



**FRANCHISE AGREEMENT
FRANCHISE OFFERING CIRCULAR**

**AVALAR NETWORK, INC.
6430 Medical Center Street, Suite 100
Las Vegas, Nevada 89148
(877) 895-8988**

**INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY THE FEDERAL TRADE COMMISSION**

To protect you, we've required your franchisor to give you this information. We haven't checked it, and don't know if it's correct. It should help you make up your mind. Study it carefully. While it includes some information about your contract, don't rely on it alone to understand your contract. Read your entire contract carefully. Buying a franchise is a complicated investment. Take your time to decide. If possible, show your contract and this information to an advisor, like a lawyer or an accountant.

If you find anything you think may be wrong or anything important that's been left out, you should let us know about it. It may be against the law.

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

FEDERAL TRADE COMMISSION
Washington, D.C. 20580

Name of Franchisor: AVALAR NETWORK, INC.

Date of Disclosure Document: September 1, 2006, except as noted on the state-specific addendum to this circular .

NOTICE APPLICABLE TO FRANCHISES IN MICHIGAN

The state of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you.

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

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.

Any questions regarding this notice should be directed to: State of Michigan, Department of Attorney General, Consumer Protection Division, 670 Law Building, Lansing, Michigan 48913, telephone number (517) 373-7117.



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AVALAR NETWORK, INC. franchises *AVALAR* real estate brokerage offices that specialize in the sale and leasing of residential and commercial properties. In states where it is permitted, *AVALAR* offices can also provide mortgage brokerage services to complement their real estate sales and leasing activities. *AVALAR* franchises include a special revenue sharing program, known as *Path to Success*[®], that allows *AVALAR* franchisees and others to participate in a portion of the franchisor's royalty income by sponsoring new *AVALAR* brokers and sales affiliates as described in the attached Franchise Agreement.

The initial franchise fee for an *AVALAR* office franchise is \$15,000.00 for the first office plus \$2,500.00 for each additional office that the franchisee owns on the date of the Franchise Agreement. During the term of the Franchise Agreement, additional *AVALAR* offices can be added, subject to the franchisor's for a franchise fee of \$2,500.00 each.

The estimated initial investment required to open an *AVALAR* office, excluding the initial franchise fee, is between \$48,300.00 and \$450,500.00 depending, for the most part, on the size, furnishings, and equipment of the franchisee's office facilities.

Risk Factors:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO ARBITRATE AND/OR LITIGATE WITH US ONLY IN LAS VEGAS, NEVADA. REQUIRING YOU TO ARBITRATE OR LITIGATE IN LAS VEGAS, NEVADA, MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE IN NEVADA THAN IN YOUR HOME STATE IF YOU ARE LOCATED OUTSIDE OF NEVADA.
2. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit 2 or your public library for sources of information.

Registration of this franchise with a state does not mean that the state recommends it or has verified the information in this offering circular. If you learn that anything in this offering circular is untrue, contact the Federal Trade Commission and the appropriate state franchise law administrator listed on Exhibit 2.

Effective Date: September 1, 2006, except as noted on the state-specific addendum to this circular

AVALAR®
FRANCHISE AGREEMENT
FRANCHISE OFFERING CIRCULAR

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1. THE FRANCHISOR, ITS PREDECESSORS, AND AFFILIATES

We are AVALAR NETWORK, INC., the franchisor of *AVALAR* offices. In this Franchise Offering Circular we refer to ourselves as "we", "us", "our", and similar words.

In this circular the words "you" and "your" refer to the person or people who are buying an *AVALAR* franchise. Those words also refer to a corporation, limited liability company, partnership, or any other entity that is buying the franchise.

Our principal business address is 6430 Medical Center Street, Suite 100, Las Vegas, Nevada, 89148. Our mailing address is P.O. Box 82010, Las Vegas, Nevada 89180. Our registered agent for service of process, if applicable, is listed in the Addendum to this Franchise Offering Circular.

We are a corporation that was incorporated in California on July 10, 1999, under the name RE 100, Inc. We changed our name to AVALAR NETWORK, INC. on August 28, 2001. We reincorporated in Nevada on February 21, 2003, and assigned all of our assets to the Nevada Corporation on that date. Other than as set forth, we have no predecessors or affiliates.

On January 6, 2003, we acquired all assets of the CPS Alliance Corporation, the owner and licensor of the service mark "*CPS-Creative Property Services*". Some of the remaining *CPS* offices use the *CPS* name in conjunction with the name *AVALAR*. The *CPS* names and marks are not offered as part of the *AVALAR* franchise.

We grant franchises only to experienced real estate and mortgage brokerage professionals. *AVALAR* offices specialize in the sale and leasing of residential and commercial real estate. The *AVALAR* franchise is also made available to mortgage brokerage offices, sometimes in conjunction with real estate sales and leasing activities where that is permitted by applicable law. While the Franchise Agreement permits the use of the *AVALAR* name, the use of that name, whether as the sole name of the business subject to the Franchise Agreement or in conjunction with the individual business name of the franchisee, is not required. However, in this circular we will refer to a franchised office as an "*AVALAR*" office.

The franchise offered by this circular is only for an *AVALAR* office franchise. We offer to qualifying candidates franchises to be area developers of *AVALAR* offices by means of a different Franchise Offering Circular.

Granting *AVALAR* franchises and Area Developer Agreements, and overseeing our franchised *AVALAR* offices, is our only business.

We have been offering *AVALAR* franchises since September 1999. We have not offered franchises in any other lines of business and do not do business under any other names, other than for overseeing the remaining *CPS* offices.

AVALAR franchisees, their full time and part time employees, and others affiliated with us and with the *AVALAR* system, are eligible to participate in our *Path to Success* revenue sharing

program which is described in Exhibit A to our Franchise Agreement. Under that program members share in a portion of our royalty income to the extent they have been designated as the sponsor of new *AVALAR* sales associates, no matter for which *AVALAR* office those sales associates work.

AVALAR offices are normally located in urban residential and business locations. *AVALAR* offices normally occupy from 500 to 10,000 square feet. The general real estate buying and leasing public is the market for the services provided by *AVALAR* offices. The market for the services provided by *AVALAR* offices is highly developed and very competitive. *AVALAR* offices compete with independent, chain, franchised, and other real estate and mortgage brokers who provide services similar to those provided by *AVALAR* offices. Usually *AVALAR* offices compete with other real estate sales organizations and brokers, as well as with mortgage brokers and real estate lenders in the same areas in which *AVALAR* offices are located.

AVALAR offices are subject to the normal laws and regulations affecting real estate and mortgage brokerage offices, as well as those pertaining to businesses in general. Most states have special licensing laws applicable to real estate brokers, sales agents, and mortgage brokers. It is your responsibility to learn about and comply with those laws.

2. BUSINESS EXPERIENCE

Chuck Scoble – President, Chief Financial Officer, Secretary, and Director

Mr. Scoble assumed his offices upon our formation. He has been in the real estate business since 1971 and has been a licensed real estate broker since 1985. In addition to his positions with us, Mr. Scoble was President and a Director of CPS Alliance Corporation, which he joined in 1992, until it was merged with us in 2003.

Sandra Scoble — Vice President and Director

Ms. Scoble, the wife of Chuck Scoble, became our Vice President and a Director of *AVALAR NETWORK, INC.*, in March 2002. From late 1997, until ___ she was the operating member of Sonoma Design Center LLC in Santa Rosa, California, a furniture and design consulting company of which Mr. Scoble was also a member. Ms. Scoble was also a Director of CPS Alliance Corporation from 1995 until it merged with us in 2003.

Terrence Hubbard — Director of Business Development

Mr. Hubbard became our Director of Business Development in March 2002. From April 1999, until he became our Director of Business Development, Mr. Hubbard served as a sales and business consultant to us and was also employed by CPS Alliance Corporation as a sales and investment consultant.

Jason Lawrence — Director of Business Development – East Coast

Mr. Lawrence, a licensed real estate professional, assumed his current position with us in November, 2003. From November, 2000, until he joined *AVALAR NETWORK, INC.* he was

Director of Sales and Marketing-International Meetings and Incentives of the Orlando/Orange County Convention and Visitors Bureau, Inc.

Julia Chambers - Director of Business Development, Southern California -
Arizona - New Mexico - Hawaii

Julia Chambers joined us in January 2006. From December 2002 until she joined *AVALAR*, she was the Director of Franchise Sales for Realty Executives Inter-Mountain Region. From 1999, until she joined Realty Executives Ms. Chambers was the Controller of Catalyst RX, Bethesda, Maryland.

3. LITIGATION

Neither we, our predecessors, affiliates, nor the persons identified in Item 2 of this circular are and have been engaged in any litigation that is required to be discussed in this offering circular.

4. BANKRUPTCY

Neither we, our predecessors, affiliates, nor the persons identified in Item 2 of this offering circular have been involved as a debtor in proceedings under the U. S. Bankruptcy Code which is required to be discussed in this offering circular.

5. INITIAL FRANCHISE FEE

You must pay us an initial franchise fee when you sign your Franchise Agreement of \$15,000.00 for your first *AVALAR* office plus \$2,500.00 for each additional office you own as of the date of the Franchise Agreement. If you add any offices while the Franchise Agreement is in effect, you must pay an additional fee of \$2,500.00 for each of those offices. You will not be entitled to a refund of any of your initial franchise fee if the number of offices you maintain is reduced.

If you do not begin the operation of your *AVALAR* office or offices within 6 months from the date of the Franchise Agreement, we have the right to terminate your Franchise Agreement. If we terminate your Franchise Agreement for this reason, we will refund 90% of the initial franchise fee you have paid to us minus the cost of any third party software we may have purchased on your behalf.

You have the right to terminate your Franchise Agreement for any reason within the first 12 months of its term. If you do so, we will refund 90% of the initial franchise fee you paid us, less the amount we have spent for any software you are allowed to retain, within 30 days of your complying with the duties on termination set forth in your Franchise Agreement, including returning to us all computer software and all other items we provided, or caused to be provided, to you because of your affiliation with the *AVALAR* network. You must comply with duties on termination set forth in your Franchise Agreement within 15 days of your giving us your notice of termination in order to receive your refund. If you do not satisfy your duties on termination within this time period, you will not be entitled to a refund. This right to terminate only applies to your initial *AVALAR*

Franchise Agreement and not to any extensions or renewals of that agreement or to any other agreements between us.

6. OTHER FEES

The following chart lists the other fees you must pay us in connection with the *AVALAR* franchise described in this circular.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Royalty	5% of the monthly gross commission income ("GCI") generated by you and by each of your sales associates up to a maximum of GCI of \$100,000.00 per person per 12 month period and then 2% of GCI for each such person for the balance of that period (See Note 2)	Monthly by the 10th day of each month based on your income for the prior month	Gross commission income includes all proceeds you receive from all real estate sales, leasing, and mortgage brokerage transactions conducted by or through your office, minus approved deductions.
Minimum Monthly Reporting Fee	\$250.00	Monthly by the 10 th day of each month.	
Late Charge	\$150.00 flat fee	Monthly in the event we do not receive your report and royalty fee payment by the 10 th of the month.	If applicable law limits the amount of the late charge, the late charge will equal the maximum interest rate allowed on loans between businesses.
Audit Fees	Cost of audit plus late charge on past due balances	As incurred	Due only if an audit of your books shows an understatement of gross commission income of 3% or more for any reporting period or if the audit is needed because you have failed to follow our reporting requirements.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Special Visit Fee	Not to exceed \$400.00 per day plus our out of pocket expenses	In advance of the service or as we otherwise direct	This fee is for special visits to your office over and above those we provide to you at no extra charge.
Relocation Charge	\$500.00	At the time we approve your new location	This fee is to compensate us for our efforts in connection with your relocated office.
Transfer Fee	Our costs involved in connection with the transfer, not to exceed \$1,500.00 per office transferred.	When billed	This fee is to compensate us for the costs to us in connection with the transfer of your franchise to a new owner.
Special Meeting Fee	Varies	In advance of meeting	If we hold special training courses, conventions, meetings, or special programs, we can charge those attending a fee for the event. The fees, if charged, will vary with the event.

NOTES:

1. These fees are payable to us and are not refundable except as described in Item 5 above. Royalties and other amounts paid to us are not refundable even if you terminate your Franchise Agreement within the first 12 months of your operation.

2. The amount of royalty per sales associate is determined on an individual basis, not in the aggregate.

7. INITIAL INVESTMENT

The following chart shows your estimated initial investment for an *AVALAR* office.

Item	Amount	Method of Payment	When Due	To Whom Payment is to be Made

Item	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (See Note 1)	\$15,000.00 for your initial office, \$2,500 for each additional office that you own on the date of the Franchise Agreement	Lump sum	Upon signing the Franchise Agreement	AVALAR NETWORK, INC.
Office Lease	Usually between \$1.50 and \$2.00 per square foot per month \$750.00-\$20,000.00 per month	Lump sum	Monthly	Landlord or sublessor
Construction, remodeling, and leasehold improvements (See Note 3)	\$15,000 to \$150,000	Normally in progress payments	As arranged with supplier	General contractor
Equipment, computers, decor, furniture, fixtures, decorations, etc.	\$5,000 to \$100,000	As arranged with supplier	As arranged with supplier	Suppliers of furniture, fixtures, computers, equipment, etc.
Office supplies, brochures, stationery, etc.	\$500.00 to \$10,000	As arranged with supplier	As arranged with supplier	Vendors
Signs	\$1,000 to \$4,000	As arranged with supplier	As arranged with supplier	Sign company
Security deposits, utility deposits, business licenses, and other prepaid expenses (See Note 4)	\$500 to \$3,500	As arranged with supplier	As needed	Landlord, utility companies, government agencies, etc.
Insurance	\$1,000 to \$10,000	As required by insurance carrier	As required by insurance carrier	Property, liability, casualty, errors & omissions, and other insurance carriers.
Grand Opening advertising	\$1,000 to \$3,000	As arranged with suppliers	As needed	Newspapers, radio, etc.

Item	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Other pre-opening expenditures	\$1,000 to \$5,000	As arranged with suppliers	As needed	Attorney, accountant, and other providers.
Additional funds required before opening and during initial phase of business operation (See Note 5)	\$6,000 to \$30,000	As needed	As needed	Working capital, ongoing expenses, etc.
Total Investment: (See Note 6)	\$48,300.00-\$450,000.00			

NOTES:

1. You can terminate your Franchise Agreement for any reason within the first 12 months and receive a refund of 90% of your initial franchise fee minus the cost of any third party software we may have purchased on your behalf.
2. Most **AVALAR** offices are in urban areas and can be located in office buildings, free standing buildings, street locations, or shopping centers but not in a home. With our approval, you can temporarily locate your **AVALAR** office in an executive suite or similar facility while you are attempting to locate a permanent location for your office but not for longer than 6 months. An executive suite may be used as a branch office with our prior approval. **AVALAR** offices range in size from approximately 500 square feet to 10,000 square feet. Rents will vary depending on what additional charges are payable to the landlord and what services are provided as part of the rent. Charges can include such things as insurance, taxes, assessments, common area maintenance, heating, ventilating, and air conditioning, garbage, janitorial services, and similar charges. We have made no allowance on this chart for any rent that you may have to pay before your office is open for business. The need for rent payments before opening will depend on the terms of your lease.
3. The cost for leasehold improvements can vary depending on the previous use of the space being improved, costs of labor and materials in the area, local building and other code requirements, landlord construction criteria, the amount of the landlord's contribution to leasehold improvement expenses, if any, and other factors.
4. Lease security deposits normally equal 1 or 2 months rent.
5. This is an estimate of the additional cash you will need over and above the net income of your **AVALAR** office for your initial 3 to 6 months of operation. These estimates are based on the 30 years of experience of our principal executive officer in establishing numerous real estate offices. While these figures are based on our best estimates, we cannot guarantee that you will not have additional cash needs during this period and beyond. Your need for additional funds will depend on factors such as whether this franchise is for a new office or is in connection with the

conversion of an existing office, your management skill, experience, and business ability, local economic conditions, the local market for real estate and mortgage brokerage services, competition, the sales level you reach during the initial period of your operation, and so forth.

6. The refundability of payments is up to the individual vendors with whom you contract. No allowance has been made in this chart for any principal or interest expenses required before the opening of your office. The need for this type of expense will vary with the terms of any financing you get in connection with your office.

8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Once we enter into a Franchise Agreement, if you want to open any additional *AVALAR* offices, we must approve your office location before you can lease or otherwise acquire it. You can only use your office for providing the services we approve.

We do not approve the suppliers of the items you purchase, only the quality and characteristics of those items. We provide you with our Corporate Style Guide that details the standards for your use of our trademarks and service marks. Neither we nor any of our affiliates are suppliers of any items you must purchase although in the future we, or they, may become so. We derive no income or other benefit from your purchases, although if we or our affiliates become suppliers of items you purchase, then we and our affiliates would derive revenues from those sales.

You agree to maintain an account with an Internet Service Provider so that we can communicate with you via e-mail.

We do not charge suppliers for doing business with *AVALAR* offices. We do not have a purchasing cooperative.

No special benefits are given to franchisees who purchase merchandise or services from any special source.

9. FRANCHISEE'S OBLIGATIONS

THE FOLLOWING TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THIS AGREEMENT AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

Obligation	Section in Franchise Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Section 5.1	Items 8 & 11
b. Pre-Opening purchases/leases	Section 6.02	Item 7
c. Site development and other pre-opening requirements	Sections 5.1, 5.3, 6.1-6.4	Items 7 & 11
d. Initial and ongoing training	Sections 7.01 & 7.2	Item 11

Obligation	Section in Franchise Agreement	Item in Offering Circular
e. Opening	Section 5.3	Item 11
f. Fees	Sections 3.1-3.3, 4.7, 5.7, 7.2, 8.9, 9.1-9.5, 12.5, 12.8, 16.10, & 16.14	Items 5 & 6
g. Compliance with standards and policies/Operating Manual	Sections 8.1-8.6, 8.10-8.15, 10.1, 10.2 & 10.4	Items 8 & 11
h. Trademarks and proprietary information	Sections 2.1-2.6, 10.1, 10.2, 10.4, 15.1-15.15, & 17.9.2	Items 13 & 14
i. Restrictions on products/services offered	Sections 2.2, 5.8, & 8.4	Items 8 & 16
j. Warranty and customer service requirements	Section 8.3	None
k. Territorial development and sales quotas	Not applicable	Item 12
l. Ongoing product/service purchases	Section 10.3	Item 8
m. Maintenance, appearance and remodeling requirements	Section 6.5	Item 8
n. Insurance	Sections 13.1-13.8	None
o. Advertising	Sections 10.1-10.4	Items 6 & 11
p. Indemnification	Sections 14.8-14.11	None
q. Owner's participation/management & staffing	Sections 8.3, 8.12, & 8.16	Items 11 & 15
r. Records/reports	Sections 8.8, 9.4, & 12.3-12.5	Item 17
s. Inspections/audits	Sections 8.8, 12.5 & 12.6	Items 6 & 11
t. Transfers	Sections 16.1-16.28	Item 17
u. Renewal	Sections 4.3-4.8	Item 17
v. Post-termination obligations	Sections 17.9-17.16	Item 17
w. Non-competition covenants	Sections 18.1-18.5	Item 17
x. Dispute resolution	Sections 19.1-19.5	Item 17
y. Relocation	Sections 5.7 & 17.5	Item 17

10. FINANCING

We do not offer or provide any type of financing for our office franchises.

11. FRANCHISOR'S OBLIGATIONS

Except as listed below, we need not provide any assistance to you.

Pre-Opening Assistance

Before you open your **AVALAR** office, we will consult with you on the telephone regarding the design and construction of your **AVALAR** office. (Franchise Agreement Section 6.3)

Continuing Assistance

During the operation of your **AVALAR** office we provide the following services:

1. You are allowed the continuing use of our service marks, trademarks, commercial symbols, and other proprietary property. (Franchise Agreement Section 2.1)
2. You will have the use of our manuals and the other materials we make available to our franchisees. (Franchise Agreement Sections 8.1 and 8.2)
3. During our normal weekday business hours, we will have a representative available to consult with you by telephone regarding the operation of your **AVALAR** office. (Franchise Agreement Section 8.7)
4. We administer our **Path to Success** revenue sharing program and provide you with the payments and reports called for by that program. (Franchise Agreement Section 11 and Exhibit A to the Franchise Agreement)

Advertising

We do not have a local, regional, or national advertising program. We do not require you to spend any minimum amount on advertising your **AVALAR** office. The amount you chose to spend on advertising is up to you. You can create your own advertising. However, if we object to any of your advertising, promotion, or public relations activities, you must discontinue the items or activities to which we object. (Franchise Agreement Section 10) See the Franchise Agreement sections referred to in Item 9 above.

Operations Manuals

Before you purchase an **AVALAR** franchise, you will be allowed to review our manuals. However, before we can let you see the manuals, you will have to sign the Disclosure and Confidentiality Agreement that is attached to this Franchise Offering Circular.

Selection of Your Office Location

You determine your own office location or locations and the terms of your lease. However, you cannot operate your **AVALAR** business from a home office. With our approval, you can temporarily locate your **AVALAR** office in an executive suite or similar facility while you are

attempting to locate a permanent location for your office but not for longer than 6 months. An executive suite may be used as the location of one of your branch offices with our prior approval. (Franchise Agreement Section 5.1)

Your **AVALAR** office must be open for business within 6 months of when you sign your Franchise Agreement. (Franchise Agreement Section 5.3) If it is not, we can terminate your Franchise Agreement and retain 10% of your initial franchise fee. (Franchise Agreement Section 5.3) See also Item 5 above.

Time Needed to Open an AVALAR Office

The typical length of time between the signing of the Franchise Agreement and the opening of your office is 2 to 4 weeks if you already have a suitable office or up to 5 months if you must find and open a new location. Factors that can affect the time in which a new office can be built and opened include the time needed to secure a location and lease, the time needed to obtain building permits, requirements of local zoning laws and other ordinances, the availability of labor and materials, delays in installing equipment, fixtures, decor, and so forth.

Orientation

We have no required training course. However, we offer a complementary broker orientation to new **AVALAR** brokers and office managers at our headquarters in Las Vegas, Nevada. We recommend that each **AVALAR** franchisee attend our orientation within 90 days of signing his or her Franchise Agreement. There is no fee for attending the orientation program. However, you will have to pay for your own travel, lodging, and similar expenses and those of any employees you bring to the program. We may offer additional courses, seminars, conventions, meetings, and similar programs for our franchisees or for their employees. However, neither you nor your employees are required to attend. You will have to pay for your own travel, lodging, and similar expenses and those of your employees.

12. TERRITORY

The franchise is granted only for the specific location or locations that are mutually approved. You are granted a protected territory in connection with your **AVALAR** office that will normally be a one-mile radius around your office location. Except under the circumstances discussed below, a protected territory is the geographic area within which we agree not to open another company-owned or franchised office a principal activity of which is real estate brokerage. We have the right to open and franchise **AVALAR** offices at any other location, other than within your protected territory, even if those offices compete with you or otherwise adversely affect your business.

By granting you a protected territory we are not precluded from owning or being the franchisor of competing units owned, operated, and/or franchised by any person or entity with whom or which we merge, by whom or which we are acquired, or which we acquire or otherwise become affiliated after the date of your Franchise Agreement. However, no such affiliate will own, operate, or franchise offices using the **AVALAR** names or marks.

Granting you a protected territory does not preclude us, our affiliates, and our other franchisees from listing properties, soliciting clients, making sales, or performing services of any kind in any area or to any clients either as sellers or buyers even within your protected territory. Similarly, you are not precluded from listing properties, soliciting clients, making sales, or performing services in any area or to any clients.

The continuation of your protected territory does not depend on your achieving a specific sales volume, market penetration, or other contingency. Your protected territory will not be altered during the term of your Franchise Agreement.

You can relocate your *AVALAR* office or offices only with our prior written consent. See Item 6 regarding our relocation fee.

By granting you an *AVALAR* franchise, we have no obligation to grant you additional *AVALAR* franchises or to allow you to open additional *AVALAR* offices.

13. TRADEMARKS

As part of the franchise, we grant you a nonexclusive license to use the name "*AVALAR*®" as the name of your business.

Our service mark, "*AVALAR*®", was registered on the Principal Register of the United States Patent and Trademark Office on June 1, 2004. That registration bears number 2847911.

We received a registration for our *Path to Success* service mark on the Principal Register of the United States Patent and Trademark Office on July 24, 2001. That registration bears number 75774914.

There are no presently-effective determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court relevant to your use of the licensed name in any state. There are no pending interference, opposition, or cancellation proceedings, nor any litigation, involving the licensed name.

We are aware of no superior prior rights or infringing uses that could materially affect your use of our principal marks.

There are no agreements currently in effect which significantly limit our rights to use or license the use of the foregoing names in any manner material to your franchise.

You have to make reasonable efforts to check the area in which you propose to open your *AVALAR* office to find out whether there are any confusingly-similar names being used in that region.

Even though we license you to use our name, you are not allowed to use the name *AVALAR* or any similar name in the name of the corporation, limited liability company, or other business entity that owns your *AVALAR* franchise, or in the name of any other corporation or other business entity in which you have an interest.

If your use of the licensed name is ever challenged, you must notify us immediately. Subsequent to your notification, we will decide what action to take. We will pay all fees and costs in any action resulting from that challenge. We also will pay any damages for which you are held liable in any such action so long as you have used the licensed name as required by the Franchise Agreement and have notified us promptly of the claim. You should also notify us immediately if you learn of anyone using any names, marks, or symbols that are similar to ours. You must cooperate with us fully in handling any proceedings involving the licensed name.

If we determine that another person or entity has prior rights to use the **AVALAR** name in the market area in which your **AVALAR** office is located and as a result we decide that we cannot allow you to use or to continue to use our name, you will have the right to terminate your Franchise Agreement or you can work with us to find a new name for your office or offices. If we cannot agree on a replacement name within a reasonable time, either of us can terminate the Franchise Agreement.

You agree in the Franchise Agreement not to do anything that may interfere with our rights to our names and marks. You acquire no rights in any licensed names, marks, or symbols because you use them. All of the rights and goodwill associated with the licensed names, marks, or symbols belong to us.

14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We have applied to the United States Patent and Trademark Office for a business process patent covering our *Path to Success* program. The application was filed on March 25, 2002, and was assigned serial number 10/104533. Whether or not the patent is granted, we have the right to use our *Path to Success* program as discussed above and a denial of our patent application will not adversely affect our program.

Our manuals and any other proprietary material we may have or develop, are our trade secrets. We also claim copyright protection for these manuals and materials although we have not filed any copyright applications concerning them. You must protect our manuals and other trade secret material from unauthorized disclosure. You must use our proprietary material only as we direct.

15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

The Franchise Agreement does not require you to personally supervise the operation of your **AVALAR** office or offices although we recommend that you do so. Whether or not you are the on-premises supervisor of your office, you must use your best efforts to produce the maximum volume of business from your **AVALAR** office to the exclusion of any other business interests or activities if that is required to meet your responsibilities. You are ultimately responsible for the operation of your **AVALAR** office and compliance with the Franchise Agreement.

If required by law, your **AVALAR** office must be under the supervision of a licensed real estate broker. Since we do not have a mandatory training program, your office supervisor does not

need to comply with any training requirements. Unless required by law, the supervisor of your office need not have an ownership interest in your office. If we require, your office supervisor must sign our nondisclosure agreement in which he or she promises to maintain the confidentiality of our proprietary material and information.

16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

As discussed in Item 8 above, your *AVALAR* office can only provide those services we specify or have approved. You must provide all of the services we denote as mandatory although we agree in the Franchise Agreement that any such additional services must be related to the real estate brokerage or mortgage loan business.

There are no restrictions on the customers to whom you can provide authorized services.

See also Items 9 and 12 above.

17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

The following table lists certain important provisions of the Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this offering circular.

Provision	Section in Franchise Agreement	Summary
a. Term of the Franchise	Section 4.1	The initial franchise term is 5 years.
b. Renewal or extension of the term	Section 4.3	The franchise can be renewed for unlimited 5 year periods
c. Requirements for you to renew or extend	Sections 4.3-4.12	You must give us notice of your desire to renew at least 6 months before the expiration of the term; you must not be in default at the time of notice or at the time of renewal; you must not have received more than 2 notices of valid defaults during the term; you must sign our then-current form of Franchise Agreement; and you will have to sign a general release of all claims against us.
d. Termination by you	Section 4.2, 15.11 & 17.8	You can terminate the Franchise Agreement for any reason within the first 12 months of its term. If you do so, we will refund 90% of your initial franchise fee minus the cost of any third party software we may have purchased on your behalf. If we determine that you cannot use our name in your market area, you can terminate the Franchise Agreement or, if you prefer, we can try to agree on a new name for you to use. If we commit a violation under the Franchise Agreement and fail to cure it within 30 days after notice from you of the default, plus such reasonable additional time as may be needed, you can seek all rights allowed by the law governing the Franchise Agreement.

Provision	Section in Franchise Agreement	Summary
e. Termination by us without cause	Sections 15.11	We can terminate the Franchise Agreement if we determine that you cannot use our name in your market area and we cannot agree on a new name for you to use.
f. Termination by us with cause	Sections 17.1-17.5	We can terminate your Franchise Agreement if you violate any of its terms. Some violations result in the immediate termination of the Agreement and others will only result in termination if you do not correct the violation after notice and an opportunity to cure.
g. "Cause" defined-defaults which can be cured	Sections 17.3-17.6	If your conduct reflects negatively in a material manner on your office or our system; if you fail to pay any sums due to us; if we reasonably determine that your office poses a health or safety danger; if your interest in the franchise is not transferred within the time period allowed following your death or legal incapacity; if you do not open within 6 months of the date of the Franchise Agreement; if you commit any other violation of the Franchise Agreement that does not result in the immediate termination of that Agreement and do not cure the violation within 30 days after notice; or if your office lease expires and you do not relocate to an acceptable site within 90 days.
h. "Cause" defined-defaults which cannot be cured	Sections 17.1, 17.2 & 17.4	If you are declared bankrupt or insolvent; if you abandon your business; if you have made any material misrepresentation to us in acquiring the franchise; if you fail to comply with any applicable law or regulation and do not cure it within the time allowed; if during any 12 month period we give you 3 or more notices of material violations of the Franchise Agreement; if your business or the franchise is seized by a government official or creditor; if you are convicted of a felony or other applicable criminal misconduct; if you underreport your gross commission income intentionally or in any event more than 5% in any quarter; if you try to sell or transfer the franchise or allow another to use the assets licensed to you other than as allowed by the Franchise Agreement; if any other agreement between us or between you and any of our affiliates is terminated because of your default; if you lose your lease because of your default; or if you solicit and/or attempt to recruit in any way a salesperson or employee of another <i>AVALAR</i> franchisee.

Provision	Section in Franchise Agreement	Summary
i. Your obligations on termination/ nonrenewal	Sections 17.9-17.13	You must pay all of your accounts with us; you must stop using our name and other proprietary material; you must change the look of your office to make it appear different from <i>AVALAR</i> offices; you must return all manuals and other material we have provided to you; you must cancel any fictitious business name registrations in which you use our name; you must notify all concerned individuals, entities, and agencies that you are no longer affiliated with us; you must not identify yourself or your office as having been affiliated with us; you must continue to pay us until you have accomplished your duties following termination; if the Franchise Agreement was terminated because of your default, you must pay us liquidated damages; and you must comply with your covenants not to compete.
j. Assignment of contract by us	Section 16.22	We can transfer our interest in the Franchise Agreement without your prior approval. We agree that any transfer we make will not materially interfere with your <i>AVALAR</i> office.
k. Transfer by you-definition	Sections 16.1-16.3	Any full or partial transfer of the franchise, the property used in your office, or any ownership interest in any entity owning the franchise or the concerned property.
l. Our approval of a transfer by you	Section 16.4	We must approve any transfer.
m. Conditions for our approval of transfer	Sections 16.5-16.17 & 16.19	All information on the transferee and the terms of the transfer must be provided to us; you and your transferee must comply with all procedures and sign all documents we require; upon the transfer of 50% or more of the ownership of the franchise your transferee must sign our then-current Franchise Agreement; you agree to pay our transfer fee; you agree to sign a general release of all claims against us; if an entity owns this franchise, a new principal may have to be appointed.
n. Our right of first refusal to acquire your business	None	
o. Our option to purchase your business	None	
p. Your death or disability	Sections 16.23-16.27	Your interest in the franchise is transferable by will or intestate succession upon your death or by your court-appointed guardian if you are declared to be legally incompetent. Your estate can sell your interest in the franchise to an approved transferee within 6 months after your executor or administrator or guardian is appointed. All of our transfer conditions apply to these types of transfers.

Provision	Section in Franchise Agreement	Summary
q. Noncompetition covenants during the term of the franchise	None	
r. Noncompetition covenants after the franchise is terminated or expires	None	
s. Modification of the agreement	Sections 20.1-20.3	The Franchise Agreement can be modified only by a written agreement signed by all parties to the agreement. We can modify our manuals and direct changes in the operation of your <i>AVALAR</i> office at any time and you must comply at your expense with these changes.
t. Integration/ merger clause	Sections 34.1-34.7	Commitments and agreements not contained in the Franchise Agreement or in a signed attachment to it are not enforceable.
u. Dispute resolution by arbitration or mediation	Sections 19.1-19.3	Except for certain claims, all disputes between us must be submitted to mediation before any lawsuit is instituted.
v. Choice of forum	Sections 19.1, 19.4 & 19.5	Except where required by applicable law, all mediation and litigation must be in Las Vegas, Nevada
w. Choice of Law	Sections 26.1 & 26.2	Except where prohibited by applicable law, Nevada law applies.

NOTE: These states have statutes which may supersede the terms of the Franchise Agreement in your relationship with us, including those terms regarding the termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807]; CALIFORNIA [Bus. & Prof. Code Sections 20000-20043]; CONNECTICUT [Gen. Stat. Section 42-133e et seq.]; DELAWARE [Code Title 6, Ch. 25, Sections 2551-2556]; HAWAII [Rev. Stat. Section 482E-1]; ILLINOIS [815 ILCS 705/1-40]; INDIANA [Stat. Section 23-2-2.7]; IOWA [Code Sections 523H.1-523H.17]; MICHIGAN [Stat. Section 19.854(27)]; MINNESOTA [Stat. Section 80C.14]; MISSISSIPPI [Code Section 75-24-51]; MISSOURI [Stat. Section 407.400]; NEBRASKA [Rev. Stat. Section 87-401]; NEW JERSEY [Stat. Section 56:10-1]; SOUTH DAKOTA [Codified Laws Section 37-5A-51]; VIRGINIA [Code 13.1-557-574-13.1-564]; WASHINGTON [Code Section 19.100.180]; WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions that may supersede the Franchise Agreement or your other agreements with us including the terms concerning the termination and renewal of your franchise. *See the State-Specific Addendum to this circular for changes that may be applicable in your state.*

18. PUBLIC FIGURES

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

19. EARNINGS CLAIMS

Neither we nor anyone acting on our behalf is authorized to provide you with any written or oral information concerning your actual or potential sales, receipts, costs, income, profits,

earnings, or similar information. Results can vary from office to office. We cannot estimate the results of any particular *AVALAR* office.

20. LIST OF FRANCHISE OUTLETS

FRANCHISED OFFICE STATUS SUMMARY FOR FISCAL YEARS 2004, 2005, & 2006

State	Transfer	Canceled Or Terminated	Not Renewed	Reacquired By Us	Left The System/ Other	Total From Left Columns	Franchisees Operating At Year End
Alabama	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/2/2
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/2
California	0/0/0	0/1/0	0/0/0	0/0/0	1/3/1	1/4/1	31/42/51
Florida	0/0/0	0/1/0	0/0/0	0/0/0	0/1/5	0/2/5	5/15/18
Georgia	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/3
Hawaii	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/1
Idaho	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/0	0/0/0
Illinois	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/2
Maryland	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
Michigan	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/2
Missouri	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	0/0/0
Nevada	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/2
New Jersey	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/1/2
Ohio	0/0/0	0/0/1	0/0/0	0/0/0	0/0/0	0/0/1	0/2/4
Oregon	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/2/2
Pennsylvania	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/3/7
Tennessee	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	0/0/0
Texas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/5/9
Virginia	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	0/0/3
Wisconsin	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
Washington DC	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
TOTALS	0/0/0	0/2/1	0/0/0	0/0/0	1/4/10	1/6/11	39/78/114

Note: 1. All numbers are as of June 30 of each year, the end of our fiscal year. The numbers in the "Total" column may exceed the number of offices affected because several events may have affected the same office. For example, the same office may have had multiple owners.

A list of all *AVALAR*® offices appears as Exhibit 3 to this circular.

PROJECTED OPENINGS FOR FISCAL YEAR 2007

State	Franchise Agreements Signed But Office Not Yet Open	Projected Franchised New Offices In The Next Fiscal Year	Projected Company-Owned Openings in Next Fiscal Year
Alabama	0	1	0
Arizona	0	5	0
California	1	10	0
Florida	2	10	0
Georgia	0	5	0
Hawaii	0	2	0
Illinois	1	3	0
Maryland	1	2	0
Michigan	0	2	0
Missouri	1	4	0
Montana	0	1	0
Massachusetts	0	1	0
Minnesota	0	1	0
Nebraska	0	1	0
New York	0	1	0
Nevada	1	4	0
New Jersey	0	2	0
Ohio	0	1	0
Oregon	0	4	0
Pennsylvania	0	5	0
Tennessee	0	1	0
Texas	2	5	0
Virginia	0	2	0
Wisconsin	0	0	0
Washington	0	3	0
Washington DC	0	1	0
TOTALS:	9	77	0

The following franchisees left the system within our last fiscal year.

<p>Sea Breeze Realty Cheri Meyer & Candace Thieme 14126 State Highway 20 West Niceville, FL 32578 850-699-3603 (Voluntary Termination)</p>	<p>Home Vision Realty Wayne Holland 6251 Park Blvd., #8 Pinellas Park, FL 33781 727-544-2244 (Voluntary Termination)</p>	<p>Avalar International Realty Robb Gallagher 3300 55th Street N Saint Petersburg, FL 33710 727-455-4400 (Terminated by Mutual Consent)</p>
<p>Tri-West Real Estate, LLC Lance Roeske 3709 Brooks Street, Suite A Missoula, MT 59801 406-728-9292 (Voluntary Termination)</p>	<p>Avalar Real Estate Executives George Gonzalez 499 North SR 434 Suite 1053 Altamonte Springs, FL 32714 407-786-9898 (Voluntary Termination)</p>	<p>Supreme Lending Mariah Wilde 3755 S. Capital of Texas Hwy, Suite 165 Austin, TX 78704 512-291-9093 (Voluntary Termination)</p>
<p>Avalar Prosperity Real Estate Hortencia Torres 920 West Broad Street Falls Church, VA 22046 703-533-2070 (Voluntary Termination)</p>	<p>Phillips & Associates Ron Phillips 4279 S. US Hwy 27 Suite 3 Clermont, FL 34711 352-243-5150 (Voluntary Termination)</p>	<p>Gateway Realty Roger & Arlene Wear 100 South Street Willits, CA 95490 707-459-5363 (Voluntary Termination)</p>
<p>Avalar 1-2-3 Realty Andy Maline 810 S. Durango Drive, # 110 Las Vegas, NV 89145 702-828-4400 (Voluntary Termination)</p>	<p>Tamalpais Mortgage, Inc. Jason Freskos 2 Belvedere Place #210 Mill Valley, CA 94941 415-388-9900 (Voluntary Termination)</p>	<p>Five Star Home Sales, Inc. Charlie Arreguin 4762 Telephone Road, Suite A Ventura, CA 93003 805-278-6115 (Voluntary Termination)</p>
<p>Real Estate Opportunity Jeff Keller & Richard Glover 2246 S. Hamilton Road Columbus, OH 43232 614-501-444406 (Terminated for Default)</p>	<p>Avalar VIP Orlando East Donovan Carr 2436 Fawn Lake Trail Orlando, FL 32828 407-365-5651 (Terminated for Default)</p>	<p>North Bay Commercial Dale Dockins & William Sveri 2554 Cleveland Avenue Santa Rosa, CA 95403 707-521-3500 (Voluntary Termination)</p>
<p>Realty Options Patricia & Daniel Wodstrchill 5833 US Hwy 19, Suite 1 New Port Rickey, FL 34652 727-853-7200 (Voluntary Termination)</p>	<p>Genius Realty, LLC Heinrich Wiebe & Mathew Newbill 801 West Main Street, #100 Boise, ID 83702 208-639-5777 (Voluntary Termination)</p>	<p>Avalar Real Estate of Sunset Bay Susan Garwood & Sandy Masters 1762 Russell Brothers Road Sharps Chapel, TN 37866 865-278-3778 (Voluntary Termination)</p>

There are no franchisees with whom we have not communicated within the last 10 weeks.

21. FINANCIAL STATEMENTS

Attached as Exhibit 1 to this circular is a copy of our audited financial statements for the fiscal year ending June 30, 2006, with comparative information for the fiscal years ending June 30, 2005, and June 30, 2004.

22. CONTRACTS

Exhibit A to this circular is a copy of our *Franchise Agreement*. Exhibit B contains our *Continuing Guaranty* form that is used if the franchise will be owned by or assigned to a corporation, limited liability company, or other entity or if we require someone to guarantee your obligations under your Franchise Agreement. Exhibit C is our *Disclosure and Confidentiality Agreement* that you must sign before we show you our manual.

23. RECEIPT

The last page of this offering circular contains a detachable Receipt form that you must date, sign, and return to us immediately upon your receipt of this circular.

ADDENDUM TO AVALAR FRANCHISE OFFERING CIRCULAR

1. The following provisions are applicable to franchises in the State of California:

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

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

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

OUR WEBSITE, www.aval.ar.biz, 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.

Our registered agent for service of process in California is California Commissioner of Corporations, 71 Stevenson Street, Suite 2100, San Francisco, California 94105.

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 OFFERING CIRCULAR.

IF *AVALAR* NETWORK, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT ANY OF ITS OFFICES.

Effective Date: The effective date of this circular in California is _____.

2. The following provisions are applicable to franchises in the state of Hawaii:

Our registered agent for service of process in Hawaii is Securities Commissioner of the State of Hawaii, Department of Commerce and Consumer Affairs, Business Registration Division, Securities Compliance Branch, 335 Merchant Street, Room 203, Honolulu, HI 96813.

Replace the fourth paragraph of the RECEIPT with the following:

IF *AVALAR* NETWORK, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE HAWAII DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, 335MERCHANT STREET, ROOM 203, HONOLULU, HAWAII 96813.

Effective Date: The effective date of this circular in Hawaii is _____.

3. The following provisions are applicable to franchises in the state of Illinois:

Our registered agent for service of process in Illinois is the Illinois Attorney General, 500 South Second Street, Springfield, Illinois 62706.

In item v. of the chart set forth in Item 17 of this circular, add the following: "but litigation must be in Illinois".

In item w. of the chart set forth in Item 17 of this circular, add the following: "Illinois law applies to the Franchise Agreement".

In items (2) and (3) of the RECEIPT, substitute the words "FOURTEEN CALENDAR" for the words "TEN BUSINESS" and replace the fourth paragraph with the following:

IF *AVALAR* NETWORK, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE ILLINOIS ATTORNEY GENERAL'S OFFICE, 500 SOUTH SECOND STREET, SPRINGFIELD, ILLINOIS 62706 WHICH ADMINISTERS AND ENFORCES THE ILLINOIS FRANCHISE DISCLOSURE ACT.

Add the following paragraph to the RECEIPT:

AVALAR NETWORK, INC. authorizes the Illinois Attorney General to receive service of process for AVALAR NETWORK, INC. in the state of Illinois.

Effective Date: The effective date of this circular in Illinois is _____

4. The following provisions are applicable to franchises in the state of Maryland:

Our agent for service of process in Maryland is the Maryland Securities Commissioner, 200 St. Paul Place, Baltimore, Maryland 21202-2020.

Item 17 provides that the franchise agreement will terminate upon a franchisee's filing for bankruptcy protection. Please note that this provision may not be enforceable under current U.S. bankruptcy laws (11 U.S.C.A. Sec. 101 et seq.).

Pursuant to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

The limitation of claims provisions shall not act to reduce the 3 year statute of limitations afforded a franchisee for bringing a claim arising under the Maryland Franchise Registration and Disclosure Law.

In that our Franchise Agreement requires a prospective franchisee to assent to a general release, estoppel or waiver of liability as a condition of purchasing a franchise, these representations are not intended to nor shall they act as a general release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

The franchise agreement requires the Franchisee to litigate in Nevada. However, the Franchisee may still file a civil suit in Maryland alleging a violation of the Maryland Franchise Law (COMAR 02.02.08L(3)).

The effective date of this circular in Maryland is: February 27, 2006.

5. The following provisions are applicable to franchises in the state of Michigan:

The state of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you.

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

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

The fact that there is a notice of this offering on file with the attorney general does not constitute approval, recommendation, or endorsement by the attorney general.

Any questions regarding this notice should be directed to: State of Michigan, Department of Attorney General, Consumer Protection Division, 670 Law Building, Lansing, Michigan 48913, telephone number (517) 373-7117.

Our agent for service of process in Michigan is the Corporations and Securities Bureau of the Michigan Department of Commerce, 525 W. Ottawa, P. O. Box 30004, Lansing, Michigan 48909.

Replace the fourth paragraph of the RECEIPT with the following:

IF *AVALAR* NETWORK, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO MICHIGAN DEPARTMENT OF ATTORNEY GENERAL, 670 LAW BUILDING, LANSING, MICHIGAN 48913.

Effective Date: The effective date of this circular in Michigan is _____

6. The following provisions are applicable to the franchises in the state of Minnesota:

Our registered agent for service of process in Minnesota is the Commissioner of Commerce Minnesota Department of Commerce 85 7th Place East, Suite 500 St. Paul, MN 55101.

In item c. of the chart set forth in Item 17 of this circular, delete "you must sign a general release releasing all claims against us".

In item m. of the chart set forth in Item 17 of this circular, delete "you must sign a general release of all claims against us".

In item v. of the chart set forth in Item 17 of this circular, add the following: "but litigation must be in Minnesota".

In item w. of the chart set forth in Item 17 of this circular, add the following: "Minnesota law applies to the Franchise Agreement."

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

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stats Sec. 80C.14, Subds. 3, 4, and 5 which 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 franchise agreement.

The franchisor will protect the franchisee's right to use the trademarks, service marks, trade names, logotypes or other commercial symbols and/or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

The effective date of this circular in Minnesota is: November 22, 2005.

7. The following provision is applicable to franchises in the state of Virginia:

Our agent for service of process in the state of Virginia is the Clerk of the State Corporation Commission, 1300 East Main Street, 1st Floor, Richmond, Virginia 23219.

The effective date of this circular in Virginia is: _____

8. The following provisions are applicable to franchises in the state of Washington:

To the extent required by a valid enforceable statute, all litigation and arbitration involving a franchise purchased in Washington must be conducted either in Washington, or in a place as mutually agreed upon at the time of the litigation or arbitration.

Any release or waiver of rights you are required to execute will not release any rights you may have under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the Franchise Agreement is in effect and where the parties are represented by independent counsel.

Provisions in the Franchise Agreement such as those that unreasonably restrict or limit the statute of limitations period for claims under the Washington Franchise Investment Protection Act, rights or remedies under the Act, such as a right to a jury trial, may not be enforceable under Washington law.

Transfer fees are collectible only to the extent that they reflect our reasonable estimated or actual costs in effecting the transfer.

RCW 19.100.180 may supersede the Franchise Agreement in the areas of termination and renewal of the franchise. There may also be court decisions that may supersede the Franchise Agreement concerning your relationship with us including the areas of termination and renewal of the franchise.

Our agent for service of process in Washington is the Washington Director of Financial Institutions, 150 Israel Rd SW, Tumwater Washington 98501.

IF *AVALAR* NETWORK, INC. DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE WASHINGTON DIRECTOR OF FINANCIAL INSTITUTIONS, 150 ISRAEL RD SW, TUMWATER, WASHINGTON 98501.

The effective date of this circular in Washington is December 2, 2005.

9. The following provisions are applicable to franchises in the state of Washington:

The effective date of this offering circular in Wisconsin is _____