



KIDS 'N' CLAY DEVELOPMENT, LLC

1824 5th Street
Berkeley, California 94710
866.KID.CLAY (866.543.2529)
www.kidsnclay.com

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 ALL OF YOUR 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

Date of Issuance: February 10, 2005

Updated: March 31, 2006



FRANCHISE OFFERING CIRCULAR

KIDS 'N' CLAY DEVELOPMENT, LLC

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Berkeley, California 94710
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The franchise offered is for the operation of a ceramic arts studio, from which you will teach ceramic arts techniques, such as hand building, wheel throwing, sculpting, glazing and finishing, to children from preschool age through high school. The initial franchise fee for a KIDS 'N' CLAY Pottery Studio is \$30,000. The estimated initial investment, including the franchise fee, ranges from \$70,100 to \$117,000.

RISK FACTORS:

1. THE FRANCHISE AGREEMENT REQUIRES THAT MOST DISPUTES BE SUBMITTED TO ARBITRATION OR LITIGATION IN ALAMEDA COUNTY, CALIFORNIA. OUT OF STATE ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE OR LITIGATE WITH US IN CALIFORNIA THAN IN YOUR HOME STATE.

2. THE FRANCHISE AGREEMENT STATES THAT CALIFORNIA LAW GOVERNS THE AGREEMENT, AND CALIFORNIA LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS YOUR STATE'S LAW. YOU MAY WANT TO COMPARE THESE LAWS. SOME STATE FRANCHISE LAWS PROVIDE THAT CHOICE OF LAW PROVISIONS ARE VOID OR SUPERSEDED. YOU MIGHT WANT TO INVESTIGATE WHETHER ANY STATE FRANCHISE LAWS PROTECT YOU. YOU SHOULD REVIEW THE STATE-SPECIFIC ADDENDA ATTACHED TO THIS OFFERING CIRCULAR AND FRANCHISE AGREEMENT FOR STATE-SPECIFIC PROVISIONS.

3. THE FRANCHISOR RECENTLY BEGAN OFFERING FRANCHISES AND HAS NO HISTORY OF FRANCHISE OPERATIONS. YOU MAY WANT TO CONSIDER THIS IN DECIDING WHETHER TO PURCHASE A FRANCHISE.

4. MATERIALS USED IN CERAMICS CAN RESULT IN THE CREATION OF CLAY DUST (WHICH CONTAINS SILICA) AND KILN EMISSIONS. IF THE PRESCRIBED CLEANING AND MAINTENANCE PROCEDURES ARE NOT FOLLOWED, EXCESSIVE DUST COULD RESULT IN A CONDITION THAT SOME CONSIDER HAZARDOUS. IF THE KILNS ARE IMPROPERLY VENTED, HAZARDOUS FUMES MAY ACCUMULATE, PRESENTING AN UNHEALTHY ENVIRONMENT. OTHER POTENTIAL HAZARDS INCLUDE SMOKE INHALATION FROM IMPROPERLY MANAGED FIRING TECHNIQUES, ALLERGIES TO CLAY BODIES, SKIN IRRITATION FROM PROLONGED CONTACT WITH EARTH-BASED MATERIALS AND WET WORKING CONDITIONS, AND INJURY FROM EXPOSURE TO AND CONTACT WITH HIGH-TEMPERATURE FIRING KILNS AND MECHANICAL EQUIPMENT (E.G., ELECTRIC MOTOR-DRIVEN POTTERY WHEELS AND OTHER MOVING PARTS, AND TOOLS AND IMPLEMENTS). YOU SHOULD BE AWARE OF THE RISKS. AS PART OF THE PRESCRIBED OPERATIONAL INSTRUCTIONS, YOU WILL TAKE THE APPROPRIATE STEPS TO PROTECT YOURSELF, AND YOUR EMPLOYEES, STUDENTS AND CLIENTS FROM THESE HAZARDS. IF A HAZARDOUS ENVIRONMENT EXISTS IN YOUR STUDIO, DUE TO IMPROPER MAINTENANCE OR SAFETY PROCEDURES, PERSONS ADVERSELY AFFECTED MAY ATTEMPT TO HOLD YOU LIABLE FOR THEIR INJURIES.

5. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing Kids 'N' Clay Development, LLC with other franchisors is available. Call the state administrators listed in Exhibit A or your public library for sources of information.

Registration of this franchise with the 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 state administrators listed in Exhibit A.

The Effective Date for this Franchise Offering Circular is February 5, 2005 or as listed in Exhibit H for your state.

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ITEM 1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATE

The Franchisor

To simplify the language in this Offering Circular, the words “we,” “our” and “us” refer to KIDS ‘N’ CLAY DEVELOPMENT, LLC, the franchisor of this business. “You” and “your” refer to the person who buys the franchise, whether you are a corporation, limited liability company or other business entity. If you are a corporation, limited liability company or other business entity, certain provisions of this Offering Circular also apply to your owners and will be noted.

We are a California limited liability company formed on August 11, 2004 for the sole purpose of offering KIDS ‘N’ CLAY franchises. Our principal business address is 1824 5th Street, Berkeley, California 94710. We do business under our corporate name and the name “KIDS ‘N’ CLAY.” The registered agents authorized to receive service of process are located in Exhibit B to this Offering Circular. We have offered franchises since the effective date of this Offering Circular. We have not previously offered franchises in this or in any other line of business.

Our Business Activities

We grant franchises to qualified persons or business entities in conjunction with the service mark “KIDS ‘N’ CLAY” and certain associated logos (collectively referred to as the “Marks”).* We refer to these businesses as “KIDS ‘N’ CLAY Pottery Studios.” We refer to the KIDS ‘N’ CLAY Pottery Studio you will operate as the “Franchised Business.”

The primary function of KIDS ‘N’ CLAY Pottery Studios is to teach school-age children the ceramic arts, including techniques such as hand building, wheel throwing, sculpting, glazing and finishing. With our approval, KIDS ‘N’ CLAY Pottery Studios may also be expanded to include one or more related concepts. The expanded services include: (a) a paint-your-own-ceramics department in which customers paint and decorate a variety of pre-made bisque ware; (b) preschool and K-12 outreach programs offered through schools as a replacement program for art classes no longer offered by the school due to funding issues; (c) adult classes offered during the studio’s unused hours, such as during the evening or when kids are in school; (d) the Mudpies program offered to and specially designed for preschool-aged children and their parents; and (e) home-school classes offered to home schoolers looking for enhancement programs for their children. Although you are not required to offer any of these expanded services, we encourage you to consider offering one or more of them. KIDS ‘N’ CLAY’s ceramic arts instruction is usually offered though a multiple-session program, but it (and the paint-your-own-ceramics department, if offered) may also be offered as one-time events in connection with birthday parties, corporate events and other group outings in connection with senior citizen outreach programs, or in connection with summer, winter and spring school holiday camps, among other things.

A KIDS ‘N’ CLAY Pottery Studio typically requires 800 to 1,800 square feet of space and may be located in a light industrial office center, a strip center, or some other commercial or retail area suitable for the Franchised Business. You must operate your Franchised Business in accordance with our standards, methods, procedures and specifications, which we refer to as our “System” and which is more particularly described in our Franchise Agreement attached as Exhibit C to this Offering Circular. We are not engaged in any other line of business. We do not own or operate a business of the type being franchised, although our Creative Director, Kevin Nierman, and our President, David Larson, together operate the original KIDS ‘N’ CLAY Pottery Studio in Berkeley, California.

* Capitalized terms not otherwise defined have the same meaning as in our Franchise Agreement attached as Exhibit C to this Offering Circular.

Our Predecessors and Affiliate

We have no predecessors or affiliates.

General Description of the Market and Competition

Our core concept is targeted to school-age children and their parents. We are one of a rapidly growing number of businesses offering specialized instruction or developmental services for children. As a franchisee, you will compete for parents' disposable income with other child-focused businesses offering instruction in a variety of areas, such as art, science, technology, cooking and athletics. Your competition may be local, independent businesses or may be part of a regional or national chain or franchise. You may also encounter competition from other KIDS 'N' CLAY Pottery Studios operated by us or other franchisees. Competition may increase due to fluctuations in the tastes and habits of the public, local and national economic conditions, population density and general traffic conditions; these factors are generally difficult to predict and, therefore, so is the level of future competition you may face.

Regulations Specific to the Industry

While we are not aware of any regulations specifically enacted in connection with ceramics studios, you should be aware that the federal government and most states have enacted laws and regulations dealing with matters of employee health and safety. You should investigate whether any health or safety law applies to you or your Franchised Business, including any that might regulate exposure to, safety requirements for or remediation for known hazards associated with the ceramic arts, such as clay and glaze dust containing silica or toxic kiln emissions. Additionally, most states and local jurisdictions have enacted laws, rules, regulations and ordinances which may apply to the operation of your Franchised Business, including those which: (a) establish general standards, specifications and requirements for the construction, design and maintenance of the premises; (b) regulate matters affecting the health, safety and welfare of your students and clients, such as general health and sanitation requirements, restrictions on smoking, and availability of and requirements for public accommodations, including restrooms; (c) set standards and requirements for fire safety and general emergency preparedness; and (d) regulate the proper use, storage and disposal of waste. You should investigate whether there are regulations and requirements that may apply in the geographic area in which you are interested in locating a KIDS 'N' CLAY Pottery Studio and you should consider both their effect and cost of compliance.

ITEM 2. BUSINESS EXPERIENCE

President and Chief Operating Officer: David R. Larson

Mr. Larson is our President and CEO and has been since the formation of Kids 'N' Clay Development LLC on August 11, 2004. He has also been a consultant with respect to marketing and operations matters to the original KIDS 'N' CLAY Pottery Studio in Berkeley, California, since 1997. Mr. Larson has served in a variety of senior (executive) sales, operations and marketing positions in small business, start-up and large multi-national business environments since 1976. Those companies include XEROX, Businessland, Notable Technologies, Claris (Apple) and Automatic Data Processing (ADP).

Vice President & Creative Director: Kevin B. Nierman

Mr. Nierman is our Vice President and Creative Director and has been since the formation of Kids 'N' Clay Development LLC on August 11, 2004. In addition, Mr. Nierman is the Creative Director for the original KIDS 'N' CLAY Pottery Studio in Berkeley, California, which he founded in June 1988 and operated ever since.

ITEM 3. LITIGATION

No litigation is required to be disclosed in this Offering Circular.

ITEM 4. BANKRUPTCY

No person previously identified in ITEMS 1 or 2 of this Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this ITEM.

ITEM 5. INITIAL FRANCHISE FEE

You must pay an initial “Franchise Fee” of \$30,000. The Franchise Fee is paid to us in a lump sum when you sign the Franchise Agreement and is nonrefundable except as described below. The Franchise Fee is payment, in part, for expenses incurred by us in furnishing assistance and services to you as set forth in the Franchise Agreement and for costs incurred by us, including general sales and marketing expenses, training, legal, accounting and other professional fees. We may reduce the Franchise Fee to \$24,000 for our first 5 franchisees. If you and we agree that you will open any additional KIDS ‘N’ CLAY Pottery Studios, we will reduce the Franchise Fee to \$24,000. Additionally, we will reduce the Franchise Fee to \$21,000 for our employees with at least two-years’ seniority. Otherwise, the Franchise Fee is uniform for all franchisees.

We will refund 50% of the Franchise Fee if we, in our discretion, determine that you are unable to satisfactorily complete the training program described in ITEM 11 of this Offering Circular and if we terminate the Franchise Agreement as a result of making that determination.

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ITEM 6. OTHER FEES

Below is a detailed description of other recurring or isolated fees or payments that you must pay to us or that we impose or collect for a third party under the terms of the Franchise Agreement.

Name of Fee	Amount	Due Date	Remarks
Royalty Fee	7% of Gross Sales	Bi-Monthly	See definition of Gross Sales. ¹ (Section 3.2) *
Marketing Fund Contribution	Up to 2% of Gross Sales	Bi-Monthly	No fee is currently assessed but we reserve the right to charge one. (Sections 3.3 and 11.3) We may require Marketing Fund Contributions to be used in cooperative advertising. (Section 11.4)
Local Advertising	At least 2% of Gross Sales	Monthly	You pay directly subject to our approval. (Section 11.2) We may require Local Advertising expenditures to be used in cooperative advertising. (Section 11.4)
Telephone Directory Advertising	Varies according to area and type of listing	As invoiced	You are required to list and advertise in the "white pages" and "yellow pages" of your local telephone directory. (Section 11.6)
Audit Expenses	All costs and expenses associated with audit	Upon demand	Audit costs payable only if the audit shows an understatement in amounts due of at least 3%. (Section 12.6)
Late Fees	18% per year or the highest rate allowed by law, whichever is less	Upon demand	Applies to all overdue Royalty Fees, Marketing Fund Contributions and other amounts due to us. (Section 3.6) Also applies to any understatement in amounts due revealed by an audit. (Section 12.6)
Approval of Products or Suppliers	All reasonable costs of evaluation	Time of evaluation	Applies to new suppliers you wish to purchase from or products you wish to purchase that we have not previously approved. (Section 13.1)
Insurance Policies	Amount of unpaid premiums plus our reasonable expenses in obtaining the policies	Upon demand	Payable only if you fail to maintain required insurance coverage and we elect to obtain coverage for you. (Section 15.5)
Transfer Fee	\$15,000	At the time of transfer	Does not apply to an assignment under Section 18.3 of the Franchise Agreement. (Section 18.2.8)
System Modifications	Not to exceed \$10,000, subject to adjustments based on Consumer Price Index	As required	If we decide to modify the System by requiring new equipment, fixtures, software, trademarks, etc., you must make the modifications at your expense. (Section 10.2)
Relocation Assistance	Costs of providing relocation assistance	Time of assistance	We will charge you for relocation assistance if you request it and we agree to provide it. (Section 5.6)
Customer Service	All costs incurred in assisting your clients	Upon demand	You must reimburse us if we determine it is necessary for us to provide service directly your clients. (Section 13.7)

* All citations of Section numbers throughout this Offering Circular refer to the Franchise Agreement attached as Exhibit C.

Name of Fee	Amount	Due Date	Remarks
Ongoing Training Programs	You are required to pay your expenses as well as employees' expenses in attending	Time of program	No tuition or training fees are assessed; attendance will not be required more than 2 times per year and collectively will not exceed 4 days in any year. (Section 8.5)
Additional Training	Market rates; currently, \$550 per day, plus our expenses and your expenses as well as your employees' expenses in attending	Time of service	We provide approximately 2 weeks of training for you and one additional person. You pay for additional training if you request it. (Section 8.1)
Additional Operations Assistance	Market rates; currently, \$850 per day, plus our expenses	Time of assistance	We provide approximately 5 days of assistance around the beginning of operations. You pay for additional assistance if you request it. (Section 8.2)
Cost of Enforcement	All costs including attorneys' fees	Upon demand	You must reimburse us for all costs in enforcing obligations if we prevail. (Section 22.4)
Indemnification	All costs including attorneys' fees	Upon demand	You must defend lawsuits at your cost and hold us harmless against lawsuits arising from your operation of the Franchised Business. (Section 21.2)

No other fees or payments are to be paid to us, nor do we impose or collect any other fees or payments for any other third party. All fees are generally nonrefundable.

NOTES

¹“Gross Sales” means the aggregate of all revenue from the sale of products and services from all sources in connection with the Franchised Business whether or not you collect it and whether for check, cash, credit or otherwise, including all proceeds from any business interruption insurance, but excluding all refunds made in good faith, any sales and equivalent taxes that you collect and pay to any governmental taxing authority, and the value of any allowance issued or granted to any client or student, or parent of a student, that you credit in full or partial satisfaction of the price of any products and services offered by the Franchised Business. (Section 1)

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ITEM 7. INITIAL INVESTMENT

We anticipate that you will incur the following estimated initial expenditures in the establishment of the Franchised Business.

Names of Expenditures	Actual or Estimated Amounts For You	Method of Payment	When Due	To Whom Payment Is To Be Made
Franchise Fee ¹	\$ 30,000	Cashier's Check	Upon Signing Franchise Agreement	Us
Real Estate/Rent ²	400 - 4,800	As Arranged	Before Beginning Operations	Lessor
Utility Deposits ³	0 - 300	As Arranged	Before Beginning Operations	Utilities
Leasehold Improvements ⁴	1,000 - 16,000	As Arranged	Before Beginning Operations	Third Parties
Furniture, Fixtures & Equipment ⁵	16,000 - 20,000	As Arranged	Before Beginning Operations	Approved Suppliers
Initial Inventory ⁶	1,800 - 2,400	As Arranged	Upon Our Approval of Site	Approved Suppliers
Insurance ⁷	1,000 - 2,500	As Arranged	Before Beginning Operations	Third Parties
Office Equipment and Supplies ⁸	2,500 - 3,000	As Arranged	Before Beginning Operations	Approved Suppliers
Training ⁹	2,500 - 8,000	As Arranged	Before Beginning Business	Third Parties
Signage ¹⁰	200 - 2,000	As Arranged	Before Beginning Business	Third Parties
Grand Opening ¹¹	2,500 - 4,000	As Arranged	First 3 Months of Operation	Third Parties
Licenses & Permits ¹²	200 - 500	As Arranged	Before Beginning Business	Licensing Authorities
Legal & Accounting ¹³	2,000 - 3,500	As Arranged	Before Beginning Business	Attorney, Accountant
Additional Funds ¹⁴ (3 months)	10,000 - 20,000	As Arranged	As Necessary	You Determine
TOTAL¹⁵	\$ 70,100 - \$ 117,000			

NOTES

¹ Franchise Fee. The Franchise Fee is described in greater detail in ITEM 5 of this Offering Circular.

² Real Estate. You must lease or otherwise provide a suitable facility for the operation of the Franchised Business. Typically, a KIDS 'N' CLAY Pottery Studio will be located in a light industrial office center, a strip center, or some other suitable commercial or retail area and will range in size from 800 to 1,800 square feet. It is difficult to estimate lease expenses because of the wide variation in these costs between various locations. Lease expenses will vary based upon square footage, cost per square foot and required maintenance costs. We assume you will have to pay the first month's rent and a security deposit equal to one month's rent in advance. Rent you pay is typically not refundable, but in certain circumstances the security deposit may be.

³ Utility Deposits. If you are a new customer of your local utilities, you will generally have to pay deposits in connection with services such as electric, telephone, gas and water. The amount of deposit will vary depending upon the policies of the local utilities.

⁴ Leasehold Improvements. To convert an existing facility into a KIDS 'N' CLAY Pottery Studio, the facility must be renovated according to our standards and specifications. The cost of the leasehold improvements will vary depending upon the size and location of the Franchised Business, local wage rates and material costs. The low estimate assumes that your landlord will provide a partial build-out allowance.

⁵ Furniture, Fixtures & Equipment. You will be required to purchase and install equipment, fixtures, furniture and items of décor necessary to outfit and operate your Franchised Business according to our specifications, including tables, benches, vacuums, pottery wheels, tools and a kiln. The cost of the furniture, fixtures and equipment will vary according to local market conditions, the size of the Franchised Business, additional services you offer (such as paint-your-own pottery) competition among suppliers and other related factors.

⁶ Initial Inventory. You will be required to purchase an initial supply of clay, glazes, bisque ware and other products and supplies needed for the operation of the Franchised Business. These costs will vary based upon the size and location of the Franchised Business, additional services offered, competition among suppliers and other related factors.

⁷ Insurance. Requirements are described in greater detail in Section 15 of the Franchise Agreement. Factors that may affect your cost of insurance include the size and location of the Franchised Business, value of the leasehold improvements, amount of inventory, number of employees and other factors.

⁸ Office Equipment and Supplies. You must purchase general office supplies and typical office equipment, including a personal computer, software and a printer. Factors that may affect your cost of office equipment and supplies include local market conditions, competition among suppliers and other factors.

⁹ Training. The cost of initial training is included in the Franchise Fee, but you are responsible for transportation and expenses for meals and lodging while attending training. The total cost will vary depending on the number of people attending, how far you travel and the type of accommodations you choose.

¹⁰ Signage. This range includes the cost of all signage used in the Franchised Business. The signage requirements and costs will vary based upon the size and location of the Franchised Business, local zoning requirements and local wage rates for installation, among other things.

¹¹ Grand Opening. You must spend a minimum of \$2,500 on Grand Opening Advertising during the first 3 months of operation. You may choose to spend more. See ITEM 11. Factors that may affect the actual amount you spend include the type of media used, the size of the area you advertise to, local media cost, location of the Franchised Business, time of year and the demographics of the surrounding area.

¹² Licenses & Permits. Local government agencies typically charge fees for occupancy permits, operating licenses and sales tax licenses, among other things. Your actual costs may vary based on the requirements of local government agencies.

¹³ Legal & Accounting. You will need to employ an attorney, an accountant and other consultants to assist you in establishing your Franchised Business. These fees may vary from location to location depending upon the rates of local attorneys, accountants and consultants.

¹⁴ Additional Funds. We recommend that you have a minimum amount of money available to cover operating expenses, including employees' salaries, for the first 3 months that the Franchised Business is open. However, we cannot guarantee that our recommendation will be sufficient. Additional working capital may be required if sales are low or operating costs are high.

¹⁵ Total. In compiling this chart, we relied on our Creative Director's industry experience and over 16 years of experience in operating a KIDS 'N' CLAY Pottery Studio. The amounts shown are estimates only and may vary for many reasons including the size of your Franchised Business, the capabilities of your management team, where you locate your Franchised Business and your business experience and acumen. You should review these estimates carefully with an accountant or other business advisor before making any decision to buy a franchise. These figures are estimates only and we cannot guarantee that you will not have additional expenses in starting the Franchised Business.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Except as indicated below, you are not required to purchase or lease products or services from us or an affiliate or from suppliers approved by us or under our specifications.

Approved Suppliers/Standards and Specifications

You must remodel, furnish and equip the Franchised Business according to our standards and specifications. All equipment, fixtures, furniture, insurance, inventory, decorations, signs and other products or materials for use or sale in your Franchised Business must meet our specifications and quality standards and, if required by us, shall be purchased only from an Approved Supplier, which may be us or an affiliate. We or our affiliates are not currently approved suppliers. We will provide, in the Manual or by other written or electronic form, a list of items you will need to purchase for use in or sale from your Franchised Business and, if required, a list of Approved Suppliers for some or all of these items, and from time to time we may revise this list. Our specifications may include minimum standards for performance, design, appearance and quality. We formulate and modify our specifications and standards for products and services based upon our and our Creative Director's industry knowledge and our Creative Director's experience in operating a KIDS 'N' CLAY Pottery Studio since 1988.

If you would like to use any item or service in establishing or operating the Franchised Business that we have not approved (for items or services that require supplier approval), you must first send us sufficient information, specifications and/or samples for us to determine whether the item or service complies with our standards and specifications or the supplier meets our Approved Supplier criteria. We may charge a reasonable fee to you or the prospective supplier in connection with determining whether we will approve an item, service or supplier. We will decide within a reasonable time (usually, 30 days) after receiving the required information

whether you may purchase or lease such items or services or from such supplier. We apply the following and other general criteria in approving a proposed supplier or product: the marketability of the product to our students and clients; the ability to provide sufficient quantity of product; quality of products and/or services at competitive prices; production and delivery capability; and dependability and general reputation of the supplier.

From time to time, we may review our approval of any item, service or supplier. We will notify you in writing if we revoke our approval of an item, service or supplier, and you must immediately stop purchasing disapproved items or services, or must immediately stop purchasing from a disapproved supplier.

Currently, neither we nor our Affiliate derive revenue based on your required purchases or leases.

Computer System

You are required to purchase and use the computer hardware and software described in ITEM 11 of this Offering Circular. We do not receive any discounts, rebates or other benefits as a result of your purchase of the computer and point-of-sale system.

Insurance

You must purchase and maintain in effect during the term of the Franchise Agreement the type and amount of insurance specified in Section 15 of the Franchise Agreement in addition to any other insurance that may be required by applicable law, any lender or lessor. Your insurance policies must name us as an additional insured and/or loss payee. We do not receive any discounts, rebates or other benefits as a result of your purchase of insurance.

Miscellaneous

We may negotiate group rates, including price terms, for purchases of equipment and supplies necessary for the operation of the Franchised Business. Presently, there are no such purchase or supply agreements in effect and no purchasing or distribution cooperatives that you must join. Currently, we receive no revenue or other material consideration from third-party suppliers as a result of purchases made by you or any other franchisee. However, we may receive volume rebates, markups and other benefits from suppliers in the future.

We estimate that approximately 65% to 75% of your expenditures for leases and purchases in establishing your Franchised Business will be for goods and services that must be purchased either from us, an affiliate or an Approved Supplier, or in accordance with our standards and specifications. We estimate that approximately 25% to 35% of your expenditures on an ongoing basis will be for goods and services that must be purchased from either us, an affiliate, an Approved Supplier or in accordance with our standards and specifications.

We do not provide or withhold material benefits to you (such as renewal rights or the right to open additional KIDS 'N' CLAY Pottery Studios) based on whether you purchase through the sources we designate or approve; however, purchases of unapproved products or purchases from unapproved suppliers in violation of the Franchise Agreement will entitle us, among other things, to terminate the Franchise Agreement.

ITEM 9. FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the Franchise Agreement and other agreements. It will help you find more detailed information about your obligations in these agreements and in other ITEMS of this Offering Circular.

Obligation		Section In The Franchise Agreement	ITEM In the Offering Circular
a.	Site selection and acquisition/lease	Sections 2 and 5	ITEMS 11 and 12
b.	Pre-opening purchases/leases	Sections 5, 12 and 15	ITEMS 7 and 8
c.	Site development and other pre-opening requirements	Sections 5 and 8	ITEMS 7, 8 and 11
d.	Initial and ongoing training	Section 8	ITEMS 6, 7 and 11
e.	Opening	Sections 5, 8, and 11	ITEMS 7 and 11
f.	Fees	Sections 3, 5, 8, 10, 11, 12, 13, 15, 18, 21 and 22	ITEMS 5, 6 and 7
g.	Compliance with standards and policies/Operating Manual	Sections 5, 6, 7, 9, 10, 11 and 13	ITEMS 8 and 16
h.	Trademarks and proprietary information	Sections 6, 7 and 9	ITEMS 13 and 14
i.	Restrictions on products/services offered	Sections 5, 6, 7 and 13	ITEMS 8 and 16
j.	Warranty and customer service requirements	Section 13	ITEM 16
k.	Territorial development and sales quotas	None	ITEM 12
l.	Ongoing product/service purchases	Section 13	ITEM 8
m.	Maintenance, appearance and remodeling requirements	Sections 5, 10 and 13	ITEM 6
n.	Insurance	Section 15	ITEMS 6, 7 and 8
o.	Advertising	Section 11	ITEMS 6 and 11
p.	Indemnification	Section 21	ITEM 6
q.	Owner's participation/management/staffing	Section 13	ITEM 15
r.	Records and reports	Sections 3 and 12	ITEM 11
s.	Inspections and audits	Sections 6 and 12	ITEMS 6, 11 and 13
t.	Transfer	Section 18	ITEM 17

Obligation		Section In The Franchise Agreement	ITEM In the Offering Circular
u.	Renewal	Section 4	ITEM 17
v.	Post-termination obligations	Section 17	ITEM 17
w.	Non-competition covenants	Sections 7 and 17	ITEM 17
x.	Dispute resolution	Section 23	ITEM 17

ITEM 10. FINANCING

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

ITEM 11. FRANCHISOR'S OBLIGATIONS

Except as listed below, we need not provide any assistance to you under the Franchise Agreement.

A. Before The Franchised Business Opens

Before you open your Franchised Business, we will:

1. designate your Protected Territory, as further described in ITEM 12. (Section 2.5)
2. if we have not already approved a site that you have selected before signing the Franchise Agreement, designate the area within which you will locate the Franchised Business, provide you with our criteria for site selection and approve the site you have selected for the location of the Franchised Business. (Sections 2.3 and 5.1)

Neither we nor any of our employees have special expertise in selecting sites; we make no representations that your Franchised Business will be profitable or successful by being located at the Approved Location. Any approval is intended only to indicate that the proposed site meets our minimum criteria based upon our general business experience.

3. review and approve your lease or purchase agreement for the site for the Approved Location. (Section 5.2)

Our review of your lease or purchase agreement and any advice or recommendations we may offer is not a representation or guarantee by us that you will succeed at the leased or purchased premises.

4. provide you with a copy of standard plans and specifications for the build-out of the Franchised Business and list of required equipment and improvements that you are required to purchase and install. (Section 5.3)

5. provide an initial training program lasting approximately 2 weeks. This training is described in detail later in this ITEM. (Section 8.1)

6. provide to you on-site assistance and guidance for approximately 5 days to assist you with any questions you may have in operating the Franchised Business. (Section 8.2)

7. provide to you, on loan, one copy of the KIDS 'N' CLAY Operations Manual containing 425 pages. The Table of Contents of the Operations Manual, along with number of pages devoted to each section, is included as Exhibit D to this Offering Circular. (Section 9.1)

B. Other Assistance During the Operation of The Franchised Business

After the opening of the Franchised Business, we will:

1. from time to time, advise and offer general guidance to you by telephone, e-mail, facsimile, newsletters and other methods. Our guidance is based on our and our franchisees' experience in operating KIDS 'N' CLAY Pottery Studios. Our advice and guidance may consist of knowledge and experience relating to the authorized services or products, as well as operational methods, accounting procedures, and marketing and sales strategies. (Section 14.1)

2. at our discretion, make periodic visits to the Franchised Business for the purposes of consultation, assistance and guidance in various aspects of the operation and management of the Franchised Business. We may prepare written reports outlining any suggested changes or improvements in the operations of the Franchised Business and detail any deficiencies that become evident as a result of any such visit. If we prepare a report, you may request a copy from us. (Section 14.2)

3. make available to you operations assistance and ongoing training as we deem necessary. (Sections 8.2 and 8.5)

4. make available to you changes and additions to the System as generally made available to all franchisees. (Section 14.3)

5. periodically provide advertising and promotional materials including ad-slicks, brochures, fliers and other materials for your use. (Section 14.4)

6. approve forms of advertising, marketing, media and promotional materials you will use for public relations, Local Advertising, Grand Opening Advertising and Cooperative Advertising. (Section 11)

7. provide you with modifications to the Manual as they are made available to franchisees. (Section 9.2)

C. Advertising and Promotion

1. Each month, you must spend at least 2% of your Gross Sales on advertising, promotions and public relations in the local area surrounding the Franchised Business. You will pay for your ads, yellow pages advertising and promotions directly, but we will provide you with general marketing guidelines and we will review and approve your advertisements and press releases. (Section 11.2) you must receive our prior written consent to advertise on the Internet.

2. We may develop a System-wide Marketing Fund, and if we do, you will be required to contribute up to 2% of your Gross Sales to the fund. (Section 11.3) We will set the exact percentage that you must contribute and we may adjust the percentage from time to time. We will administer the Marketing Fund as follows:

(a) We will control the creative concepts and the materials and media to be used, and we will determine the placement and allocation of advertisements. We may use print, television, radio, Internet or other media for advertisements and promotions. We do not guarantee that any particular franchisee will benefit directly or in proportion to their contribution from the placement of advertising by the Marketing Fund.

(b) We may use your contributions to meet any cost of producing, maintaining, administering and directing consumer advertising (including the cost of preparing and conducting television, radio, Internet, magazine, direct mail and newspaper advertising campaigns and other public relations activities; developing and/or hosting an Internet web page of similar activities; employing advertising agencies to assist therein; providing promotional brochures; conducting market research; and providing other marketing materials to franchisees). We initially plan to conduct all advertising in-house, but we may use a national or regional advertising agency in the future. We will maintain your contributions in a separate account from our funds and we will not use them for any of our general operating expenses, except for our reasonable administrative costs and overhead related to the administration of the Marketing Fund. We will not use Marketing Fund Contributions for the direct solicitation of franchise sales.

(c) We expect to use all contributions in the fiscal year they are made. We will use any interest or other earnings of the Marketing Fund before using current contributions. We intend for the Marketing Fund to be perpetual, but we have the right to terminate it if necessary. We will not terminate the Marketing Fund until all contributions and earnings have been used for advertising and promotional purposes or have been returned to our franchisees on a *pro rata* basis.

(d) The original KIDS 'N' CLAY Pottery Studio in Berkeley, California, and any KIDS 'N' CLAY Pottery Studios owned by us will make similar contributions to the Marketing Fund as required of franchisees.

(e) We will have an accounting of the Marketing Fund prepared each year and we will provide you with a copy if you request it. We may require that the annual accounting be audited by an independent certified public accountant at the expense of the Marketing Fund.

(f) The Marketing Fund is not a trust and we assume no fiduciary duty in administering the Marketing Fund.

3. Although we are not obligated to do so, we may create a Cooperative Advertising program for the benefit of all KIDS 'N' CLAY Pottery Studios located within a particular region. We have the right to: (a) allocate any portion of the Marketing Fund to a Cooperative Advertising program; and (b) collect and designate all or a portion of the Local Advertising for a Cooperative Advertising program. We will determine the geographic territory and market areas for each Cooperative Advertising program. You must participate in any Cooperative Advertising program established in your region. If a Cooperative Advertising program is implemented in a particular region, we may establish an advertising council for franchisees in that region to self-administer the program. (Section 11.4)

4. During your first 3 months of operation, you must spend at least \$2,500 on Grand Opening Advertising, including print or news media and/or direct mail advertising, dues for business organizations, event dues or other solicitation and promotional efforts. We will provide you with guidance for conducting Grand

Opening Advertising, and we will review and approve the materials you use in your Grand Opening Advertising. (Section 11.1)

5. You must list the telephone number for the Franchised Business in your local telephone directory and advertise your Franchised Business in the “yellow pages” category that we specify. You must place the listings together with other KIDS ‘N’ CLAY Pottery Studios operating within the distribution area of the directories. (Section 11.6)

D. Computer System

We have the right, under the Franchise Agreement, to require you to purchase and use any and all hardware and computer software programs that we may designate. (Section 12.5) We do not specify any particular brand or configuration of computer equipment, but we do require you to use a Windows-based PC system capable of running the following software: Microsoft Office (or equivalent) for word processing, spreadsheets, and general office tasks, Filemaker Pro (or equivalent) for database creation or maintenance and information management, and Intuit Quicken (or equivalent) for accounting and record keeping.

We may require you to update, modify or replace your system during the term of the franchise. (Section 10.2)

You are not required to enter into any ongoing maintenance or support agreements but you may find it advantageous to do so. You must update or upgrade computer hardware and software as we deem necessary but not more than one time per year.

We have the right to independently access all information you collect or compile at any time without first notifying you. (Section 12.5)

E. Methods Used to Select the Location of the Franchised Business

If you have a potential site for the Franchised Business, you may propose the location for our consideration. We may consent to the site after we have evaluated it. If you do not have a proposed site, we will designate a geographic area within which you must locate the Franchised Business and we will furnish you with our general site selection criteria. You are solely responsible for locating and obtaining a site that meets our standards and criteria and that is acceptable to us. (Sections 2.3 and 5.1)

The general site selection and evaluation criteria which we consider in approving your site includes the condition of the premises, demographics of the surrounding area, proximity to other KIDS ‘N’ CLAY Pottery Studios, lease requirements, available parking or drop-off/pick-up areas and overall suitability. We will provide you with written notice of our approval or disapproval of any proposed site within a reasonable time after receiving all requested information. If you and we cannot agree on a suitable site for the Franchised Business, we may terminate the Franchise Agreement.

F. Typical Length of Time Before Operation

We estimate that the typical length of time between the signing of the Franchise Agreement and the opening of a KIDS ‘N’ CLAY Pottery Studio is 4 months. Factors that may affect your beginning operations include ability to secure permits, zoning and local ordinances, weather conditions and delays in installation of equipment and fixtures. You are required to open your Franchised Business and be operational within 6 months after signing the Franchise Agreement. (Section 5.4)

G. Training

We will conduct an initial training program that the Designated Manager (which is you, if you are not a corporation or other business entity) must attend and complete to our satisfaction. Although initial training is mandatory for the Designated Manager, it is also available for one additional assistant. Training will take place at our facility in Berkeley, California, or at another location we designate, on an as needed basis as we may determine. The initial training program consists of approximately 2 weeks of training. Initial training covers all material aspects of the operation of a KIDS 'N' CLAY Pottery Studio, including such topics as teaching in the studio; sales and marketing methods; financial controls; maintenance of quality standards; customer service techniques, record keeping and reporting procedures, other operational issues and on-the-job training. If you replace your Designated Manager, your new Designated Manager must attend our training program. Although we do not charge for initial training, you will be charged fees for additional training of a new Designated Manager. You are required to pay your expenses as well as employees' expenses in attending this initial training program. You are responsible for training your own employees and other management personnel. This initial training is in addition to the 5 days of on-site opening assistance we provide to you. (Section 8)

SUBJECT	INSTRUCTIONAL MATERIAL	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	INSTRUCTOR
Marketing and Promotion	Manual/reference materials	10		David Larson
Business Operations & Systems	Manual/sample documents	20		David Larson, Kids 'N' Clay Administrative Staff
Personnel Management	Manual	5		Kevin Nierman, David Larson
In-studio (hands-on training)	Hands-on and Instructional DVD		25	Kevin Nierman & KNC Instructors
Skills training	Hands-on and Instructional DVD		35	Kevin Nierman, KNC Instructors & Master Potters

Kevin Nierman, David Larson, Kids 'N' Clay instructors and operational staff and (at times) visiting master potters will provide training. Mr. Nierman & Mr. Larson's qualifications are as disclosed in ITEM 2 of this Offering Circular.

From time to time we may require that previously trained and experienced franchisees, their managers, and/or employees attend refresher-training programs to be conducted at our headquarters. Attendance at these programs will be at your sole expense; however, we will not require you to attend more than 2 of these programs in any calendar year and these programs will not collectively exceed 4 days during any calendar year. (Section 8.5)

ITEM 12. TERRITORY

You must operate the Franchised Business only from the Approved Location listed in Section 2.2 of the Franchise Agreement. If the Approved Location has not already been determined when you sign the Franchise Agreement, you and we will agree upon a Designated Area within which you will locate the Franchised Business. Although we may assist you in selecting a location, you are solely responsible for selecting the Approved Location and negotiating the terms of the lease. You may not relocate the Franchised Business without our consent.

We also grant you a Protected Territory. Your Protected Territory will be delineated by streets, highways, natural and/or political boundaries and will consist of the area containing approximately 200,000 persons, of which the percentage of the school-age population is approximately the national average. If you are in compliance with

the Franchise Agreement during its term, we will not establish or operate, or license others to establish or operate, KIDS ‘N’ CLAY Pottery Studios or competing businesses within the Protected Territory. Also, we have the right to: (a) establish or operate, and license others to establish or operate, KIDS ‘N’ CLAY Pottery Studios outside of the Protected Territory; (b) establish or operate, and license others to establish or operate, other businesses under other systems using other trademarks at locations either inside or outside of the Protected Territory; (c) provide the services and sell any products authorized for KIDS ‘N’ CLAY Pottery Studios using the Marks or other trademarks and commercial symbols through alternate channels of distribution, such as joint marketing with partner companies, direct mail and Internet and catalogue sales, but we will not sell to any Competitive Business in the Protected Territory; and (d) engage in any other activities not expressly prohibited in by the Franchise Agreement.

You are not restricted from soliciting or advertising for students or clients outside your Protected Territory, except you may not advertise on the Internet without our prior written consent. You are not required to achieve a sales or market penetration quota in order to maintain the exclusivity of your Protected Territory. We cannot change the Protected Territory without your consent.

ITEM 13. TRADEMARKS

We grant our franchisees the right to operate KIDS ‘N’ CLAY Pottery Studios under the name “KIDS ‘N’ CLAY,” which is the principal Mark used to identify our System. You may also use any other current or future Mark to operate your Franchised Business that we designate in writing, including the logo on the front of this Offering Circular and the trademarks listed below. By “Marks,” we mean the trade names, trademarks, service marks and logos used to identify KIDS ‘N’ CLAY Pottery Studios. Kevin B. Nierman owns the following Mark, which is listed on the Principal Register of the U.S. Patent and Trademark Office (“PTO”):

Mark	Registration Number	Registration Date
KIDS ‘N’ CLAY (words only)	2050926	April 8, 1997

Kevin B. Nierman has granted us a non-exclusive license to use and sublicense the use of the “KIDS ‘N’ CLAY” Mark. The term of the license coincides with Mr. Nierman’s perpetual rights in the Mark.

Additionally, as of the date of this Offering Circular, we have a pending application for the following Mark on the Principal Register of the PTO:

Mark	Serial Number	Filing Date
MUDPIES (words in stylized form)	78484465	September 16, 2004

There are currently no effective material determinations of the United States Patent and Trademark Office, trademark trial and appeal board, the trademark administrator of this state or any court; pending infringement, opposition or cancellation; or pending material litigation involving the Marks. Mr. Nierman has filed all affidavits required by the PTO relating to the Marks shown above.

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 KIDS ‘N’ CLAY Pottery Studio may be located.

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

You will not receive any rights to the Marks other than the nonexclusive right to use them in the operation of your Franchised Business. You may only use the Marks in accordance with our standards, operating procedures and specifications. Any unauthorized use of the Marks by you is a breach of the Franchise Agreement and an infringement of our rights in the Marks. You may not contest the validity or ownership of the Marks, including any Marks that we license to you after you sign the Franchise Agreement. You may not assist any other person in contesting the validity or ownership of the Marks.

You must immediately notify us of any apparent infringement of, or challenge to your use of, any Mark, or any claim by any person of any rights in any Marks, and you may not communicate with any person other than us and our counsel regarding any infringements, challenges or claims unless you are legally required to do so, however, you may communicate with your own counsel at your own expense. We may take whatever action we deem appropriate in these situations; we have exclusive control over any settlement or proceeding concerning any Mark. You must take any actions that, in the opinion of our counsel, may be advisable to protect and maintain our interests in any proceeding or to otherwise protect and maintain our interests in the Marks.

We can require you to modify or discontinue the use of any Mark and to use other trademarks or service marks. We will not be required to reimburse you for modifying or discontinuing the use of a Mark or for substituting another trademark or service mark for a discontinued Mark. We are not obligated to reimburse you for any loss of goodwill associated with a modified or discontinued Mark.

We will reimburse you for all of your expenses reasonably incurred in any legal proceeding disputing your authorized use of any Mark, but only if you notify us of the proceeding in a timely manner and you have complied with our directions with regard to such proceeding. We have the right to control the defense and settlement of any such proceeding. Our reimbursement does not include your expenses for removing signage or discontinuing your use of any Mark. Our reimbursement also does not apply to any disputes where we challenge your use of a Mark. Our reimbursement does not apply to legal fees you incur in seeking separate, independent legal counsel.

You must use the Marks as the sole trade identification of the Franchised Business, but you may not use any Mark or part of any Mark as part of your corporate name in any modified form. You may not use any Mark in connection with the sale of any unauthorized products or services, or in any other manner that we do not authorize in writing. You must obtain a fictitious or assumed name registration if required by your state or local law.

You must notify us if you apply for your own trademark or service mark registrations. You must not register or seek to register as a trademark or service mark, either with the PTO or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any of our Marks.

You may not establish, create or operate an Internet site or website using any domain name containing any variation of the words "KIDS 'N' CLAY" or any variation of the Marks without our prior written consent. We retain the sole right to advertise on the Internet and create websites using "KIDS 'N' CLAY" or any other Mark as the domain name and any other domain names we may designate in the Manual.

ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents are material to the franchise. We own copyrights in the Manual, marketing materials and other copyrightable items that are part of the System. While we claim copyrights in these and similar items, we have not registered these copyrights with the United States Registrar of Copyrights and need not do so to protect them. You may use these items only as we specify while operating the Franchised Business and you must stop using them if we direct you to do so.

There are currently no effective determinations of the Copyright Office (Library of Congress) or any court regarding the copyrighted materials. Our right to use or license copyrighted items is not materially limited by any agreement or known infringing use.

We have developed certain Confidential Information, including certain trade secrets, methods of business management, sales and promotion techniques, and know-how, knowledge of, and experience in, operating a KIDS 'N' CLAY Pottery Studio. We will provide our Confidential Information to you during training, in the Manual and as a result of the assistance we furnish you during the term of the franchise. You may only use the Confidential Information for the purpose of operating your Franchised Business. You may only divulge Confidential Information to employees who must have access to it in order to operate the Franchised Business. You are responsible for enforcing the confidentiality provisions as to your employees.

We claim ownership of all student and client information, including names, addresses, contact information, course histories, even if you collect or compile this information. You must send us your student or client lists and other information within 5 days after the start of any class or event.

Certain individuals with access to Confidential Information, including your owners (and members of their immediate families and households), officers, directors, partners, members, if you are a corporation, limited liability company or other business entity, and your managers, executives, employees and staff may be required to sign nondisclosure and non-competition agreements the same as or similar to the Nondisclosure and Non-competition Agreement attached to the Franchise Agreement.

All ideas, concepts, techniques or materials concerning the Franchised Business, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be deemed our sole and exclusive property and a part of the System that we may choose to adopt and/or disclose to other franchisees. Likewise, we will disclose to you concepts and developments of other franchisees that we make part of the System. You must also assist us in obtaining intellectual property rights in any concept or development if requested.

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

The Franchised Business must always be under the direct full-time supervision of a Designated Manager, which is you if you are an individual, or is an individual you select if you are a business entity. You (or your Designated Manager) must attend and satisfactorily complete our initial training program before opening the Franchised Business. You must keep us informed of the identity of your current Designated Manager. If you are a corporation or other business entity and the Franchised Business is under the supervision of a Designated Manager, he or she does not have to be one of your owners.

As described in ITEM 14, your owners (and members of their immediate families and households), officers, directors, partners, members, managers, executives, employees and staff, and other individuals having access to Confidential Information may be required to sign nondisclosure and non-competition agreements nondisclosure and non-competition agreements the same as or similar to the Nondisclosure and Non-competition Agreement attached to the Franchise Agreement. We will be a third-party beneficiary with the right to enforce the agreements.

If you are a business entity, anyone who owns a 5% or greater interest in the entity must personally guarantee the performance of all of your obligations under the Franchise Agreement and agree to be personally liable for your breach of the Franchise Agreement by signing the Guaranty and Assumption of Obligations attached to the Franchise Agreement.

ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may only use the Approved Location for the operation of the Franchised Business and you must not use, or permit the use of, the premises for any other purpose without our written consent. You must offer the services and products we specify from time to time, in strict accordance with our standards and specifications. You may not sell any services or products that we have not authorized and you must discontinue offering any services or products that we, in our sole discretion, disapprove in writing at any time.

We may periodically change required or authorized products or services. There are no limits on our right to do so. If we modify the System, you may be required to add or replace equipment, signs and fixtures, and you may have to make improvements or modifications as necessary to maintain uniformity with our current standards and specifications; however, you will not be required to spend more than \$10,000 on modifications during the initial term of the franchise.

From time to time, we may allow certain services or products that are not otherwise authorized for general use as a part of the System to be offered locally or regionally based upon such factors as we determine, including test marketing, your qualifications, and regional or local differences.

We do not place restrictions on you with respect to who may be a student or client of your Franchised Business.

ITEM 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 agreements attached to this Offering Circular. **You should refer to any state-specific addenda attached to this Offering Circular for exceptions to this ITEM 17.**

Provision	Section in the Franchise Agreement	Summary
a. Term of the franchise	Section 4.1	The initial term is 10 years.
b. Renewal or extension of the term	Section 4.2	You may renew for 3 additional terms of 5 years each, subject to (c) below.
c. Requirements for you to renew or extend	Section 4.2	You may renew the Franchise Agreement if you: have substantially complied with the provisions of the Franchise Agreement; have the right to maintain possession of the Approved Location or an approved substitute location for the term of the renewal; have made capital expenditures as necessary to maintain uniformity with the System; have satisfied all monetary obligations owed to us; are not in default of any provision of the Franchise Agreement or any other agreement between you and us; have given timely written notice of your intent to renew; sign a current

Provision	Section in the Franchise Agreement	Summary
		Franchise Agreement; comply with current qualifications and training requirements; and sign a general release the same as or similar to the General Release attached to the Franchise Agreement.
d. Termination by you	Section 16.1	You may terminate the Franchise Agreement if you are in compliance with it and we materially breach it and we fail to begin to cure our breach within 30 days of receiving your written notice.
e. Termination by us without cause	None	
f. Termination by us with cause	Section 16.2	We may terminate the Franchise Agreement only if you default.
g. "Cause" defined- defaults that can be cured	Section 16.2	You can avoid termination of the Franchise Agreement if you cure a failure to make payments due us within 30 days of receiving our notice of termination or you cure a failure to comply with mandatory specifications in the Franchise Agreement or Manual within 30 days of receiving our notice of termination.
h. "Cause" defined- defaults that cannot be cured	Section 16.2	We have the right to terminate the Franchise Agreement without giving you an opportunity to cure if you: fail to establish and equip the Franchised Business; fail to satisfactorily complete training; made a material misrepresentation or omission in the application for the franchise; are convicted of or plead no contest to a felony or other crime or offense likely to affect the reputation of either party or the Franchised Business; use the Manual or Confidential Information in an unauthorized manner; abandon the Franchised Business for 5 consecutive days; surrender or transfer of control of Franchised Business in an unauthorized manner; fail to maintain the Franchised Business under the supervision of a Designated Manager if you die or become disabled; submit reports on 2 separate occasions understating any amounts due by more than 3%; are adjudicated bankrupt, insolvent or make a general assignment for the benefit of creditors; misuse or make unauthorized use of the Marks; fail on 2 occasions within any 12 months to submit reports or records or to pay any fees due us or any affiliate; fail to maintain our required levels of quality and service; violate any health, safety or other laws or conducts the Franchised Business in a manner creating a health or safety hazard; or default under any other agreement between you and us such that we have the right to

Provision	Section in the Franchise Agreement	Summary
		terminate the Franchise Agreement.
i. Your obligations on termination or non-renewal	Section 17.1	If the Franchise Agreement is terminated or not renewed, you must: stop operating the Franchised Business; stop using any Confidential Information, the System and the Marks; stop using and return or deliver all student or client information to us; if requested, assign your interest in the Approved Location to us; cancel or assign to us any assumed names; pay all sums owed to us including damages and costs incurred in enforcing the termination provisions of the Franchise Agreement; return the Manual and all other Confidential Information; assign your telephone and facsimile numbers to us; comply with the covenants not to compete and any other surviving provisions of the Franchise Agreement.
j. Assignment of contract by us	Section 18.1	There are no restrictions on our right to assign our interest in the Franchise Agreement.
k. "Transfer" by you-definition	Section 18.2	"Transfer" includes transfer of ownership in the franchise, the Franchise Agreement, the Approved Location, the Franchised Business's assets or the franchisee entity.
l. Our approval of transfer by you	Section 18.2	You may not transfer your interest in any of the items listed in (k) above without our prior written consent.
m. Conditions for our approval of transfer	Section 18.2	We will consent to a transfer if: we have not exercised our right of first refusal; all obligations owed to us are paid; you and the transferee have signed a general release the same as or similar to the General Release attached to the Franchise Agreement; the prospective transferee meets our business and financial standards; the transferee and all persons owning any interest in the transferee sign the then current Franchise Agreement; you provide us with a copy of all contracts and agreements related to the transfer; you or the transferee pay a transfer fee of \$15,000; the transferee or the owners of transferee have agreed to be personally bound by all provisions of the Franchise Agreement; you have agreed to guarantee performance by the transferee, if requested by us; the transferee has obtained all necessary consents and approvals of third parties; you or all of your equity owners have signed a

Provision	Section in the Franchise Agreement	Summary
		nondisclosure and non-competition agreement the same as or similar to the Nondisclosure and Non-competition Agreement attached to the Franchise Agreement; and the transferee has agreed that its Designated Manager will complete the initial training program before assuming management of the Franchised Business.
n. Our right of first refusal to acquire your Franchised Business	Section 19	We may match an offer for your Franchised Business or an ownership interest you propose to sell.
o. Our option to purchase your Franchised Business	Section 17.4	Except as described in (n) above, we do not have the right to purchase your Franchised Business; however, during the 30-day period after the termination or expiration of the Franchise Agreement, we have the right to purchase any assets of the Franchised Business for fair market value.
p. Your death or disability	Section 18.6	If you (or one of you owners) die or become incapacitated, your representative must transfer, subject to the terms of the Franchise Agreement, your interest in the Franchised Business within 180 days of death or incapacity or we may terminate the Franchise Agreement.
q. Non-competition covenants during the term of the franchise	Section 7.4	You, your owners (and members of their families and households) and your officers, directors, executives managers or professional staff are prohibited from: attempting to divert any business or student or client of the Franchised Business to a Competitive Business or causing injury or prejudice to the Marks or the System; and owning or working for a Competitive Business.
r. Non-competition covenants after the franchise is terminated or expires	Section 17.2	For 2 years after the termination or expiration of the Franchise Agreement, you, your owners (and members of their families and households) and your officers, directors, executives managers or professional staff are prohibited from: owning or working for a Competitive Business operating within 25 miles of the Approved Location (or within the Protected Territory, if greater) or any other KIDS 'N' CLAY Pottery Studio; or soliciting or influencing any of our employees or business associates to compete with us or terminate their relationship with us.
s. Modification of the agreement	Section 22.7	The Franchise Agreement can be modified only by written agreement between you and us. We may

Provision	Section in the Franchise Agreement	Summary
		modify the Manual without your consent if the modification does not materially alter your fundamental rights.
t. Integration/merger clause	Section 22.7	Only the terms of the Franchise Agreement are binding. Any other promises may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section 23.7	Except for claims relating to the Marks and Confidential Information, and claims for injunctive relief, all disputes must be arbitrated in Alameda County, California.
v. Choice of forum	Section 23.2	Any litigation must be pursued in courts located in Alameda County, California. Please see the State Specific Addenda attached as Exhibit H to this Offering Circular.
w. Choice of law	Section 23.1	California law applies, except that disputes over the Marks will be governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sec. 1051 et seq.). Please see the State Specific Addend attached as Exhibit H to this Offering Circular.

These states have statutes which may supersede the Franchise Agreement concerning your relationship with us, including the areas of termination, renewal and transfer of the franchise and dispute resolution of the franchise: ARKANSAS (Ark. Code Ann. Sections 4-72-201 to 4-72-210); CALIFORNIA (Cal. Bus. & Prof. Code Sections 20000 to 20043); CONNECTICUT (Conn. Gen. Stat. Ann. Sections 42-133e to 42-133h); DELAWARE (Del. Code Ann. Tit. 6 Sections 2551 to 2556); FLORIDA (Stat., Section 542.335); HAWAII (Haw. Rev. Stat. Sections 482E-1 to 482E-12); ILLINOIS (815 ILCS 705/1-44); INDIANA (Ind. Code Ann. Sections 23-2-2.7-1 to 23-2-2.7-7); IOWA (Iowa Code, Ch. 523H, Sections 523H.1 to 523H.17); LOUISIANA (La. Rev. Stat. Ann. Tit. 23, Sections 921[E] and Tit. 12, Section 1042); MICHIGAN (Mich. Comp. Laws, Sections 445.1527 & 445.1535); MINNESOTA (Minn. Stat. Section 80C.14 and Minnesota Rules, Department of Commerce, Section 2860.4400); MISSISSIPPI (Miss. Code Ann. Sections 75-24-51 to 75-24-63); MISSOURI (Mo. Rev. Stat. Sections 407.400 to 407.420); NEBRASKA (Neb. Rev. Stat. Sections 87-401 to 87-410); NEW JERSEY (N.J. Rev. Stat. Sections 56:10-1 through 56:10-12); NORTH CAROLINA (Chpt. 22B, Sec. 3); PUERTO RICO (Ann., Sections 278 to 278d); SOUTH DAKOTA (S.D. Codified Laws, Section 37-5A-51); VIRGIN ISLANDS (Code, Sections 130-139); VIRGINIA (Va. Code Ann. Sections 13.1-557 through 13.1-574); WASHINGTON (Wash. Rev. Code Sections 19.100.180 to 19.100.190); WISCONSIN (Wis. Stat. Sections 135.01 to 135.07). These and other states may have court decisions that may supersede the Franchise Agreement concerning your relationship with us, including the areas of termination, renewal and transfer of the franchise and dispute resolution of the franchise.

ITEM 18. PUBLIC FIGURES

We do not presently use any public figures to promote our franchise.

ITEM 19. EARNINGS CLAIM

We do not furnish nor authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, expenses or income of the Franchised Business. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

ITEM 20. LIST OF OUTLETS

FRANCHISED BUSINESS STATUS SUMMARY FOR THE YEARS ENDING DECEMBER 31, 2005/2004.							
State	Transfers	Cancelled or Terminated	Not Renewed	Reacquired by Company	Left the System Other	Total From Left Columns	Franchises Operating at Year- End
MD	0/0	0/0	0/0	0/0	0/0	0/0	1/0
All others	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Total	0/0	0/0	0/0	0/0	0/0	0/0	1/0

As of the date of this Offering Circular, there are no franchisees who have had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during the most recently completed fiscal year or who have not communicated with us within 10 weeks of the application date.

STATUS OF COMPANY OR AFFILIATE-OWNED BUSINESSES FOR THE YEARS ENDING DECEMBER 31, 2005/2004			
State	Businesses Closed During Year	Businesses Opened During Year	Total Businesses Operating at Year-End
California*	0/0	0/0	1/1
Maryland	0/0	1/0	1/0
Total	0/0	0/0	2/1

*The California KIDS 'N' CLAY Pottery Studio referred to in this table is owned and operated by our Creative Director.

PROJECTED OPENINGS DURING THE UPCOMING YEAR ENDING DECEMBER 31, 2006			
State	Franchise Agreements Signed but Franchised Business Not Open	Projected New Franchised Businesses in 2006	Projected Company-Owned Openings in 2005
AZ	1	1	0
CA	1	2	0
MD	1	2	0
PA	0	1	0
VA	1	2	0
Total*	4	8	0

* We project the opening of 8 to 10 KIDS 'N' CLAY Pottery Studios during the remainder of our current fiscal year ending December 31, 2006. We offer and sell franchises in all states in which we are permitted to do so, but we cannot project the states in which new KIDS 'N' CLAY Pottery Studios will be opening during the remainder of our current fiscal year.

ITEM 21. FINANCIAL STATEMENTS

Attached as Exhibit E are our audited financial statements for the period of August 11, 2004 through December 31, 2005 and unaudited financial statements for the period of January 31, 2005 through December 31, 2005.

Our fiscal year end is December 31.

ITEM 22. CONTRACTS

The KIDS 'N' CLAY Franchise Agreement (with exhibits) is attached to this Offering Circular as Exhibit C.

The KIDS 'N' CLAY General Release is attached to the Franchise Agreement as Exhibit A.

The KIDS 'N' CLAY Nondisclosure and Non-competition Agreement is attached to the Franchise Agreement as Exhibit B.

The KIDS 'N' CLAY Guaranty and Assumption of Obligations is attached to the Franchise Agreement as Exhibit C.

We provide no other contracts or agreements for your signature.

ITEM 23. RECEIPT

Our copy and your copy of the Franchise Offering Circular Receipt are located on the last 2 pages of this Offering Circular.

EXHIBIT A TO THE OFFERING CIRCULAR

LIST OF STATE ADMINISTRATORS

The following is a list of state administrators responsible for registration and review of franchises. We may register in one or more of these states.

California

Department of Corporations
71 Stevenson Street, Suite 2100
San Francisco, California 94105

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments Division
260 Constitution Plaza
Hartford, Connecticut 06103

Hawaii

Commissioner of Securities
Department of Commerce and Consumer Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-111
Indianapolis, Indiana 46204

Maryland

Office of the Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202

Michigan

Department of the Attorney General
Consumer Protection Division, Franchise Unit
525 Ottawa Street
G. Mennen Williams Building, 6th Floor
Lansing, Michigan 48909

Minnesota

Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

New York

Bureau of Investor Protection and Securities
New York State Department of Law
120 Broadway, 23rd Floor
New York, New York 10271

North Dakota

North Dakota Securities Department
State Capitol – 5th Floor
600 East Boulevard
Bismarck, North Dakota 58505

Oregon

Secretary of State, Corporation Division
255 Capitol Street Northeast
Salem, Oregon 97310

Rhode Island

Division of Securities, Suite 232
233 Richmond Street
Providence, Rhode Island 02903

South Dakota

Department of Revenue and Regulation
Division of Securities
445 East Capitol Avenue
Pierre, South Dakota 57501

Virginia

State Corporation Commission
Division of Securities and Retail Franchising
Tyler Building, 9th Floor
1300 East Main Street
Richmond, Virginia 23219

Washington

Department of Financial Institutions
Securities Division
150 Israel Road Southwest
Olympia, Washington 98501

Wisconsin

Division of Securities
Department of Financial Institutions
345 West Washington Avenue
Madison, Wisconsin 53703

EXHIBIT B TO THE OFFERING CIRCULAR

LIST OF STATE AGENTS FOR SERVICE OF PROCESS

The following state agencies are designated as our agent for service of process in accordance with the applicable state laws. We may register in one or more of these states.

California

Department of Corporations
71 Stevenson Street, Suite 2100
San Francisco, California 94105

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments Division
260 Constitution Plaza
Hartford, Connecticut 06103

Hawaii

Commissioner of Securities
Department of Commerce and Consumer Affairs
Business Registration Division
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-111
Indianapolis, Indiana 46204

Maryland

Maryland Securities Commissioner
Office of Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202

Michigan

Michigan Department of Commerce
Corporations and Securities Bureau
P.O. Box 30054
6546 Mercantile Way
Lansing, Michigan 48909

Minnesota

Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

New York

Secretary of the State of New York
41 State Street
Albany, New York 12231

North Dakota

North Dakota Securities Department
State Capitol – 5th Floor
600 East Boulevard
Bismarck, North Dakota 58505

Oregon

Secretary of State
Corporation Division
255 Capitol Street Northeast
Suite 157
Salem, Oregon 97310

Rhode Island

Division of Securities
Suite 232
233 Richmond Street
Providence, Rhode Island 02903

South Dakota

Department of Revenue and Regulation
Division of Securities
445 East Capitol Avenue
Pierre, South Dakota 57501

Virginia

Clerk, State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, Virginia 23219

Washington

Director, Department of Financial Institutions
Securities Division
150 Israel Road Southwest
Olympia, Washington 98501

Wisconsin

Commissioner of Securities
345 West Washington Street, 4th Floor
Madison, Wisconsin 53703

KIDS 'N' CLAY DEVELOPMENT, LLC

FRANCHISE AGREEMENT

EXHIBIT C TO THE OFFERING CIRCULAR

Revised: August 2, 2005

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EXHIBITS

- A. GENERAL RELEASE
- B. NONDISCLOSURE AND NON-COMPETITION AGREEMENT
- C. GUARANTY AND ASSUMPTION OF OBLIGATIONS
- D. HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN FRANCHISEE; OFFICERS; DIRECTORS
- E. MULTI-STATE ADDENDA

KIDS 'N' CLAY DEVELOPMENT, LLC

FRANCHISE AGREEMENT

This Franchise Agreement made this ____ day of _____, 20____, is by and between KIDS 'N' CLAY DEVELOPMENT, LLC, a California limited liability company, having its principal place of business at 1824 5th Street, Berkeley, California 94710 ("Franchisor"), and _____, an individual/partnership/corporation/limited liability company established in the State of _____ and whose principal address is _____ ("Franchisee").

WITNESSETH:

WHEREAS, Franchisor and its Affiliate* have developed, and are in the process of further developing, a System identified by the service mark "KIDS 'N' CLAY" and relating to the establishment and operation of studios teaching children the ceramic arts, including techniques such as hand building, wheel throwing, sculpting, glazing and finishing, referred to as "KIDS 'N' CLAY Pottery Studios;" and

WHEREAS, in addition to the service mark "KIDS 'N' CLAY" and certain other Marks, the distinguishing characteristics of the System include, among other things, uniform standards and procedures for efficient business operations; procedures and strategies for marketing, advertising and promotion; student service and development techniques; distinctive interior and exterior design, layout and décor; other strategies, techniques and trade secrets; and the Manual; and

WHEREAS, Franchisor grants to qualified persons and business entities the right to own and operate a single KIDS 'N' CLAY Pottery Studio using the System and the Marks; and

WHEREAS, Franchisee desires to operate a KIDS 'N' CLAY Pottery Studio, has applied for the Franchise and its application has been approved by Franchisor in reliance upon all of the representations made therein; and

WHEREAS, Franchisee understands and acknowledges the importance of Franchisor's high and uniform standards of quality, operations and service and the necessity of operating its Franchised Business in strict conformity with Franchisor's System.

NOW, THEREFORE, Franchisor and Franchisee, intending to be legally bound, agree as follows:

1. DEFINITIONS

Whenever used in this Agreement, the following words and terms have the following meanings:

"Affiliate" means any business entity that controls, is controlled by, or is under common control with Franchisor;

"Agreement" means this agreement entitled "KIDS 'N' CLAY DEVELOPMENT, LLC Franchise Agreement" and all instruments supplemental hereto or in amendment or confirmation hereof;

*Capitalized terms not otherwise defined are defined in Section 1.

“Approved Location” means the site for the operation of the Franchised Business selected by Franchisee and approved in writing by Franchisor;

“Approved Supplier” has the meaning given to such term in Section 13.1;

“Competitive Business” means any business that offers or provides (or grants franchises or licenses to others to operate a business that offers) ceramic arts instruction or facilities the same as or similar to that provided by KIDS ‘N’ CLAY Pottery Studios or in which Confidential Information could be used to the disadvantage of Franchisor, its Affiliate(s) or its other franchisees; provided, however, that the term “Competitive Business” shall not apply to (a) any business operated by Franchisee under a Franchise Agreement with Franchisor, or (b) any business operated by a publicly-held entity in which Franchisee owns less than a five percent (5%) legal or beneficial interest;

“Confidential Information” means any trade secret and any information or matter that is or may be used to gain a competitive advantage over Franchisor or its Affiliate and is not generally known by the public, whether or not in written or tangible form and regardless of the media (if any) on which it is stored, relating to the System (including know-how, knowledge of and experience in operating a KIDS ‘N’ CLAY Pottery Studio; instructional methods; techniques for the creation of ceramic art; business management and operating systems and techniques; record keeping and reporting methods; management and personnel training techniques; sales and promotion techniques; specifications and designs for signs, displays, forms, interior and exterior décor and layout for the Approved Location; the Manual; lists of franchisees and suppliers; suggested pricing and cost information; prospective and existing student data; and other specifications, policies, procedures, information or systems that Franchisor or its Affiliate have developed or may develop and introduce as part of the System) and any other information or material identified to Franchisee by Franchisor as confidential;

“Controlled Entity” has the meaning given to such term in Section 18.3;

“Cooperative Advertising” means the combined advertising program of two (2) or more franchisees established within a common market that Franchisor may require for KIDS ‘N’ CLAY Pottery Studios within a particular region;

“Designated Area” has the meaning given to such term in Section 2.3;

“Designated Manager” means the person designated by Franchisee who has primary responsibility for managing the day-to-day affairs of the Franchised Business, and if Franchisee is an individual and not a business entity, the Designated Manager shall be Franchisee;

“Effective Date” means the date on which this Agreement is fully executed, thereby commencing its effectiveness and term;

“Electronic Depository Transfer Account” means an account established at a national banking institution approved by Franchisor and providing Franchisor with access to electronically withdraw any funds due Franchisor;

“Franchise” means the right granted to Franchisee by Franchisor to use the System and the Marks;

“Franchise Fee” has the meaning given to such term in Section 3.1;

“Franchised Business” means the KIDS ‘N’ CLAY Pottery Studio to be established and operated by Franchisee pursuant to this Agreement;

“Franchisee” means the individual or entity defined as “Franchisee” in the introductory paragraph of this Agreement, and if Franchisee is a business entity, such term also includes all holders of a legal or beneficial interest in the entity (each of whom is identified in Exhibit D and has executed the supplemental signature page with respect to his or her individual obligations hereunder);

“Franchisor” means Kids ‘N’ Clay Development, LLC;

“Franchisor Indemnities” has the meaning given to such term in Section 21.2;

“Grand Opening Advertising” has the meaning given to such term in Section 11.1;

“Gross Sales” means the aggregate of all revenue from the sale of products and services from all sources in connection with the Franchised Business whether or not collected by Franchisee and whether for check, cash, credit or otherwise including, without limitation, all proceeds from any business interruption insurance, but excluding all refunds made in good faith, any sales and equivalent taxes that are collected by Franchisee for or on behalf of any governmental taxing authority and paid thereto, and the value of any allowance issued or granted to any client or student, or parent of a student, of the Franchised Business that is credited by Franchisee in full or partial satisfaction of the price of any products and services offered in connection with the Franchised Business;

“Gross Sales Reports” has the meaning given to such term in Section 12.2;

“Incapacity” means the inability of Franchisee to operate or oversee the operation of the Franchised Business on a regular basis by reason of any continuing physical, mental or emotional condition, chemical dependency or other limitation;

“Internet” means any one (1) or more local or global interactive communications media that is now available, or that may become available, including sites and domain names on the World Wide Web;

“Local Advertising” has the meaning given to such term in Section 11.2;

“Manual” means the KIDS ‘N’ CLAY Operations Manual, and any other items as may be provided, added to, changed, modified or otherwise revised by Franchisor from time to time that contain or describe the standards, methods, procedures and specifications of the System, including other operations, administration and managers’ manuals and all books, computer programs, password-protected portions of an Internet site, pamphlets, memoranda and other publications prepared by, or on behalf of, Franchisor;

“Marketing Fund” has the meaning given to such term in Section 3.3;

“Marketing Fund Contribution” has the meaning given to such term in Section 3.3;

“Marks” mean the service mark “KIDS ‘N’ CLAY” and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, copyrights, drawings and other commercial symbols as Franchisor may designate to be used in connection with KIDS ‘N’ CLAY Pottery Studios;

“Protected Territory” means the geographic area of territorial exclusivity granted to Franchisee under this Agreement as defined by Section 2.5;

“**Royalty Fee**” has the meaning given to such term in Section 3.2; and

“**System**” means the uniform standards, methods, procedures and specifications developed by Franchisor and as may be added to, changed, modified, withdrawn or otherwise revised by Franchisor, in its sole discretion, for the operation of KIDS ‘N’ CLAY Pottery Studios.

2. GRANT OF FRANCHISE; APPROVED LOCATION

2.1 Grant

Franchisor hereby grants to Franchisee, and Franchisee undertakes and accepts, upon the terms and conditions herein contained, a revocable, limited license to operate one (1) KIDS ‘N’ CLAY Pottery Studio using the System and Marks.

2.2 Approved Location

The street address (or detailed description of the premises) of the Approved Location is:

2.3 Approved Location Not Determined

If the Approved Location of the Franchised Business is not determined as of the Effective Date, then the geographic area in which the Franchised Business is to be located shall be within the geographic area described below (“Designated Area”). When the Approved Location is determined, its address shall be inserted into Section 2.2. The failure to insert such address shall not automatically affect the enforceability of this Agreement. The Designated Area is delineated for the sole purpose of site selection and does not confer any territorial exclusivity or protection. A detailed description of the geographic area or boundaries of the Designated Area is:

2.4 Sub-franchising/Agents

Franchisee shall not sublicense the use of the System or Marks to any person or entity to perform any part of Franchisee’s rights or obligations licensed hereunder, or to grant any person or entity the right to act as Franchisee’s agent to perform any part of Franchisee’s rights or obligations hereunder.

2.5 Territorial Protection - Protected Territory

Franchisor shall not, so long as this Agreement is in force and effect and Franchisee is not in default under any of the terms hereof, license, own or operate any other KIDS ‘N’ CLAY Pottery Studio or other substantially similar business within an area surrounding the Approved Location (“Protected Territory”) containing approximately two hundred thousand (200,000) persons, of which the percentage of the school-age population is approximately the national average. Franchisor shall have the right to redefine the boundaries of the Protected Territory based on changes in the area’s demographics. Franchisor shall not redefine the Protected Territory more than one (1) time in any five (5) year period. The Protected Territory shall initially be defined by and exist within the following physical, political or natural boundaries:

2.6 Franchisor’s Rights

Except to the extent provided in Section 2.5, Franchisor retains all of its rights and discretion with respect to the System and Marks, including the right to:

2.6.1 establish or operate, and license others to establish or operate, KIDS ‘N’ CLAY Pottery Studios outside of the Protected Territory as Franchisor deems appropriate;

2.6.2 establish or operate, and license others to establish or operate, other businesses under other systems using other trademarks at such locations and on such terms and conditions as Franchisor deems appropriate;

2.6.3 provide the services and sell any products authorized for KIDS ‘N’ CLAY Pottery Studios using the Marks or other trademarks and commercial symbols through alternate channels of distribution, such as joint marketing with partner companies, direct mail, and Internet and catalog sales, on such terms and conditions as Franchisor deems appropriate; provided, however, that no such sales shall be made to any Competitive Business within the Protected Territory; and

2.6.4 engage in any activities not expressly forbidden by this Agreement.

3. FEES

3.1 Franchise Fee

Upon execution of this Agreement, Franchisee shall pay a fee (“Franchise Fee”) to Franchisor of _____ DOLLARS (\$_____). The Franchise Fee shall be deemed fully earned upon execution of this Agreement and is nonrefundable, except under certain conditions set forth under Section 8.3. The Franchise Fee is payment, in part, for expenses incurred by Franchisor in furnishing assistance and services to Franchisee as set forth in this Agreement and for costs incurred by Franchisor, including general sales and marketing expenses, training, legal, accounting and other professional fees.

3.2 Bi-Monthly Royalty Fee

On the third (3rd) day and eighteenth (18th) day of each month, Franchisee shall pay to Franchisor without offset, credit or deduction of any nature, so long as this Agreement shall be in effect, a bi-monthly fee (“Royalty Fee”) equal to seven percent (7%) of Gross Sales for the previous bi-monthly period. The bi-monthly periods are the first (1st) day of the month through and including the fifteenth (15th) day of the month, for which Royalty Fees are due on the eighteenth (18th) day of the month, and the sixteenth (16th) day of the month through and including the last day of the month, for which Royalty Fees are due on the third (3rd) day of the following month. If the third (3rd) day or eighteenth (18th) day of the month falls on a Sunday, Franchisee shall pay the Royalty Fee and submit the Gross Sales Report on the fourth (4th) day or nineteenth (19th) day of the month. Each bi-monthly Royalty Fee payment shall accompany the Gross Sales Report for the same period, as required by Section 12.2. If Franchisor requires Franchisee to pay Royalty Fees through electronic transfer as set forth in Section 3.5, then such reports shall instead be submitted to Franchisor via facsimile or electronic transmission.

3.3 Marketing Fund Contribution

Franchisor has the right to establish and administer a System-wide marketing, advertising and promotion fund (“Marketing Fund”). If a Marketing Fund is established, Franchisee may be required to contribute bi-monthly to the Marketing Fund an amount specified by Franchisor (“Marketing Fund Contribution”), which shall not exceed two percent (2%) of Gross Sales for such bi-monthly period. Marketing Fund Contributions shall be made at the same time and in the same manner as Royalty Fee payments provided in Section 3.2. If established, the Marketing Fund shall be maintained and administered by Franchisor or its designee in accordance with the provisions contained in Section 11.3.

3.4 Taxes

Franchisee shall pay to Franchisor an amount equal to all sales taxes, use taxes and similar taxes imposed on the fees payable by Franchisee to Franchisor hereunder and on services or goods furnished to Franchisee by Franchisor at the same time as Franchisee remits such fees to Franchisor, whether such services or goods are furnished by sale, lease or otherwise, unless the tax is an income tax assessed on Franchisor for doing business in the state where the Franchised Business is located.

3.5 Electronic Transfer

3.5.1 Franchisor has the right to require all Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts due to Franchisor to be paid through an Electronic Depository Transfer Account. At Franchisor’s request, Franchisee shall open and maintain an Electronic Depository Transfer Account and shall provide Franchisor with continuous access to such account for the purpose of receiving any payments due to Franchisor. Every week, Franchisee shall make deposits to the account sufficient to cover amounts owed to Franchisor prior to the date such amounts are due. Franchisee shall execute any documents Franchisor’s or Franchisee’s bank requires to establish and implement the Electronic Depository Transfer Account. Once established, Franchisee shall not close the Electronic Depository Transfer Account without Franchisor’s written consent.

3.5.2 Franchisor, in its sole discretion, may allow Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts due to Franchisor to be paid through electronic transfers initiated by Franchisee from Franchisee’s primary business checking account. Franchisor may allow Franchisee to pay, or may at any time revoke Franchisee’s privilege to pay, fees and other amounts due in such manner based on Franchisor’s evaluation of Franchisee’s financial condition.

3.6 Late Fees

All Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts that are not received by Franchisor within five (5) days after the due date shall bear interest at the rate of eighteen percent (18%) per annum (or the highest rate allowed by law, whichever is lower) from the date payment is due to the date payment is received by Franchisor. Franchisee shall pay Franchisor for all costs incurred by Franchisor in the collection of any unpaid and past due Royalty Fees, Marketing Fund Contributions or any other amounts due Franchisor, including reasonable accounting and legal fees.

3.7 Application of Payments

Notwithstanding any designation by Franchisee, Franchisor shall have the sole discretion to apply any payments by Franchisee to any past due indebtedness of Franchisee and accrued interest thereon for Royalty Fees, Marketing Fund Contributions, purchases from Franchisor or any other amount owed to Franchisor.

4. TERM AND RENEWAL

4.1 Initial Term

This Agreement shall be effective and binding for an initial term of ten (10) years from the Effective Date, unless sooner terminated pursuant to Section 16.

4.2 Renewal Term

Subject to the conditions below, Franchisee has the right to renew the Franchise at the expiration of its term. Franchisee's right to enter into a successor franchise agreement is limited to three (3) successive renewal terms of five (5) years each, such that the total term of the Franchise shall not exceed twenty-five (25) years. To qualify for a renewal, each of the following conditions shall have been fulfilled and remain true as of the last day of the term of this Agreement:

4.2.1 Franchisee has, during the entire term of this Agreement, substantially complied with all material provisions;

4.2.2 Franchisee has access to and, for the duration of the renewal term, the right to remain in possession of the Approved Location, or a suitable substitute location approved by Franchisor, which is in full compliance with Franchisor's then-current specifications and standards, for the duration of the renewal term;

4.2.3 Franchisee has, at its expense, made such capital expenditures as were necessary to maintain uniformity with any Franchisor-required System modifications such that the Franchised Business reflects Franchisor's then-current standards and specifications;

4.2.4 Franchisee has satisfied all monetary obligations owed by Franchisee to Franchisor (or any Affiliate), and has timely met these obligations throughout the term of this Agreement;

4.2.5 Franchisee is not in default of any provision of this Agreement or any other agreement between Franchisee and Franchisor;

4.2.6 Franchisee has given written notice of renewal to Franchisor not less than nine (9) months nor more than twelve (12) months prior to the end of the term of this Agreement;

4.2.7 Franchisee has executed Franchisor's then-current form of franchise agreement, or has executed renewal documents at Franchisor's election (with appropriate modifications to reflect the fact that the Franchise Agreement relates to the grant of a renewal franchise), which franchise agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement by requiring, among other things, a different percentage Royalty Fee or Marketing Fund Contribution; provided, however, that Franchisee shall not be required to pay the then-current Franchise Fee;

4.2.8 Franchisee has complied with Franchisor's then-current qualifications for a new franchisee and has agreed to comply with any training requirements; and

4.2.9 Franchisee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit A, of any and all claims against Franchisor, its Affiliate(s) and against their officers, directors, shareholders, managers, members, partners, owners and employees, except to the extent prohibited by the laws of the state where the Franchised Business is located.

5. APPROVED LOCATION

5.1 Selection of Site

Franchisee shall promptly select a site for the Franchised Business and shall notify Franchisor of such selection. If Franchisor approves of such selection, the site will be designated as the Approved Location for purposes of this Agreement. If Franchisor does not approve of such selection, Franchisee shall continue to select new sites until Franchisor approves of a selection. Franchisor shall provide Franchisee with general guidelines to assist Franchisee in selecting a site suitable for the Approved Location. Franchisor has the right to approve or disapprove a proposed location based on such factors as it deems appropriate, including the condition of the premises, demographics of the surrounding area, proximity to other KIDS 'N' CLAY Pottery Studios, lease requirements, available parking or drop-off/pick-up areas and overall suitability. Franchisee shall not locate the Franchised Business on a selected site without the prior written approval of Franchisor. *Franchisor does not represent that it or any of its Affiliates, owners or employees have special expertise in selecting sites. Neither Franchisor's assistance nor approval is intended to indicate or indicates that the Franchised Business will be profitable or successful at the Approved Location. Franchisee is solely responsible for finding and selecting a site for the Franchised Business.*

5.2 Lease of Approved Location

After the designation of the Approved Location (and if the site is to be leased or purchased), Franchisee shall execute a lease for, or a binding agreement to purchase, the Approved Location, the terms of which must have been previously approved by Franchisor. Franchisor shall not unreasonably withhold its approval. *Franchisor's review of a lease or purchase agreement, or any advice or recommendation offered by Franchisor, shall not constitute a representation or guarantee that Franchisee will succeed at the Approved Location nor constitute an expression of Franchisor's opinion regarding the terms of such lease or purchase agreement.* Franchisor shall be entitled to require that nothing therein contained is contradictory to, or likely to interfere with, Franchisor's rights or Franchisee's duties under this Agreement. Franchisee shall take all actions necessary to maintain the lease, if any, of the Approved Location while this Agreement is in effect. Any default for which the lease may be terminated shall also be deemed a default hereunder and the time to cure the same shall expire when the lease is terminated. Franchisor has the right to require that the lease for the Approved Location be collaterally assigned by Franchisee to Franchisor, pursuant to the terms of its standard collateral assignment of lease form, to secure performance by Franchisee of its obligation under this Agreement. Franchisor's approval of a lease or purchase agreement shall be conditioned upon inclusion of terms in the lease acceptable to Franchisor and, at

Franchisor's option, the lease or purchase agreement shall contain such provisions as Franchisor may reasonably require, including:

5.2.1 a provision reserving to Franchisor the right, at Franchisor's election, to receive an assignment of the leasehold interest upon termination or expiration of the Franchise grant;

5.2.2 a provision expressly permitting the lessor of the premises to provide Franchisor all sales and other information lessor may have obtained or received relating to the operation of the Franchised Business, as Franchisor may request;

5.2.3 a provision requiring the lessor to provide Franchisor with a copy of any written notice of deficiency sent by the lessor to Franchisee, and granting to Franchisor, in its sole discretion and sole option, the right (but not the obligation) to cure any deficiency under the lease should Franchisee fail to do so within fifteen (15) days after the expiration of the period in which Franchisee may cure the default;

5.2.4 a provision allowing Franchisee to display the Marks in accordance with the specifications required by the Manual, subject only to the provisions of applicable law;

5.2.5 a provision prohibiting the premises from being used for any purpose other than the operation of the Franchised Business;

5.2.6 a provision stating that any default under the lease (or a purchase agreement, as the case may be) shall constitute a default under this Agreement;

5.2.7 a provision stating that upon default of this Agreement, Franchisor or its nominee has the right to take possession of the Approved Location and operate the Franchised Business; and

5.2.8 a provision allowing Franchisor, upon expiration or termination of the lease, to enter the premises and remove any signs containing the Marks.

5.3 Development of Approved Location

Franchisor shall make available to Franchisee, at no charge to Franchisee, copies of standard plans and specifications for the development of a KIDS 'N' CLAY Pottery Studio (that will not be construction drawings or blueprints), including specifications for exterior and interior design and layout, fixtures, equipment, décor and signs. Such plans and specifications are subject to alteration as may be necessary in Franchisor's sole discretion. Franchisee shall cause the Approved Location to be developed, equipped and improved in accordance with such plans and specifications within one hundred twenty (120) days after the Effective Date. In connection with the development of the Approved Location, Franchisee shall:

5.3.1 employ a competent licensed architect or engineer to prepare, for Franchisor's approval, preliminary plans and specifications for improvement of the Approved Location adapted from the plans furnished by Franchisor;

5.3.2 obtain all zoning classifications and clearances that may be required by state and local laws, ordinances or regulations, and submit to Franchisor, for Franchisor's approval, final plans for construction based upon the preliminary plans and specifications;

5.3.3 obtain all building, utility, sign, health, and business permits and licenses, and any other permits and licenses required for the build-out and operation of the Franchised Business and certify in writing and provide evidence to Franchisor that all such permits and certifications have been obtained;

5.3.4 employ a qualified, licensed general contractor approved by Franchisor to complete construction of all required improvements to the Approved Location;

5.3.5 purchase any supplies necessary for the operation of the Franchised Business;

5.3.6 purchase and install all equipment, signs, furniture and fixtures, including any computer equipment, required for the operation of the Franchised Business;

5.3.7 obtain at least one (1) telephone number and one (1) facsimile number solely dedicated to the Franchised Business; and

5.3.8 establish and maintain an Internet connection with at least one (1) e-mail address dedicated to the Franchised Business.

5.4 Opening

5.4.1 Before opening the Franchised Business and commencing business, Franchisee must:

5.4.1.1 fulfill all of the obligations of Franchisee pursuant to the other provisions of this Section 5 and any pre-opening requirements contained in the Manual;

5.4.1.2 furnish Franchisor with copies of all insurance policies required by this Agreement, or by the lease, or such other evidence of insurance coverage and payment of premiums as Franchisor may reasonably request;

5.4.1.3 complete initial training to the satisfaction of Franchisor;

5.4.1.4 hire and train the personnel necessary or required for the operation of the Franchised Business;

5.4.1.5 if Franchisee is a business entity, cause each of its stock certificates or other ownership interest certificates to be conspicuously endorsed upon the face with a statement in a form satisfactory to Franchisor that such ownership interest is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement; and

5.4.1.6 pay in full all amounts due to Franchisor.

5.4.2 Franchisee shall comply with these conditions and be prepared to open and continuously operate the Franchised Business within six (6) months after the Effective Date. Time is of the essence.

5.4.3 If Franchisee is unable to commence the operation of the Franchised Business due to circumstances beyond Franchisee's reasonable control, then Franchisee may be entitled to such additional time as may be reasonably required and as to which Franchisor may consent.

5.5 Use of Approved Location

Franchisee shall not use the Approved Location for any purpose other than for the operation of a KIDS 'N' CLAY Pottery Studio in full compliance with this Agreement and the Manual, unless approved in writing by Franchisor.

5.6 Relocation

Franchisee shall not relocate the Franchised Business without the prior written consent of Franchisor, which may be withheld or delayed at Franchisor's sole discretion. If the lease for the Approved Location expires or terminates without the fault of Franchisee or if the Franchised Business's premises is destroyed, condemned or otherwise rendered unusable, or as otherwise may be agreed upon in writing by Franchisor and Franchisee, Franchisor may, in its reasonable discretion, allow Franchisee to relocate the Franchised Business. Any such relocation shall be at Franchisee's sole expense, and shall proceed in accordance with the requirements set forth in Sections 5.1 through 5.4. Franchisor has the right to charge Franchisee for any costs incurred by Franchisor in providing assistance to Franchisee, including legal and accounting fees. Notwithstanding the foregoing, Franchisor has no obligation to provide relocation assistance. If no relocation site meets with Franchisor's approval, this Agreement shall terminate as provided in Section 16.2.1.1.

6. PROPRIETARY MARKS

6.1 Ownership

Franchisee's right to use the Marks is derived solely from this Agreement, is nonexclusive and is limited to the conduct of business by Franchisee pursuant to, and in compliance with, this Agreement and all applicable standards, specifications and operating procedures prescribed from time to time by Franchisor. Any unauthorized use of the Marks by Franchisee is a breach of this Agreement and an infringement of the rights of Franchisor in and to the Marks. Franchisee's use of the Marks, and any goodwill created thereby, shall inure to the benefit of Franchisor. Franchisee shall not at any time acquire an ownership interest in the Marks by virtue of any use it may make of the Marks. This Agreement does not confer any goodwill, title or interest in the Marks to Franchisee. Franchisee shall not, at any time during the term of this Agreement or after its termination or expiration, contest the validity or ownership of any of the Marks or assist any other person in contesting the validity or ownership of any of the Marks.

6.2 Limitations on Use

Franchisee shall not use any Mark or portion of any Mark as part of any business entity name or trade name, with any prefix, suffix or other modifying words, terms, designs or symbols or in any modified form, without the prior written consent of Franchisor. Franchisee shall not use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by Franchisor. Franchisee shall give such notices of trademark and service mark registrations as Franchisor specifies and obtain such fictitious or assumed name registrations as may be required under applicable law. Franchisee shall not register or seek to register as a trademark or service mark, either with the United States Patent and Trademark Office or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any Mark licensed to Franchisee. Franchisee shall include on its letterhead, forms, cards and other such identification, and shall display at the Approved Location, a prominent notice stating that the Franchised Business is Franchisee's "Independently Owned and Operated KIDS 'N' CLAY Franchisee."

6.3 Notification of Infringements and Claims

Franchisee shall immediately notify Franchisor of any infringement of the Marks or challenge to its use of any of the Marks or claim by any person of any rights in any of the Marks. Franchisee shall not communicate with any person other than Franchisor and Franchisor's counsel in connection with any such infringement, challenge or claim; provided, however, Franchisee may communicate with Franchisee's counsel at Franchisee's expense. Franchisor shall have sole discretion to take such action as deemed appropriate and the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge, or claim or otherwise relating to any of the Marks. Franchisee shall execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of Franchisor's counsel, shall be necessary or advisable to protect and maintain Franchisor's interests in any such litigation or other proceeding or to otherwise protect and maintain Franchisor's interest in the Marks.

6.4 Indemnification for Use of Marks

Franchisor shall reimburse Franchisee for all expenses reasonably incurred by Franchisee in any trademark or similar proceeding disputing Franchisee's authorized use of any Mark, provided that Franchisee has timely notified Franchisor of such proceeding and has complied with this Agreement and Franchisor's directions in responding to such proceeding. At Franchisor's option, Franchisor or its designee may defend and control the defense of any proceeding arising directly from Franchisee's use of any Mark. This indemnification shall not include the expense to Franchisee of removing signage or discontinuance of the use of the Marks. This indemnification shall not apply to litigation between Franchisor and Franchisee wherein Franchisee's use of the Marks is disputed or challenged by Franchisor. This indemnification shall not apply to any separate legal fees or costs incurred by Franchisee in seeking independent counsel separate from the counsel representing Franchisor and Franchisee in the event of litigation disputing Franchisor and Franchisee's use of the Marks.

6.5 Discontinuance of Use

If it becomes necessary, in Franchisor's sole discretion, for Franchisee to modify or discontinue use of any of the Marks, and/or use one (1) or more additional or substitute trade names, trademarks, service marks or other commercial symbols, Franchisee shall comply with Franchisor's directions within a reasonable time after notice to Franchisee by Franchisor. Franchisor shall not be required to reimburse Franchisee for its expenses in modifying or discontinuing the use of a Mark or any loss of goodwill associated with any modified or discontinued Mark or for any expenditures made by Franchisee to promote a modified or substitute Mark.

6.6 Right to Inspect

To preserve the validity and integrity of the Marks and any copyrighted materials licensed hereunder, and to ensure that Franchisee is properly employing the Marks in the operation of the Franchised Business, Franchisor and its designees have the right to enter and inspect the Franchised Business and the Approved Location at all reasonable times and, additionally, have the right to observe the manner in which Franchisee renders services and conducts activities and operations, and to inspect facilities, equipment, accessories, products, supplies, reports, forms and documents and related data to ensure that Franchisee is operating the Franchised Business in accordance with the quality control provisions and performance standards established by Franchisor. Franchisor and its agents shall have the right, at any reasonable time, to remove sufficient quantities of products, supplies or other inventory items offered for retail sale, used in the preparation of products offered for retail sale or used in rendering services, to test whether such products or items meet Franchisor's then-current standards. Franchisor or its designee has the right to observe Franchisee and its employees during the operation of the Franchised Business and to interview students, parents and employees and to photograph the premises.

6.7 Franchisor's Sole Right to Domain Name

Franchisee shall not establish, create or operate an Internet site or website using a domain name or uniform resource locator containing the Marks or the words “KIDS ‘N’ CLAY” or any variation thereof. Franchisor has the exclusive right to advertise on the Internet and create websites using or containing the “KIDS ‘N’ CLAY” name and any other Mark. Franchisor is the sole owner of all right, title and interest in and to such domain names, as Franchisor shall designate in the Manual.

7. CONFIDENTIAL INFORMATION

7.1 Requirement of Confidentiality

Franchisor shall disclose Confidential Information to Franchisee during the training program, through the Manual, and as a result of guidance furnished to Franchisee during the term of this Agreement. Franchisee shall not acquire any interest in the Confidential Information, other than the right to utilize it in the development and operation of the Franchised Business and in performing its duties during the term of this Agreement. Franchisee acknowledges that the use or duplication of the Confidential Information in any other business venture would constitute an unfair method of competition. Franchisee acknowledges that the Confidential Information is proprietary, includes Franchisor’s trade secrets and is disclosed to Franchisee solely on the condition that Franchisee (and all holders of a legal or beneficial interest in Franchisee and all officers, directors, executives, managers and members of the professional staff of Franchisee): (a) shall not use the Confidential Information in any other business or capacity; (b) shall maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement; (c) shall not make any unauthorized copies of any portion of the Confidential Information disclosed in written or other tangible form; and (d) shall adopt and implement all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Confidential Information. Franchisee shall enforce this Section as to its employees, agents and representatives and shall be liable to Franchisor for any unauthorized disclosure or use of Confidential Information by any of them.

7.2 Student/Client Information

Student or client names, addresses, contact information and other personal data, whether acquired or compiled by Franchisee or Franchisor, shall be the sole and exclusive property of Franchisor, and Franchisor grants Franchisee the right to use such information while this Agreement is in full force and effect, only upon the terms and conditions contained herein. Franchisee shall deliver all such information to Franchisor not more than five (5) days after the beginning of any multiple-session course, class or event or five (5) days after any one (1) time course, class or event.

7.3 Additional Developments

All ideas, concepts, techniques or materials concerning the Franchised Business, whether or not protectable intellectual property and whether created by or for Franchisee or its owners or employees, must be promptly disclosed to Franchisor and will be deemed the sole and exclusive property of Franchisor and works made-for-hire for Franchisor, and no compensation will be due to Franchisee or its owners or employees therefor. At Franchisor's discretion, such items may be incorporated into the System. To the extent any item does not qualify as a "work made-for-hire" for Franchisor, Franchisee shall assign ownership of that item, and all related rights to that item, to Franchisor and shall sign any assignment or other document as Franchisor requests to assist Franchisor in obtaining or preserving intellectual property rights in the item. Franchisor shall disclose to Franchisee concepts and developments of other franchisees that are made part of the System. As Franchisor may reasonably request, Franchisee shall take all actions to assist Franchisor's efforts to obtain or maintain intellectual property rights in any item or process related to the System, whether developed by Franchisee or not.

7.4 Exclusive Relationship

Franchisee acknowledges that Franchisor would be unable to protect the Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among KIDS 'N' CLAY franchisees if owners of KIDS 'N' CLAY Pottery Studios and members of their immediate families and households were permitted to hold an interest in or perform services for any Competitive Business. Therefore, during the term of this Agreement, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee (or any member of their immediate families and households), nor any officer, director, executive, manager or member of the professional staff of Franchisee, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person, partnership, corporation, limited liability company or other business entity, shall:

7.4.1 Divert or attempt to divert any business or student of the Franchised Business to any Competitive Business, 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; or

7.4.2 Own an interest in, manage, operate, or perform services for any Competitive Business wherever located.

7.5 Nondisclosure and Non-Competition Agreements with Certain Individuals

Franchisor has the right to require Franchisee and any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any officer, director, executive, manager or member of the professional staff of Franchisee to execute a standard form nondisclosure and non-competition agreement, in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached as Exhibit B, upon execution of this Agreement or prior to each such person's affiliation with Franchisee. Upon Franchisor's request, Franchisee shall provide Franchisor with copies of all nondisclosure and non-competition agreements signed pursuant to this Section. Such agreements shall remain on file at the offices of Franchisee and are subject to audit or review as otherwise set forth herein. Franchisor shall be a third party beneficiary with the right to enforce covenants contained in such agreements.

7.6 Reasonableness of Restrictions

Franchisee acknowledges that the restrictive covenants contained in this Section are essential elements of this Agreement and that without their inclusion, Franchisor would not have entered into this Agreement. Franchisee acknowledges that each of the terms set forth herein, including the restrictive covenants, is fair and reasonable and are reasonably required for the protection of Franchisor, the System and the Marks.

8. TRAINING AND ASSISTANCE

8.1 Initial Training

Franchisor shall make an initial training program available to the Designated Manager and up to one (1) assistant. Prior to the opening of the Franchised Business, the Designated Manager must attend and successfully complete, to Franchisor's satisfaction, an initial training program consisting of approximately two (2) weeks of classroom and on-the-job instruction pertaining to operation of the Franchised Business including, but not limited to, teaching experience in the studio; sales and marketing methods; financial controls; maintenance of quality standards; customer service techniques, record keeping and reporting procedures and other operational issues. Franchisor shall conduct the initial training program at its headquarters or at another designated location. Franchisor shall not charge tuition or similar fees for initial training, however, all expenses incurred by Franchisee in attending such program including, but not limited to, travel costs, room and board expenses and employees' salaries, shall be the sole responsibility of Franchisee. Franchisee shall be responsible for training its management and other employees.

8.2 Opening Assistance

In conjunction with, and prior to, the beginning of operation of the Franchised Business, Franchisor shall make available to Franchisee, at Franchisor's expense, for approximately five (5) days, one (1) of Franchisor's representatives, experienced in the System, for the purpose of providing general assistance and guidance in connection with the opening of the Franchised Business. If Franchisee requests additional assistance with respect to the opening or continued operation of the Franchised Business, and should Franchisor deem it necessary and appropriate to comply with such request, Franchisee shall pay Franchisor's then-current standard rates, plus expenses, for such additional assistance.

8.3 Failure to Complete Initial Training Program

If Franchisor determines, in its sole discretion, that the Designated Manager is unable to satisfactorily complete the training program described above, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 8.3, Franchisor shall return to Franchisee fifty percent (50%) of the Franchise Fee paid by Franchisee upon Franchisor's receipt of a general release in a form the same as or similar to the General Release attached as Exhibit A. If Franchisee is a business entity and the Designated Manager fails to complete the initial training program to Franchisor's reasonable satisfaction, in Franchisor's sole discretion, Franchisee may be permitted to select a substitute manager and such substitute manager must complete the initial training to Franchisor's reasonable satisfaction. Franchisee may be required to pay Franchisor's then-current rates for additional training, if any, for providing the substitute manager an initial training program.

8.4 New Designated Manager

If Franchisee is a business entity and, after beginning operations, Franchisee names a new Designated Manager, then the new Designated Manager must complete the initial training program to Franchisor's satisfaction within thirty (30) days. Franchisee shall pay Franchisor's standard training fees for the training of any new Designated Manager and shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with the new Designated Manager's attendance at such training.

8.5 Ongoing Training

From time to time Franchisor may provide, and if it does, has the right to require that the Designated Manager attend, ongoing training programs or seminars during the term of this Agreement. Franchisor shall not charge a fee for any mandatory ongoing training. Franchisor shall not require the Designated Manager to attend more than two (2) sessions in any calendar year and collectively not more than four (4) days in any calendar year. Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with the Designated Manager's attendance at such training.

9. MANUAL

9.1 Loan by Franchisor

While this Agreement is in effect, Franchisor shall loan to Franchisee one (1) copy of the Manual. Franchisee shall conduct the Franchised Business in strict accordance with the provisions set forth in the Manual. The Manual may consist of one (1) or more separate manuals and other materials as designated by Franchisor and may be in written or electronic form. The Manual shall, at all times, remain the sole property of Franchisor and shall promptly be returned to Franchisor upon expiration or termination of this Agreement.

9.2 Revisions

Franchisor has the right to add to or otherwise modify the Manual from time to time to reflect changes in the specifications, standards, operating procedures and rules prescribed by Franchisor; provided, however, that no such addition or modification shall alter Franchisee's fundamental status and rights under this Agreement. Franchisor may make such additions or modifications without prior notice to Franchisee. Franchisee shall immediately, upon notice, adopt any such changes and shall ensure that its copy of the Manual is up-to-date at all times. If a dispute as to the contents of the Manual arises, the terms of the master copy of the Manual maintained by Franchisor at Franchisor's headquarters shall be controlling.

9.3 Confidentiality

The Manual contains proprietary information of Franchisor and shall be kept confidential by Franchisee both during the term of the Franchise and subsequent to the expiration or termination of this Agreement. Franchisee shall at all times ensure that its copy of the Manual is available at the Approved Location in a current and up-to-date manner. Franchisee shall maintain the Manual in a locked receptacle at the Approved Location and shall only grant authorized personnel, as defined in the Manual, access to the key or combination of such receptacle. Franchisee shall not disclose, duplicate or otherwise use any portion of the Manual in an unauthorized manner.

10. FRANCHISE SYSTEM

10.1 Uniformity

Franchisee shall strictly comply, and shall cause the Franchised Business to strictly comply, with all requirements, specifications, standards, operating procedures and rules set forth in this Agreement, the Manual or other communications supplied to Franchisee by Franchisor.

10.2 Modification of the System

Franchisor has the right to change or modify the System from time to time including, without limitation, the adoption and use of new or modified Marks or copyrighted materials, and new or additional computer hardware, software, equipment, retail products, inventory, supplies or sales and marketing techniques. Franchisee shall accept and use any such changes in, or additions to, the System as if they were a part of this Agreement as of the Effective Date. Franchisee shall make such expenditures as such changes, additions or modifications in the System may reasonably require; provided, however, Franchisee shall not be required to implement or conform to any such changes, additions or modifications if the cost to do so would exceed (a) ONE DOLLAR (\$1.00) during the first (1st) year of the term of this Agreement; (b) TEN THOUSAND DOLLARS (\$10,000.00) during the entire term of this Agreement (which amounts may be increased consistent with increases to the Consumer Price Index, [U.S. City Average, all items, 1982-84=100], as published by the United States Department of Labor, Bureau of Labor Statistics); or (c) ONE DOLLAR (\$1.00) during the final year of the term of this Agreement if Franchisee provides written notice of its intention not to renew the Franchise. Any required expenditure for changes or upgrades to the System shall be in addition to expenditures for repairs and maintenance as required in Section 13.2.

10.3 Variance

Franchisor has the right, at its sole discretion and as it may deem in the best interests of all concerned in any specific instance, to vary standards or specifications for any franchisee based upon that particular franchisee's qualifications, the peculiarities of the particular site or circumstances, the demographics of the trade area, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of any particular KIDS 'N' CLAY Pottery Studio. Franchisor shall not be required to disclose or grant to Franchisee a like or similar variance hereunder.

11. ADVERTISING AND PROMOTIONAL ACTIVITIES

11.1 Grand Opening Advertising

Franchisee shall spend no less than TWO THOUSAND FIVE HUNDRED DOLLARS (\$2,500.00) during the first three (3) months of operation of the Franchised Business on local advertisement and promotion of the initial opening ("Grand Opening Advertising"). Prior to their use, all materials to be used in Grand Opening Advertising must be approved by Franchisor through the process set forth in Section 11.2.2. Grand Opening Advertising expenditures shall be in addition to any Local Advertising expenditures and Marketing Fund Contributions.

11.2 Local Advertising

11.2.1 Franchisee shall continuously promote the Franchised Business. Every month, Franchisee shall spend at least two percent (2%) of the previous month's Gross Sales on advertising, promotions and public relations within the immediate locality surrounding the Franchised Business ("Local Advertising"). Such expenditures shall be made directly by Franchisee, subject to the approval and direction of Franchisor. Franchisor will provide general guidelines to Franchisee for conducting Local Advertising. Within thirty (30) days after the end of each month, Franchisee shall furnish to Franchisor an accurate accounting of the expenditures on Local Advertising for the preceding month.

11.2.2 Franchisee shall submit to Franchisor, for its prior approval, all advertising and promotional materials to be used by Franchisee including, but not limited to, ad copy, coupons, flyers, scripts, press releases and direct mail. Franchisor shall use reasonable efforts to provide notice of approval or disapproval within twenty (20) days from the date all requested material is received by Franchisor. If Franchisor does not approve submitted materials within twenty (20) days, such materials shall be deemed to have not received the required approval. Franchisee shall not use any marketing or promotional material prior to approval by Franchisor. The submission of advertising materials to Franchisor for approval shall not affect Franchisee's right to determine the prices at which Franchisee sells products or provides services.

11.3 Marketing Fund

When not less than 10 Kids 'N' Clay Pottery Studio businesses are operating in the United States of America, franchisor has the right (but not the obligation) to establish a Marketing Fund, as defined in Section 3.3. If established, Franchisee may be required to make weekly Marketing Fund Contributions, the amount of which will be set by Franchisor and may be adjusted from time to time but shall not exceed two percent (2%) of that week's Gross Sales. Franchisor shall notify Franchisee at least thirty (30) days before implementing or changing Marketing Fund Contribution requirements. The Marketing Fund shall be maintained and administered by Franchisor or its designee as follows:

11.3.1 Franchisor shall oversee all marketing programs, with sole discretion over the creative concepts, materials and media used in such programs, and the placement and allocation thereof. Franchisor does not warrant that any particular franchisee will benefit directly or *pro rata* from expenditures by the Marketing Fund. The program(s) may be local, regional or Franchise-wide.

11.3.2 Franchisee's Marketing Fund Contributions may be used to meet the costs of producing, maintaining, administering and directing consumer advertising (including, without limitation, the cost of preparing and conducting television, radio, Internet, magazine, newspaper, and direct mail advertising campaigns and other public relations activities; developing and/or hosting an Internet web page or site and similar activities; employing advertising agencies to assist therein; and providing promotional brochures and other marketing materials to franchisees). All Marketing Fund Contributions shall be maintained in a separate account from the monies of Franchisor and shall not be used to defray any of Franchisor's general operating expenses, except for such reasonable costs and expenses, if any, that Franchisor may incur in activities reasonably related to the administration of the Marketing Fund.

11.3.3 Franchisor shall endeavor to spend all Marketing Fund Contributions on marketing programs and promotions during Franchisor's fiscal year within which such contributions are made. If excess amounts remain in any Marketing Fund at the end of such fiscal year, all expenditures in the following fiscal year(s) shall be made first out of such excess amounts, including any interest or other earnings of the Marketing Fund, and next out of prior year contributions and then out of current contributions.

11.3.4 Although Franchisor intends the Marketing Fund, if established, to be of perpetual duration, Franchisor has the right to terminate the Marketing Fund at any time. The Marketing Fund shall not be terminated, however, until all Marketing Fund Contributions have been expended for advertising and promotional purposes or returned to Franchisee and other franchisees on a *pro rata* basis based on total Marketing Fund Contributions made in the aggregate by each franchisee.

11.3.5 Each KIDS 'N' CLAY Pottery Studio operated by Franchisor or any Affiliate shall make Marketing Fund Contributions at the same rate as KIDS 'N' CLAY franchisees.

11.3.6 An accounting of the operation of the Marketing Fund shall be prepared annually and shall be available to Franchisee upon request. Franchisor retains the right to have the Marketing Fund audited, at the expense of the Marketing Fund, by an independent certified public accountant selected by Franchisor.

11.3.7 Franchisee acknowledges that the Marketing Fund is not a trust and Franchisor assumes no fiduciary duty in administering the Marketing Fund.

11.3.8 When and if Franchisor establishes a Marketing Fund, Franchisor will establish an advisory board of franchisees, in such a manner and form as Franchisor deems appropriate, to provide advice and counsel regarding Franchisor's use of Marketing Fund Contributions and the operations of Franchised Businesses. Such board shall function in an advisory capacity and shall not exercise any authority over the Marketing Fund or over Franchisor.

11.4 Cooperative Advertising

Franchisor has the right, but not the obligation, to create a Cooperative Advertising program for the benefit of KIDS 'N' CLAY Pottery Studios located within a particular region. Franchisor has the right to (a) allocate any portion of the Marketing Fund to a Cooperative Advertising program; and (b) collect and designate all or a portion of the Local Advertising for a Cooperative Advertising program. Franchisor has the right to determine the composition of all geographic territories and market areas for the implementation of each Cooperative Advertising program and to require that Franchisee participate in such Cooperative Advertising programs when established within Franchisee's region. If a Cooperative Advertising program is implemented in a particular region, Franchisor has the right to establish an advertising council to self-administer the Cooperative Advertising program. Franchisee shall participate in the council according to the council's rules and procedures and Franchisee shall abide by the council's decisions.

11.5 Internet Advertising

Franchisee may not establish a presence on, or market using, the Internet in connection with the Franchised Business without Franchisor's prior written consent. Franchisor has established and maintains an Internet website at the uniform resource locator www.kidsnclay.com that provides information about the System and the services that Franchisor and its franchisees provide. Franchisor may (but is not required to) include at the KIDS 'N' CLAY website an interior page containing information about the Franchised Business. If Franchisor includes such information on the KIDS 'N' CLAY website, Franchisor has the right to require Franchisee to prepare all or a portion of the page, at Franchisee's expense, using a template that Franchisor provides. All such information shall be subject to Franchisor's approval prior to posting. Franchisor retains the sole right to market on the Internet, including the use of websites, domain names, uniform resource locators, linking, search engines (and search engine optimization techniques), banner ads, meta-tags, marketing, auction sites, e-commerce and co-branding arrangements. Franchisee may be requested to provide content for Franchisor's Internet marketing and

shall be required to follow Franchisor's intranet and Internet usage rules, policies and requirements. Franchisor retains the sole right to use the Marks on the Internet, including on websites, as domain names, directory addresses, search terms and meta-tags, and in connection with linking, marketing, co-branding and other arrangements. Franchisor retains the sole right to approve any linking to, or other use of, the KIDS 'N' CLAY website. Franchisee may not establish a presence on, or market using, the Internet in connection with the Franchised Business without Franchisor's prior written consent.

11.6 Telephone Directory Advertising

Franchisee must list and advertise the telephone number(s) for the Franchised Business in the "white pages" telephone directory and the classified or "yellow pages" telephone directory distributed in its trade area and in such directory heading or category as specified by Franchisor. Franchisee must place the classified directory advertisement and listings together with other KIDS 'N' CLAY Pottery Studios operating within the distribution area of the directories. If a joint listing is obtained, all KIDS 'N' CLAY Pottery Studios listed together shall pay a *pro rata* share of the cost of the advertisements and listings. Telephone directory advertising expenditures are in addition to Franchisee's Local Advertising obligations.

12. ACCOUNTING, RECORDS AND REPORTING OBLIGATIONS

12.1 Records

During the term of this Agreement, Franchisee shall maintain full, complete and accurate books, records and accounts in accordance with the standard accounting system prescribed by Franchisor in the Manual or otherwise in writing. Franchisee shall retain during the term of this Agreement, and for three (3) years thereafter, all books and records related to the Franchised Business including, without limitation, purchase orders, invoices, payroll records, sales tax records, state and federal tax returns, bank statements, cancelled checks, deposit receipts, cash receipts and disbursement journals, general ledgers, and any other financial records designated by Franchisor or required by law.

12.2 Gross Sales Reports

Franchisee shall maintain an accurate record of Gross Sales and shall deliver to Franchisor a signed and verified statement of Gross Sales ("Gross Sales Report") for the previous bi-monthly period in a form that Franchisor approves or provides in the Manual. The Gross Sales Report for the preceding period must be provided to Franchisor by the third (3rd) day or eighteenth (18th) day of the month or as otherwise provided in Section 3.2.

12.3 Financial Statements

Franchisee shall supply to Franchisor on or before the eighteenth (18th) day of each month, in a form approved by Franchisor, a balance sheet as of the end of the last day of the preceding month and an income statement for the preceding month and the fiscal year-to-date. Franchisee shall, at its expense, submit to Franchisor within ninety (90) days after the end of each fiscal year, an income statement for the fiscal year just ended and a balance sheet as of the last day of the fiscal year. Such financial statements shall be prepared in accordance with generally accepted accounting principles applied on a consistent basis. If required by Franchisor, such financial statements shall be reviewed or audited by a certified public accountant. Franchisee shall submit to Franchisor such other periodic reports in the manner and at the time specified in the Manual or otherwise in writing.

12.4 Other Reports

Franchisee shall submit to Franchisor copies of all state sales tax returns that are required to be filed with the appropriate governmental agency and such other records as Franchisor may reasonably request from time to time or as specified in the Manual. Franchisor shall have the right to release financial and operational information relating to the Franchised Business to Franchisor's lenders or prospective lenders. Franchisee shall certify as true and correct all reports to be submitted pursuant to this Agreement.

12.5 Computer System

Franchisee shall purchase, install and use a computer system consisting of hardware and software in accordance with Franchisor's specifications. Franchisor shall have full access to all of Franchisee's computer and sale data and systems and all related information by means of direct access, either in person or by telephone, modem or Internet to permit Franchisor to verify Franchisee's compliance with its obligations under this Agreement.

12.6 Right to Inspect

Franchisor or its designee has the right, during normal business hours, to examine, copy and audit the books, records and tax returns of Franchisee. If the audit or any other inspection should reveal that any payments to Franchisor have been underpaid, then Franchisee shall immediately pay to Franchisor the amount of the underpayment plus interest from the date such amount was due until paid at the rate of eighteen percent (18%) per annum (or the highest rate allowed by law, whichever is lower). If the inspection discloses an underpayment of three percent (3%) or more of the amount due for any period covered by the audit, Franchisee shall, in addition, reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, travel expenses and reasonable accounting and attorneys' fees). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

12.7 Release of Records

At Franchisor's request, Franchisee shall authorize and direct any third parties, including accounting professionals, to release to Franchisor all accounting and financial records arising from or relating to the operation of the Franchised Business including, but not limited to, records evidencing Gross Sales, profits, losses, income, tax liabilities, tax payments, revenues, expenses, and any correspondence, notes, memoranda, audits, business records, or internal accounts within said third parties' possession, custody or control, and to continue to release such records to Franchisor on a monthly basis for the length of the unexpired term of this Agreement or until such time as Franchisor withdraws its request. Franchisee shall execute all documents necessary to facilitate the release of records referenced herein to Franchisor.

13. STANDARDS OF OPERATION

13.1 Authorized Products, Services and Suppliers

13.1.1 Franchisee acknowledges that the reputation and goodwill of the System is based in large part on offering high quality services to its students. Accordingly, Franchisee shall provide or offer for use at the Franchised Business only those products, supplies, signs, equipment and other items and services that Franchisor from time to time approves (and which are not thereafter disapproved) and that comply with Franchisor's specifications and quality standards. If required by Franchisor, any such items or services shall be purchased only from "Approved Suppliers" that Franchisor designates or approves (which might include, or be

limited to, Franchisor or its Affiliate). Franchisee shall not offer for sale, sell or provide through the Franchised Business or from the Approved Location any products or services that Franchisor has not approved.

13.1.2 Franchisor shall provide Franchisee, in the Manual or other written or electronic form, with a list of specifications and, if required, a list of Approved Suppliers for some or all of the supplies, signs, equipment and other approved or specified items and services, and Franchisor may from time to time issue revisions to such list. If Franchisor or an Affiliate is an Approved Supplier, Franchisee shall execute a standard form purchase or supply agreement for the items to be supplied by Franchisor or its Affiliate. If Franchisee desires to use any services or products that Franchisor has not approved (for services and products that require supplier approval), Franchisee shall first send Franchisor sufficient information, specifications and/or samples for Franchisor to determine whether the service or product complies with its standards and specifications or whether the supplier meets its Approved Supplier criteria. Franchisee shall bear all reasonable expenses incurred by Franchisor in connection with determining whether it shall approve an item, service or supplier. Franchisor will decide within a reasonable time (usually thirty [30] days) after receiving the required information whether Franchisee may purchase or lease such items or services or may use such supplier. Approval of a supplier or product may be conditioned on the supplier's ability to provide sufficient quantity of product; quality of products or services at competitive prices; production and delivery capability; dependability and general reputation. Nothing in this Section shall be construed to require Franchisor to approve any particular supplier, or to require Franchisor to make available to prospective suppliers, standards and specifications that Franchisor, in its discretion, deems confidential.

13.1.3 Notwithstanding anything contrary in this Agreement, Franchisor has the right to review from time to time its approval of any items or suppliers. Franchisor may revoke its approval of any item, service or supplier at any time, and in its sole discretion, by notifying Franchisee and/or the supplier. Franchisee shall, at its own expense, promptly cease using or providing any items or services disapproved by Franchisor and shall promptly cease purchasing from suppliers disapproved by Franchisor.

13.1.4 Franchisor has the right to designate certain products and services, not otherwise authorized for general use as part of the System, to be used or offered locally or regionally based upon such factors as Franchisor determines including, but not limited to, franchisee qualifications, test marketing and regional or local differences. Such determination will be based upon the factors set forth in Section 10.3 and shall not create any rights in Franchisee to provide the same products or services.

13.1.5 Franchisor has the right to retain volume rebates, markups and other benefits from suppliers or in connection with the furnishing of suppliers. Franchisee shall have no entitlement to or interest in any such benefits.

13.2 Appearance and Condition of the Franchised Business

Franchisee shall maintain the Franchised Business and the Approved Location in "like new" condition, and shall repair or replace equipment, fixtures and signage as necessary to comply with the health and safety standards and specifications of Franchisor and Franchisee's lessor and any applicable laws or regulations. The expense of such maintenance shall be borne by Franchisee and shall be in addition to any required System modifications, as described in Section 10.2.

13.3 Ownership and Management

The Franchised Business shall, at all times, be under the direct supervision of Franchisee. The Designated Manager shall devote his or her full-time efforts to the management of the day-to-day operation of the Franchised Business. "Full-time" means the expenditure of at least thirty-five (35) hours per week, excluding vacation, sick leave and similar absences. Franchisee shall keep Franchisor informed, in writing, at all times of the

identity of its Designated Manager. Franchisee must not engage in any business or other activities that will conflict with its obligations under this Agreement.

13.4 Days of Operation

Franchisee shall keep the Franchised Business open for business during normal business hours on the days specified in the Manual.

13.5 Licenses and Permits

Franchisee shall secure and maintain in force all required licenses, permits and certificates necessary for the operation of the Franchised Business and shall operate the Franchised Business in full compliance with all applicable laws, ordinances and regulations. Franchisor makes no representation to Franchisee with regard to any legal requirements that Franchisee must satisfy or comply with in connection with the operation of the Franchised Business. Franchisee shall be solely responsible for investigating and complying with all such laws, ordinances and regulations with regard to the operation of the Franchised Business.

13.6 Notification of Proceedings

Franchisee shall notify Franchisor in writing of the commencement of any action, suit or proceeding involving Franchisee or the Franchised Business, and of the issuance of any order, writ, injunction, award or decree which may affect the operation or financial condition of the Franchised Business not more than five (5) days after such commencement or issuance. Franchisee shall deliver to Franchisor not more than five (5) days after Franchisee's receipt thereof, a copy of any inspection report, warning, certificate or rating by any governmental agency relating to any health or safety law, rule or regulation that reflects Franchisee's failure to meet and maintain the highest applicable rating or Franchisee's noncompliance or less than full compliance with any applicable law, rule or regulation.

13.7 Compliance with Good Business Practices

Franchisee acknowledges that the quality of customer service, and every detail of appearance and demeanor of Franchisee and its employees, is material to this Agreement and the relationship created hereby. Therefore, Franchisee shall endeavor to maintain high standards of quality and service in the operation of the Franchised Business. Franchisee shall at all times give courteous and efficient service to students of the Franchised Business. The Franchised Business shall in all dealings with its students, parents of students, vendors and the general public adhere to the highest standards of honesty, fair dealing and ethical conduct. If Franchisor deems that Franchisee did not fairly handle a complaint, Franchisor has the right to intervene and satisfy the student or parent. Franchisor has the right to terminate this Agreement for repeated violation of this Section. Franchisee shall reimburse Franchisor for all costs incurred by Franchisor in satisfying a student, or parent of a student, of the Franchised Business pursuant to this Section.

13.8 Vending Machines

Franchisee shall not install or use at the Franchised Business any vending machines, amusement devices, jukeboxes, video machines or other similar devices without Franchisor's written approval.

13.9 Credit Cards

Franchisee shall, at its expense, lease or purchase the necessary equipment and/or software and shall have arrangements in place with Visa, MasterCard, American Express and such other credit card issuers as Franchisor may designate, from time to time, to enable the Franchised Business to accept such methods of payment from its students.

13.10 Best Efforts

Franchisee shall use its best efforts to promote and increase the sales and recognition of services offered through the Franchised Business. Franchisee shall require all of Franchisee's employees, managers, officers, agents and representatives to make a good faith effort to enhance and improve the System and the sales of all services and products provided as part of the System.

14. FRANCHISOR'S ADDITIONAL OPERATIONS ASSISTANCE

14.1 General Advice and Guidance

Franchisor shall be available to render advice, discuss problems and offer general guidance to Franchisee by telephone, e-mail, facsimile, newsletters and other methods with respect to planning, opening and operating the Franchised Business. Franchisor shall not charge for this service, however, Franchisor retains the right to discontinue this service should Franchisee, in Franchisor's discretion, be deemed to be utilizing this service too frequently or in an unintended manner. Franchisor's advice or guidance to Franchisee relative to tuition or prices that, in Franchisor's judgment, constitutes good business practice is based upon the experience of Franchisor and its franchisees in operating KIDS 'N' CLAY Pottery Studios and an analysis of costs and prices charged for competitive products and services. Franchisee shall have the sole right to determine the tuition or prices to be charged by the Franchised Business.

14.2 Periodic Visits

Franchisor or Franchisor's representative shall make periodic visits to the Franchised Business for the purposes of consultation, assistance and guidance with respect to various aspects of the operation and management of the Franchised Business. Franchisor and Franchisor's representatives who visit the Franchised Business may prepare, for the benefit of both Franchisor and Franchisee, written reports detailing any problems or concerns discovered during any such visit and outlining any required or suggested changes or improvements in the operations of the Franchised Business. A copy of any such written report may be provided to Franchisee. Franchisee shall implement any required changes or improvements in a timely manner.

14.3 System Improvements

Franchisor shall communicate improvements in the System to Franchisee as such improvements may be developed or acquired by Franchisor and implemented as part of the System.

14.4 Marketing and Promotional Materials

Franchisor may periodically provide advertising and promotional materials including ad-slicks, brochures, fliers and other materials to Franchisee for use in the operation of the Franchised Business.

15. INSURANCE

15.1 Types and Amounts of Coverage

At its sole expense, Franchisee shall procure within sixty (60) days of the Effective Date, and maintain in full force and effect during the term of this Agreement, the types of insurance listed below. All policies (except any workers' compensation insurance) shall expressly name Franchisor as an additional insured or loss payee and all shall contain a waiver of all subrogation rights against Franchisor and its successors and assigns. In addition to any other insurance that may be required by applicable law, or by lender or lessor, Franchisee shall procure:

15.1.1 "all risk" property insurance coverage on all assets including inventory, furniture, fixtures, equipment, supplies and other property used in the operation of the Franchised Business. Franchisee's property insurance policy shall include coverage for fire, vandalism and malicious mischief and must have coverage limits of at least full replacement cost;

15.1.2 workers' compensation insurance that complies with the statutory requirements of the state in which the Franchised Business is located and employer liability coverage with a minimum limit of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) or, if higher, the statutory minimum limit as required by state law;

15.1.3 comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, the operation of the Franchised Business, or Franchisee's conduct of business pursuant to this Agreement, with a minimum liability coverage of THREE MILLION DOLLARS (\$3,000,000.00) per occurrence or, if higher, the statutory minimum limit required by state law;

15.1.4 automobile liability insurance for owned or hired vehicles, with a combined single limit of at least THREE HUNDRED THOUSAND (\$300,000.00) or, if higher, the statutory minimum limit required by state law; and

15.1.5 such insurance as necessary to provide coverage under the indemnity provisions set forth in Section 21.2.

15.2 Future Increases

Franchisor has the right to reasonably increase the minimum liability protection requirement annually and require different or additional insurance coverage(s) to reflect inflation, changes in standards of liability, future damage awards or other relevant changes in circumstances.

15.3 Carrier Standards

Such policies shall be written by an insurance company licensed in the state in which Franchisee operates and having at least an “A” Rating Classification as indicated in the latest issue of A.M. Best’s Key Rating Guide.

15.4 Evidence of Coverage

Franchisee’s obligation to obtain and maintain the foregoing policies shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee’s performance of this obligation relieve it of liability under the indemnity provisions set forth in Section 21.2. Franchisee shall provide, annually, certificates of insurance showing compliance with the foregoing requirements. Such certificates shall state that said policy or policies shall not be canceled or altered without at least thirty (30) days’ prior written notice to Franchisor and shall reflect proof of payment of premiums.

15.5 Failure to Maintain Coverage

Should Franchisee not procure and maintain insurance coverage as required by this Agreement, Franchisor has the right (but not the obligation) to immediately procure such insurance coverage and to charge the premiums to Franchisee, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchisee immediately upon notice.

16. DEFAULT AND TERMINATION

16.1 Termination by Franchisee

If Franchisee is in substantial compliance with this Agreement and Franchisor materially breaches this Agreement and fails to commence reasonable efforts to cure such breach within thirty (30) days after receiving written notice identifying the claimed breach, Franchisee has the right to terminate this Agreement unless the breach cannot reasonably be cured within such thirty (30) days. If the breach cannot reasonably be cured in such thirty (30) days, Franchisee has the right to terminate this Agreement only if Franchisor does not promptly undertake and continue efforts to cure such material breach within a reasonable period of time and furnish Franchisee reasonable proof of such efforts.

16.2 Termination by Franchisor

16.2.1 Franchisor has the right to terminate this Agreement, without any opportunity to cure by Franchisee, if Franchisee:

16.2.1.1 fails to establish and equip the Franchised Business pursuant to Section 5;

16.2.1.2 fails to satisfactorily complete any training program pursuant to Section 8;

16.2.1.3 made any material misrepresentation or omission in its application for the Franchise or otherwise to Franchisor in the course of entering into this Agreement;

16.2.1.4 is convicted of or pleads no contest to a felony or other crime or offense that is likely to adversely affect the reputation of Franchisor, Franchisee or the Franchised Business;

16.2.1.5 discloses, duplicates or otherwise uses in an unauthorized manner any portion of the Manual or any other Confidential Information;

16.2.1.6 abandons, fails or refuses to actively operate the Franchised Business for five (5) or more consecutive days (unless the Franchised Business has not been operational for a purpose approved by Franchisor), or, if first approved by Franchisor, fails to promptly relocate the Franchised Business following the expiration or termination of the lease for the Approved Location, the destruction or condemnation of the Approved Location or any other event rendering the Approved Location unusable;

16.2.1.7 surrenders or transfers control of the operation of the Franchised Business without Franchisor's approval, makes or attempts to make an unauthorized direct or indirect assignment of the Franchise or an ownership interest in Franchisee, or fails or refuses to assign the Franchise or the interest in Franchisee of a deceased or incapacitated owner thereof as herein required;

16.2.1.8 fails to maintain the Franchised Business under the primary supervision of a Designated Manager during the one hundred eighty (180) days following the death or incapacity of Franchisee or any holder of a legal or beneficial interest in Franchisee pursuant to Section 18.6;

16.2.1.9 submits to Franchisor on two (2) or more separate occasions at any time during the term of the Franchise any reports or other data, information or supporting records that understate any Royalty Fee or any other fees owed to Franchisor by more than three percent (3%) for any accounting period and Franchisee is unable to demonstrate that such understatements resulted from inadvertent error;

16.2.1.10 is adjudicated as bankrupt, becomes insolvent, commits any affirmative act of insolvency, or files any action or petition of insolvency; if a receiver of its property or any part thereof is appointed by a court; if it makes a general assignment for the benefit of its creditors; if a final judgment remains unsatisfied of record for thirty (30) days or longer (unless *supersedeas* bond is filed); if execution is levied against Franchisee's business or property; if a suit to foreclose any lien or mortgage against its Approved Location or equipment is instituted against Franchisee and not dismissed within thirty (30) days or is not in the process of being dismissed;

16.2.1.11 misuses or makes an unauthorized use of any of the Marks or commits any other act which can reasonably be expected to impair the goodwill associated with any of the Marks;

16.2.1.12 fails on two (2) or more separate occasions within any period of twelve (12) consecutive months to submit reports or other information or supporting records when due, to pay any Royalty Fee, Marketing Fund Contribution, amounts due for purchases from Franchisor and any Affiliate, or other payment when due to Franchisor or any Affiliate, whether or not such failures to comply are corrected after notice thereof is delivered to Franchisee;

16.2.1.13 fails to comply with the requirements of Section 13.7;

16.2.1.14 continues to violate any health or safety law, ordinance or regulation, or operates the Franchised Business in a manner that presents a health or safety hazard to its students, employees or the public; or

16.2.1.15 defaults under any other agreement between Franchisor (or any Affiliate) and Franchisee, such that Franchisor or its Affiliate, as the case may be, has the right to terminate such agreement or such agreement automatically terminates.

16.2.2 Except as otherwise provided in Section 16.2.1, Franchisor has the right to terminate this Agreement for the following breaches and defaults by giving notice of such termination stating the nature of the default; provided, however, that Franchisee may avoid termination by curing such default or failure (or by providing proof acceptable to Franchisor that Franchisee has made all reasonable efforts to cure such default or failure and shall continue to make all reasonable efforts to cure until a cure is effected if such default or failure cannot reasonably be cured before the effective date of the termination) within the specified period:

16.2.2.1 within five (5) days of receiving notice of Franchisee's failure to pay any amounts due to Franchisor; or

16.2.2.2 within thirty (30) days of receiving notice of any other default by Franchisee or upon Franchisee's failure to comply with any mandatory specification, standard or operating procedure prescribed in the Manual or otherwise prescribed in writing.

16.3 Reinstatement and Extension

If provisions of this Agreement provide for periods of notice less than those required by applicable law, or provide for termination, cancellation or non-renewal other than in accordance with applicable law, Franchisor may reinstate or extend the term of this Agreement for the purpose of complying with applicable law by submitting a written notice to Franchisee without waiving any of Franchisor's rights under this Agreement.

17. RIGHTS AND DUTIES UPON EXPIRATION OR TERMINATION

17.1 Actions to be Taken

Except as otherwise provided herein, upon termination or expiration, this Agreement and all rights granted hereunder to Franchisee shall terminate and Franchisee shall:

17.1.1 immediately cease to operate the Franchised Business and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor;

17.1.2 cease to use the Confidential Information, the System and the Marks including, without limitation, all signs, slogans, symbols, logos, advertising materials, stationery, forms and any other items which display or are associated with the Marks;

17.1.3 cease to use, and deliver or return to Franchisor, all student or client information, lists, databases or files;

17.1.4 upon demand by Franchisor, at Franchisor's sole discretion, immediately assign (or, if an assignment is prohibited, sublease for the full remaining term, and on the same terms and conditions as Franchisee's lease) its interest in the lease then in effect for the Approved Location to Franchisor and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement, and Franchisor has the right to pay rent and other expenses directly to the party to whom such payment is ultimately due;

17.1.5 take such action as may be necessary to cancel or assign to Franchisor, at Franchisor's option, any assumed name or equivalent registration filed with state, city or county authorities which contains the name "KIDS 'N' CLAY" or any other Mark, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement;

17.1.6 pay all sums owing to Franchisor and its Affiliate(s) which may include, but not be limited to, all damages, costs and expenses, including reasonable attorneys' fees, unpaid Royalty Fees, and any other amounts due to Franchisor or its Affiliate(s);

17.1.7 pay to Franchisor all costs and expenses, including reasonable attorneys' fees, incurred by Franchisor subsequent to the termination or expiration of the Franchise in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement;

17.1.8 immediately return to Franchisor the Manual and all other Confidential Information including records, files, instructions, brochures, agreements, disclosure statements and any and all other materials provided by Franchisor to Franchisee relating to the operation of the Franchised Business (all of which are acknowledged to be Franchisor's property);

17.1.9 assign all telephone listings and numbers and e-mail accounts for the Franchised Business to Franchisor and shall notify the telephone company and all listing agencies of the termination or expiration of Franchisee's right to use any telephone numbers or facsimile numbers associated with the Marks in any regular, classified or other telephone directory listing and shall authorize transfer of same to or at the direction of Franchisor; and

17.1.10 comply with all other applicable provisions of this Agreement.

17.2 Post-Termination Covenant Not to Compete

17.2.1 Franchisee acknowledges that the restrictive covenants contained in this Section and in Section 7 are fair and reasonable and are justifiably required for purposes including, but not limited to, the following:

17.2.1.1 to protect the trade secrets of Franchisor;

17.2.1.2 to induce Franchisor to grant a Franchise to Franchisee; and

17.2.1.3 to protect Franchisor against its costs in training Franchisee and its officers, directors, executives, professional staff and Designated Managers.

17.2.2 Except as otherwise approved in writing by Franchisor, neither Franchisee, nor any holder of a legal or beneficial interest in Franchisee, nor any officer, director, executive, manager or member of the professional staff of Franchisee, shall, for a period of two (2) years after the expiration or termination of this Agreement, regardless of the cause of termination, either directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity:

17.2.2.1 own an interest in, manage, operate or provide services to any Competitive Business located or operating (a) within a twenty-five (25) mile radius of the Approved Location or within the Protected Territory (whichever is greater), or (b) within a twenty-five (25) mile radius of the location of any other KIDS 'N' CLAY Pottery Studio in existence at the time of termination or expiration; or

17.2.2.2 solicit or otherwise attempt to induce or influence any employee or other business associate of Franchisor to terminate or modify his, her or its business relationship with Franchisor or to compete against Franchisor.

17.2.3 In furtherance of this Section, Franchisor has the right to require certain individuals to execute standard form nondisclosure or non-competition agreements as provided in Section 7.5.

17.3 Unfair Competition

If Franchisee operates any other business, Franchisee shall not use any reproduction, counterfeit, copy or colorable imitation of the Marks, either in connection with such other business or the promotion thereof, that is likely to cause confusion, mistake or deception, or that is likely to dilute Franchisor's rights in the Marks. Franchisee shall not utilize any designation of origin, description or representation that falsely suggests or represents an association or connection with Franchisor. This Section is not intended as an approval of Franchisee's right to operate other businesses and in no way is it intended to contradict Section 17.1 or 17.2. If Franchisor elects not to receive an assignment or sublease of the Approved Location, Franchisee shall make such modifications or alterations to the Approved Location (including changing telephone and facsimile numbers) immediately upon termination or expiration of this Agreement as may be necessary to prevent any association between Franchisor or the System and any business subsequently operated by Franchisee or others at the Approved Location. Franchisee shall make such specific additional changes to the Approved Location as Franchisor may reasonably request for that purpose including, without limitation, removal of all physical and structural features identifying or distinctive to the System. If Franchisee fails or refuses to comply with the requirements of this Section, Franchisor has the right to enter upon the Approved Location for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee shall pay upon demand.

17.4 Franchisor's Option to Purchase Certain Business Assets

Franchisor has the right (but not the duty), for a period of thirty (30) days after termination or expiration of this Agreement, to purchase any or all assets of the Franchised Business including leasehold improvements, equipment, supplies and other inventory. The purchase price shall be equal to the assets' fair market value, excluding any goodwill. If Franchisor elects to exercise this option to purchase, it has the right to set off all amounts due from Franchisee under this Agreement, if any, against the purchase price. If Franchisor and Franchisee cannot agree on a fair market value, an independent appraiser selected by Franchisor will determine the fair market value.

17.5 Survival of Certain Provisions

All obligations of Franchisor and Franchisee, which expressly or by their nature survive the expiration or termination of this Agreement, shall continue in full force and effect subsequent to and notwithstanding their expiration or termination and until satisfied or by their nature expire.

18. TRANSFERABILITY OF INTEREST

18.1 Transfer by Franchisor

This Agreement and all rights and duties hereunder are fully transferable in whole or in part by Franchisor and such rights will inure to the benefit of any person or entity to whom transferred; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the functions of Franchisor, the assignee shall assume the obligations of Franchisor hereunder and Franchisor shall thereafter have no liability for the performance of any obligations contained in this Agreement.

18.2 Transfer by Franchisee to a Third Party

The rights and duties of Franchisee as set forth in this Agreement, and the Franchise herein granted, are personal to Franchisee (or its owners), and Franchisor has entered into this Agreement in reliance upon Franchisee's personal or collective skill and financial ability. Accordingly, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee may sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in this Agreement, the Franchise granted hereby, the Approved Location used in operating the Franchised Business, its assets or any part or all of the ownership interest in Franchisee without the prior written approval of Franchisor. Any purported transfer without such approval shall be null and void and shall constitute a material breach of this Agreement. If Franchisee is in compliance with this Agreement, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

18.2.1 Franchisee has complied with the requirements set forth in Section 19;

18.2.2 all obligations owed to Franchisor, and all other outstanding obligations relating to the Franchised Business, are fully paid and satisfied;

18.2.3 Franchisee (and any transferring owners, if Franchisee is a business entity) has executed a general release, in a form the same as or similar to the General Release attached as Exhibit A, of any and all claims against Franchisor, including its officers, directors, shareholders, managers, members, partners, owners and employees, in their corporate and individual capacities including, without limitation, claims arising under federal, state or local laws, rules or ordinances, and any other matters incident to the termination of this Agreement or to the transfer of Franchisee's interest herein or to the transfer of Franchisee's ownership of all or any part of the Franchise; provided, however, that if a general release is prohibited, Franchisee shall give the maximum release allowed by law;

18.2.4 the prospective transferee has satisfied Franchisor that it meets Franchisor's management, business and financial standards, and otherwise possesses the character and capabilities, including business reputation and credit rating, as Franchisor may require, in its sole discretion, to demonstrate ability to conduct the Franchised Business;

18.2.5 the transferee and, if Franchisor requires, all persons owning any interest in the transferee, have executed the then-current Franchise Agreement for new franchisees, which may be substantially different from this Agreement, including different Royalty Fee and Marketing Fund Contribution rates and other material provisions, and the franchise agreement then executed shall be for the term specified in such agreement;

18.2.6 the transferee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit A, of any and all claims against Franchisor and its officers, directors, shareholders, managers, members, partners, owners and employees, in their corporate and individual capacities, with respect to any representations regarding the Franchise or the business conducted pursuant thereto or any other matter that may have been made to the transferee by Franchisee;

18.2.7 Franchisee has provided Franchisor with a complete copy of all contracts and agreements and related documentation between Franchisee and the prospective transferee relating to the intended sale or transfer of the Franchise;

18.2.8 Franchisee, or the transferee, has paid to Franchisor a transfer fee in the amount of FIFTEEN THOUSAND DOLLARS (\$15,000.00);

18.2.9 the transferee, or all holders of a legal or beneficial interest in the transferee, has agreed to be personally bound jointly and severally by all provisions of this Agreement for the remainder of its term;

18.2.10 Franchisee has agreed to be bound to the obligations of the new franchise agreement and to guarantee the full performance thereof by the transferee, if required by Franchisor;

18.2.11 the transferee has obtained all necessary consents and approvals by third parties (such as the lessor of the Approved Location) and all applicable federal, state and local laws, rules, ordinances and requirements applicable to the transfer have been complied with or satisfied;

18.2.12 Franchisee has, and if Franchisee is an entity, all of the holders of a legal and beneficial interest in Franchisee have executed and delivered to Franchisor a nondisclosure and non-competition agreement in a form the same as or similar to the standard form Nondisclosure and Non-Competition Agreement attached as Exhibit B; and

18.2.13 the transferee agrees that its Designated Manager shall complete, to Franchisor's satisfaction, a training program in substance similar to the initial training described in Section 8.1 prior to assuming the management of the day-to-day operation of the Franchised Business.

18.3 Transfer to a Controlled Entity

18.3.1 If Franchisee wishes to transfer this Agreement or any interest herein to a corporation, limited liability company or other legal entity which shall be entirely owned by Franchisee ("Controlled Entity"), which Controlled Entity is being formed for the financial planning, tax or other convenience of Franchisee, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

18.3.1.1 the Controlled Entity is newly organized and its charter provides that its activities are confined exclusively to the operation of the Franchised Business;

18.3.1.2 Franchisee or all holders of a legal or beneficial interest in Franchisee own all of the equity and voting power of the outstanding stock or other capital interest in the Controlled Entity;

18.3.1.3 all obligations of Franchisee to Franchisor or any Affiliate are fully paid and satisfied; provided, however, that neither Franchisee nor the transferee shall be required to pay a transfer fee as required pursuant to Section 18.2.8;

18.3.1.4 the Controlled Entity has entered into a written agreement with Franchisor expressly assuming the obligations of this Agreement and all other agreements relating to the operation of the

Franchised Business. If the consent of any other party to any such other agreement is required, Franchisee has obtained such written consent and provided the same to Franchisor prior to consent by Franchisor;

18.3.1.5 all holders of a legal or beneficial interest in the Controlled Entity have entered into an agreement with Franchisor jointly and severally guaranteeing the full payment of the Controlled Entity's obligations to Franchisor and the performance by the Controlled Entity of all the obligations of this Agreement;

18.3.1.6 each stock certificate or other ownership interest certificate of the Controlled Entity has conspicuously endorsed upon the face thereof of a statement in a form satisfactory to Franchisor that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement; and

18.3.1.7 copies of the Controlled Entity's articles of incorporation, bylaws, operating agreement, and other governing regulations or documents, including resolutions of the board of directors authorizing entry into this Agreement, have been promptly furnished to Franchisor. Any amendment to any such documents shall also be furnished to Franchisor immediately upon adoption.

18.3.2 The term of the transferred franchise shall be the unexpired term of this Agreement, including all renewal rights, subject to any and all conditions applicable to such renewal rights.

18.3.3 Franchisor's consent to a transfer of any interest in this Agreement, or of any ownership interest in the Franchised Business, shall not constitute a waiver of any claims Franchisor may have against the transferor or the transferee, nor shall it be deemed a waiver of Franchisor's right to demand compliance with the terms of this Agreement.

18.4 Franchisor's Disclosure to Transferee

Franchisor has the right, without liability of any kind or nature whatsoever to Franchisee, to make available for inspection by any intended transferee of Franchisee all or any part of Franchisor's records relating to this Agreement, the Franchised Business or to the history of the relationship of the parties hereto. Franchisee hereby specifically consents to such disclosure by Franchisor and shall release and hold Franchisor harmless from and against any claim, loss or injury resulting from an inspection of Franchisor's records relating to the Franchised Business by an intended transferee identified by Franchisee.

18.5 For-Sale Advertising

Franchisee shall not, without prior written consent of Franchisor, place in, on or upon the location of the Franchised Business, or in any communication media, any form of advertising relating to the sale of the Franchised Business or the rights granted hereunder.

18.6 Transfer by Death or Incapacity

Upon the death or incapacity (as determined by a court of competent jurisdiction) of any individual franchisee or any holder of a legal or beneficial interest in Franchisee, the appropriate representative of such person (whether administrator, personal representative or trustee) will, within a reasonable time not exceeding one hundred eighty (180) days following such event, transfer such individual's interest in the Franchised Business or in Franchisee to a third party approved by Franchisor. Such transfers, including transfers by will or inheritance,

shall be subject to the conditions for assignments and transfers contained in this Agreement. During such one hundred eighty (180) day period, the Franchised Business must remain at all times under the primary management of a Designated Manager who otherwise meets Franchisor's management qualifications.

19. RIGHT OF FIRST REFUSAL

19.1 Submission of Offer

If Franchisee, or any of its owners, proposes to sell the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder, Franchisee shall obtain and deliver a *bona fide*, executed written offer or proposal to purchase, along with all pertinent documents including any contract or due diligence materials, to Franchisor. The offer must apply only to an approved sale of the assets or interests listed above and may not include any other property or rights of Franchisee or any of its owners.

19.2 Franchisor's Right to Purchase

Franchisor shall, for thirty (30) days from the date of delivery of all such documents, have the right, exercisable by written notice to Franchisee, to purchase the offered assets or interest for the price and on the same terms and conditions contained in such offer communicated to Franchisee. Franchisor has the right to substitute cash for the fair market value of any form of payment proposed in such offer. Franchisor's credit shall be deemed at least equal to the credit of any proposed buyer. After providing notice to Franchisee of Franchisor's intent to exercise this right of first refusal, Franchisor shall have up to sixty (60) days to close the purchase. Franchisor shall be entitled to receive from Franchisee all customary representations and warranties given by Franchisee as the seller of the assets or such ownership interest or, at Franchisor's election, such representations and warranties contained in the proposal.

19.3 Non-Exercise of Right of First Refusal

If Franchisor does not exercise this right of first refusal within thirty (30) days, the offer or proposal may be accepted by Franchisee or any of its owners, subject to Franchisor's prior written approval as required by Section 18.2. Should the sale fail to close within one hundred twenty (120) days after the offer is delivered to Franchisor, Franchisor's right of first refusal shall renew and be implemented in accordance with this Section.

20. BENEFICIAL OWNERS OF FRANCHISEE

Franchisee represents, and Franchisor enters into this Agreement in reliance upon such representation, that the individuals identified in Exhibit D as Holders of a Legal or Beneficial Interest, each of whom have executed the supplemental signature page below with respect to his or her individual obligations under this Agreement, are the sole holders of a legal or beneficial interest (in the stated proportions) of Franchisee.

21. RELATIONSHIP AND INDEMNIFICATION

21.1 Relationship

This Agreement does not appoint or make Franchisee an agent, legal representative, joint venturer, partner, employee, servant or independent contractor of Franchisor for any purpose whatsoever. Franchisee may not represent or imply to third parties that Franchisee is an agent of Franchisor, and Franchisee is in no way authorized to make any contract, agreement, warranty or representation on behalf of Franchisor, or to create any obligation, express or implied, on Franchisor's behalf. During the term of this Agreement, and any extension or renewal hereof, Franchisee shall hold itself out to the public only as a franchisee and an owner of the Franchised Business operating the Franchised Business pursuant to a franchise from Franchisor. Franchisee shall take such affirmative action as may be necessary to do so including, without limitation, exhibiting a notice of that fact in a conspicuous place on the Approved Location and on all forms, stationery or other written materials, the content of which Franchisor has the right to specify. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt nor any other obligation of Franchisee. Franchisor shall in no way be responsible for any injuries to persons or property resulting from the operation of the Franchised Business. Any third party contractors and vendors retained by Franchisee to convert or construct the premises are independent contractors of Franchisee alone.

21.2 Indemnification

Franchisee shall hold harmless and indemnify Franchisor, its Affiliate, all holders of a legal or beneficial interest in Franchisor and all officers, directors, executives, managers, members, partners, owners, employees, agents, successors and assigns (collectively "Franchisor Indemnitees") from and against all losses, damages, fines, costs, expenses or liability (including attorneys' fees and all other costs of litigation) incurred in connection with any action, suit, demand, claim, investigation or proceeding, or any settlement thereof, which arises from or is based upon Franchisee's (a) ownership or operation of the Franchised Business; (b) violation, breach or asserted violation or breach of any federal, state or local law, regulation or rule; (c) breach of any representation, warranty, covenant, or provision of this Agreement or any other agreement between Franchisee and Franchisor (or its Affiliate); (d) defamation of Franchisor or the System; (e) acts, errors or omissions of any nature, including those committed or incurred in connection with the Franchised Business, and including any negligent or intentional acts; or (f) infringement, violation or alleged infringement or violation of any Mark, patent or copyright or any misuse of the Confidential Information.

21.3 Right to Retain Counsel

Franchisee shall give Franchisor immediate notice of any such action, suit, demand, claim, investigation or proceeding that may give rise to a claim for indemnification by a Franchisor Indemnitee. Franchisor has the right to retain counsel of its own choosing in connection with any such action, suit, demand, claim, investigation or proceeding. In order to protect persons, property, Franchisor's reputation or the goodwill of others, Franchisor has the right to, at any time without notice, take such remedial or corrective actions as it deems expedient with respect to any action, suit, demand, claim, investigation or proceeding if, in Franchisor's sole judgment, there are grounds to believe any of the acts or circumstances listed above have occurred. If Franchisor's exercise of its rights under this Section causes any of Franchisee's insurers to refuse to pay a third party claim, all cause of action and legal remedies Franchisee might have against such insurer shall automatically be assigned to Franchisor without the need for any further action on either party's part. Under no circumstances shall Franchisor be required or obligated to seek coverage from third parties or otherwise mitigate losses in order to maintain a claim against Franchisee. The failure to

pursue such remedy or mitigate such loss shall in no way reduce the amounts recoverable by Franchisor from Franchisee.

22. GENERAL CONDITIONS AND PROVISIONS

22.1 No Waiver

No failure of Franchisor to exercise any power reserved to it hereunder, or to insist upon strict compliance by Franchisee with any obligation or condition hereunder, and no custom nor practice of the parties in variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default by Franchisee shall not be binding unless in writing and executed by Franchisor and shall not affect nor impair Franchisor's right with respect to any subsequent default of the same or of a different nature. Subsequent acceptance by Franchisor of any payment(s) due shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants or conditions of this Agreement.

22.2 Injunctive Relief

As any breach by Franchisee of any of the restrictions contained in Sections 6, 7 and 17 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated.

22.3 Notices

All notices required or permitted under this Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after transmission by facsimile or other reasonably reliable electronic communication system; (c) two (2) business days after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. Either Party may change its address by a written notice sent in accordance with this Section 22.3. All notices, payments and reports required by this Agreement shall be sent to Franchisor at the following address:

Kids 'N' Clay Development, LLC
Attention: President
1824 5th Street
Berkeley, California 94710-1915

22.4 Cost of Enforcement or Defense

If Franchisor or Franchisee is required to enforce this Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of its costs, including reasonable accounting and attorneys' fees, in connection with such proceeding.

22.5 Guaranty and Assumption of Obligations

All holders of a legal or beneficial interest in Franchisee of five percent (5%) or greater shall be required to execute, as of the date of this Agreement, the Guaranty and Assumption of Obligations attached as Exhibit C, through which such holders agree to assume and discharge all of Franchisee's obligations under this Agreement and to be personally liable hereunder for all of the same.

22.6 Approvals

Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor therefor and, except as otherwise provided herein, any approval or consent granted shall be effective only if in writing. Franchisor makes no warranties nor guarantees upon which Franchisee may rely, and assumes no liability nor obligation to Franchisee or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or services to Franchisee in connection with this Agreement, or by reason of any neglect, delay or denial of any request therefore.

22.7 Entire Agreement

This Agreement, its exhibits and the documents referred to herein shall be construed together and constitute the entire, full and complete agreement between Franchisor and Franchisee concerning the subject matter hereof and shall supersede all prior agreements. No other representation, oral or otherwise, has induced Franchisee to execute this Agreement, and there are no representations (other than those within Franchisor's KIDS 'N' CLAY Offering Circular), inducements, promises or agreements, oral or otherwise, between the parties not embodied herein, which are of any force or effect with respect to the matters set forth in or contemplated by this Agreement or otherwise. No amendment, change or variance from this Agreement shall be binding on either party unless executed in writing by both parties.

22.8 Severability and Modification

22.8.1 Except as noted below, each paragraph, part, term and provision of this Agreement shall be considered severable. If any paragraph, part, term or provision herein is ruled to be unenforceable, unreasonable or invalid, such ruling shall not impair the operation of or affect the remaining portions, paragraphs, parts, terms and provisions of this Agreement, and the latter shall continue to be given full force and effect and bind the parties; and such unenforceable, unreasonable or invalid paragraphs, parts, terms or provisions shall be deemed not part of this Agreement. If Franchisor determines that a finding of invalidity adversely affects the basic consideration of this Agreement, Franchisor has the right to, at its option, terminate this Agreement.

22.8.2 Notwithstanding the above, each of the covenants contained in Sections 7 and 17 shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Confidential Information or on competition to the maximum extent provided or permitted by law.

22.9 Construction

All captions herein are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof.

22.10 Force Majeure

Whenever a period of time is provided in this Agreement for either party to perform any act, except pay monies, neither party shall be liable nor responsible for any delays due to strikes, lockouts, casualties, acts of God, war, terrorism, governmental regulation or control or other causes beyond the reasonable control of the parties, and the time period for the performance of such act shall be extended for the amount of time of the delay. This clause shall not result in an extension of the term of this Agreement.

22.11 Timing

Time is of the essence; except as set forth in Section 22.10, failure to perform any act within the time required or permitted by this Agreement shall be a material breach.

22.12 Withholding Payments

Franchisee shall not, for any reason, withhold payment of any Royalty Fees or other amounts due to Franchisor or to its Affiliate. Franchisee shall not withhold or offset any amounts, damages or other monies allegedly due to Franchisee against any amounts due to Franchisor. No endorsement or statement on any payment for less than the full amount due to Franchisor will be construed as an acknowledgment of payment in full, or an accord and satisfaction, and Franchisor has the right to accept and cash any such payment without prejudice to Franchisor's right to recover the full amount due, or pursue any other remedy provided in this Agreement or by law. Franchisor has the right to apply any payments made by Franchisee against any of Franchisee's past due indebtedness as Franchisor deems appropriate. Franchisor shall set off sums Franchisor owes to Franchisee against any unpaid debts owed by Franchisee to Franchisor.

22.13 Further Assurances

Each party to this Agreement will execute and deliver such further instruments, contracts, forms or other documents, and will perform such further acts, as may be necessary or desirable to perform or complete any term, covenant or obligation contained in this Agreement.

22.14 Duty of Reasonableness and of Good Faith

To honor the intent and purpose of this Agreement, and of any of the documents referenced herein, both Franchisor and Franchisee shall act reasonably and in good faith. If the consent of either party is required or contemplated hereunder, the party whose consent is required shall not unreasonably withhold consent, unless such consent is expressly subject to such party's sole discretion pursuant to the terms of this Agreement.

22.15 Third-Party Beneficiaries

Anything to the contrary notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisor or Franchisee, and their respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under this Agreement.

22.16 Multiple Originals

Both parties will execute multiple copies of this Agreement, and each executed copy will be deemed an original.

23. DISPUTE RESOLUTION

23.1 Choice of Law

Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles), excluding any law regulating the sale of franchises or governing the relationship between a franchisor and franchisee, unless the jurisdictional requirements of such laws are met independently without reference to this Section. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency. Certain provisions of this Agreement may be preempted by state or federal law. Certain applicable state laws are disclosed on the Multi-State Addenda attached as Exhibit E.

23.2 Consent to Jurisdiction

Any action brought by either party, except those claims required to be submitted to arbitration, shall be brought in the appropriate state or federal court located in or serving the County of Alameda, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. The parties hereby submit to service of process by registered mail, return receipt requested or by any other manner provided by law. Claims for injunctive relief may be brought by Franchisor where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

23.3 Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

23.4 Limitations of Claims

Any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an action for a claim is commenced within one (1) year from the date on which Franchisee or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim.

23.5 Limitation of Damages

Franchisee and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal fees as provided in Section 22.4. Franchisee waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Franchisee against Franchisor concerning this Agreement, Franchisee's

contract damages shall not exceed and shall be limited to refund of Franchisee's Franchise Fee and Royalty Fee payments.

23.6 Waiver of Jury Trial

Franchisee and Franchisor each irrevocably waive trial by jury in any action, whether at law or equity, brought by either of them.

23.7 Arbitration

This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to the ownership of any of Franchisor's Marks or the unauthorized use or disclosure of Franchisor's Confidential Information and except for claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in the County of Alameda, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Superior Court for the State of California and located in the County of Alameda, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

Franchisee acknowledges that it has read the terms of this binding arbitration provision and affirms that this provision is entered into willingly and voluntarily and without any fraud, duress or undue influence on the part of Franchisor or any of Franchisor's agents or employees.

24. ACKNOWLEDGMENTS

24.1 Receipt of this Agreement and the Uniform Franchise Offering Circular

Franchisee represents and acknowledges that it has received, read and understands this Agreement and Franchisor's Uniform Franchise Offering Circular; and that Franchisor has accorded Franchisee ample time and opportunity to consult with advisors of its own choosing about the potential benefits and risks of entering into this Agreement. Franchisee represents and acknowledges that it has received an exact copy of this Agreement and its exhibits at least five (5) business days prior to the date on which this Agreement was executed. Franchisee further represents and acknowledges that it has received, at least ten (10) business days prior to the date on which this Agreement was executed, the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures.

24.2 Consultation by Franchisee

Franchisee represents that it has been urged to consult with its own advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereby and the prospects for that business. Franchisee represents that it has either consulted with such advisors or has deliberately declined to do so.

24.3 True and Accurate Information

Franchisee represents that all information set forth in any and all applications, financial statements and submissions to Franchisor is true, complete and accurate in all respects, and Franchisee acknowledges that Franchisor is relying upon the truthfulness, completeness and accuracy of such information.

24.4 Risk

Franchisee represents that it has conducted an independent investigation of the business contemplated by this Agreement and acknowledges that, like any other business, an investment in a KIDS 'N' CLAY Pottery Studio involves business risks and that the success of the venture is dependent, among other factors, upon the business abilities and efforts of Franchisee. Franchisor makes no representations or warranties, express or implied, in this Agreement or otherwise, as to the potential success of the business venture contemplated hereby.

24.5 No Guarantee of Success

Franchisee represents and acknowledges that it has not received or relied on any guarantee, express or implied, as to the revenues, profits or likelihood of success of the Franchised Business. Franchisee represents and acknowledges that there have been no representations by Franchisor's directors, employees or agents that are not contained in, or are inconsistent with, the statements made in the Uniform Franchise Offering Circular or this Agreement.

24.6 No Violation of Other Agreements

Franchisee represents that its execution of this Agreement will not violate any other agreement or commitment to which Franchisee or any holder of a legal or beneficial interest in Franchisee is a party.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby have duly executed this Agreement.

KIDS 'N' CLAY DEVELOPMENT, LLC:

By: _____

Name: _____

Title: _____

FRANCHISEE: _____
(type/print name)

By: _____

Name: _____

Title: _____

[or] [if an individual]

Signed: _____

Name printed: _____

[SUPPLEMENTAL SIGNATURE PAGE FOLLOWS]

The following have duly executed this Agreement with respect to, and agree to be personally bound by, the obligations contained in this Agreement including, without limitation, those contained in Sections 7, 17, 18, 19, 20, 21 and 23:

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

Signed: _____

Name printed: _____

Relationship to Franchisee: _____

EXHIBIT A TO THE FRANCHISE AGREEMENT

GENERAL RELEASE

THIS GENERAL RELEASE is made and given on this ____ day of _____, 20____ by _____, (“RELEASOR”) an individual/corporation/limited liability company/partnership with a principal address of _____, in consideration of:

_____ the execution by KIDS ‘N’ CLAY DEVELOPMENT, LLC (“RELEASEE”) of a successor Franchise Agreement or other renewal documents renewing the franchise (the “Franchise”) granted to RELEASOR by RELEASEE pursuant to that certain Franchise Agreement (the “Franchise Agreement”) between RELEASOR and RELEASEE; or

_____ RELEASEE’S consent to RELEASOR’S assignment of its rights and duties under the Franchise Agreement; or

_____ RELEASEE’S consent to RELEASOR’S assumption of rights and duties under the Franchise Agreement; or

_____ RELEASEE’S refund of fifty percent (50%) of the Franchise Fee RELEASOR paid to RELEASEE,

and other good and valuable consideration, and accordingly RELEASOR hereby releases and discharges RELEASEE, RELEASEE’S officers, directors, shareholders and employees (in their corporate and individual capacities), and RELEASEE’S successors and assigns, from any and all causes of action, suits, debts, damages, judgments, executions, claims and demands whatsoever, in law or in equity, that RELEASOR and RELEASOR’S heirs, executors, administrators, successors and assigns had, now have or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the date of this RELEASE arising out of or related to the Franchise or the Franchise Agreement, including, without limitation, claims arising under federal, state and local laws, rules and ordinances.

This General Release shall not be amended or modified unless such amendment or modification is in writing and is signed by RELEASOR.

IN WITNESS WHEREOF, RELEASOR has executed this General Release as of the date first above written.

RELEASOR: _____
(type/print name)

By: _____

Name: _____

Title: _____
(or, if an individual)

Signed: _____

Name printed: _____

ACKNOWLEDGMENT

State of _____)
) ss
County of _____)

On this ____ day of _____, 20____ before me personally came _____, known to me to be the same person whose name is signed to the foregoing General Release, and acknowledged the execution thereof for the uses and purposes therein set forth, [and who did swear and say that he/she is the _____ (title) of _____ (company name), and he/she has the authority to execute said General Release].

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Notary Public
My Commission expires:

(NOTARIAL SEAL)

EXHIBIT B TO THE FRANCHISE AGREEMENT

NONDISCLOSURE AND NON-COMPETITION AGREEMENT

This "Agreement" made as of the ____ day of _____, 200____, by and between _____, ("Franchisee") (d/b/a a KIDS 'N' CLAY Franchise) and _____ ("Individual").

WITNESSETH:

WHEREAS, Franchisee is a party to that certain Franchise Agreement dated _____, 20__ ("Franchise Agreement") by and between Franchisee and Kids 'N' Clay Development, LLC ("Company"); and

WHEREAS, Franchisee desires Individual to have access to and/or to review certain confidential materials, which are more particularly described below; and

WHEREAS, Franchisee is required by the Franchise Agreement to have Individual execute this Agreement prior to providing Individual access to said confidential materials; and

WHEREAS, Individual agrees not to disclose any such information to any other party and/or use such information to compete against Company, Franchisee or any other franchisee of Company in the same and/or a similar business, ("Competitive Business") now or in the future.

NOW, THEREFORE, in consideration of the mutual promises and undertakings set forth herein, and intending to be legally bound hereby, the parties hereby mutually agree as follows:

1. Proprietary Information.

Individual understands Franchisee possesses and will possess Proprietary Information, which is important to its business. For purposes of this Agreement, "Proprietary Information" is information that was or will be developed, created, or discovered by or on behalf of Franchisee, or which became or will become known by, or was or is conveyed to Franchisee, and which has commercial value in Franchisee's business. "Proprietary Information" includes, but is not limited to, operation manual(s), information about trade secrets, computer programs, designs, technology, ideas, know-how, processes, formulas, compositions, data, techniques, improvements, inventions (whether patentable or not), works of authorship, business and product development plans, other information concerning Franchisee's actual or anticipated business, research or development related to the KIDS 'N' CLAY System and/or any of Franchisee's other business operations or procedures. Any information expressly designated by Company as "Proprietary Information" shall be deemed such for all purposes of this Agreement, but the absence of designation shall not relieve Individual of his or her obligations hereunder in respect of information otherwise constituting Proprietary Information. Individual understands Franchisee's providing of access to the confidential information creates a relationship of confidence and trust between Individual and Franchisee with respect to the Proprietary Information.

a) Individual understands that Franchisee possesses or will possess "Franchise Materials" that are important to its business. "Franchise Materials" are documents or other media or tangible items that contain or embody Proprietary Information or any other information concerning the business, operations or plans of the Franchise, whether such documents have been prepared by Individual or by others. "Franchise Materials" include, but are not limited to, blueprints, drawings, designs, photographs, charts, graphs, notebooks, student lists, computer disks, tapes or printouts, sound recordings and other printed, typewritten or handwritten documents, as well as samples, prototypes, models, products and the like.

2. Confidentiality/Non-Disclosure.

a) Individual agrees not to communicate or divulge to, (or use for the benefit of himself or herself), any other person, firm, association, or corporation, with the sole exception of Franchisee, now or at any time in the future, any information, including, but not limited to, any operation manual(s), trademarks, trade names, patents, inventions, discoveries, improvements, processes, formulae, apparatus, equipment, methods, trade secrets, research, secret data, or other confidential matters developed, possessed, owned, or used by Franchisee, the discovery, development or knowledge of which is known to or acquired by Individual by reason of his or her meeting with, and/or participation in the business and affairs of, or as a result of his or her association with, or which may be revealed to him or her by Franchisee.

b) Individual agrees that his or her obligations under paragraph 2(a) of this Agreement shall continue in effect after termination of Individual's relationship with Franchisee, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary, and Franchisee is entitled to communicate Individual's obligations under this Agreement to any future student, client or employer to the extent deemed necessary by Franchisee for protection of its rights hereunder and regardless of whether Individual or any of its affiliates or assigns becomes an investor, partner, joint venturer, broker, distributor or the like in the KIDS 'N' CLAY System.

3. Non-Competition.

a) Individual agrees that for a period of two (2) years hereafter, Individual shall not, directly or indirectly, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business anywhere within: (1) twenty-five (25) miles of the premises of Franchisee's KIDS 'N' CLAY Pottery Studio located at: _____; or (2) twenty-five (25) miles of any KIDS 'N' CLAY Pottery Studio without the express written consent of Franchisee.

b) "Competitive Business" means any business that offers or provides (or grants franchises or licenses to others to operate a business which offers) ceramic art instruction or facilities the same as or similar to those provided by KIDS 'N' CLAY franchises or in which Confidential Information could be used to the disadvantage of Company or its other franchisees; provided, however, that the term "Competitive Business" shall not apply to (a) any business operated under a Franchise Agreement with Company, or (b) any business operated by a publicly held entity in which Individual owns less than a five percent (5%) legal or beneficial interest.

4. Miscellaneous.

a) This Agreement constitutes the entire Agreement between the parties with respect to the subject matter hereof. This Agreement supersedes any prior agreements, negotiations and discussions between Individual and Franchisee. This Agreement cannot be altered or amended except by an agreement in writing signed by the duly authorized representatives of the parties.

b) Individual agrees that if one (1) or more provisions of this Agreement are held to be illegal or unenforceable under applicable law, such illegal or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required so that this Agreement shall otherwise remain in full force and effect and enforceable in accordance with its terms. Individual also agrees to reimburse Franchisee for any and all costs and attorney fees incurred by Franchisee in the enforcement of the terms of this Agreement.

c) This Agreement shall be effective as of the date this Agreement is executed and shall be binding upon the successors and assigns of Individual and shall inure to the benefit of Franchisee, its subsidiaries, successors and assigns.

d) This Agreement can only be modified by a subsequent written agreement executed by an authorized officer of Franchisee.

e) The failure of either party to insist in any one (1) or more instances upon performance of any terms and conditions of this Agreement shall not be construed a waiver of future performance of any such term, covenant or condition of this Agreement and the obligations of either party with respect thereto shall continue in full force and effect.

f) No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties.

g) The paragraph headings in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

h) In the event that any part of this Agreement shall be held to be unenforceable or invalid, the remaining parts hereof shall nevertheless continue to be valid and enforceable as though the invalid portions were not a part hereof.

INDIVIDUAL CERTIFIES THAT HE OR SHE HAS READ THIS AGREEMENT CAREFULLY, AND UNDERSTANDS AND ACCEPTS THE OBLIGATIONS THAT IT IMPOSES WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO SUCH PERSON TO INDUCE THE SIGNING OF THIS AGREEMENT.

IN WITNESS WHEREOF, Franchisee has hereunto caused this Agreement to be executed by its duly authorized officer, and Individual has executed this Agreement, all being done in duplicate originals with one (1) original being delivered to each party as of the day and year first above written.

WITNESSES:

Franchisee

By: _____

Its: _____

Individual

Signature: _____

Printed Name: _____

EXHIBIT C TO THE FRANCHISE AGREEMENT

GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this ____ day of _____, 20____,
by. _____
_____.

In consideration of, and as an inducement to, the execution of that certain Franchise Agreement of even date herewith (“Agreement”) by KIDS ‘N’ CLAY DEVELOPMENT, LLC (“Franchisor”), each of the undersigned hereby personally and unconditionally guarantees to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that _____ (“Franchisee”) shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement. Each of the undersigned shall be personally bound by, and personally liable for, Franchisee’s breach of any provision in the Agreement, including those relating to monetary obligations and obligations to take or refrain from taking specific actions or engaging in specific activities, such as those contemplated by Sections 7 and 17 of the Agreement. Each of the undersigned waives: (a) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (b) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed; (c) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations hereby guaranteed; (d) any right it may have to require that an action be brought against Franchisee or any other person as a condition of liability; and (e) any and all other notices and legal or equitable defenses to which it may be entitled.

Each of the undersigned consents and agrees that: (a) its direct and immediate liability under this Guaranty shall be joint and several; (b) it shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (c) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; and (d) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to Franchisee or to any other person including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this Guaranty, which shall be continuing and irrevocable during the term of the Agreement.

IN WITNESS WHEREOF, this Guaranty has been entered into the day and year first before written.

PERSONAL GUARANTOR

PERSONAL GUARANTOR

Personally and Individually (Printed Name)

Personally and Individually (Printed Name)

Personally and Individually (Signature)

Personally and Individually (Signature)

HOME ADDRESS

HOME ADDRESS

TELEPHONE NO.: _____
PERCENTAGE OF OWNERSHIP
IN FRANCHISEE: _____%

TELEPHONE NO.: _____
PERCENTAGE OF OWNERSHIP
IN FRANCHISEE: _____%

PERSONAL GUARANTOR

Personally and Individually (Printed Name)

Personally and Individually (Signature)

HOME ADDRESS

TELEPHONE NO.: _____

PERCENTAGE OF OWNERSHIP

IN FRANCHISEE: _____%

PERSONAL GUARANTOR

Personally and Individually (Printed Name)

Personally and Individually (Signature)

HOME ADDRESS

TELEPHONE NO.: _____

PERCENTAGE OF OWNERSHIP

IN FRANCHISEE: _____%

PERSONAL GUARANTOR

Personally and Individually (Printed Name)

Personally and Individually (Signature)

HOME ADDRESS

TELEPHONE NO.: _____

PERCENTAGE OF OWNERSHIP

IN FRANCHISEE: _____%

PERSONAL GUARANTOR

Personally and Individually (Printed Name)

Personally and Individually (Signature)

HOME ADDRESS

TELEPHONE NO.: _____

PERCENTAGE OF OWNERSHIP

IN FRANCHISEE: _____%

EXHIBIT E TO THE FRANCHISE AGREEMENT

MULTI-STATE ADDENDA

**ADDENDUM TO THE FRANCHISE AGREEMENT
KIDS 'N' CLAY DEVELOPMENT, LLC**

FOR THE STATE OF CALIFORNIA

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. The State of California Department of Corporations has imposed an escrow requirement based upon Franchisor's financial condition. All Franchise Fees collected by Franchisor from California Franchisees shall be held in escrow until such time as Franchisor has completed its initial obligations to Franchisee and Franchisee has opened for business. A copy of the escrow agreement is on file with the State of California Department of Corporations.

2. In recognition of the requirements of the California Franchise Investment Law, Cal. Corp. Code §§31000-3516 and the California Franchise Relations Act, Cal. Bus. And Prof. Code §§20000-20043, the Franchise Agreement for KIDS 'N' CLAY DEVELOPMENT, LLC shall be amended as follows:

- The California Franchise Relations Act provides rights to the Franchisee concerning termination or non-renewal of the Franchise Agreement that may supersede provisions in the Franchise Agreement, specifically Sections 4.2 and 16.2.
- Section 16.2.1.10, which terminates the Franchise Agreement upon the bankruptcy of Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
- Section 17.2 contains a covenant not to compete which extends beyond the expiration or termination of the Agreement; this covenant may not be enforceable under California Law.
- New Section 17.6 shall be inserted into the Franchise Agreement and states as follows:

If termination is the result of Franchisee's default, Franchisee will pay to Franchisor a lump sum payment (as liquidated damages for causing the premature termination of this Agreement and not as a penalty) equal to the total of all Royalty Fee payments for: (a) the twenty-four (24) calendar months of operation of Franchisee preceding Franchisee's default; (b) the period of time Franchisee has been in operation preceding the notice, if less than twenty-four (24) calendar months, projected on a twenty-four (24) calendar month basis; or (c) any shorter period as equals the unexpired term at the time of termination. The parties agree that a precise calculation of the full extent of the damages that Franchisor will incur on termination of this Agreement as a result of Franchisee's default is difficult and the parties desire certainty in this matter and agree that the lump sum payment provided under this Section is reasonable in light of the damages for premature termination that Franchisor will incur. This payment is not exclusive of any other remedies that Franchisor may have including attorneys' fees and costs.

- The Franchise Agreement requires litigation to be conducted in a court located outside of the State of California. This provision might not be enforceable for any cause of action arising under California law.
- The Franchise Agreement requires application of the laws of a state other than California. This provision might not be enforceable under California law.

- This Addendum contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
- Section 23.7 requires binding arbitration. The arbitration will occur at the forum indicated in Section 23.7, with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult 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 the Franchise Agreement restricting venue to a forum outside of the State of California.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the California Investment Law and/or the California Franchise Relations Act are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF HAWAII

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS ‘N’ CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of the Hawaii Franchise Investment Law, Hawaii Revised Statutes, Title 26, Chapter 482E *et seq.*, the Franchise Agreement for KIDS ‘N’ CLAY DEVELOPMENT, LLC shall be amended as follows:

- The Hawaii Franchise Investment Law provides rights to franchisees concerning non-renewal, termination and transfer of the Franchise Agreement. If the Agreement, and more specifically Sections 4.2, 16.2 and 18, contains a provision that is inconsistent with the Hawaii Franchise Investment Law, the Hawaii Franchise Investment Law will control.
- Sections 4.2.9 and 18.2.3 require Franchisee to sign a general release as a condition of renewal and transfer of the franchise, such release shall exclude claims arising under the Hawaii Franchise Investment Law.
- Section 16.2.1.10, which terminates the Franchise Agreement upon the bankruptcy of the Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS ‘N’ CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF ILLINOIS

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS ‘N’ CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. Due to Franchisor’s financial condition, the Office of the Illinois Attorney General has required and Franchisor has agreed, to defer collection of the initial fees as described in Section 3.1 of the Franchise Agreement until Franchisor has completed all of its pre-opening obligations to Franchisee and Franchisee is open for business.

2. In recognition of the requirements of the Illinois Franchise Disclosure Act, 815 ILCS 705, the Franchise Agreement for KIDS ‘N’ CLAY DEVELOPMENT, LLC shall be amended as follows:

- Section 16 shall be amended to add:

The conditions under which the Franchise Agreement can be terminated and Franchisee’s rights upon non-renewal, as well as the application by which Franchisee must bring any claims, may be governed by the Illinois Franchise Disclosure Act, 815 ILCS 705/19 and 705/20.

- Section 23 shall be amended to add:

No action for liability under the Illinois Franchise Disclosure Act shall be maintained unless brought before the expiration of three (3) years after the act or transaction constituting the violation upon which it is based, the expiration of one (1) year after the Franchisee becomes aware of facts or circumstances reasonably indicating that he may have a claim for relief in respect to conduct governed by the Act, or ninety (90) days after delivery to the Franchisee of a written notice disclosing the violation, whichever shall first expire.

- Section 23.1 shall be amended to add:

The Franchise Agreement will be governed by Illinois law. Jurisdiction and venue for court litigations shall be in Illinois. Any provision in the Franchise Agreement that designates jurisdiction or venue in a forum outside the State is void, provided that a Franchise Agreement may provide for arbitration in a forum outside of Illinois.

- Section 24.1 shall be amended to include a 14 calendar day minimum disclosure period prior to the signing of a binding agreement or any payment to the Franchisor.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS ‘N’ CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF INDIANA

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS ‘N’ CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of the Indiana Deceptive Franchise Practices Law, IC 23-2-2.7 and the Indiana Franchise Disclosure Law, IC 23-2-2-2.5, the Franchise Agreement for KIDS ‘N’ CLAY DEVELOPMENT, LLC shall be amended as follows:

- Sections 4.2.9, 8.3 and 18.2.3 do not provide for a prospective general release of claims against Franchisor that may be subject to the Indiana Deceptive Franchise Practices Law or the Indiana Franchise Disclosure Law.
- Section 16 is amended to prohibit unilateral termination of a franchise unless there is a material violation of the Franchise Agreement and the termination is not in bad faith.
- Section 17.2 is amended, subject to Indiana Code 23-2-2.7-1(9), to provide that post-term non-competition covenants shall have a geographical limitation of the territory granted to Franchisee.
- Section 21.2 is amended to provide that Franchisee will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Franchisee’s reliance upon or use of procedures or products that were required by Franchisor, if such procedures or products were utilized by Franchisee in the manner required by Franchisor.
- Section 23.1 is amended to provide that in the event of a conflict of law, the Indiana Franchise Disclosure Law, IC 23-2-2.5, and the Indiana Deceptive Franchise Practices Law will prevail.
- Section 23.2 is amended to provide that Franchisee may commence litigation in Indiana for any cause of action under Indiana law.
- Section 23.7 is amended to provide that arbitration between Franchisor and Franchisee, shall be conducted at a mutually agreed upon location.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS ‘N’ CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MARYLAND

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. Due to Franchisor's financial condition, the Maryland Securities Commissioner has required and Franchisor has agreed, to defer collection of the initial fees as described in Section 3.1 of the Franchise Agreement until Franchisor has completed all of its pre-opening obligations to Franchisee and Franchisee is open for business.

2. In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, Md. Code Ann., Bus. Reg. §§14-201-14-233, the Franchise Agreement for KIDS 'N' CLAY DEVELOPMENT, LLC shall be amended as follows:

- Sections 4.2.9, 8.3 and 18.2.3 require Franchisee to sign a general release as a condition of renewal, termination and transfer of the franchise; such release shall exclude claims arising under the Maryland Franchise Registration and Disclosure Law.
- Section 16.2.1.10, which terminates the Franchise Agreement upon the bankruptcy of the Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
- Section 23.1 requires that the franchise be governed by the laws of the State of California; however, in the event of a conflict of laws, to the extent required by the Maryland Franchise Registration and Disclosure Law, the laws of the State of Maryland shall prevail.
- Sections 23.2 and 23.7 require litigation or arbitration to be conducted in the State of California; the requirement shall not limit any rights Franchisee may have under the Maryland Franchise Registration and Disclosure Law to bring suit in the State of Maryland.
- Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.
- The General Release required as a condition of sale and to obtain a refund of the initial franchise fee shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
- Any 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.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MICHIGAN

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of the Michigan Franchise Investment Law, MCL §§445.1501-445.1546, the Franchise Agreement for KIDS 'N' CLAY DEVELOPMENT, LLC shall be amended as follows:

- Section 17.2 contains a covenant not to compete which extends beyond the expiration or termination of the Franchise Agreement; this covenant may not be enforceable under Michigan law.
- New Section 17.6 shall be inserted into the Franchise Agreement and states as follows:

If termination is the result of Franchisee's default, Franchisee will pay to Franchisor a lump sum payment (as liquidated damages for causing the premature termination of this Agreement and not as a penalty) equal to the total of all Royalty Fee payments for: (a) the twenty-four (24) calendar months of operation of Franchisee preceding Franchisee's default; (b) the period of time Franchisee has been in operation preceding the notice, if less than twenty-four (24) calendar months, projected on a twenty-four (24) calendar month basis; or (c) any shorter period as equals the unexpired term at the time of termination. The parties agree that a precise calculation of the full extent of the damages that Franchisor will incur on termination of this Agreement as a result of Franchisee's default is difficult and the parties desire certainty in this matter and agree that the lump sum payment provided under this Section is reasonable in light of the damages for premature termination that Franchisor will incur. This payment is not exclusive of any other remedies that Franchisor may have including attorneys' fees and costs.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Michigan Franchise Investment Law are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MINNESOTA

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS ‘N’ CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the Minnesota Franchise Law, Minn. Stat., Chapter 80C, Sections 80C.01 through 80C.22, and the Rules and Regulations promulgated pursuant thereto by the Minnesota Commission of Securities, Minnesota Rule 2860.4400, et. seq., the parties to the attached Franchise Agreement agree as follows:

- Sections 4 and 16 shall be amended to add that with respect to franchises governed by Minnesota Law, the Franchisor will comply with the Minnesota Franchise Law, which requires (except in certain specified cases) that a Franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice of non-renewal of the Agreement.
- Sections 4.2.9, 8.3 and 18.2.3 do not provide for a prospective general release of any claims against Franchisor that may be subject to the Minnesota Franchise Law. Minn. Rule 2860.4400D prohibits a franchisor for requiring a franchisee to assent to a general release.
- Section 6 shall be amended to add that, as required by Minnesota Franchise Act, KIDS ‘N’ CLAY DEVELOPMENT, LLC will reimburse Franchisee for any costs incurred by Franchisee in the defense of Franchisee’s right to use the Marks, so long as Franchisee was using the Marks in the manner authorized by KIDS ‘N’ CLAY DEVELOPMENT, LLC, and so long as KIDS ‘N’ CLAY DEVELOPMENT, LLC is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.
- Section 23.4 shall be amended to state that any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an arbitration or an action for a claim that cannot be the subject of arbitration is commenced within three (3) years from the date on which Franchisee or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to or the claim.
- Section 23.5 shall be deleted in its entirety.
- Section 23.6 shall be deleted in its entirety.
- Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit Franchisor from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Offering Circular or Franchise Agreement can abrogate or reduce any of 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 the jurisdiction.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota Franchise Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum and understands and consents to be bound by all of its terms.

KIDS ‘N’ CLAY DEVELOPMENT, LLC:

Franchisee:_____

By: _____

By: _____

Title:_____

Title:_____

FOR THE STATE OF NEW YORK

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of the General Business Laws of the State of New York, Article 33, §§ 680 through 695, the Franchise Agreement for KIDS 'N' CLAY DEVELOPMENT, LLC shall be amended as follows:

- Sections 4.2.9, 8.3 and 18.2.3 require Franchisee to sign a general release as a condition of renewal, termination and transfer of the franchise; such release shall exclude claims arising under the General Business Laws.
- Under Section 18.1, Franchisor will not transfer and assign its rights and obligations under the Franchise Agreement unless the transferee will be able to perform the Franchisor's obligations under the Franchise Agreement, in Franchisor's good faith judgment, so long as it remains subject to the General Business Laws of the State of New York.
- Section 21.2 is amended to provide that Franchisee will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Franchisee's reliance upon or use of procedures or products which were required by Franchisor, if such procedures or products were utilized by Franchisee in the manner required by Franchisor.
- Section 23.1 requires that the Franchise Agreement be governed by the laws of the state the Franchisor's principal business is then located, such a requirement will not be considered a waiver of any right conferred upon the Franchisee by Article 33 of the General Business Laws.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF NORTH DAKOTA

NOTE: KIDS 'N' CLAY IS NOT OFFERING FRANCHISES IN NORTH DAKOTA AT THIS TIME

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____ to amend and revise said Franchise Agreement as follows:

1. The North Dakota Securities Commission requires that certain provisions contained in the Agreement be amended to be consistent with North Dakota Law, including the North Dakota Franchise Investment Law, North Dakota Century Code Addendum, Chapter 51-19, Sections 51-19-01 *et seq.* Such provisions in the Agreement are hereby amended as follows:

- Under Sections 4.2.9, 8.3 and 18.2.3, the execution of a general release upon renewal, termination or transfer will be inapplicable to franchises operating under the North Dakota Franchise Investment Law to the extent that such a release excludes claims arising under the North Dakota Franchise Investment Law.

- Section 7 of the Franchise Agreement is amended to add that the prevailing party in any enforcement action is entitled to recover all costs and expenses including attorneys' fees.

- Sections 17.1.6 and 17.1.7 are amended to state:

If Franchisor or Franchisee is required to enforce this Agreement via judicial or arbitration proceedings, the prevailing party shall be entitled to reimbursement of its costs, including reasonable accounting and legal fees in connection with such proceeding.

- Section 17.2 is amended to add that covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of North Dakota except in limited instances as provided by law.

- New Section 17.6 is inserted into the Franchise Agreement and states as follows:

If termination is the result of Franchisee's default, Franchisee will pay to Franchisor a lump sum payment (as liquidated damages for causing the premature termination of this Agreement and not as a penalty) equal to the total of all Royalty Fee payments for: (a) the twenty-four (24) calendar months of operation of Franchisee preceding Franchisee's default; (b) the period of time Franchisee has been in operation preceding the notice, if less than twenty-four (24) calendar months, projected on a twenty-four (24) calendar month basis; or (c) any shorter period as equals the unexpired term at the time of termination. The parties agree that a precise calculation of the full extent of the damages that Franchisor will incur on termination of this Agreement as a result of Franchisee's default is difficult and the parties desire certainty in this matter and agree that the lump sum payment provided under this Section is reasonable in light of the damages for premature termination that Franchisor will incur. This payment is not exclusive of any other remedies that Franchisor may have including attorneys' fees and costs.

- Section 23.1 is amended to state that in the event of a conflict of laws, North Dakota Law shall prevail.

- Section 23.2 is amended to add that any action may be brought in the appropriate state or federal court in North Dakota with respect to claims under North Dakota Law.

- Section 23.4 is amended to state that the statute of limitations under North Dakota Law will apply.

- Sections 23.5 and 23.6 are deleted in their entireties.

- Section 23.7 is amended to state that arbitration involving a franchise purchased in North Dakota must be held either in a location mutually agreed upon prior to the arbitration, or if the parties cannot agree on a location, the arbitrator will determine the location.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF RHODE ISLAND

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of The Rhode Island Franchise Investment Act §19-28.1-14, the Franchise Agreement for KIDS 'N' CLAY DEVELOPMENT, LLC shall be amended as follows:

- Sections 4.2.9, 8.3 and 18.2.3 require Franchisee to sign a general release as a condition of renewal, termination and transfer of the franchise; such release shall exclude claims arising under The Rhode Island Franchise Investment Act.
- Sections 23.1 and 23.2 are amended to state that restricting jurisdiction or venue to a forum outside the state of Rhode Island, or requiring the application of the laws of another state, is void with respect to a claim otherwise enforceable under The Rhode Island Franchise Investment Act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF VIRGINIA

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

- Section 16.2.1.10 of the Franchise Agreement, which terminates the Franchise Agreement upon the bankruptcy of the Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF WASHINGTON

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS ‘N’ CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. In recognition of the requirements of the Washington Franchise Investment Protection Act, Washington Rev. Code §§19.100.010 – 19.100.940, the Franchise Agreement for KIDS ‘N’ CLAY DEVELOPMENT, LLC shall be amended as follows:

- The Washington Franchise Investment Protection Act provides rights to Franchisee concerning non-renewal and termination of the Franchise Agreement. If the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- Under Sections 4.2.9, 8.3 and 18.2.3, Franchisee is required to sign a general release as a condition of renewal, termination and transfer of the franchise; such release shall exclude claims arising under the Washington Franchise Investment Protection Act.
- Section 23.1 requires that the franchise be governed by the laws of the State of California; such a requirement may be unenforceable in the event of a conflict with the Washington Franchise Investment Protection Act. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
- Sections 23.2 and 23.7 require litigation or arbitration to be conducted in the State of California; the requirement shall not limit any rights Franchisee may have under the Washington Franchise Investment Protection Act to bring suit in the State of Washington.
- Provisions such as those that unreasonably restrict or limit the statute of limitations period for claims under the Act, or that unreasonably restrict or limit 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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Washington Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS ‘N’ CLAY DEVELOPMENT, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF WISCONSIN

This Addendum to the Franchise Agreement is agreed to this ___ day of _____, 20___, between KIDS 'N' CLAY DEVELOPMENT, LLC and _____
_____ to amend and revise said Franchise Agreement as follows:

1. The Wisconsin Fair Dealership Law Title XIV-A Ch. 135, Sec. 135.01-135.07 supersedes any conflicting terms of the Franchise Agreement.

2. This provision of this Addendum is effective only to the extent that the jurisdictional requirements of the Wisconsin Fair Dealership Law applicable to the provisions are met independent of this Addendum. To the extent this Addendum may be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

KIDS 'N' CLAY DEVELOPMENT, LLC:

Franchisee:_____

By: _____

By: _____

Title:_____

Title: _____

KIDS 'N' CLAY DEVELOPMENT, LLC

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KIDS 'N' CLAY DEVELOPMENT, LLC

**FINANCIAL STATEMENTS
2004 (Audited) & 2005 (Unaudited)**

EXHIBIT E TO THE OFFERING CIRCULAR

ELLIOTT D. BUCHDRUKER

CERTIFIED PUBLIC ACCOUNTANT

101 THE EMBARCADERO, SUITE 206

SAN FRANCISCO, CA 94105

TEL: (415) 362-6204

FAX: (415) 362-7454

E-MAIL: ELDBCFA@AOL.COM

INDEPENDENT AUDITOR'S REPORT

To the Members
Kids 'N' Clay Development, LLC
Berkeley, California

We have audited the accompanying balance sheet of Kids 'N' Clay Development, LLC (a development stage company) as of December 31, 2004 and the related statements of operations, changes in members' equity, and cash flows from August 11, 2004 (date of inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provides 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 Kids 'N' Clay Development, LLC as of December 31, 2004, and the results of its operations and its cash flows from August 11, 2004 (date of inception) to December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.


Elliott D. Buchdrucker

February 18, 2005

KIDS 'N' CLAY DEVELOPMENT, LLC
(A Development Stage Company)
BALANCE SHEET
DECEMBER 31, 2004

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents		\$ 35,008
Total Current Assets		<u>35,008</u>
FIXED ASSETS, AT COST:		
Equipment	\$ 1,810	
	<u>1,810</u>	
Less accumulated depreciation	<u>(226)</u>	<u>1,584</u>
TOTAL ASSETS		<u>\$ 36,592</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES	\$ -
MEMBERS' EQUITY	<u>36,592</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 36,592</u>

See accompanying notes and accountant's report.
(2)

KIDS 'N' CLAY DEVELOPMENT, LLC
(A Development Stage Company)
STATEMENT OF OPERATIONS
FROM AUGUST 11, 2004 (date of inception) TO DECEMBER 31, 2004

REVENUE:	\$ -
Net sales	<u>-</u>
COST OF SALES:	<u>-</u>
Total cost of goods sold	<u>-</u>
GROSS PROFIT:	<u>-</u>
OPERATING EXPENSES - EXHIBIT A	<u>117,140</u>
INCOME (LOSS) FROM OPERATIONS	(117,140)
OTHER INCOME AND EXPENSE:	
Interest income	8
Provision for State income tax	<u>(800)</u>
Total other income and expense	<u>(792)</u>
NET INCOME (LOSS)	<u><u>\$ (117,932)</u></u>

See accompanying notes and accountant's report.
(3)

KIDS 'N' CLAY DEVELOPMENT, LLC
(A Development Stage Company)
OPERATING EXPENSES - EXHIBIT A
FROM AUGUST 11, 2004 (date of inception) TO DECEMBER 31, 2004

OPERATING EXPENSES:	
Bank charges	\$ 271
Computer	194
Interest	109
Legal	473
Marketing	8,342
Meals and entertainment	630
Office	759
Depreciation	226
Photographic services	89
Postage and delivery	112
Printing and reproduction	96
Professional fees	99,302
Supplies	469
Taxes and licenses	20
Training	864
Travel	4,812
Utilities	373
	<u>373</u>
TOTAL OPERATING EXPENSES	<u>\$ 117,140</u>

See accompanying notes and accountant's report.

KIDS 'N' CLAY DEVELOPMENT, LLC
 (A Development Stage Company)
 STATEMENT OF CHANGES IN MEMBERS' EQUITY
 FROM AUGUST 11, 2004 (date of inception) to December 31, 2004

MEMBER	BEGINNING BALANCE	MEMBERS' CONTRIBUTIONS	SHARE OF NET INCOME (LOSS)	MEMBERS' DISTRIBUTIONS
David Larson	\$ -	\$ 77,262	\$ (58,966)	-
Kevin Nierman	-	77,262	(58,966)	-
TOTAL	\$ -	\$ 154,524	\$ (117,932)	\$ -

See accompanying notes and accountant's report.
(5)

KIDS 'N' CLAY, DEVELOPMENT, LLC
(A Development Stage Company)
STATEMENT OF CASH FLOWS
FROM AUGUST 11, 2004 (date of inception) TO DECEMBER 31, 2004

CASH FLOWS FROM OPERATIONS:	
Net income (loss)	\$ (117,932)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	<u>226</u>
Net cash provided (used) by operating activities	<u>(117,706)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	<u>(1,810)</u>
Net cash provided (used) by investing activities	<u>(1,810)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Members' contributions	<u>154,524</u>
Net cash provided (used) by financing activities	<u>154,524</u>
NET INCREASE (DECREASE) IN CASH	35,008
CASH AT AUGUST 11, 2004	<u>-</u>
CASH AT DECEMBER 31, 2004	<u>\$ 35,008</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest	\$ 109
Income tax	\$ 800

See accompanying notes and accountant's report
(6)

1:04 PM
1/25/2006
Cash Basis

Kids 'N' Clay Development L.L.C.
Profit & Loss
January through December 2005

	<u>Jan - Dec 05</u>
Ordinary Income/Expense	
Income	
Franchise Fees *	32,000.00
Total Income	<u>32,000.00</u>
Expense	
Charitable Donations	100.00
Computer	
Hardware	196.13
Computer - Other	176.24
Total Computer	<u>372.37</u>
Marketing Expenses	
Printing	3,468.00
Advertising	7,210.00
Trade Show Booth	1,835.94
Trade Show Misc	4,738.47
Total Marketing Expenses	<u>17,252.41</u>
Meals & Entertainment	616.08
Uniforms	776.74
6240 - Miscellaneous	202.97
6250 - Postage and Delivery	724.36
6270 - Professional Fees	
Consulting	277.64
6650 - Accounting	1,300.00
Total 6270 - Professional Fees	<u>1,577.64</u>
6340 - Telephone	829.98
6350 - Travel & Ent	
Airfare	1,151.37
Lodging	1,232.89
Total 6350 - Travel & Ent	<u>2,384.26</u>
6550 - Office Supplies	
Printing	1,032.99
6550 - Office Supplies - Other	368.53
Total 6550 - Office Supplies	<u>1,401.52</u>
6820 - Taxes	
State Franchise Regist Fees	6,720.00
6860 - State	800.00
Total 6820 - Taxes	<u>7,520.00</u>
Total Expense	<u>33,758.33</u>
Net Ordinary Income	<u>-1,758.33</u>
Net Income	<u>-1,758.33</u>

Notes: * KNCD, LLC has adopted a cash accounting system. Fees do not include deferred fees from executed contracts, but not yet opened locations, as required by some states.

1:05 PM
1/25/2006
Cash Basis

Kids 'N' Clay Development L.L.C.
Balance Sheet
As of December 31, 2005

December 31, 2005

ASSETS

Current Assets

Checking/Savings

CitiBusiness Checking 1,687.00

CitiBusiness Money Market 55,101.67

CitiBusiness CD

Total Checking/Savings 56,788.67

Accounts Receivable 0.00

Total Current Assets 56,788.67

TOTAL ASSETS

56,788.67

LIABILITIES & EQUITY

Equity

1110 - Retained Earnings (Prior Periods) -119,516.31

1135 - Partner 1 Equity - D Larson

1155 - Partner One Investments 89,031.66

Total 1135 - Partner 1 Equity - D Larson 89,031.66

1170 - Partner 2 Equity - K Nierman

1190 - Partner Two Investments 89,031.66

Total 1170 - Partner 2 Equity - K Nierman 89,031.66

Net Income - Current Year -1,758.33

Total Equity 56,788.67

TOTAL LIABILITIES & EQUITY

56,788.67

KIDS 'N' CLAY DEVELOPMENT, LLC

LIST OF TERMINATED FRANCHISEES

EXHIBIT F TO THE OFFERING CIRCULAR

There are no franchisees who have had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during the most recently completed fiscal year or who have not communicated with us within 10 weeks of the application date.

EXHIBIT G TO OFFERING CIRCULAR

FRANCHISEE DISCLOSURE QUESTIONNAIRE

As you know, KIDS ‘N’ CLAY DEVELOPMENT, LLC and you are preparing to enter into a Franchise Agreement for the operation of a Franchised Business. In this Franchisee Disclosure Questionnaire, KIDS ‘N’ CLAY DEVELOPMENT, LLC will be referred to as “we” or “us.” The purpose of this Questionnaire is to determine whether any statements or promises were made to you that we did not authorize and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed KIDS ‘N’ CLAY DEVELOPMENT, LLC Franchise Agreement and each exhibit, addendum and schedule attached to it?
Yes ___ No ___

2. Do you understand all of the information contained in the Franchise Agreement and each exhibit and schedule attached to it?
Yes ___ No ___

If “No”, what parts of the Franchise Agreement do you not understand? (Attach additional pages, if necessary.)

3. Have you received and personally reviewed our Offering Circular we provided to you?
Yes ___ No ___

4. Do you understand all of the information contained in the Offering Circular?
Yes ___ No ___

If “No”, what parts of the Offering Circular do you not understand? (Attach additional pages, if necessary.)

5. Have you discussed the benefits and risks of operating the Franchised Business with an attorney, accountant or other professional advisor and do you understand those risks?
Yes ___ No ___
6. Do you understand that the success or failure of your business will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?
Yes ___ No ___
7. Has any employee or other person speaking on our behalf made any statement or promise concerning the revenues, profits or operating costs of the Franchised Business that we or our franchisees operate?
Yes ___ No ___
8. Has any employee or other person speaking on our behalf made any statement or promise concerning a Franchised Business that is contrary to, or different from, the information contained in the Offering Circular?
Yes ___ No ___
9. Has any employee or other person speaking on our behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Franchised Business?
Yes ___ No ___
10. Has any employee or other person speaking on our behalf made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that we will furnish to you that is contrary to, or different from, the information contained in the Offering Circular?
Yes ___ No ___
11. If you have answered “Yes” to any of questions seven (7) through ten (10), please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered “No” to each of such questions, please leave the following lines blank.

KIDS 'N' CLAY DEVELOPMENT, LLC

MULTI-STATE ADDENDA

EXHIBIT H TO THE OFFERING CIRCULAR

**ADDENDUM TO THE
KIDS 'N' CLAY DEVELOPMENT, LLC
UNIFORM FRANCHISE OFFERING CIRCULAR**

FOR THE STATE OF CALIFORNIA

Effective date of registration in California: April 8, 2005

1. 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.

2. The State of California Department of Corporations has imposed an escrow requirement based upon Franchisor's financial condition. All Franchise Fees collected by Franchisor from California Franchisees shall be held in escrow until such time as Franchisor has completed its initial obligations to Franchisee and Franchisee has opened for business. A copy of the escrow agreement is on file with the State of California Department of Corporations.

3. ITEM 17 of the Offering Circular is amended to add the following:

- The California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
- The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).
- The Franchise Agreement contains a covenant not to compete that extends beyond the term of the agreement. This provision might not be enforceable under California law.
- The Franchise Agreement requires litigation to be conducted in a court located outside of the State of California. This provision might not be enforceable for any cause of action arising under California law.
- The Franchise Agreement requires application of the laws of a state other than the State of California. This provision might not be enforceable under California law.
- The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
- The Franchise Agreement requires binding arbitration. The arbitration will occur at the forum indicated in ITEM 17 with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult 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 the Franchise Agreement restricting venue to a forum outside the State of California.
- The following URL address is for the franchisor's website:

www.kidsnclay.com

FRANCHISOR'S WEBSITE 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.

FOR THE STATE OF HAWAII

Effective date of registration in Hawaii: March 31, 2005

1. The following list reflects the status of our franchise registrations in the states that have franchise registration and/or disclosure laws:

- This proposed registration is on file with or the States of California, Florida, Hawaii, Illinois, Indiana, Kentucky, Maryland, Michigan, Minnesota, Nebraska, New York, Rhode Island, South Dakota, Texas, Utah, Virginia, Washington and Wisconsin.
- The Franchisor has chosen to withdraw its registration application from the State of North Dakota.
- There are no states that have refused, by order or otherwise, to register these franchises.
- There are no states that have revoked or suspended the right to offer these franchises.

2. The Franchise Agreement has been amended as follows:

- The Hawaii Franchise Investment Law provides rights to the franchisee concerning non-renewal, termination and transfer of the Franchise Agreement. If the Franchise Agreement, and more specifically, Sections 4.2, 16.2 and 18, contains a provision that is inconsistent with the Hawaii Franchise Investment Law, the Hawaii Franchise Investment Law will control.
- Sections 4.2.9, 8.3 and 18.2.3 of the Franchise Agreement require franchisee to sign a general release as a condition of renewal, termination and transfer of the franchise; such release shall exclude claims arising under the Hawaii Franchise Investment Law.
- Section 16.2.1.10 of the Franchise Agreement, which terminates the Franchise Agreement upon the bankruptcy of the franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).

3. The Receipt Pages are amended to add the following:

- THIS FRANCHISE WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.
- THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE OFFERING CIRCULAR, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.
- THIS OFFERING CIRCULAR CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT, AND THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

FOR THE STATE OF ILLINOIS

Effective date of registration in Illinois: March 17, 2005

- For choice of law purposes, and for the interpretation and construction of the Franchise Agreement, the Illinois Franchise Disclosure Act, 815 ILCS 705 governs.
- No action for liability under the Illinois Franchise Disclosure Act shall be maintained unless brought before the expiration of 3 years after the act or transaction constituting the violation upon which it is based, the expiration of 1 year after the franchisee becomes aware of facts or circumstances reasonably indicating that he may have a claim for relief in respect to conduct governed by the Act, or 90 days after delivery to the franchisee of a written notice disclosing the violation, whichever shall first expire.
- Illinois law governs the Franchise Agreement (without regard to conflict of laws), and jurisdiction and venue for court litigation shall be in Illinois.
- Any provision in the Franchise Agreement that designates jurisdiction or venue in a forum outside the State of Illinois is void, provided that a Franchise Agreement may provide for arbitration in a forum outside of Illinois.

ITEM 5 of the Offering Circular is amended to add the following:

- Due to Franchisor's financial condition, the Office of the Illinois Attorney General has required and Franchisor has agreed, to defer collection of the initial franchise fee until Franchisor has completed all of its pre-opening obligations to Franchisee and Franchisee is open for business.

ITEM 17 of the Offering Circular is amended to add the following:

- The conditions under which a franchise can be terminated and your rights upon non-renewal, as well as the application by which you must bring any claims, may be affected by Sections 705/19 and 20 of the Illinois Franchise Disclosure Act of 1987, Ill. Rev. Stat. Ch. 815 Par. 705/1 – 705/44.

ITEM 23 of the Offering Circular is amended to add the following:

- There is a 14 calendar day minimum disclosure period prior to the signing of a binding agreement or any payment to the franchisor.

FOR THE STATE OF INDIANA

Effective date of registration in Indiana: February 28, 2005

1. ITEM 8 of the Offering Circular is amended to add the following:
 - Under Indiana Code Section 23-2-2.7-1(4), the franchisor will not obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than for compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted by the franchisee.

2. ITEMS 6 and 9 of the Offering Circular are amended to add the following:
 - The franchisee will not be required to indemnify franchisor for any liability imposed upon franchisor as a result of franchisee's reliance upon or use of procedures or products that were required by franchisor, if such procedures or products were utilized by franchisee in the manner required by franchisor.

3. ITEM 17 of the Offering Circular is amended to add the following:
 - Indiana Code 23-2-2.7-1(7) makes the unilateral termination of a franchise unlawful unless there is a material violation of the Franchise Agreement, and the termination is not in bad faith.
 - Indiana Code 23-2-2.7-1(5) prohibits a prospective general release of claims subject to the Indiana Deceptive Franchise Practices Law.
 - ITEM 17(r) is amended subject to Indiana Code 23-2-2.7-1(9) to provide that the post-term non-competition covenant shall have a geographical limitation of the territory granted to Franchisee.
 - ITEM 17(u) is amended to provide that arbitration between a Franchisee and Franchisor will be conducted in Indiana or a site mutually agreed upon.
 - ITEM 17(v) is amended to provide that Franchisees will be permitted to commence litigation in Indiana for any cause of action under Indiana Law.
 - ITEM 17(w) is amended to provide that in the event of a conflict of law, Indiana Law governs any cause of action that arises under the Indiana Disclosure Law or the Indiana Deceptive Franchise Practices Act.

FOR THE STATE OF MARYLAND

Effective date of registration in Maryland: August 3, 2005

1. ITEM 5 of the Offering Circular is amended to add the following:
 - Due to Franchisor's financial condition, the Maryland Securities Commissioner has required and Franchisor has agreed, to defer collection of the initial franchise fee until Franchisor has completed all of its pre-opening obligations to Franchisee and Franchisee is open for business.

2. ITEM 17 of the Offering Circular is amended to add the following:
 - The General Release required as a condition of sale and to obtain a refund of the initial fee shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

 - Under the Maryland Franchise Registrations and Disclosure Law, Md. Code Ann. Bus. Reg. §14-201 et seq., no general release shall be required as a condition of renewal, termination and/or transfer that is intended to exclude claims under the Maryland Franchise Registration and Disclosure Law.

 - Any litigation between Franchisee and Franchisor may be instituted in any court of competent jurisdiction, including a court in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

 - Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

 - In the event of a conflict of laws to the extent required by the Maryland Franchise Registration and Disclosure Law, Maryland law shall prevail.

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

FOR THE STATE OF MICHIGAN

Effective date of registration in Michigan: February 29, 2005

1. 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 prohibition of the right of a Franchisee to join an association of Franchisees.
- A requirement that a Franchisee assent to a release, assignment, novation, waiver or estoppel that 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.
- A provision that permits a Franchisor to terminate a franchise prior to the expiration of this 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.
- 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: (a) the term of the franchise is less than 5 years, and (b) 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.
- 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.
- A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the Franchisee from entering into an agreement, at the time of arbitration or litigation, to conduct arbitration or litigation at a location outside this state.
- A provision that permits a Franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. The 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:

- The failure of the proposed transferee to meet the Franchisor's then-current reasonable qualifications or standards.
 - The fact that the proposed transferee is a competitor of the Franchisor or Subfranchisor.
 - The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - 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.
- 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 and has failed to cure the breach in the manner provided in subdivision (C).
 - A provision that permits the Franchisor to directly or indirectly convey, assign or otherwise transfer its obligations to fulfill contractual obligations to the Franchisee unless a provision has been made for providing the required contractual services.

2. If the Franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, the Franchisee may request the Franchisor to arrange for the escrow of initial investment and other funds paid by the Franchisee until the obligations, if any, of the Franchisor to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the Franchisor, a surety bond may be provided in place of escrow.

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

4. Any questions regarding this notice should be directed to:

State of Michigan
Consumer Protection Division
Attention: Franchise Bureau
670 Law Building
Lansing, MI 48913
(517) 373-3800

FOR THE STATE OF MINNESOTA

Effective date of registration in Minnesota: May 2, 2005

1. ITEM 13 of the Offering Circular is amended as follows:
 - As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), Franchisor will reimburse the Franchisee for any costs incurred by the Franchisee in the defense of the Franchisee's right to use the Marks, so long as the Franchisee was using the Marks in the manner authorized by Franchisor, and so long as Franchisor is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

2. ITEM 17 of the Offering Circular is amended as follows:
 - With respect to franchises governed by Minnesota law, the Franchisor will comply with Minn. Stat. 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 of non-renewal of the Agreement.
 - ITEM 17 does not provide for a prospective general release of claims against Franchisor that may be subject to the Minnesota Franchise Law. Minn. Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release.
 - Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit Franchisor from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Offering Circular or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

FOR THE STATE OF NEW YORK

Effective date of registration in New York: April 13, 2005

1. All references made herein to an "Offering Circular" shall be replaced with the term "Offering Prospectus" as used under New York Law.

2. The UFOC Cover Page is amended as follows:

- **REGISTRATION OF THIS FRANCHISE BY NEW YORK 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 NEW YORK STATE DEPARTMENT OF LAW, 120 BROADWAY, NEW YORK, NEW YORK 10271-0332. INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION.**
- **THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE CIRCULAR. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS CIRCULAR.**

3. ITEM 3 is amended by the addition of the following language:

- Neither franchisor nor any person identified in ITEM 2 has any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) pending against them 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. In addition, neither franchisor nor any person identified in ITEM 2 has any pending actions, other than routine litigation incidental to the business, that are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.
- Neither franchisor nor any person identified in ITEM 2 has been convicted of a felony or pleaded *nolo contendere* to a felony charge or, within the 10 year period immediately preceding the application for registration, has been convicted of or pleaded *nolo contendere* to a misdemeanor charge or has been held liable in a civil action by final judgment or been the subject of a material compliant or other legal proceeding involving violation of any franchise law, antifraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.
- Neither franchisor nor any person identified in ITEM 2 is subject to any injunctive or restrictive order or decree relating to the franchises, or any Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, as a result of a concluded or pending action or proceeding brought by a public agency.

4. ITEM 4 is amended to state that:

- Neither the franchisor, nor its predecessor, officers or general partner of the franchisor has, during the ten (10) year period immediately before the date of the offering circular, has: (a) filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the Bankruptcy Code; (c) was a principal officer of any company or a general partner in any partnership that either filed as a debtor (or had filed against it) a petition to start action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the Bankruptcy Code

during or within one (1) year after the officer or general partner of the franchisor held this position in the company or partnership.

5. ITEM 5 of the Offering Circular is amended to add the following:

- The Franchise Fee will be used to defray franchisor's costs in obtaining and screening franchisees, providing training, training materials and assisting in opening the Franchised Business for business.

6. ITEMS 6 and 11 of the Offering Circular are amended to add the following:

- The franchisee will not be required to indemnify franchisor for any liability imposed on franchisor as a result of franchisee's reliance upon or use of procedures or products that were required by franchisor, if such procedures or products were utilized by franchisee in the manner required by franchisor.

7. ITEM 17 of the Offering Circular is amended to add the following:

- No general release shall be required as a condition of renewal, termination and/or transfer that is intended to exclude claims arising under the New York General Business Law, Article 3, Sections 687.4 and 687.5.
- ITEM 17 (c) is amended to insert the following additional language after the language, "and sign a general release":

Provided, however, that all rights arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of the General Business Law, sections 687.4 and 687.5 be satisfied.

- ITEM 17(d) is amended to provide that you may terminate the Agreement on any grounds available by law.
- ITEM 17(j) is amended to state that no assignment will be made except to an assignee who, in the good faith judgment of Franchisor, is able to assume our obligations under the Agreement.
- ITEM 17 (m) is amended to insert the following additional language after the language, "and sign a general release":

Provided, however, that all rights arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of the General Business Law, sections 687.4 and 687.5 be satisfied.

- ITEM 17(w) is amended to state that New York Law governs any cause of action that arises under the New York General Business Law, Article 33, Section 680-695.

8. Franchisor represents that this Offering Circular does not knowingly omit anything or contain any untrue statements of a material fact.

FOR THE STATE OF NORTH DAKOTA

Effective registration date in North Dakota is: N/A (Franchisor withdrew application and is not soliciting franchisees in the State of North Dakota).

1. ITEM 5 of the Offering Circular is amended by the addition of the following language to the original language:

- Refund and cancellation provisions will be inapplicable to franchises operating under North Dakota Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17. If franchisor elects to cancel this Franchise Agreement, franchisor will be entitled to a reasonable fee for its evaluation of you and related preparatory work performed and expenses actually incurred.

2. ITEM 17 of the Offering Circular is amended to add the following:

- No general release shall be required as a condition of renewal, termination and/or transfer that is intended to exclude claims arising under North Dakota Law.
- In the case of any enforcement action, the prevailing party is entitled to recover all costs and expenses including attorneys' fees.
- The Franchise Agreement shall be amended to state that the statute of limitations under North Dakota Law will apply.
- ITEMS 17(i) and 17(q) are amended to state that covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of North Dakota except in limited instances as provided by law.
- ITEM 17(v) is amended to state that a provision requiring litigation or arbitration to be conducted in a forum other than North Dakota is void with respect to claims under North Dakota Law.
- ITEM 17(w) is amended to state that in the event of a conflict of laws, North Dakota Law will control.

FOR THE STATE OF RHODE ISLAND

Effective date of registration in Rhode Island: April 25, 2005

ITEM 17 of the Offering Circular is amended to add the following:

- The Rhode Island Franchise Investment Act, R.I. Gen. Law Ch. 395 Sec. 19-28.1-1 through 34 provides that a provision in a Franchise Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.
- Any general release as a condition of renewal, termination or transfer will be void with respect to claims under the Rhode Island Franchise Investment Act.

FOR THE STATE OF WASHINGTON

Effective date of registration in Washington: March 1, 2005

ITEM 17 of the Offering Circular is amended to add the following:

- In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
- A general release or waiver of rights executed by a Franchisee will not include rights under the Washington Franchise Investment Protection Act.
- Provisions that unreasonably restrict or limit the statute of limitations period for claims under the Act, or unreasonably restrict or limit 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.
- If the Franchise Agreement requires any litigation or arbitration to be conducted in a state other than Washington; the requirement shall not limit any rights Franchisee may have under the Washington Franchise Investment Protection Act to bring suit in the State of Washington.

FOR THE STATE OF WISCONSIN

Effective date of registration in Wisconsin: March 8, 2005

ITEM 17 of the Offering Circular is amended to add the following:

- The Wisconsin Fair Dealership Law Title XIV-A Ch. 135, Section 135.01-135.07 may affect the termination provision of the Franchise Agreement.

RECEIPT

THIS OFFERING CIRCULAR SUMMARIZES PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS OFFERING CIRCULAR AND ALL AGREEMENTS CAREFULLY.

IF KIDS 'N' CLAY DEVELOPMENT, LLC OFFERS YOU A FRANCHISE, KIDS 'N' CLAY DEVELOPMENT, LLC MUST PROVIDE THIS OFFERING CIRCULAR TO YOU BY THE EARLIEST OF:

- (1) THE FIRST PERSONAL MEETING TO DISCUSS OUR FRANCHISE; OR
- (2) TEN BUSINESS DAYS BEFORE THE SIGNING OF A BINDING AGREEMENT; OR
- (3) TEN BUSINESS DAYS BEFORE A PAYMENT TO KIDS 'N' CLAY DEVELOPMENT, LLC

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST FIVE BUSINESS DAYS BEFORE YOU SIGN A FRANCHISE AGREEMENT.

IF KIDS 'N' CLAY DEVELOPMENT, LLC 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 THE STATE ADMINISTRATOR LISTED IN EXHIBIT A.

KIDS 'N' CLAY DEVELOPMENT, LLC AUTHORIZES THE AGENTS LISTED IN EXHIBIT B TO RECEIVE SERVICE OF PROCESS FOR KIDS 'N' CLAY DEVELOPMENT, LLC.

THE EFFECTIVE DATE OF THIS OFFERING CIRCULAR IS FEBRUARY 5, 2005, OR THE EFFECTIVE DATE IN YOUR STATE, WHICHEVER IS LATER.

I HAVE RECEIVED A UNIFORM FRANCHISE OFFERING CIRCULAR INCLUDING THE FOLLOWING EXHIBITS ON THE DATE LISTED BELOW:

- A. LIST OF STATE ADMINISTRATORS
- B. LIST OF STATE AGENTS FOR SERVICE OF PROCESS
- C. FRANCHISE AGREEMENT
- D. TABLE OF CONTENTS OF OPERATIONS MANUAL
- E. FINANCIAL STATEMENTS
- F. LIST OF TERMINATED FRANCHISEES
- G. FRANCHISEE DISCLOSURE QUESTIONNAIRE
- H. MULTI-STATE ADDENDA

Please sign and print your name below, date and return one copy of this receipt to Kids 'N' Clay Development, LLC and keep the other for your records.

Date of Receipt

Print Name

Signature

Return to:

(individually or as an officer or partner of)

Kids 'N' Clay Development, LLC
1824 5th Street
Berkeley, California 94710

(Name of corporation or partnership)

a _____ corporation
(State of incorporation)

a _____ partnership
(State where partnership formed)

RECEIPT

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- H. MULTI-STATE ADDENDA

Please sign and print your name below, date and return one copy of this receipt to Kids 'N' Clay Development, LLC and keep the other for your records.

Date of Receipt

Print Name

Return to:

Signature

(individually or as an officer or partner of)

Kids 'N' Clay Development, LLC
1824 5th Street
Berkeley, California 94710

(Name of corporation or partnership)
a _____ corporation
(State of incorporation)
a _____ partnership
(State where partnership formed)