, own, maintain, operate, engage in, act as a consultant for, perform services for, or have any interest in any retail business or e-commerce business which: (a) is the same as, or substantially similar to, a GRANDMASTER SAMANE'S PRO MARTIAL ARTS Studio; or (b) offers to sell or sells any product or products which are the same as, or substantially similar to, any of the products offered by a GRANDMASTER SAMANE'S PRO MARTIAL ARTS Studio where the sale of such products constitutes or is intended to constitute twenty percent (20%) or more of the Net Sales of the business operated or intended to be operated (a "Competitive Business"); and for a continuous uninterrupted period commencing upon the cessation or termination of my position with Franchisee, regardless of the cause for termination, or upon the expiration, termination, transfer, or assignment of the Franchise Agreement, whichever occurs first, and continuing for two (2) years thereafter, either directly or indirectly, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation, own, maintain, operate, engage in, act as a consultant for, perform services for, or have any interest in any Competitive Business that is, or is intended to be, located at or within:

7.1 Franchisee's Territory, as defined in the Franchise Agreement ("Franchisee's Territory");

7.2 Twenty Five (25) miles of Franchisee's Territory; or

7.3 Twenty five (25) miles of any GRANDMASTER SAMANE'S PRO MARTIAL ARTS Studio operating under the System and the Marks.

8. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which the Company is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

9. I understand and acknowledge that the Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without my consent, effective immediately upon receipt by me of written notice thereof; and I agree to comply forthwith with any covenant as so modified.

10. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchisee. I am aware that my violation of this Agreement will cause the Company and the Franchisee irreparable harm; therefore, I acknowledge and agree that the Franchisee and/or the Company may apply for the issuance of an injunction preventing me from violating this Agreement, and I agree to pay the Franchisee and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to the Franchisee and the Company, any claim I have against the

Franchisee or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

11. This Agreement shall be construed under the laws of the Commonwealth of Pennsylvania. The only way this Agreement can be changed is in writing signed by both the Franchisee and me.

Signature

Name

Address

Title

ACKNOWLEDGED BY FRANCHISEE

By: _____

Name: _____

Title: _____

EXHIBIT 5
TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
FRANCHISE AGREEMENT
COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS

1. _____, doing business as "GRANDMASTER SAMANE'S PRO MARTIAL ARTS®", ("Assignor"), in exchange for valuable consideration provided by Pro Martial Arts Franchise Corporation ("Assignee"), receipt of which is hereby acknowledged hereby conditionally assigns to Assignee all telephone numbers, facsimile numbers, domain names, as well as any listings associated therewith, utilized by Assignor in the operation of its GRANDMASTER SAMANE'S PRO MARTIAL ARTS Studio at Assignor's above-referenced address (the "Assigned Property"). The Assigned Property includes the following:

Telephone Number(s): _____

Facsimile Number(s): _____

Domain Name(s) (as permitted by Franchisor under the Franchise Agreement): _____

Social media webpages (including, but not limited to, Facebook, MySpace, Twitter, LinkedIn, Plaxo, and YouTube pages): _____

2. The conditional agreement will become effective automatically upon termination, expiration of Assignor's franchise. Upon the occurrence of that condition, Assignor must do all things required by the telephone company and/or domain name registrar to assure the effectiveness of the assignment of Assigned Property as if the Assignee had been originally issued such Assigned Property and the usage thereof.

3. Assignor agrees to pay the telephone company and/or domain name registrar, on or before the effective date of assignment, all amounts owed for the use of the Assigned Property up to the date this Assignment becomes effective. Assignor further agrees to indemnify Assignee for any sums Assignee must pay the telephone company to effectuate this agreement, and agrees to fully cooperate with the telephone company and/or domain name registrar, as well as the Assignee, in effectuating this assignment.

ASSIGNOR:

BY: _____
TITLE: _____

Date: _____

ASSIGNEE:

PRO MARTIAL ARTS FRANCHISE CORPORATION

By: _____

EXHIBIT 6
TO THE PRO MARTIAL ARTS FRANCHISE CORPORATION
FRANCHISE AGREEMENT
PERSONAL GUARANTEE

ARTICLE I
PERSONAL GUARANTY

The undersigned persons (individually and collectively “you”) hereby represent to Pro Martial Arts Franchise Corporation (“PMA”) that you are either: (a) the general partner of **[insert here the name of the franchisee entity]** (“Franchisee”); (b) all of the shareholders, partners, limited partners, or members owning a 10% interest or more in the Franchisee; or (c) the spouse of a Franchisee or a Franchisee’s owner whose financials were required in order for Franchisee to qualify for a GRANDMASTER SAMANE’S PRO MARTIAL ARTS® franchised business (a “Studio”). In consideration of the grant by Franchisor to the Franchisee of a franchise pursuant to the franchise agreement to which Personal Guaranty is attached (the “Franchise Agreement”), each of you hereby agree, in consideration of benefits received and to be received by each of you, jointly and severally, and for yourselves, your heirs, legal representatives and assigns, to be firmly bound by all of the terms, provisions and conditions of the foregoing Franchise Agreement, and any other agreement between Franchisee and Franchisor and/or its affiliates, and do hereby unconditionally guarantee the full and timely performance by Franchisee of each and every obligation of Franchisee under the aforesaid Franchise Agreement or other agreement between Franchisor and Franchisee, including, without limitation, any indebtedness to PMA or its affiliates of Franchisee arising under or by virtue of the aforesaid Franchise Agreement and that you (jointly and individually) will not permit or cause any change in the percentage of Franchisee owned, directly or indirectly, by any person, without first obtaining the written consent of Franchisor prior to said proposed transfer, which consent must not be unreasonably withheld, and without first paying or causing to be paid to Franchisor the transfer fee provided for in said Franchise Agreement, if applicable, and without otherwise complying with the transfer provisions of the foregoing Franchise Agreement.

ARTICLE II
CONFIDENTIALITY

During the term of this Agreement, you will receive information which Franchisor considers a trade secret and confidential information (“Confidential Information”). You will not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, partnership, association, corporation, or limited liability company any including, without limitation, GRANDMASTER SAMANE'S PRO MARTIAL ARTS® karate training and self-defense regimens and other standards and specifications for holding one-on-one and group training classes; standards and specifications related to the Proprietary Products; our trade secrets, advertising strategies, price marketing mixes related to any apparel, equipment and merchandise sold through the Studio; supplier networks and pricing arrangements with suppliers; the Operations Manual; sales promotion aids, business forms, merchandising procedures, accounting procedures, marketing reports, inventory systems, copyrighted materials, and other methods, techniques and know-how concerning the operation of the Studio which may be communicated to you or of which you may be apprised by virtue of your operation of the Studio by virtue of your relationship with Franchisee and your role as a Guarantor of the Franchise Agreement. You also acknowledge and agree that certain information, including (i) current customer and prospective customer names and addresses, (ii) information about credit extensions to customers, (iii) customer purchasing histories, (iv) rates charged to customers (subsections (i)-(iv) collectively “Customer Lists”), and (v) sources of suppliers, also constitute PMA’s trade secrets and confidential proprietary information.

**ARTICLE III
COVENANTS AGAINST COMPETITION**

Section 3.1 **During the Term of the Franchise Agreement.** During the term of the Franchise Agreement, you nor your owners, officers, directors, principals, Project Managers, Chief Instructors, nor any member of your immediate family or the immediate family of your owners, officers, directors, principals, Project Managers, or Chief Instructors may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

a) Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to or have any interest in any other businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees; provided, however, that this Section does not apply to the said parties' operation of a Studio;

b) Employ or seek to employ any person who is at that time employed by Franchisor, Franchisor's affiliates or any other System franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

c) Divert or attempt to divert any business or customer of the Studio to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System.

Section 3.2 **After the Term of the Franchise Agreement.** For a period of two (2) years after the expiration, transfer or termination of this Agreement, regardless of the cause, neither you, nor your principals, officers, directors, nor any member of your immediate family or the immediate family of your officers, directors, or principals may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

a) Enter into any business competing in whole or in part with PMA granting franchises or licenses for businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees at the time this Agreement is terminated or otherwise expires and is not renewed

b) Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to or have any interest in any other business which operates or licenses others the right to operate businesses which offer health and fitness training, self defense classes, martial arts training, and any other goods or services authorized or offered for sale by System franchisees at the time the Franchise Agreement is terminated or otherwise expires and is not renewed, (i) at the Studio premises; (ii) within the Territory; or (iii) within a 25-mile of the radius of (a) the Territory being granted hereunder or (b) any other Territory licensed by Franchisor as of the date of expiration or termination of this Agreement; or

c) Employ or seek to employ any person who is at that time employed by Franchisor, Franchisor's affiliates or any other System franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

d) Divert or attempt to divert any business or customer of the Studio to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System.

Section 3.3 **Intent and Enforcement.** It is the parties' intent that the provisions of this Article III be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein will not render any other part unenforceable. In the event of the actual or threatened breach of this Article III by you, any of your principals, or any members of their immediate family, Franchisor will be entitled to an injunction restraining such person from any such actual or threatened breach. You agree that in the event of the actual or threatened breach of this Article III, Franchisor's harm will be irreparable and that Franchisor has no adequate remedy at law to prevent such harm. You acknowledge and agree that each of you has previously worked or been gainfully employed in other careers and that the provisions of this Article III in no way prevent you from earning a living. You further acknowledge and agree that the time limitation of this Article III will be tolled during any default under this Guaranty.

ARTICLE IV DISPUTE RESOLUTION

Section 4.1 **Acknowledgment.** You acknowledge that this Guaranty is not a Franchise Agreement and does not confer upon you any rights to use the Franchisor's proprietary marks or its system.

Section 4.2 **Governing Law.** This Guaranty will be deemed to have been made in and governed by the laws of the Commonwealth of Pennsylvania (without reference to its conflict of laws principals).

Section 4.3 **Internal Dispute Resolution.** You must first bring any claim or dispute arising out of or relating to the Franchise Agreement or this Personal Guaranty to Franchisor's Chairman of the Board or Chief Executive Officer. You agree to exhaust this internal dispute resolution procedure before bringing any dispute before a third party. This agreement to engage in internal dispute resolution first will survive the termination or expiration of this Agreement.

Section 4.4 **Mediation.** At Franchisor's option, all claims or disputes between you and Franchisor arising out of, or in any way relating to, this Personal Guaranty or the Franchise Agreement or any other agreement by and between you and the Franchisor, or any of the parties' respective rights and obligations arising from such agreements must be submitted first to mediation, in Philadelphia, Pennsylvania, under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, you must submit a notice to Franchisor, which specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of 30 days following receipt of such notice within which to notify you as to whether Franchisor or its affiliates elects to exercise its option to submit such claim or dispute to mediation. You may not commence any action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise its option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor's rights to mediation, as set forth herein, may be specifically enforced by Franchisor. Each party will bear its own cost of mediation and the parties will share the cost of mediator. This agreement to mediate at our option will survive the termination or expiration of the Franchise Agreement. There will be no class action mediation.

a) The parties will not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 4 if such controversy, dispute, or claim

concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

- (1) Any federally protected intellectual property rights in the Marks, the System, Proprietary Materials, Proprietary Software, or in any Confidential Information;
- (2) Any claims arising out of or pertaining to any warranty issued;
- (3) Any of the restrictive covenants contained in this agreement; or
- (4) Any claims to collect past due amounts owed to PMA or its affiliates.

Section 4.5 Third Party Beneficiaries. Franchisor' officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the Franchise Agreement and this Guaranty, and the mediation provisions contained herein, each having authority to specifically enforce the right to mediate and arbitrate claims asserted against such person(s) by you.

Section 4.6 Injunctive Relief. Nothing contained in this Guaranty will prevent Franchisor from applying to or obtaining from any court having jurisdiction, without bond, a writ of attachment, temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect Franchisor's interest prior to the filing of any mediation proceeding or pending the trial or handing down of a decision or award pursuant to any mediation or judicial proceeding conducted hereunder.

Section 4.7 Jurisdiction and Venue. With respect to any proceeding not subject to mediation, the parties expressly agree submit to the jurisdiction and venue of any court of general jurisdiction in Philadelphia, Pennsylvania and the jurisdiction and venue of the United States District Court for the Eastern District of Pennsylvania. The parties agree that all proceedings will be conducted on an individual, not a class-wide basis, and that any proceeding between you, your guarantors, and PMA or its affiliates or employees may not be consolidated with any other proceeding between PMA and any other person or entity.

Section 4.8 Jury Trial Waiver. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER WILL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS PERSONAL GUARANTY OR THE FRANCHISE AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR YOUR PURCHASE FROM FRANCHISOR OF THE FRANCHISE, OPTION AND/OR ANY GOODS OR SERVICES.

Section 4.9 Waiver of Punitive Damages. You waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) which you may have against us arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, your recovery will be limited to actual damages. If any other term of this Personal Guaranty is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions will continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

Section 4.10 Limitation on Action. You agree that no cause of action arising out of or under this Guaranty or the Franchise Agreement may be maintained by you unless brought before the expiration

of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one (1) year after you become aware of facts or circumstances reasonably indicating that you may have a claim against the Franchisor, whichever occurs sooner, and that any action not brought within this period will be barred as a claim, counterclaim, defense or set-off.

Section 4.11 Attorneys' Fees. If either party institutes any mediation action or judicial proceeding to enforce any monetary or nonmonetary obligation or interpret the terms of this Guaranty and the Franchise Agreement, and Franchisor prevails in such action, you will be liable to Franchisor for all costs, including reasonable attorneys' fees, incurred in connection with such proceeding.

Section 4.12 Nonwaiver. Franchisor' failure to insist upon strict compliance with any provision of this Personal Guaranty and the Franchise Agreement will not be a waiver of Franchisor' right to do so, any law, custom, usage or rule to the contrary notwithstanding. Delay or omission by Franchisor respecting any breach or default will not affect Franchisor' rights respecting any subsequent breaches or defaults. All rights and remedies granted in this Guaranty will be cumulative. Franchisor' election to exercise any remedy available by law or contract will not be deemed a waiver or preclude exercise of any other remedy.

Section 4.13 Severability. The parties agree that if any provisions of this Guaranty may be construed in 2 ways, 1 of which would render the provision illegal or otherwise voidable or unenforceable and the other which would render it valid and enforceable, such provision will have the meaning, which renders it valid and enforceable. The language of all provisions of this Guaranty will be construed according to fair meaning and not strictly construed against either party. The provisions of this Guaranty are severable, and this Guaranty will be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein, and partially valid and enforceable provisions will be enforced to the extent that they are valid and enforceable. If any material provision of this Guaranty will be stricken or declared invalid, the parties agree to negotiate mutually acceptable substitute provisions. In the event that the parties are unable to agree upon such provisions, Franchisor reserves the right to terminate this Guaranty.

Section 4.14 Construction of Language. Any term defined in the Franchise Agreement which is not defined in this Guaranty will be ascribed the meaning given to it in the Franchise Agreement. The language of this Guaranty will be construed according to its fair meaning, and not strictly for or against either party. All words in this Guaranty refer to whatever number or gender the context requires. If more than one party or person is referred to as you, their obligations and liabilities must be joint and several. Headings are for reference purposes and do not control interpretation.

Section 4.15 Successors. References to "Franchisor" or "the undersigned," or "you" include the respective parties' successors, assigns or transferees.

Section 4.16 No Personal Liability. You agree that fulfillment of any and all of Franchisor's obligations written in this Guaranty or in the Franchise Agreement or based on any oral communications which may be ruled to be binding in a Court of Law will be Franchisor's sole responsibility and none of Franchisor's agents, representatives, nor any individuals associated with Franchisor's franchise company will be personally liable to Franchisee or you for any reason.

PERSONAL GUARANTORS

SPOUSES

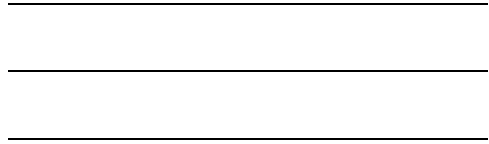
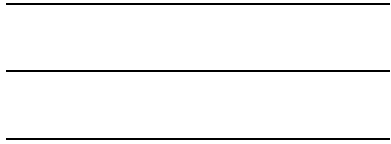


EXHIBIT D TO THE DISCLOSURE DOCUMENT

LIST OF FRANCHISEES
Updated as of April 30, 2012

Franchisee	Address	Studio Telephone Number
Scott Jones	10005 Grant St., Thornton, Co 80229	303-450-3020
Uli Heitz	5174 South Broadway, Englewood, CO 80113	TBD
Peter Arduino	TBD	TBD
Bill Peacock	TBD	TBD
Dawn Cavaliere	TBD	TBD
Gary Wagner	TBD	TBD
Alok Kataria	TBD	TBD
Ron & Monica Stencil	201 North Park Blvd, Lake Orion, MI 48362	248-690-9186
Robb & Sarah Deroeck	41430 Grand River Avenue, Suite B, Novi, MI 48375	248-344-9444
Jason Pulliam	TBD	TBD
Ed Samane	300 W. Swedesford Rd., Berwyn, Pa 19312	610-722-9690
Angelo Mattei	28 W. Skippack Pike, Broad Axe, Pa 19002	215-643-5425
Paul Fasbinder	1111 W. Lancaster Ave, Bryn Mawr, Pa 19010	610-520-4570
Paul Fasbinder	3801 Germantown Pike, Collegeville, Pa 19426	610-454-0335
Angelo Mattei	313 E. Lincoln Hwy, Exton, Pa 19314	610-594-1410
Jack Szychtel	3609 Chapel Rd, Newtown Square, Pa 19073	610-335-1960
Stuart Barnes	4723 Concord Pike, Wilmington, De 19803	302-477-1500
Mike Ruiz	TBD	TBD
Chip Beaverson	TBD	TBD
Tim Campbell	TBD	TBD

Jenn Marvil/Bob Bush 3220 Chichester Ave, Upper Chichester, PA 19061 610-494-3000

Jenn Marvil/Bob Bush 4816 Pennell Road, Aston, Pa 19014 610-497-4444

Jenn Marvil/Bob Bush 1102 Baltimore Pike, Suite 115, Glen Mills, PA 19342 610-558-4444

Bill Duderstadt TBD TBD

Doug Stout TBD TBD

Mark Cosby TBD TBD

EXHIBIT E TO THE DISCLOSURE DOCUMENT
FRANCHISEES WHO HAVE LEFT THE SYSTEM
Updated as of April 30, 2012

None.

EXHIBIT F TO THE DISCLOSURE DOCUMENT

FINANCIAL STATEMENTS

PRO MARTIAL ARTS FRANCHISE CORPORATION

King of Prussia, Pennsylvania

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

PRO MARTIAL ARTS FRANCHISE CORPORATION
DECEMBER 31, 2011

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COHEN, ENGEL & CO., INC.

Certified Public Accountants

FRED S. COHEN
ELI ENGEL

GERALD L. ALBERT
RICHARD FINESTONE
DAVID S. GRABEL
PAMELA HAWES

THE PAVILION - SUITE 615
261 OLD YORK ROAD
JENKINTOWN, PENNSYLVANIA 19046

215 886-1150
FAX 215 886-7221

INDEPENDENT AUDITORS' REPORT

Master Edward Samane
Pro Martial Arts Franchise Corporation
Berwyn, PA 19312

We have audited the accompanying balance sheet of Pro Martial Arts Franchise Corporation (an S Corporation) as of December 31, 2011, and the related statements of operations and accumulated deficit, and cash flows for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Pro Martial Arts Franchise Corporation as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cohen, Engel & Co., Inc.

Jenkintown, Pennsylvania
February 6, 2012

PRO MARTIAL ARTS FRANCHISE CORPORATION
BALANCE SHEET
DECEMBER 31, 2011

ASSETS

Current assets:	
Cash	\$109,061
Property and equipment at cost	
less accumulated depreciation – Note 3	25,112
Other costs, net of amortization of \$13,704 – Note 4	<u>66,796</u>
Total assets	<u>\$200,969</u>

LIABILITIES AND EQUITY

Current liabilities:	
Payroll taxes payable	\$ 1,341
Equity:	
Common stock	481,109
Accumulated deficit	<u>(281,481)</u>
Total equity	<u>199,628</u>
Total liabilities and equity	<u>\$200,969</u>

See accompanying independent accountants' report
and notes to financial statements.

PRO MARTIAL ARTS FRANCHISE CORPORATION
 STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
 FOR THE YEAR ENDED DECEMBER 31, 2011

Revenues		\$524,234
Expenses:		
Advertising	\$ 31,431	
Commissions	313,967	
Consultants	15,816	
Depreciation and amortization	8,598	
Dues & Subscriptions	2,250	
Insurance	519	
Licenses & Permits	10,833	
Office expense	17,229	
Payroll	62,708	
Payroll taxes	5,896	
Professional fees	25,094	
Rents	20,452	
Seminars/Trade Shows	11,630	
Supplies	7,626	
Telephone	1,007	
Travel	18,471	
Vehicle	<u>7,304</u>	
Total expenses		<u>560,831</u>
Net loss		(36,597)
Accumulated deficit, beginning of year		<u>(244,884)</u>
Accumulated deficit, end of year		<u>\$(281,481)</u>

See accompanying independent accountants' report
 and notes to financial statements.

PRO MARTIAL ARTS FRANCHISE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:	
Net loss	\$ (36,597)
Depreciation and amortization not requiring cash	8,598
Increase in payroll taxes payable	<u>1,341</u>
Net cash used in operating activities	<u>(26,658)</u>
Cash flows from investing activities:	
Capital expenditures	<u>(22,483)</u>
Net cash used in investing activities	<u>(22,483)</u>
Cash flows from financing activities:	
Common stock issued	<u>50,000</u>
Net cash provided by financing activities	<u>50,000</u>
Net increase in cash	859
Cash, beginning of year	<u>108,202</u>
Cash, end of year	<u>\$109,061</u>
Non Cash Financing Activities:	
Conversion of shareholders' loans to common stock	\$231,109

See accompanying independent accountants' report
and notes to financial statements.

PRO MARTIAL ARTS FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND ORGANIZATION

The Company was formed January 28, 2008 in accordance with the laws in effect in the State of Pennsylvania. Subsequent to its formation the Company is in the process of selling karate school franchises throughout the United States. As of December 31, 2011 the Company has sold franchises to five franchisees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Pro Martial Arts Franchise Corporation (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Use of Estimates: The preparation of financial statements in accordance with the generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Advertising Costs: Advertising costs are charged to operations when incurred.

Rebates: Rebates are recorded as revenues when received. Total rebates for the year ended December 31, 2011 was \$7,500.

Depreciation: Equipment is stated at cost. Depreciation is computed using the modified cost recovery method allowable under the Internal Revenue Code. The recovery period being used is five years.

Income Taxes: The Company has elected to be taxed as an S Corporation under the Internal Revenue Code. The effect of this election is that taxable results of operations and tax credits generated are reportable on the individual income tax return of the shareholders and taxed depending on their personal tax situations. The financial statements do not reflect a provision or credit for income taxes.

PRO MARTIAL ARTS FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NOTE 3 – PROPERTY AND EQUIPMENT

The components of property and equipment are:

Furniture	\$ 7,974
Leasehold improvements	22,482
Web domain name	<u>5,675</u>
	36,131
Accumulated depreciation	<u>11,020</u>
Net property and equipment	<u>\$25,112</u>

NOTE 4 – OTHER COSTS

The Company has capitalized certain franchise and syndication fees. These syndication fees are being amortized over 15 years.

NOTE 5 – SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 6, 2012, the date the financial statements were available to be issued.

No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

PRO MARTIAL ARTS FRANCHISE CORPORATION

Berwyn, Pennsylvania

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

PRO MARTIAL ARTS FRANCHISE CORPORATION
DECEMBER 31, 2010

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COHEN, ENGEL & CO., INC.

Certified Public Accountants

FRED S. COHEN
ELI ENGEL

GERALD L. ALBERT
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THE PAVILION - SUITE 615
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215 866-1150
FAX 215 866-7221

INDEPENDENT AUDITORS' REPORT

Master Edward Samane
Pro Martial Arts Franchise Corporation
Berwyn, PA 19312

We have audited the accompanying balance sheets of Pro Martial Arts Franchise Corporation (an S Corporation) as of December 31, 2010 and 2009, and the related statements of operations and accumulated deficit, and cash flows for the years then ended. Our responsibility is to express an opinion on these financial statements based on our audit

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pro Martial Arts Franchise Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cohen, Engel & Co., Inc.

Jenkintown, Pennsylvania
January 26, 2011

PRO MARTIAL ARTS FRANCHISE CORPORATION
BALANCE SHEETS
DECEMBER 31

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash	\$108,202	\$ 20,658
Prepaid expenses	<u>30,500</u>	<u>-</u>
Total current assets	138,702	20,658
Equipment at cost	7,974	6,248
Less accumulated depreciation	<u>4,859</u>	<u>4,061</u>
Net equipment	3,115	2,187
Other costs – net of amortization of \$11,267 and \$6,797 - Note 3	<u>44,408</u>	<u>48,878</u>
Total assets	<u>\$186,225</u>	<u>\$ 71,723</u>

LIABILITIES AND CAPITAL DEFICIENCY

Current liabilities:		
Due to related party	\$ 8,896	\$ -
Shareholders' loans	212,213	175,000
Capital deficiency:		
Common stock – 200 shares issued	210,000	32,500
Accumulated deficit	<u>(244,884)</u>	<u>(135,777)</u>
Total capital deficiency	<u>(34,884)</u>	<u>(103,277)</u>
Total liabilities and capital deficiency	<u>\$186,225</u>	<u>\$ 71,723</u>

The accompanying notes are an integral part of
these financial statements.

PRO MARTIAL ARTS FRANCHISE CORPORATION
STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Expenses:		
Consultants	\$ 45,396	\$ -
Commissions	31,250	-
Advertising	24,829	55,000
Licenses and pennits	1,725	5,275
Office expenses	11,500	131
Automobile	4,284	-
Professional fees	17,605	11,525
Computer costs	1,329	-
Rents	6,314	5,968
Telephone	960	525
Travel	5,345	8,975
Supplies	6,293	-
Depreciation	1,933	1,760
Amortization	<u>3,335</u>	<u>3,335</u>
Total expenses	162,098	92,494
Revenues	<u>52,991</u>	<u>11,296</u>
Net loss	(109,107)	(81,198)
Accumulated deficit, beginning of year	<u>(135,777)</u>	<u>(54,579)</u>
Accumulated deficit, end of year	<u>\$(244,884)</u>	<u>\$(135,777)</u>

The accompanying notes are an integral part of
these financial statements.

PRO MARTIAL ARTS FRANCHISE CORPORATION
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$(109,107)	\$(81,198)
Depreciation and amortization not requiring cash	5,268	5,095
Prepaid expenses	(30,500)	-
Due to related party	<u>8,896</u>	<u>-</u>
Net cash used in operating activities	<u>(125,443)</u>	<u>(76,103)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(1,726)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,726)</u>	<u>-</u>
Cash flows from financing activities:		
Shareholders' loans	37,213	77,500
Common stock issued	<u>177,500</u>	<u>-</u>
Net cash provided by financing activities	<u>214,713</u>	<u>77,500</u>
Net increase in cash	87,544	1,397
Cash, beginning of year	<u>20,658</u>	<u>19,261</u>
Cash, end of year	\$ <u>108,202</u>	\$ <u>20,658</u>

The accompanying notes are an integral part of
 these financial statements.

**PRO MARTIAL ARTS FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF OPERATIONS AND ORGANIZATION

The Company was formed January 28, 2008 in accordance with the laws in effect in the State of Pennsylvania. Subsequent to its formation the Company is in the process of selling karate school franchises throughout the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Pro Martial Arts Franchise Corporation (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Use of Estimates: The preparation of financial statements in accordance with the generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Depreciation: Equipment is stated at cost. Depreciation is computed using the modified cost recovery method allowable under the Internal Revenue Code. The recovery period being used is five years.

Income Taxes: The Company has elected to be taxed as an S Corporation under the Internal Revenue Code. The effect of this election is that taxable results of operations and tax credits generated are reportable on the individual income tax return of the shareholders. The federal, state and local tax returns of the Company for 2008 through 2010 are subject to examination by the taxing authorities, generally for three years after they were filed.

NOTE 3 – OTHER COSTS

The Company has capitalized "Web Domain Name" and syndication fees. The syndication fees are being amortized over 15 years and the "Web Domain Name" over five years.

NOTE 4 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2011, the date which the financial states were available to be issued.

EXHIBIT G TO THE DISCLOSURE DOCUMENT
FORM OF GENERAL RELEASE

THIS AGREEMENT ("Agreement") is made and entered into this ____ day of _____, 20__ by and between PRO MARTIAL ARTS Franchise Corporation, a Pennsylvania corporation having its principal place of business located at 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, Pennsylvania 19406 (the "Franchisor"), and _____, an individual residing at _____ (hereinafter referred to as "Releasor"), wherein the parties hereto, in exchange for good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, and in reliance upon the representations, warranties, and comments herein are set forth, do agree as follows:

1. **Release by Releasor:**

Releasor does for itself, its successors and assigns, hereby release and forever discharge generally the Franchisor and any affiliate, wholly owned or controlled corporation, subsidiary, successor or assign thereof and any shareholder, officer, director, employee, or agent of any of them, from any and all claims, demands, damages, injuries, agreements and contracts, indebtedness, accounts of every kind or nature, whether presently known or unknown, suspected or unsuspected, disclosed or undisclosed, actual or potential, which Releasor may now have, or may hereafter claim to have or to have acquired against them of whatever source or origin, arising out of or related to any and all transactions of any kind or character at any time prior to and including the date hereof, including generally any and all claims at law or in equity, those arising under the common law or state or federal statutes, rules or regulations such as, by way of example only, franchising, securities and anti-trust statutes, rules or regulations, in any way arising out of or connected with the Agreement, and further promises never from this day forward, directly or indirectly, to institute, prosecute, commence, join in, or generally attempt to assert or maintain any action thereon against the Franchisor, any affiliate, successor, assign, parent corporation, subsidiary, director, officer, shareholder, employee, agent, executor, administrator, estate, trustee or heir, in any court or tribunal of the United States of America, any state thereof, or any other jurisdiction for any matter or claim arising before execution of this Agreement. In the event Releasor breaches any of the promises covenants, or undertakings made herein by any act or omission, Releasor shall pay, by way of indemnification, all costs and expenses of the Franchisor caused by the act or omission, including reasonable attorneys' fees.

2. Releasor hereto represents and warrants that no portion of any claim, right, demand, obligation, debt, guarantee, or cause of action released hereby has been assigned or transferred by Releasor party to any other party, firm or entity in any manner including, but not limited to, assignment or transfer by subrogation or by operation of law. In the event that any claim, demand or suit shall be made or institute against any released party because of any such purported assignment, transfer or subrogation, the assigning or transferring party agrees to indemnify and hold such released party free and harmless from and against any such claim, demand or suit, including reasonable costs and attorneys' fees incurred in connection therewith. It is further agreed that this indemnification and hold harmless agreement shall not require payment to such claimant as a condition precedent to recovery under this paragraph.

3. Each party acknowledges and warrants that his, her or its execution of this Agreement is free and voluntary.

4. Pennsylvania law shall govern the validity and interpretation of this Agreement, as well as the performance due thereunder. This Agreement is binding upon and inures to the benefit of the respective assigns, successors, heirs and legal representatives of the parties hereto.

5. In the event that any action is filed to interpret any provision of this Agreement, or to enforce any of the terms thereof, the prevailing party shall be entitled to its reasonable attorneys' fees and costs incurred therein, and said action must be filed in the Commonwealth of Pennsylvania

6. This Agreement may be signed in counterparts, each of which shall be binding against the party executing it and considered as the original.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this agreement effective as of the date first above.

Witness:

RELEASOR:

(Name)

Witness:

PRO MARTIAL ARTS FRANCHISE
CORPORATION:

By: _____

Name: _____

Title: _____

EXHIBIT H TO THE DISCLOSURE DOCUMENT
TABLE OF CONTENTS TO THE OPERATIONS MANUAL

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RECEIPT

(KEEP THIS COPY)

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

If Pro Martial Arts Franchise Corporation offers you a franchise it must provide this disclosure document to you within 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreements or payment of any consideration that relates the franchise relationship.

Iowa requires that we give you this disclosure document at the earlier of the first personal meeting or at least 14 calendar days before the execution of the franchise or other agreements or payment of any consideration that relates to the franchise relationship.

Michigan, Oregon, Washington, and Wisconsin require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement, or the payment of any consideration, whichever occurs first.

If Pro Martial Arts Franchise Corporation does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state administrator identified in Exhibit A of this Franchise Disclosure Document.

A list of franchisor's agents registered to receive service of process is listed as Exhibit A to this Franchise Disclosure Document.

I have received a Franchise Disclosure Document with an issue date of April 30, 2012. Effective Dates for this Franchise Disclosure Document in the registration states are listed on the Effective Date Page following the State Cover Page. This Franchise Disclosure Document included the following Exhibits:

A – List of State Administrators/Agents for Service of Process	E – Franchisees Who Have Left the System
B – State Specific Addenda	F – Financial Statements
C – Franchise Agreement	G – Form of General Release
D – List of Franchisees	H- Table of Contents to the Operations Manual

Pro Martial Arts Franchise Corporation, 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406; (610) 722-5600

Ed Samane, President and CEO, Pro Martial Arts Franchise Corporation, 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406; (610) 722-5600.

Matt Dillon, Vice President of Franchise Development, 315 South Salem Street, Building 200, Apex NC 27502; (919) 589-0061.

Date: _____

Franchisee

(Print Name)

(Telephone Number)

Below for a Partnership, Corporation or Limited Liability Corporation:

Name: _____

Title: _____

Name of Company: _____

Address: _____

RECEIPT

(OUR COPY)

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D – List of Franchisees	H- Table of Contents to the Operations Manual

A list of the names, principal business addresses, and telephone numbers of each franchise seller offering this franchise is as follows:

Pro Martial Arts Franchise Corporation, 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406; (610) 722-5600

Ed Samane, President and CEO, Pro Martial Arts Franchise Corporation, 630 Freedom Business Center Drive, 3rd Floor, King of Prussia, PA 19406; (610) 722-5600.

Matt Dillon, Vice President of Franchise Development, 315 South Salem Street, Building 200, Apex NC 27502; (919) 589-0061.

Date: _____

Franchisee

(Print Name)

(Telephone Number)

Below for a Partnership, Corporation or Limited Liability Corporation:

Name: _____

Title: _____

Name of Company: _____

Address: _____