

EXHIBIT A

TO FRANCHISE OFFERING CIRCULAR



**KIDS 'R' KIDS INTERNATIONAL, INC.
FRANCHISE AGREEMENT FOR**

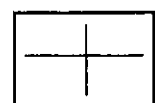
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KIDS 'R' KIDS # _____

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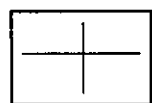
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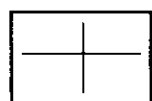
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Exhibit A	Center Site Address and Description of the Marks
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Initials

KIDS 'R' KIDS INTERNATIONAL, INC.
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the "Agreement") made effective this ___ day of _____, _____, by and between KIDS 'R' KIDS INTERNATIONAL, INC., d/b/a KIDS 'R' KIDS, a Georgia corporation, with its principal office at 1625 Executive Drive South, Duluth, GA 30096 (the "FRANCHISOR") and _____, a (state) resident/corporation, whose principal address is _____ (the "FRANCHISEE"), for a Kids 'R' Kids Center located at _____, _____ (the "Center Site").

WHEREAS:

A. FRANCHISOR has acquired and developed a unique system for the establishment and operation of a child care center (the "Kids 'R' Kids System"); and

B. The name KIDS 'R' KIDS is a name registered with the U.S. Patent and Trademark Office; and

C. FRANCHISOR owns through common law and licenses through contractual rights certain trade names and commercial symbols in connection with the operation of Kids 'R' Kids Centers; and

D. FRANCHISEE has applied to FRANCHISOR for a franchise to operate a Kids 'R' Kids Center (the "Center") and desires to acquire a license to operate a Center using the business format, methods, specifications, standards, operating procedures, operating assistance, advertising services and the Common Law and other Licensed Marks; and

E. FRANCHISEE has read this Franchise Agreement and FRANCHISOR'S Federal Trade Commission Offering Circular and has been given an opportunity to clarify any provision that FRANCHISEE did not understand. FRANCHISEE understands and accepts that the terms, conditions and covenants contained in this Franchise Agreement are reasonably necessary to maintain FRANCHISOR'S high standards of quality and service and the uniformity of those standards at all Kids 'R' Kids Centers and thereby to protect and preserve the goodwill of the Marks; and

F. FRANCHISOR desires to grant FRANCHISEE a license on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the privilege of conducting a business under this Franchise, the mutual obligations contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

SECTION 1. KIDS 'R' KIDS

The Kids 'R' Kids System is a comprehensive system for the operation of a child day care Center. The foundation of the Kids 'R' Kids system and the essence of this Franchise is the adherence by FRANCHISEE to all of the standards and policies of FRANCHISOR, including those providing for the uniform operation of all Kids 'R' Kids Centers; the use of only approved equipment and building layout and designs; and strict adherence to FRANCHISOR'S prescribed standards of quality, service, and care in FRANCHISEE'S operation. Compliance by FRANCHISEE with the Kids 'R' Kids standards and policies in conjunction with the use of the Kids 'R' Kids System provides the basis for the valuable goodwill and wide acceptance of the Kids 'R' Kids System. FRANCHISEE'S accountability for performance of the obligations contained in the Franchise and its adherence to the tenants of the Kids 'R' Kids System constitute the essence of this Franchise Agreement.

FRANCHISEE understands and acknowledges that every detail of the Kids 'R' Kids System is important to FRANCHISEE, to FRANCHISOR, and to other FRANCHISEES in order to develop and maintain high and uniform operating standards. Therefore:

(1) The provisions of this Franchise Agreement shall be interpreted to give effect to the intent of the parties stated in this Section 1, at the Kids 'R' Kids Center, as hereinafter defined and as specified. This Franchise shall be operated in conformity with, and through strict adherence to, FRANCHISOR'S standards and policies as they exist now and as they may from time to time be modified, amended or expanded.

(2) FRANCHISEE represents, warrants, and agrees that it alone actually owns the complete equity interest in this Franchise and the profits from the operations of the Kids 'R' Kids Center, and that it shall maintain such interest during the term of this Franchise, except only as otherwise permitted pursuant to the terms and conditions of this Franchise Agreement. FRANCHISEE agrees to furnish FRANCHISOR with such evidence as FRANCHISOR may request, from time to time, for the purpose of assuring FRANCHISOR that FRANCHISEE'S interest remains as represented herein

SECTION 2. GRANT OF LICENSE, AREA, & LOCATION

A. Grant of License. Subject to the terms and conditions set forth herein, FRANCHISOR, as agent for the owner of the Marks, hereby grants to FRANCHISEE during the term of this Franchise Agreement the nonexclusive right and license (the "License") to use the Kids 'R' Kids System and related service marks, trademarks and other marks (the "Marks") solely in connection with the operation of one Kids 'R' Kids Center at the Center Site. The only Marks which FRANCHISEE is entitled to use pursuant to this license are solely the Marks described on Exhibit A, which may be changed or supplemented from time to time by FRANCHISOR.

The license herein granted is limited to the operation of one Kids 'R' Kids Center and nothing herein contained shall be deemed to grant to FRANCHISEE the right to purchase, own or operate additional Kids 'R' Kids Centers.

B. Use of Marks. Consistent with Section 5, Paragraph P, FRANCHISOR, as agent for the owner of the Marks, retains the sole and exclusive right and authority to control the nature and quality of each and every use of the Marks by FRANCHISEE, and FRANCHISEE shall comply with and abide by any and all such requirements or restrictions. The marks shall be used solely in connection with the services provided at the Center Site and only to identify products and services designated by FRANCHISOR. FRANCHISEE shall include the center number assigned to the Center Site by FRANCHISOR as a part of its trade name, and such center number shall be included as a part of FRANCHISEE'S telephone listings and referenced in all written communications or agreements with FRANCHISOR and any third parties. In the event it becomes advisable at any time, in FRANCHISOR'S sole discretion, to modify or discontinue the use of any one or more of the Marks or to use one or more additional or substitute marks, FRANCHISEE agrees at its sole expense to immediately comply with the instructions of FRANCHISOR in that regard, including without limitation replacing sign faces and otherwise physically complying with this obligation.

C. Area - FRANCHISEE'S Exclusive Territory. FRANCHISOR grants to FRANCHISEE the exclusive right to operate FRANCHISEE'S Center within the territory described in Exhibit B attached hereto and made a part hereof (the "Exclusive Territory"). In the event of renewal of the License, FRANCHISOR may redefine the Exclusive Territory based on the factors then used by FRANCHISOR in determining exclusive territories for its Kids 'R' Kids Center Franchisees. During the term of this Franchise Agreement and subject to the terms of this Franchise Agreement, FRANCHISOR shall not own, operate, sell or issue a license for any other Kids 'R' Kids Center to be located within the Exclusive Territory.

D. Adjustment to Exclusive Territory. FRANCHISOR reserves the right to adjust the Exclusive Territory from time to time if, in FRANCHISOR'S sole discretion, the population and demographics of the Exclusive Territory change to enable the Exclusive Territory, or any portion thereof, to support another Kids 'R' Kids Center. FRANCHISOR shall, in its sole discretion, determine the exclusive territory of the additional center, which may be limited to the radius or boundary initially established as the exclusive territory for the pre-existing Center. In the event that FRANCHISOR determined to change the Exclusive Territory at renewal, FRANCHISOR will give FRANCHISEE thirty (30) days written notice of such change, which shall set forth Franchisee's adjusted Exclusive Territory and which shall offer FRANCHISEE an option to purchase a new License to operate the Kids 'R' Kids Center which FRANCHISOR proposes will service all or any portion of the remainder of the Exclusive Territory. Any such purchase shall be pursuant to the terms contained in FRANCHISOR'S then-current Franchise Agreement, with any modifications thereto deemed necessary by FRANCHISOR, which must be executed by FRANCHISEE prior to the end of such thirty (30) day period. If FRANCHISEE does not execute such then-current Franchise Agreement within such thirty (30) day period, FRANCHISOR may open or license another Franchisee to open such new Kids 'R' Kids Center. In any event, effective as of the end of such thirty (30) day period, the Exclusive Territory shall be adjusted as set forth in the notice from FRANCHISOR to FRANCHISEE described above.

E. Location. FRANCHISEE shall operate its Center from the following location only:
_____ (the "Approved Location").

The Approved Location as used herein means the place of business within the area that



FRANCHISEE exclusively uses to carry out FRANCHISEE'S obligation in operations under this Agreement. FRANCHISEE acknowledges that FRANCHISOR'S acceptance or approval of said Center does not constitute any representation, warranty or guarantee by FRANCHISOR that said Approved Location will be a successful location for the operation of a Kids 'R' Kids Center. FRANCHISEE may not operate the Center from any other Location or any additional locations without the prior, written approval of FRANCHISOR.

SECTION 3. INITIAL FRANCHISE FEE

A. Franchise Fee. In consideration of the issuance of this Franchise and concurrently with the execution of this Franchise Agreement, FRANCHISEE shall pay FRANCHISOR at its principal offices, or at such other place as FRANCHISOR may designate, in cash, by cashier's check, or by certified check, unless otherwise permitted in writing by FRANCHISOR, an initial Franchise Fee in the total sum of Fifty Thousand Dollars (\$50,000) (the "Initial Franchise Fee") which shall be payable pursuant to the terms of Paragraph B herein.

For each additional Franchise purchased from FRANCHISOR, FRANCHISOR will charge FRANCHISEE a Franchise Fee of Twenty-Five Thousand Dollars (\$25,000).

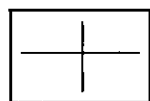
B. Manner of Payment. The Initial Franchise Fee shall be paid by FRANCHISEE to FRANCHISOR as follows:

(1) Execution of Franchise Agreement. Simultaneously with the execution and delivery of this Franchise Agreement, FRANCHISEE shall pay to FRANCHISOR the sum of Twenty-Five Thousand Dollars (\$25,000) or Twelve Thousand Five Hundred Dollars (\$12,500) in the case of any additional franchises). After such payment by FRANCHISEE, such portion of the Initial Franchise Fee shall not be refundable.

(2) Commencement of Improvements. Prior to or on the date FRANCHISEE signs a lease with respect to the Center Site or the date of commencement of the improvements or construction of the Center Site, whichever is earlier, FRANCHISEE shall pay to FRANCHISOR the sum of Twenty-Five Thousand Dollars (\$25,000) (or Twelve Thousand Five Hundred Dollars (\$12,500) in the case of additional franchises). After such payment by FRANCHISEE, such portion of the Initial Franchise Fee shall not be refundable.

(3) Additional Franchise. For each additional Franchise purchased from FRANCHISOR, FRANCHISEE shall pay one-half (1/2) of the Initial Franchise Fee as described in Subparagraph 3.B(1) and the balance as described in Subparagraph 3.B(2) hereinabove, for the Franchise Agreement governed by the such Franchise(s).

C. Consideration Earned. FRANCHISEE hereby acknowledges and agrees that the grant of the License and the undertakings and agreements of FRANCHISOR contained in this Franchise Agreement constitute the sole and only consideration for the payment of the Initial Franchise Fee. The Initial Franchise Fee shall be deemed fully earned by FRANCHISOR as hereinabove specified, and no portion thereof shall be refundable to FRANCHISEE except as specifically provided for herein.



SECTION 4. TERM, RENEWAL, AND HOLDOVER

A. Term of Franchise. The initial term of this Franchise Agreement shall be for a period of **Twenty-Five (25) years**, commencing on the commencement date of this Franchise Agreement, unless this Franchise Agreement is executed pursuant to an assignment or other transfer arrangement, in which case, the term shall be the remaining portion of the term specified in the respective assignor's or transferor's Franchise Agreement and/or Lease Agreement. The term of this Franchise Agreement may be earlier terminated by FRANCHISOR, as provided in this Franchise Agreement.

The date this Franchise Agreement is executed by FRANCHISOR is the commencement Date of this Franchise Agreement. The Expiration Date of this Franchise Agreement shall be the date Twenty-Five (25) years after the execution of this Franchise Agreement by FRANCHISOR, unless terminated at an earlier date as otherwise provided herein.

Within one (1) year after execution of this Franchise Agreement, FRANCHISEE shall commence operations of the Center Site. FRANCHISEE'S failure to commence operation of the Center Site by the end of such time period shall be grounds for the termination of this Franchise Agreement.

B. Renewal. Upon the expiration of the initial term hereof, FRANCHISEE shall have the option to renew the Franchise for an additional ten (10) year period, or, if less than 10 years, for the time in which FRANCHISEE'S lease for the Center Site remains in effect. This option to renew shall be subject to the following terms and conditions:

(1) FRANCHISEE shall deliver to FRANCHISOR written notice of FRANCHISEE'S intent to renew not more than 360 days and not less than 180 days prior to the Expiration Date of the term under which FRANCHISEE is then operating, and

(2) FRANCHISEE shall make such improvements as may be required to modernize, renovate, equip and decorate the Center, specifically including, but not limited to, cleanliness, paint, carpet and the condition of equipment, so as to reflect the then current standards of FRANCHISOR; and

(3) FRANCHISEE shall have the right to remain in possession of Location, or other location acceptable to FRANCHISOR for the new term; and

(4) FRANCHISEE shall execute a new Franchise Agreement on the form then being used by FRANCHISOR, which may differ as to royalties, advertising contributions and other material terms and conditions. FRANCHISEE shall execute the then current form of transfer Franchise Agreement not less than thirty (30) days prior to said Expiration Date of this Franchise Agreement; and

(5) FRANCHISEE at the beginning of the new term shall pay to FRANCHISOR, franchise fee equal to ten percent (10%) of the then prevailing franchise fee for new franchises; and

(6) At the time of the execution of the new Franchise Agreement, FRANCHISEE shall not be in default of any term or condition of the existing Franchise Agreement or any other Agreement or obligation FRANCHISEE may have with FRANCHISOR, including, but not limited to all obligations to timely pay royalties, advertising contributions, interest and late charges and other properly chargeable amounts.

C. Holdover. If FRANCHISEE continues to operate after the end of any term hereof without exercising an option to renew, FRANCHISEE shall be deemed to be operating on a month-to-month basis under the terms and conditions of the Franchise Agreement then being offered by FRANCHISOR to new FRANCHISEES. However, in such event, FRANCHISEE may be terminated at any time upon ten (10) days written notice from FRANCHISOR. If local law requires that FRANCHISOR give notice to FRANCHISEE prior to the expiration of the term, this Franchise Agreement shall remain in effect on a month-to-month basis until FRANCHISOR has given FRANCHISEE such notice.

SECTION 5. OBLIGATIONS OF FRANCHISEE

A. Name of Franchise. FRANCHISEE shall operate under the trade name "Kids 'R' Kids" with the identifying number of the Center and, except as specified in the Kids 'R' Kids Confidential Operating Manual (the "Manual"), shall use no other name in connection with any operation conducted from the Approved Location specified in Section 2 hereof, without the prior, written approval of FRANCHISOR.

The right herein granted to use the name "Kids 'R' Kids" is nonexclusive, and the privileges herein granted are applicable only to the Approved Location and not elsewhere. FRANCHISEE shall display the aforementioned trade name Trade Mark symbol for all purposes, including but not limited to office signs, stationery, business cards and advertising materials which reflect the current image of FRANCHISOR, and shall maintain strict compliance with the requirements set forth in FRANCHISOR'S Manual.

All rights in and to the name "Kids 'R' Kids" and any part thereof or addition thereto and the use thereof shall be and remain the property of FRANCHISOR, and FRANCHISEE shall assign transfer, and convey to FRANCHISOR, by such instrument in writing as may be requested, all additional rights which may be acquired, if any, by reason of the use of such name by FRANCHISEE. Any application for registration by FRANCHISEE to use the name "Kids 'R' Kids," which may be required by the statutes or laws of any governing body, shall specify that FRANCHISEE'S use of such name is limited to such premises and limited as well by the terms of this Franchise Agreement. No property right in or privilege to use such name is created which will extend beyond termination of this Franchise Agreement. FRANCHISEE shall not interfere with nor attempt in any manner to prohibit the use or registration of the name "Kids 'R' Kids" by FRANCHISOR or any other FRANCHISEE of FRANCHISOR.

FRANCHISEE expressly acknowledges that the use of any other trade name in conducting such business of this Franchise is strictly prohibited, and that FRANCHISEE shall not permit the trade name "Kids 'R' Kids" or any substantially similar style or spelling thereof, to be used for any other purpose, including but not limited to the formation of corporations, partnerships, business associations or any form of business organization.

B. Start-Up Obligations. Prior to opening and operating a Center under FRANCHISOR'S franchised trade name, FRANCHISEE shall complete all of the following at FRANCHISEE'S expense, which obligations shall be continuing obligations throughout the term of this Franchise Agreement:

(1) FRANCHISEE shall complete development of the Center and shall have the Center ready to open and commence the conduct of its business no later than one year from the date this Franchise Agreement is executed by FRANCHISOR.

(2) After obtaining possession of the site for the Center, FRANCHISEE shall promptly: (a) cause to be prepared and submit for approval by FRANCHISOR a site plan and any modifications of FRANCHISOR'S basic architectural plans and specifications for the Center (including requirements for dimensions, exterior design, materials, interior layout, equipment, fixtures, furniture, signs, and decorating) required for the development of the Center at the site leased therefore, provided that FRANCHISEE may modify FRANCHISOR'S basic plans and specifications only to the extent required to comply with all applicable ordinances, building codes and permit requirements and with prior notification to and approval by FRANCHISOR; (b) purchase or lease equipment, fixtures, furniture and signs as hereinafter provided; (c) complete the construction and/or remodeling, equipment, fixture, furniture and sign installation and decorating of the Center in full and strict compliance with plans and specifications approved by FRANCHISOR and all applicable ordinances, building codes and permit requirements; and (d) obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services.

(3) FRANCHISEE shall purchase or lease all necessary furniture, fixtures, and equipment which comply with the standards and specifications set forth in FRANCHISOR'S Manual.

(4) FRANCHISEE shall attend and complete, to the reasonable satisfaction of FRANCHISOR, the Training Program offered by FRANCHISOR, as set forth in Section 6.

(5) FRANCHISEE shall obtain FRANCHISOR'S written approval that the Center is in compliance with FRANCHISOR'S requirements for opening and operating the Center.

(6) FRANCHISEE shall conduct business from the Approved Location only if and when the Center premises have been improved, decorated, furnished, and equipped with equipment, furnishings and supplies which meet FRANCHISOR'S specifications, standards and current image. The completed Center must be decorated, furnished, and equipped according to specifications approved by FRANCHISOR as determined by an inspection by a FRANCHISOR representative.

(7) FRANCHISEE shall obtain all certificates, licenses, bond: necessary for the operation of the business contemplated herein.

(8) FRANCHISEE shall establish to the reasonable satisfaction of FRANCHISOR that FRANCHISEE has or can assure the availability of the capital necessary to open and operate the Center Site, including sufficient working capital of at least \$75,000, or other such similar or reasonable amount, as determined by FRANCHISOR.

(9) FRANCHISEE shall execute the Kressa School Leader Software Program Agreement; properly install in the proscribed computer system and ensure the ongoing working order of the Kressa School Leader Software Program, specifically including paying for all amounts due for the Software Program and all related fees; and submit a voided check from FRANCHISEE'S Center operating account to FRANCHISOR.

C. Insurance. FRANCHISEE shall secure and maintain insurance coverage, including general and products liability, property damage, building coverage, children's accident coverage, transportation coverage, if applicable, and any additional insurance required by FRANCHISOR with insurance carriers acceptable to FRANCHISOR and in accordance with FRANCHISOR'S current insurance requirements as set forth from time to time in the Manual. FRANCHISEE shall provide evidence of obtaining such insurance in the form of a certificate of insurance thirty (30) days after the execution of this Franchise Agreement or, with respect to a certificate of insurance for transportation services, prior to the commencement of transportation services. The coverage shall commence when FRANCHISEE first takes possession of the Center Site or, with respect to coverage for transportation services, prior to the commencement of transportation services. The coverage shall comply with the requirements of any lease or financing for the Center Site, and shall include coverage for such risks, and in such amounts, and subject to such policy limits and deductible amounts as FRANCHISOR shall determine, from time to time. In any event, the amount of coverage provided under any general liability insurance shall not be less than \$1,000,000 per each occurrence with a \$2,000,000 Annual Aggregate. Also including not less than a \$1,000,000 umbrella policy. All insurance coverage, including all addenda and endorsements thereto, shall be written only on an occurrence form of coverage and not on claims made forms of coverage. The amount of liability coverage provided under any automobile insurance policy with respect to transportation services shall not be less than \$1,000,000 per each occurrence. FRANCHISEE shall also carry such Workers' Compensation insurance as may be required by applicable law. In addition, FRANCHISOR may, in its discretion, require as a condition to approval of any supplier that such supplier include FRANCHISOR and FRANCHISEE as additional named insureds on such supplier's product liability insurance.

FRANCHISOR must be included as additionally named insured on all of the above liability policies. The certificate of insurance furnished by FRANCHISEE must provide for a twenty (20) day minimum notice of cancellation for all Liability, Worker's Compensation, and/or Auto Liability coverage and shall be written with insurers carrying an A.M. Best rating of A or better and licensed in the respective state. FRANCHISEE shall submit to FRANCHISOR annually a copy of the certificate or evidence of the renewal or extension of each such insurance policy.

FRANCHISOR reserves the right to specify reasonable changes in the types and amounts of insurance coverage required by this Paragraph C. Should FRANCHISEE fail or refuse to procure the required insurance coverage from an insurance carrier acceptable to FRANCHISOR or to maintain it throughout the term of this Franchise Agreement or any renewal thereof, FRANCHISOR may, in its sole discretion, but shall not be obligated to, procure such coverage for FRANCHISEE in which event FRANCHISEE agrees to pay the required premiums and/or to reimburse FRANCHISOR therefore immediately upon receipt of FRANCHISOR'S invoice therefore.

D. Ongoing Obligations. In addition to the above referenced start-up obligations, concurrent with the opening of the Center, and continuing throughout the term of this Franchise Agreement, FRANCHISEE agrees to undertake and carry out diligently all of the following obligations:

(1) Operate and manage its Center within the System in accordance with the standards, specifications, instructions, and procedures as set forth in the then current Manuals that have been made available to FRANCHISEE. FRANCHISEE acknowledges that FRANCHISOR has reserved the right, pursuant to Section 7 herein, to make changes to the System and FRANCHISEE agrees to be bound by any and all changes that may hereafter be made, after Thirty (30) Days written notice. The changes may include revisions to Manuals, store improvements, franchise procedures and operational refinements in the System, as well as revisions to FRANCHISOR'S management policies and product lines.

(2) Participate in the advertising programs of FRANCHISOR for local, regional, and/or national advertising and pay a proportionate part of the cost and expense of such advertising programs, as determined and set forth in Section 8, Paragraph G herein.

(3) Pay to FRANCHISOR in a timely manner all money due and owing, including, but not limited to, the initial franchise fee, royalties, product purchases or any other item, in order to maintain its Franchise.

(4) Keep and maintain records and reports as are prescribed by FRANCHISOR, including without limitation sales, inventory and expense information, and timely send copies of such reports and records to FRANCHISOR as set forth in Section 8, Paragraph E and Section 12 herein.

(5) Allow FRANCHISOR to make inspections, without prior notice thereof, of FRANCHISEE'S Center and records at any reasonable time, and to make FRANCHISEE'S books, bank records, tax returns and all other business records available for inspection and audit by FRANCHISOR during normal working hours. FRANCHISOR'S right to audit shall include the right to examine books, tax returns and records of other businesses owned, in whole or in part, or operated by FRANCHISEE to determine whether all revenue reported by FRANCHISEE has been properly reported by FRANCHISEE and that appropriate fees and contributions have been paid. FRANCHISOR has established a uniform list of accounts and/or a uniform bookkeeping system for all of its FRANCHISEES. FRANCHISEE agrees to maintain its books and records in the manner required by FRANCHISOR. In the event an audit of FRANCHISEE'S books discloses that royalties have been underpaid, by two percent (2%) or more, in any one (1) month period, FRANCHISOR may, in addition to any other remedy available under this Franchise Agreement or by law, require FRANCHISEE to pay the audit fees and any expenses, including attorneys' fees, incurred by FRANCHISOR in collecting the past due royalties and/or advertising contributions. Furthermore, the audit costs and related charges shall be in addition to the interest and/or late charges that would be owing for delinquent royalties, advertising contributions and related charges, which are accrued from the date they should have been paid had FRANCHISEE properly and timely reported the relevant transactions and otherwise complied with this Franchise Agreement to the date said amounts are paid, at the rates specified in this Franchise Agreement.

(6) In order to protect FRANCHISOR and its FRANCHISEES from wrongful appropriation of accounts, unfair competition and loss of trade secrets, have all corporate officers, shareholders, partners and employees sign an employment and non-competition agreement in a form acceptable to FRANCHISOR

(7) Not operate any other business and/or engage in any activity from the Approved Location, either under FRANCHISEE'S Franchised trade name or under any other name without the prior, written consent of FRANCHISOR.

(8) Place and display, in the lobby of the Center, a conspicuous sign or plaque which indicates that "Kids 'R' Kids" is Independently Owned and Operated as a Franchise."

(9) Not place the Kids 'R' Kids logo or any of FRANCHISOR'S Marks or have any reference to Kids 'R' Kids in any manner on any product not furnished or approved by FRANCHISOR.

(10) Advertise only in a manner, e.g., newspaper, TV, radio, magazines, etc., that will develop customer confidence in FRANCHISEE and FRANCHISOR'S products and program, and not use any advertising which may mislead or deceive the public. FRANCHISEE further agrees to discontinue any advertising that FRANCHISOR may reasonably find to be injurious to FRANCHISOR'S business or likely to deceive or mislead the public. All advertising and promotions to be employed independently by FRANCHISEE must be submitted to and approved in writing by FRANCHISOR prior to the use thereof, which approval shall not be unreasonably withheld.

(11) Exercise full and complete control over, and have full responsibility for any and all labor relations, including the hiring, firing, disciplining, compensation, and work schedules of employees.

(12) Pay promptly when due all taxes, accounts, liabilities and indebtedness of any kind incurred by FRANCHISEE, including but not limited to all suppliers, in the conduct of the Center.

(13) Not depart from the substance or manner of sale and presentation of FRANCHISOR'S product, except as authorized by FRANCHISOR, the Manuals or any other documents made available by FRANCHISOR, without prior written approval of FRANCHISOR.

(14) Make all sales on the basis of cash or credit card. Cash includes U.S. currency, personal checks (with proper identification), and travelers' checks (with proper identification). FRANCHISEE shall be solely and entirely responsible for the collection of the proceeds of sales and services.

(15) Obey all federal, state and local laws pertaining to the operation of the Center.

(16) Within ten (10) days of FRANCHISEE'S receiving notice of actual or proposed litigation, notify FRANCHISOR in writing of any and all litigation in which FRANCHISEE may become involved subsequent to the execution of this document or which may affect either party's rights in this Franchise Agreement. If said litigation involves FRANCHISOR'S trade name and/or Marks, FRANCHISOR shall assume the litigation from FRANCHISEE and shall prosecute the

same at its own expense, unless the litigation concerns some negligent or willful act of FRANCHISEE. In that event, FRANCHISOR shall have the right to prosecute the action, but FRANCHISEE shall have the obligation to reimburse FRANCHISOR for any and all costs, including but not limited to attorneys' fees and court costs.

(17) Maintain the interior and exterior of the Center Site and the surrounding area in the highest degree of cleanliness, orderliness and sanitation and comply with the requirements of the Manual regarding the upkeep of a Kids 'R' Kids Center.

(18) Operate the Center Site during the hours and on the days prescribed in the Manual.

(19) Maintain an approved parental viewing internet system in and at the Center Site at all times throughout the term of the Franchise Agreement.

(20) Provide FRANCHISOR, immediately upon FRANCHISOR'S request and demand, with any and all parental viewing internet system passwords and/or any master password, so that FRANCHISOR may have access to and inspect FRANCHISEE'S parental viewing internet system and Center Site; and obtain, on the forms and in the manner so designated by FRANCHISOR, all parental consents for this disclosure to FRANCHISOR.

(21) Cooperate with FRANCHISOR in ensuring the proper ongoing operation, use and maintenance of the Kressa SchoolLeader Software Program, and/or any other similar software program which FRANCHISOR may require from time to time, specifically including, but not limited to, the payment of all amounts due for the Software and for services relating to the software and to FRANCHISOR and the submission of all reports and fees, in the manner and as required by FRANCHISOR from time to time.

E. Direct Supervision. FRANCHISEE acknowledges that it is a material consideration to FRANCHISOR in granting this franchise that FRANCHISEE'S Center shall be under the direct, on-premises supervision of FRANCHISEE or, in the case where FRANCHISEE is a corporation or a partnership, by a principal thereof who has been approved in writing in advance by FRANCHISOR, unless otherwise specifically approved by FRANCHISOR in writing. FRANCHISEE (or the pre-approved person designated) shall devote its entire time (excluding reasonable vacation periods) which shall be no less than thirty (30) Hours per week to the management of the Center; provided however, that if FRANCHISEE shall own more than one (1) Kids 'R' Kids Center, each center owned by FRANCHISEE shall be under the direct, on-premises supervision of a principal of FRANCHISEE with at least a ten percent (10%) ownership interest in the profits and losses of FRANCHISEE (a) who shall have completed, to the satisfaction of FRANCHISOR, such training as FRANCHISOR shall specify; (b) whose identity shall have been disclosed to FRANCHISOR; and (c) who shall have executed upon request by FRANCHISOR, an agreement in form satisfactory to FRANCHISOR agreeing not to divulge any trade secret, confidential or proprietary information, including the contents of the Manual or to engage in or have any interest in any other child care center.

F. Management. FRANCHISEE or the pre-approved Center Director will assume

responsibility for the day-to-day management and operation of the Center Site and supervision of personnel FRANCHISEE or at least one Center Director shall be required to be present at the Center Site during all hours of operation. FRANCHISEE may replace any Center Director and FRANCHISOR may, at its option, require any such replacement employee to complete FRANCHISOR'S training program as described in Section 6, Paragraph A hereof.

G. Personnel. FRANCHISEE shall hire, train and supervise Center Site employees in accordance with the specifications set forth in the Manual. All personnel employed by FRANCHISEE at the Center Site must meet every requirement imposed by applicable law and by FRANCHISOR as a condition to their employment at the Center Site. All persons employed by FRANCHISEE having access to any confidential information, knowledge or know-how concerning the Kids 'R' Kids System shall execute a noncompetition and nondisclosure agreement in a form satisfactory to FRANCHISOR in its sole discretion. FRANCHISEE shall be liable to FRANCHISOR for any unauthorized disclosure by any of FRANCHISEE'S affiliates, shareholders, directors, officers, employees or agents or such other persons or entities obtaining access through FRANCHISEE.

H. Menu. FRANCHISEE agrees that it will serve up to 2 meals and 2 snacks per day and will serve both hot and cold meals. FRANCHISEE understands that FRANCHISOR provides FRANCHISEE with suggested menus of the food items to serve; however, FRANCHISEE is solely responsible for and must comply with any and all state guidelines regulating menu standards. FRANCHISOR must approve the quality of the food served and/or any vendors which are not pre-approved suppliers.

I. Opening. FRANCHISEE shall complete development of the Center and shall have the Center ready to open and commence the conduct of its business no later than one (1) year from the date which FRANCHISOR executes this Franchise Agreement (the "Opening Date"). If FRANCHISEE shall not complete all required training and open the Center by the Opening Date, then this Franchise Agreement and the Franchise granted hereby may, at the sole option of FRANCHISOR, be terminated upon the giving of written notice to FRANCHISEE by FRANCHISOR. Thereafter, FRANCHISEE shall have no further nor other rights, claims, or causes against FRANCHISOR arising out of the grant of this Franchise, or any matter related to the facts causing or allowing such termination.

J. Approved Products. In order to assure a uniform, standardized image with which the public may associate the Kids 'R' Kids System and its trade name, logo and Marks, FRANCHISEE must sell all the products and services which FRANCHISOR requires from time to time, and shall sell no product, service or other item at the Center Site other than items approved by FRANCHISOR. FRANCHISEE shall not, without FRANCHISOR'S prior written consent, sell, dispense, give away or otherwise provide services, FRANCHISOR'S products or any products bearing the Marks. FRANCHISEE shall maintain a supply of fresh and packaged food products sufficient to meet the daily demands of the children and teachers at the Center Site. All supplies and materials used in the operation of the Center shall conform to the specifications and quality standards established by FRANCHISOR from time to time.

(1) Equipment. FRANCHISOR shall provide FRANCHISEE with specifications for menu items, dispensing, storage and display equipment, fixtures, furniture, exterior and interior signs and decorating required for the Center. Specifications may include minimum standards for performance, warranties, design and appearance and local zoning, sign and other restrictions. FRANCHISEE may purchase or lease original and replacement equipment, fixtures, furniture, signs and decorating services meeting such specifications from any source. FRANCHISEE must purchase its Initial Equipment Package from our approved supplier, Childish Creations. Thereafter, if FRANCHISEE proposes to purchase lease any item of equipment or furniture or any fixture or sign not theretofore approved by FRANCHISOR as meeting its specifications, FRANCHISEE shall first notify FRANCHISOR and FRANCHISOR may require submission of sufficient specifications, photographs, drawings and/or other information and samples to determine whether such item of equipment, furniture, fixture or sign meets its specifications. FRANCHISOR shall advise FRANCHISEE within ninety (90) days whether such item meets its specifications.

(2) Approved Suppliers. FRANCHISEE must purchase the Approved Equipment from suppliers approved and designated by FRANCHISOR (the "Approved Suppliers"). Unless elsewhere provided for in the Manual or in this Franchise Agreement, FRANCHISEE may purchase equipment, supplies, forms and food products required under this Franchise Agreement from any source, provided the supplier meets the standards established from time to time by FRANCHISOR and is an Approved Supplier and provided that the items to be purchased are in strict accordance with the standard specifications of FRANCHISOR, all as more specifically described in this Franchise Agreement and in the Manual. If FRANCHISEE purchases any of the Approved Equipment, supplies or novelty items from FRANCHISOR, FRANCHISOR may require FRANCHISEE to execute a Supply Agreement in substantially the same form as Exhibit H attached hereto.

If FRANCHISEE proposes to use in or purchase for the operations of the Center Site any product, supply, material, equipment or furnishing not accepted by FRANCHISOR, FRANCHISEE shall first notify FRANCHISOR and request the approval of FRANCHISOR which shall be in FRANCHISOR'S sole discretion. Upon FRANCHISOR'S request, FRANCHISEE shall submit to FRANCHISOR sufficient information regarding such product, supply or material to FRANCHISOR and/or samples for examination by FRANCHISOR. FRANCHISOR shall also have the right to require that its representatives be permitted to inspect such supplier's facilities. FRANCHISOR shall notify FRANCHISEE within ninety (90) days of its approval or disapproval. As a condition for acceptance of any new supplier, FRANCHISEE shall reimburse FRANCHISOR for its expenses in connection with any such examination, testing or inspection.

Nothing contained in the Franchise Agreement or Offering Circular shall be deemed to require FRANCHISOR to accept an inordinate number of suppliers for a given item which acceptance in the reasonable judgment of FRANCHISOR would result in higher costs generally to FRANCHISOR'S FRANCHISEES or prevent the effective and economical supervision of its approved suppliers by FRANCHISOR.

K. Refurbishing and Repairs. FRANCHISEE agrees to affect such refurbishing of the Center (in addition to regular maintenance and repair), within three (3) months of its receipt of notice from FRANCHISOR, as FRANCHISOR from time to time requires to maintain or improve the appearance and efficient operation of the Center and/or increase its sales potential or to comply with FRANCHISOR'S standards and identity. Refurbishing may include: (a) replacement of worn

out or obsolete equipment, fixtures, furniture and signs; (b) the substitution or addition of new or improved equipment, fixtures, furniture and signs; (c) redecorating, (d) repair of the interior and exterior of the premises and repair and resurfacing of parking facilities; and (e) structural modifications and remodeling of the premises. FRANCHISEE shall not be required to make aggregate expenditures for refurbishing in excess of three percent (3%) of the gross sales of FRANCHISEE'S Center from the date of its opening to the date of any required refurbishing or to affect any refurbishing of the Center during the last twelve (12) months of the term of the Franchise.

L. Prices. FRANCHISOR may from time to time offer guidance to FRANCHISEE relative to prices for the products and services of the Center that in FRANCHISOR'S judgment constitute good business practice. FRANCHISEE shall have the sole right to determine the minimum prices charged.

M. Manual. In order to maintain uniform standards of operation for a Kids 'R' Kids Center and to protect the goodwill of FRANCHISOR, the Kids 'R' Kids System and the Marks, FRANCHISEE agrees to follow the methods and standards of operation established by FRANCHISOR and set forth in the Manual, as amended from time to time. FRANCHISOR shall lend FRANCHISEE one copy of the Manual prior to the opening of the Center Site. FRANCHISEE shall treat the Manual as confidential, and shall be liable to FRANCHISOR for any unauthorized disclosure by FRANCHISEE or any of FRANCHISEE'S affiliates, shareholders, principals, directors, officers, employees, agents or other such persons or entities obtaining access through FRANCHISEE. FRANCHISOR, at its sole discretion, shall require FRANCHISEE, its principals, affiliates, shareholders, directors, officers, employees, agents or all other persons or entities obtaining access of any confidential information, knowledge or know-how, including but not limited to information in FRANCHISOR'S Manual, to execute a noncompetition and nondisclosure agreement in a form satisfactory to FRANCHISOR in its sole discretion.

N. Specifications and Procedures. FRANCHISEE agrees to fully comply with all specifications, standards and operating procedures and rules from time to time prescribed for the Center, including, without limitation, specifications, standards, and operating procedures and rules relating to: (a) the safety, maintenance, cleanliness, sanitation, function and appearance of the Center premises and its equipment, fixtures, furniture, decor and signs; (b) qualifications, dress, grooming, general appearance and demeanor of FRANCHISEE and all employees of FRANCHISEE and the Center; (c) advertising and promotion; (d) use of standard forms; (e) use and illumination of exterior and interior signs, posters, displays, and similar items; (f) the handling of customer complaints; and (g) the posting of signs identifying FRANCHISEE as the owner of the Center in accordance with FRANCHISOR'S requirements.

O. Compliance with Ordinances. FRANCHISEE shall secure and maintain in force all required licenses, permits and certificates and shall operate the Center in full compliance with all applicable laws, ordinances and regulations, including without limitation all government regulations relating to: occupational hazards and health, consumer protection, unfair and deceptive practices, trade regulation, workers' compensation, unemployment insurance and withholding, and payment of federal and state income taxes; social security taxes; property taxes; and sales and use taxes.

FRANCHISEE agrees to pay when due all amounts payable by FRANCHISEE pursuant to any provision of this Franchise Agreement or any other agreement with FRANCHISOR or its affiliates or subsidiaries or pursuant to any agreement with any other creditor or supplier of the Center.

P. Marks. Consistent with and in addition to the terms and conditions regarding FRANCHISOR'S marks set forth in Section 2, Paragraph B, FRANCHISEE acknowledges that FRANCHISOR is the Registered and Common Law owner of all Trade Names and/or Marks licensed to FRANCHISEE by this Franchise Agreement and all usage thereof by FRANCHISEE and any goodwill established thereby shall inure to the exclusive benefit of FRANCHISOR. FRANCHISOR has registered the Kids 'R' Kids Mark with the U.S. Patent and Trademark Office. FRANCHISEE agrees to use each Mark in full compliance with rules prescribed from time to time by FRANCHISOR. FRANCHISEE shall not use any Mark as part of any corporate name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to FRANCHISEE hereunder), nor may FRANCHISEE use any Mark in connection with the sale of any unauthorized product or service or in any other manner not explicitly authorized in writing by FRANCHISOR. FRANCHISEE shall immediately notify FRANCHISOR of any infringement of or challenge to FRANCHISEE'S or FRANCHISOR'S use of any Mark or claim by any person of any rights in any Mark, and FRANCHISEE shall not communicate with any person other than FRANCHISOR and its counsel in connection with any such infringement, challenge or claim. In the event any of FRANCHISOR'S trademarks are challenged by third parties claiming infringement of alleged prior or superior rights in such marks, FRANCHISOR shall have the option and right to modify or discontinue use of the trademarks and adopt substitute trademarks in FRANCHISEE'S geographical business areas and in such other areas as FRANCHISOR chooses. FRANCHISOR'S liability to FRANCHISEE under such circumstances shall be limited to the cost of replacement of FRANCHISEE'S signs and advertising materials in effecting such modifications, discontinuance or adoption of substitute trademarks.

Q. Transportation Services. FRANCHISEE may not provide transportation services to or from the Center Site for children, teachers or other personnel or persons without the prior written approval of FRANCHISOR, which approval may not be unreasonably withheld or withdrawn by FRANCHISOR. FRANCHISEE may provide transportation services only in strict accordance with FRANCHISOR'S specifications, as set forth below and in the Manual. FRANCHISOR may initially and from time to time limit the geographic area in which FRANCHISEE may provide transportation services in connection with the Center Site. In addition to and not in limitation of the foregoing, all transportation services shall be in accordance with the following terms and conditions:

(1) Authorization. FRANCHISEE may only provide transportation services to and from the Center Site and for Center-related field trips with and for the children. FRANCHISEE shall not provide any other transportation services without FRANCHISOR'S prior, written approval.

(2) **Geographic Scope.** No FRANCHISEE is specifically limited to providing transportation services within its Exclusive Territory, and any Franchisee may provide transportation services within another Franchisee's Exclusive Territory.

(3) **Compliance with Laws.** FRANCHISEE agrees to comply with all applicable laws, rules and regulations of the State Department of Human Resources and any other governmental agency in connection with the provision of transportation services by FRANCHISEE, including submitting vehicles used by FRANCHISEE for inspection and approval by the State Department of Human Resources and/or such other governmental agencies. FRANCHISEE shall perform regular maintenance with respect to each vehicle used in FRANCHISEE'S business and shall keep each vehicle in good operating condition and repair, normal wear and tear excepted. In no event shall FRANCHISEE use any vehicle which is not then currently in good condition and repair and/or which imposes any safety hazard to any person.

(4) **Insurance.** Prior to commencing transportation services FRANCHISEE shall secure and maintain the insurance coverage with insurance carriers acceptable to FRANCHISOR and in accordance with FRANCHISOR'S insurance requirements as specifically set forth in Section 5, Paragraph C herein and in the Manual. FRANCHISEE shall provide to FRANCHISOR evidence of obtaining such insurance prior to commencing transportation service and on an annual basis thereafter. FRANCHISOR may require additional types or specify the amounts of insurance in addition to that required by Section 5, Paragraph C hereof which FRANCHISEE must obtain prior to the commencement of transportation services. Any such additional requirements or specifications may be provided by FRANCHISOR to FRANCHISEE in writing and shall be controlling in all cases and in the event of any conflict between such requirements and specifications and those required by Section 5, Paragraph C.

(5) **Drivers.** FRANCHISEE agrees that each of its employees serving as drivers in connection with the provisions of transportation services shall have (a) acquired a Commercial Drivers License; and (b) completed and executed with FRANCHISEE, FRANCHISOR'S most current form of Driver Agreement, a copy of which is attached hereto as Exhibit J. FRANCHISEE shall send a copy of the Driver Agreement executed by and between FRANCHISEE and each of FRANCHISEE'S employees serving as a driver to FRANCHISOR within five days following its execution. FRANCHISEE shall require each of its drivers to obtain and maintain insurance for at least the coverage and the amounts as required by FRANCHISOR from time to time for Kids 'R' Kids System drivers. FRANCHISEE shall be solely responsible for the hiring and supervision of all of its drivers.

SECTION 6. OBLIGATIONS OF FRANCHISOR

Provided that FRANCHISEE has fully complied with the terms and conditions of this Franchise Agreement and all other agreements between FRANCHISEE and FRANCHISOR or any affiliate, FRANCHISOR agrees during the term of this Franchise Agreement to provide the following services:

A. **Training and Assistance.**

(1) **Initial Training Program.** Prior to opening of the Franchise Center, but after

FRANCHISEE either acquires the Center Site or enters into a lease approved by FRANCHISOR for the Center Site, FRANCHISOR shall provide FRANCHISEE (or a pre-approved principal of FRANCHISEE) and one (1) additional person who has been designated by FRANCHISEE to be the Center Director or assistant center director responsible for the day-to-day operation of the Center Site and accepted in advance in writing by FRANCHISOR, with training in the operation of a Kids 'R' Kids Center. FRANCHISEE'S expenses incurred in attending such training program include, without limitation, costs for FRANCHISEE'S and the additional person's wages, meals, lodging and transportation. Such training will be conducted at a Kids 'R' Kids child care center located in the metropolitan Atlanta, Georgia area or at another location designated by FRANCHISOR for approximately six (6) full consecutive days, or as otherwise deemed appropriate by FRANCHISOR. FRANCHISOR shall bear the cost of such training except for any cost and expenses attributable to transportation, room and board, wages and other personal expenses of such individuals. In the event that any of such person fails to complete FRANCHISOR'S training program to the satisfaction of FRANCHISOR, FRANCHISEE shall have the option, at its sole cost and expense, of sending a replacement to FRANCHISOR'S initial training program in place of each such individual. An employee of FRANCHISEE who has successfully completed FRANCHISOR'S initial training program to the satisfaction of FRANCHISOR shall be referred to herein as a "Qualified Employee." Successful completion of such initial training program by FRANCHISEE or its principal and one (1) Center Director or assistant center director as described above is a condition to the opening of Center Site to the public.

(2) Center Opening Assistance. In addition to FRANCHISOR'S initial training program, FRANCHISOR shall also provide one operational supervisor for a period of up to ten (10) business days to assist in the opening of FRANCHISEE'S Center Site. FRANCHISOR shall bear the cost of such training.

(3) Additional Training. If, at any time after the opening of the Center Site, FRANCHISOR determines that FRANCHISEE or the Qualified Employee requires additional training, or if FRANCHISEE hires an additional or replacement employee for a Qualified Employee and FRANCHISOR determines in its sole discretion that FRANCHISEE is unable to adequately train the new employee, or if there has been a sale of the Center Site or assignment of Franchise Agreement and FRANCHISOR determines in its sole direction that additional training is required, FRANCHISOR may require that the new employee satisfactorily complete such training as may be designated by FRANCHISOR. FRANCHISEE shall pay FRANCHISOR the then current training fee charged by FRANCHISOR for any additional training designated by FRANCHISOR or requested by FRANCHISEE. FRANCHISEE shall also be responsible for the costs and expenses of FRANCHISEE and any of its employees, as described in this Section 6, and any costs and expenses of FRANCHISOR and any of its employees, in connection with such additional training.

B. Inspections. FRANCHISOR may, but shall not be obligated to, inspect the Center Site and interview FRANCHISEE'S employees at any reasonable time without prior notice to determine that the Center Site is being operated in accordance with the terms of this Franchise Agreement, the Manual and other applicable rules of FRANCHISOR, as well as applicable federal state and local laws, regulations, rules and ordinances. FRANCHISOR may elect to inspect FRANCHISEE'S Center Site at any time and from time to time, via FRANCHISEE'S parental viewing internet system. FRANCHISOR shall notify FRANCHISEE in writing of any unsatisfactory conditions discovered, and FRANCHISEE agrees to correct or repair any such

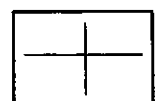
conditions immediately upon being advised of the same. FRANCHISEE shall pay FRANCHISOR'S reasonable and customary travel expenses with respect to one inspection visit by FRANCHISOR per calendar quarter, including FRANCHISOR'S travel, lodging, meals and other out-of-pocket expenses incurred in connection with such inspection visit.

C. Products, Supplies and Materials. Following the execution of this Franchise Agreement, FRANCHISOR shall use reasonable efforts to make available for purchase from FRANCHISOR'S designated manufacturers or suppliers the Approved Equipment and all other products required or approved by FRANCHISOR for use in connection with the Center Site, all to the extent FRANCHISOR'S suppliers are able to supply the same. FRANCHISEE shall purchase the Approved Equipment and all other products required from a supplier who complies with FRANCHISOR'S supplier acceptance guidelines as described in Section 5, Paragraph J of this Franchise agreement.

D. Manual. FRANCHISOR shall without charge, lend to FRANCHISEE one copy of FRANCHISOR'S Confidential Operating Manual all amendments, revisions and supplements thereto, which contain specifications, standard operating procedures, requirements, bookkeeping methods, marketing and advertising techniques and other rules prescribed from time-to-time by FRANCHISOR. All Manuals shall remain confidential and the property of FRANCHISOR. FRANCHISEE shall pay to FRANCHISOR Five Hundred Dollars (\$500.00) for each and every Manual or any part of it that is not returned to FRANCHISOR upon termination or transfer of this Franchise Agreement.

E. Operating Assistance. FRANCHISOR shall furnish to FRANCHISEE such reasonable operating assistance in connection with the operation of the Center as FRANCHISOR determines from time to time to be necessary. Operating assistance may include advice and guidance with respect to: (a) hiring and training employees; (b) formulating and implementing advertising and promotional programs; and (c) the establishment and maintenance of administrative, bookkeeping, accounting, and general operating procedures. FRANCHISOR shall advise FRANCHISEE from time to time of operating problems of the Center disclosed by reports submitted to or inspections made by FRANCHISOR. FRANCHISOR shall make no separate charge to FRANCHISEE for such operating assistance, provided that FRANCHISOR may make reasonable charges for forms and other materials supplied to FRANCHISEE and for operating assistance made necessary, in the judgment of FRANCHISOR, as a result of FRANCHISEE'S failure to comply with any provision of this Franchise Agreement or any specification, standard or operating procedure prescribed by FRANCHISOR, or operating assistance requested by FRANCHISEE in excess of that normally provided by FRANCHISOR. At any time, during the term of the Franchise Agreement, if FRANCHISEE desires the "on hand" assistance of trained FRANCHISOR personnel, FRANCHISOR, upon written request by FRANCHISEE shall provide corporate representative(s) to assist FRANCHISEE at FRANCHISEE'S Center. Such assistance will be provided to FRANCHISEE pursuant to Paragraph A(3) herein. FRANCHISOR may charge a reasonable fee in satisfaction of these services, not to exceed Five Thousand Dollars (\$5,000) for services provided within one calendar quarter.

F. Site Transfer Assistance. Upon Franchisee's request, FRANCHISOR may provide FRANCHISEE with assistance in identifying a qualified purchaser to purchase FRANCHISEE'S Franchise and Center Site. FRANCHISOR may also provide FRANCHISEE with assistance in identifying improvements which FRANCHISEE should make in order to



facilitate the transfer of FRANCHISEE'S Franchise and Center Site. FRANCHISOR has the right and privilege not to provide any such services to FRANCHISEE. Prior to providing any such services, FRANCHISEE must sign FRANCHISOR'S then current form of Franchise Site Transfer Assistance Agreement and pay FRANCHISOR a flat fee of Thirty Thousand Dollars (\$30,000).

SECTION 7. RIGHTS RESERVED BY FRANCHISOR

FRANCHISOR reserves the right to modify the Kids 'R' Kids System and the Manuals at any time, and from time to time by the addition, deletion or other modification to the provisions thereof, provided that such modification shall be made only to the extent necessary or desirable and in the sole judgment of FRANCHISOR to protect FRANCHISOR'S Marks and goodwill, to comply with any applicable law, statute, judicial or administrative decision, or to improve the quality of products and services offered to the public.

SECTION 8. ROYALTIES AND OTHER PAYMENTS

A. Royalty Fees. In consideration of the rights granted to FRANCHISEE under this Franchise Agreement, FRANCHISEE agrees to pay FRANCHISOR a Royalty Fee of five percent (5%) on the total Tuition Sales and Drop-in Sales, as defined below, generated from the operation of the Center (the "Royalty Fee" or "Royalties"). FRANCHISEE'S obligation to make Royalty payments to FRANCHISOR shall commence on the earlier of ninety (90) days after the Opening Date of the Center or on the date when the Center reaches its first enrollment of 125 children, whether said children are full or part time. All Royalties paid to FRANCHISOR are nonrefundable.

B. Definition of Tuition and Drop-in Sales. Tuition Sales and Drop-in Sales, as used in the Franchise Agreement, shall mean, but shall not be solely limited to, those total revenues derived by FRANCHISEE for the care of children enrolled in the Center on a full-time basis or on a part-time basis or for the care of children who may attend the center on a periodic or drop-in basis. Such Tuition and Drop-in Sales also include any sales made for cash, check credit or otherwise, including any sales made or services provided in connection with barter or counter trade, if any, without reserve, offset or deduction for inability or failure to collect the same. Tuition and Drop-in Sales shall not include any sales made for food, goods, wares and merchandise in connection with the Kids 'R' Kids Center; rebates approved by the FRANCHISOR; refunds to customers; or the amount of any taxes which FRANCHISEE may be required or shall be required in the future to collect from customers to be paid to any federal, state or local taxing authority. Such tax, however, shall not include any property or franchise tax, but shall only include those taxes, if any, to be collected from the customers of FRANCHISEE. (Tuition Sales and Drop-in Sales shall hereinafter collectively be referred to as "Gross Sales")

C. Manner of Payment. FRANCHISEE shall pay the Royalties to FRANCHISOR by electronic funds transfer, in cash or by check, as required by FRANCHISOR, to be received by FRANCHISOR not later than Friday of each week. Such Royalties shall be calculated from the Gross Sales of the immediately preceding calendar week, which week shall end at the close of business on Saturday. FRANCHISOR may require FRANCHISEE to use and pay for all required computer software programs and accompanying services, including the Kressa SchoolLeader Software Program, to calculate amounts due, prepare and submit the required weekly and other reports, and/or remit the Royalties due under this Franchise Agreement. FRANCHISEE is required to cooperate with FRANCHISOR in the use of any software program and in the payment of all amounts due hereunder.

D. Late Payments. Pursuant to the terms of the Franchise Agreement, any delinquent Royalty payment shall bear simple interest until received by FRANCHISOR (computed at the highest interest rate allowed by law or at the rate of one and one half percent (1.5%) per month, whichever is less). To compensate FRANCHISOR for the increased expense incurred in connection with the late payment of any Royalty payment, FRANCHISEE shall pay, upon demand, in addition to any interest or other charges, a late charge of twenty-five Dollars (\$25.00) for each delinquent Royalty payment. Such late charge is not to be construed as interest but is solely to compensate FRANCHISOR for increased costs due to the late payment of such Royalty Fee. In addition, FRANCHISEE must reimburse FRANCHISOR for all costs and expenses, including reasonable attorney fees, incurred in collections and determination of amounts due hereunder, where permitted.

At any time that FRANCHISEE is seven (7) days in arrears in the payment of a weekly Royalty Fee, an invoice for materials and/or products purchased from FRANCHISOR, and/or the filing of reports due FRANCHISOR hereunder, FRANCHISOR, in its sole discretion, without thereby canceling or terminating this Franchise Agreement and without thereby prejudicing FRANCHISOR'S other rights and remedies including the right to terminate this Franchise Agreement for the same cause or for any one or more causes, may cease providing FRANCHISEE with the services and products including promotional materials herein provided for until such time as FRANCHISEE is current in the payment of fees and filing of reports. The failure of FRANCHISOR to provide such services during that period shall not be deemed a breach of this Franchise Agreement.

FRANCHISOR reserves the right to demand all late payments be paid by cash, certified check, cashier's check, money order, or wire transfer.

E. Weekly Reports. Payments of the weekly Royalty Fee must be received by FRANCHISOR at its principal offices, or such other place as FRANCHISOR may designate and must be accompanied by weekly reports on forms designated by FRANCHISOR setting forth a complete accounting of FRANCHISEE'S Gross Sales revenues and such other information as may be required by FRANCHISOR. Said payments shall be accompanied by fully executed copies of the following documents:

- (1) Weekly Revenue Reports
- (2) Marketing Reports, if applicable
- (3) Advertising Tear Sheets and/or Advertising Invoices

(4) Such other reports as may be reasonably required from time to time by FRANCHISOR, all on forms designated by FRANCHISOR, together with any supporting documentation required by FRANCHISOR.

FRANCHISOR reserves the right to request or download reports from FRANCHISEE'S computer system.

F. Payment for Products purchased from FRANCHISOR. Payment for products, supplies, promotional materials and forms purchased by FRANCHISEE from FRANCHISOR shall be prepaid in cash (unless other agreement has been entered into with FRANCHISOR.)

FRANCHISEE shall pay all collection charges.

G. Advertising and Marketing.

(1) Advertising and Marketing. Recognizing the value of advertising for the furtherance of the goodwill and public image of FRANCHISEE and the Franchise System, in those states where FRANCHISOR has not established a Kids 'R' Kids Advertising Fund (the "Advertising Fund"), described in Sub-Paragraph (3) herein, FRANCHISEE shall expend on advertising during each calendar month an amount equal to at least one and one-half percent (1.5%) of Gross Sales for the preceding month. In states where FRANCHISOR establishes and for so long as FRANCHISOR maintains the Advertising Fund, FRANCHISEE may expend any amount on local advertising which FRANCHISEE in its sole discretion determines.

(2) Advertising by FRANCHISEE. All advertising by FRANCHISEE shall be conducted in a dignified manner and shall conform to the standards and requirements prescribed by FRANCHISOR. All local and any other form of advertising by FRANCHISEE must be approved in advance in writing by FRANCHISOR. FRANCHISEE shall continuously maintain white pages telephone directory listings and yellow pages display advertisement, of a size no less than two inches by six inches (2.5" x 6"), in the Bell Companies telephone book(s) which cover the area in which the Center Site is located (the "Area"). Further, FRANCHISEE shall be required to jointly advertise within the Area on a pro rata basis in the Area yellow page display advertisement.

FRANCHISOR periodically provides various marketing items which FRANCHISEE may purchase to be distributed to customers at their Center. FRANCHISOR will make these items available to FRANCHISEE at FRANCHISOR'S cost plus a minimal handling charge not to exceed twenty percent (20%). FRANCHISEE has the option of refusing to purchase any promotional product provided by FRANCHISOR.

(3) Advertising Fee. Notwithstanding anything contained herein to the contrary, FRANCHISOR may, but is not obligated to, establish an Advertising Fund, as described herein below, only in states which have five (5) or more Kids 'R' Kids Centers. Immediately after FRANCHISOR establishes and for so long as FRANCHISOR maintains the Advertising Fund described below, FRANCHISEE shall pay FRANCHISOR as sum equal to one percent (1%) of Gross Sales for the previous week (the "Advertising Fees"). FRANCHISOR shall be entitled to increase the percentage amount contributed by FRANCHISEE to the Advertising Fund by notification in writing to FRANCHISEE, provided that the Advertising Fees shall not exceed two percent (2%) of Gross Sales for the previous week. All Advertising Fees shall be paid by FRANCHISEE by Friday of each week and shall accompany and be paid in the same manner as all Royalty Fees, including the use of any software programs designated by FRANCHISOR. Advertising Fees are calculated from the tuition and drop-in sales of the immediately preceding calendar week, commencing with the week in which the Fund is established or in which the Center is opened and continuing for the term of the Franchise Agreement. FRANCHISOR shall deposit Advertising Fees in a separate account under the control of FRANCHISOR, but designated the "Kids 'R' Kids Advertising Fund." The Advertising Fees shall be used by FRANCHISOR to provide regional and/or national advertising and promotion for the Kids 'R' Kids Centers. FRANCHISOR has complete discretion over the type, quality, quantity, geographic location, timing, placement and choice of agency or media with respect to such advertising and whether to continue the Advertising Fund. In administering the Fund, FRANCHISOR undertakes no obligation to make expenditures for FRANCHISEE which are equivalent or proportional to FRANCHISEE'S

contribution or to insure that any particular FRANCHISEE benefits directly or pro rata from the placement of any advertising or the carrying out of any promotional program by FRANCHISOR. In the event FRANCHISOR chooses to discontinue the Advertising Fund for any reason, any moneys remaining in the Advertising Fund may be expended by FRANCHISOR on advertising, as described above, in FRANCHISOR'S sole discretion.

(4) Grand Opening. Prior to the date upon which the Center Site is opened the public (the "Grand Opening"), FRANCHISEE shall plan, advertise and promote the Grand Opening of the Franchise. At least thirty (30) days before the Grand Opening, FRANCHISEE shall submit to and obtain prior, written approval from FRANCHISOR of FRANCHISEE'S opening advertising plans and budget, which shall be an amount not less than Five Thousand Dollars (\$5,000.)

SECTION 9. LEASE OR OWNERSHIP OF CENTER SITE

A. Lease. In the event FRANCHISEE will not own the Center Site, within ninety (90) days of FRANCHISOR'S execution of this Franchise Agreement, FRANCHISEE shall execute a lease (the "Lease") for the Center Site with the landlord of the Center Site on terms satisfactory to FRANCHISOR. FRANCHISOR or one of its affiliates may own the Center Site and as landlord may lease the Center Site to FRANCHISEE, although FRANCHISEE is not required to lease a Center Site which is or will be owned and leased by FRANCHISOR or one of its affiliates. Except as otherwise approved in writing by FRANCHISOR, the Lease shall be for a minimum term of at least five (5) years with options to renew for at least a total of twenty (20) years, and the Lease will provide that FRANCHISOR may cure any default of FRANCHISEE under the Lease after written notice by landlord to FRANCHISOR. If FRANCHISEE proposes to lease the Center Site from a lessor other than FRANCHISOR, prior to entering into the Lease, FRANCHISEE and such lessor shall be required to execute FRANCHISOR'S form of Collateral Assignment of Tenant's Interest in Lease attached hereto as Exhibit C (the "Collateral Assignment"). If a lender holds a mortgage on the Center Site, prior to entering into the Lease, FRANCHISOR may require that FRANCHISEE, lessor and lender execute FRANCHISOR'S form of Nondisturbance and Attornment Agreement attached hereto as Exhibit D (the "Nondisturbance Agreement"). FRANCHISEE shall provide the potential lessor with the form Collateral Assignment and the form Nondisturbance Agreement at the commencement of FRANCHISEE'S discussions with such potential lessor. If FRANCHISEE proposes to lease the Center Site from any owner, shareholder, partner, director, officer or other principal of FRANCHISEE or any person related to or affiliated with FRANCHISEE or any of FRANCHISEE'S owners, shareholders, partners, directors, officers or other principals (collectively referred to as the "Affiliates"), FRANCHISOR may also require any such Affiliates to sign this Franchise Agreement and/or separate agreements for the purpose of binding such Affiliates to the provisions contained in Section 13, Paragraphs B, C and D, and Section 14, Paragraphs I and J, and other applicable provisions of this Franchise Agreement, as determined by FRANCHISOR.

B. Ownership. In the event FRANCHISEE will own the Center Site, FRANCHISEE must have entered into a purchase contract for the purchase of the Center Site not later than ninety (90) days after FRANCHISOR'S execution of this Franchise Agreement. FRANCHISEE shall cooperate with FRANCHISOR to ensure that FRANCHISOR can fully protect its interests in the Center Site in the event of a default by FRANCHISEE under the terms of this Franchise Agreement or any financing agreement related to the Center Site. The provisions of this Paragraph shall only apply in the event that FRANCHISEE or any of its Affiliates shall (i) own or at any time propose to purchase and own any or all of the Center Site, or (ii) have obtained or at any time propose to obtain any financing with respect to the Center Site or the Business, whether in connection with the purchase of any part of the Center Site or for working capital or other purposes. Prior to any such ownership or purchase described herein, FRANCHISEE and such Affiliates shall be required to execute and deliver FRANCHISOR'S then-current forms of (i) Memorandum of Rights and (ii) Subordination Agreement attached hereto as Exhibit E (the "Subordination Agreement") and FRANCHISOR may require the Affiliates to execute this Franchise Agreement and/or separate agreements for the purpose of binding such Affiliates to the provisions contained in Section 13, Paragraphs B, C and D, and Section 14, Paragraphs I and J, and other applicable provisions of this Franchise Agreement, as determined by FRANCHISOR. Prior to any such financing described above, any such lender may be required by FRANCHISOR to execute and deliver FRANCHISOR'S Subordination Agreement or Nondisturbance Agreement, as determined by FRANCHISOR. FRANCHISEE shall provide the potential lender with FRANCHISOR'S Subordination Agreement and Nondisturbance Agreement at the commencement of FRANCHISEE'S discussions with such lender.

C. Approval and Negotiation. FRANCHISEE shall not execute the Lease or, if FRANCHISEE intends to purchase the Center Site, enter into any binding obligation with respect to the purchase of the Center Site, until (i) the Center Site has been accepted in writing by FRANCHISOR, (ii) the terms and conditions of the Lease or the purchase documents have been approved in writing by FRANCHISOR, which approval shall not be unreasonably withheld, and (iii) either (a) FRANCHISEE and the landlord of the Center Site have executed and delivered to FRANCHISOR the Collateral Assignment and, if applicable, the Nondisturbance Agreement or (b) FRANCHISEE (or its Affiliates, if applicable) and the lender to FRANCHISEE for the Center Site have executed and delivered to FRANCHISOR the Subordination Agreement and/or the Nondisturbance Agreement, as determined by FRANCHISOR, whichever (a) or (b) is applicable. In the event FRANCHISEE requests FRANCHISOR to assist in the negotiation of any such lease or the purchase of the Center Site, FRANCHISEE shall pay FRANCHISOR as a negotiation fee the sum of Five Hundred Dollars (\$500.00) per day (based on an 8 - hour day, including travel time) plus all expenses of FRANCHISOR for reasonable travel, lodging, meals and other out-of-pocket expenses incurred in connection therewith.

SECTION 10. LEASEHOLD IMPROVEMENTS, FIXTURES, AND EQUIPMENT

A. Layout and Specifications. FRANCHISOR will provide FRANCHISEE with a day care center design package, including a sample layout for the interior and exterior of a typical Kids 'R' Kids Center, and with a set of typical preliminary plans and equipment and decor specifications. FRANCHISEE shall, at its sole expense, employ architects, designers, engineers, contractors and others as may be necessary to complete, adapt, modify or substitute the sample plans and specifications for the Center Site. FRANCHISEE is solely responsible for adaptations required to

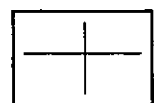
comply with any federal, state or local law, rule, regulation or ordinance. FRANCHISEE shall submit to FRANCHISOR a complete set of final plans and specifications and the name of the general contractor prior to commencing construction of the Center Site and shall not commence construction of the Center Site until FRANCHISOR approves the same in writing. It shall be and remains the sole responsibility of FRANCHISEE to diligently design, construct, equip and otherwise ready and open the Center Site. The preliminary plans and specifications and all modifications thereto remain the property of FRANCHISOR at all times and are immediately returnable to FRANCHISOR upon demand, including all copies thereof.

B. Construction and Inspection. FRANCHISEE shall use a licensed, bondable general contractor approved in advance in writing by FRANCHISOR to perform construction work at the Center Site. FRANCHISEE must obtain FRANCHISOR'S prior, written approval of any and all changes in the Center Site plans and specifications prior to construction of such Center Site or the implementation of such changes. FRANCHISOR shall have access to the Center Site while work is in progress and may require such reasonable alteration or modification of the construction of the Center Site as it deems necessary. The Center Site will not be allowed to open if it does not conform to the plans and specifications approved by FRANCHISOR, including any changes to such plans and specifications accepted by FRANCHISOR. Although FRANCHISOR shall be permitted to inspect and ensure conformity with its plans and specifications, FRANCHISOR and its agents are not licensed contractors and shall not be responsible for delays in the construction, equipping or decoration of the Center Site or for any loss or damage to FRANCHISEE or any third party resulting from the design or construction of the Center Site.

C. Fixtures, Furniture and Equipment. At its sole expense, FRANCHISEE must install all required signs, fixtures, furniture and equipment (collectively, the "Approved Equipment") for the Center Site pursuant to the specifications and criteria specified in this Franchise Agreement or the Manual. The Approved Equipment currently required by FRANCHISOR includes, but is not limited to, those items listed or described in the exhibits to the UFOC and in the Manual. FRANCHISEE acknowledges having reviewed said exhibits and understands and agrees that FRANCHISOR'S specifications as to the quality and quantity of the items listed on said exhibits are set forth in the Manual. It shall be FRANCHISEE'S sole responsibility to purchase any and all signs, fixtures, furniture and equipment from suppliers and to inspect any such materials used in connection with the Center Site to ensure that such materials conform with supplier's specifications and are safe for use in connection with a Kids 'R' Kids Center.

D. Modifications. No modifications or alteration to the completed Center Site shall be made by FRANCHISEE without FRANCHISOR'S prior, written permission. FRANCHISEE agrees to make all modifications and renovations reasonably requested by FRANCHISOR.

E. Maintenance and Repair. FRANCHISEE shall be solely responsible for maintenance and repair, and any liabilities arising therefrom, of the Center Site, the Approved Equipment and any other equipment, decor, furnishings, fixtures and tangible property on and about the Center Site. FRANCHISEE shall comply with the requirements for maintaining and replacing its equipment, decor, furnishings, fixtures and all other tangible property in and about the Center Site in accordance with the standards set forth in this Franchise Agreement and in the Manual.



F. Warranty Disclaimer. FRANCHISEE AGREES THAT FRANCHISOR MAKES NO WARRANTIES, EITHER EXPRESSED OR IMPLIED, WITH RESPECT TO ANY OF THE SIGNS, FIXTURES, FURNISHINGS, DECOR, APPROVED EQUIPMENT, OR OTHER EQUIPMENT, PRODUCTS, SUPPLIES AND MATERIALS USED IN CONNECTION WITH THE CENTER SITE (COLLECTIVELY REFERRED TO AS THE "MATERIALS"), NOR THE AMOUNT WHICH FRANCHISEE MAY BE REQUIRED TO EXPEND TO ACQUIRE SUCH MATERIALS. FRANCHISOR MAKES NO WARRANTY OF MERCHANTABILITY OF THE MATERIALS, NOR OF THE FITNESS OF THE MATERIALS FOR ANY PARTICULAR PURPOSE. ORAL STATEMENTS MADE BY FRANCHISOR'S EMPLOYEES OR AGENTS, OR STATEMENTS CONTAINED IN FRANCHISOR'S MANUAL OR PRINTED MATERIAL OR ANY MANUFACTURER'S GENERAL ADVERTISING OR PRINTED MATERIAL DO NOT CONSTITUTE WARRANTIES AND FRANCHISEE AGREES THAT IT DOES NOT PLACE ITS ORDER FOR ANY MATERIALS IN RELIANCE UPON THEM. ANY MODEL OR SAMPLE SHOWN TO FRANCHISEE WAS USED MERELY TO ILLUSTRATE THE GENERAL TYPE AND QUALITY OF THE MATERIALS AND NOT TO REPRESENT OR WARRANT THAT THE MATERIALS WOULD CONFORM TO SUCH MODEL OR SAMPLE. FRANCHISOR SHALL NOT BE LIABLE FOR ANY DAMAGES, INCLUDING WITHOUT LIMITATION ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHICH MAY ARISE IN CONNECTION WITH THE SALE OR USE OF THE MATERIALS, WHETHER WITH RESPECT TO CLAIMS OF BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE OR OTHER CLAIMS. IN PARTICULAR, FRANCHISOR SHALL NOT BE LIABLE FOR LOSS OF SALES, REVENUES AND/OR PROFITS AND/OR CLAIMS OF ANY THIRD PARTIES.

**SECTION 11. INDEPENDENT CONTRACTORS, INDEMNIFICATION,
NONDISCLOSURE, & COVENANTS NOT TO COMPETE**

A. Independent Contractors. FRANCHISEE is not, and shall not hold itself out as, an agent, legal representative, joint venturer, partner, employee or servant of FRANCHISOR for any purpose whatsoever. FRANCHISEE is an independent contractor and 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 behalf of FRANCHISOR.

In all public records and in its relationship with other persons, on letterheads and business forms, FRANCHISEE shall indicate its independent ownership, and that it is only a Franchise.

B. Indemnification. FRANCHISEE shall exonerate and indemnify FRANCHISOR from and against:

(1) any and all claims, suits, demands or other causes of action made against FRANCHISOR based upon, arising out of, or in any way related to the construction of the Center Site; the operation or condition of the Center; the conduct of business; the ownership or possession of real or personal property; the provision of any transportation services by FRANCHISEE; any statements, actions or contracts made by FRANCHISEE, its agents, contractors, servants, employees or licensees; any negligent act, misfeasance or nonfeasance by FRANCHISEE, its agents, contractors, servants, employees or licensees; or the transfer of the Center or any rights under this Franchise Agreement; and including without limitation all obligations of FRANCHISEE incurred pursuant to any provisions of this Franchise Agreement; and



(2) any and all claims, suits, demands or other causes of action made against FRANCHISOR based upon, arising out of, or in any way related to the breach of any covenant, representation and/or warranty contained in this Franchise Agreement and/or in any other agreement between FRANCHISEE and FRANCHISOR or any of its affiliates; and

(3) any and all damages and liabilities, fees (including reasonable attorney s fees), costs and other expenses reasonably incurred by or on behalf of FRANCHISOR incurred as a result of any such claim.

C. Covenant Not to Compete. FRANCHISEE recognizes that FRANCHISOR has developed much goodwill in Kids 'R' Kids Center operations and has a need to protect its name and business and the potential for further expansion. FRANCHISEE covenants that during the term of this Franchise Agreement and any renewal thereof, FRANCHISEE shall not, either directly or indirectly, for itself or through, on behalf of or in conjunction with any person, partnership or corporation, own, engage in, be employed by, advise, assist, invest in, franchise, make loans to, or have any other interest in, any other child care or day care center business (except for other Kids 'R' Kids Centers operated under franchise agreements entered into between FRANCHISEE and FRANCHISOR or other Kids 'R' Kids System Centers in which FRANCHISEE shall have any ownership interest).

Understanding that, for all practical purposes, FRANCHISEE is the owner of a business and, as such, FRANCHISOR shall disclose confidential and proprietary trade secrets to FRANCHISEE and that it is unfair and inequitable to work for a business which competes with that of FRANCHISOR, FRANCHISEE covenants that, if the Franchise is terminated by FRANCHISOR in accordance with this Franchise Agreement, including by exercise of FRANCHISOR'S option to purchase right of first refusal contained in Section 13, or by FRANCHISEE without cause or not in accordance with this Franchise Agreement or by mutual agreement, for a period of one (1) year commencing on the effective date of termination or expiration of this Franchise Agreement, FRANCHISEE shall not, either directly or indirectly, for itself or through, on behalf of, or in conjunction with any person, partnership or corporation, own, engage in, be employed by, advise, assist, invest in, franchise, make loans to, or have any other interest in any business similar to or that competes with the Kids 'R' Kids Center (except for other Kids 'R' Kids System Centers operated under franchise agreements entered into between FRANCHISEE and FRANCHISOR or other Kids 'R' Kids System Centers in which FRANCHISEE shall have an ownership interest) located at the premises of the Kids 'R' Kids Center licensed hereunder or within a ten (10) mile radius of any other Kids 'R' Kids center existing at the time of such termination.

FRANCHISEE further covenants that it will never divulge to or use for the benefit of any person, association or corporation outside of the franchised organization any information or knowledge concerning customers, or the methods, promotion, advertising or any other systems or methods of operation of FRANCHISOR'S business or that of FRANCHISOR'S Franchises which FRANCHISEE may have acquired by virtue of its operations under this Franchise Agreement and which are considered to be confidential or proprietary information, nor will FRANCHISEE do any deliberate act prejudicial or injurious to the good will or name of FRANCHISOR. Information furnished to employees shall be reasonably limited to that which directly relates to such employee's duties and assists in the proper performance of such duties. This Franchise Agreement is entered into between the parties hereto with the full knowledge of its nature and extent, FRANCHISEE

hereby acknowledging that the qualifications for a franchise by FRANCHISOR are special unique and extraordinary, and that this Franchise Agreement would not be entered into by FRANCHISOR except upon condition that such restrictive covenants be embodied herein and that, as such, they be enforceable, in the event of a breach by FRANCHISEE, by injunctive relief. The above-mentioned provisions shall be applicable to and binding upon all corporate officers and/or shareholders or partners of and/or other individuals with a beneficial interest in FRANCHISEE, as the case may be.

For purposes of this Franchise Agreement, a business similar to or that competes with the Kids 'R' Kids Center shall include any business of operating a child day care center which provides day and/or evening care by adults for any children between the ages of six (6) weeks and twelve (12) years, inclusive.

D. Trade Secrets and New Concepts. FRANCHISEE acknowledges that its entire knowledge of the operation of the Kids 'R' Kids Center, including without limitation the contents of the Operating Manual, center construction, design package, and layout, equipment, decor, and other specifications, demographics, standards and operating procedures of the Kids 'R' Kids Center, is derived from information disclosed to FRANCHISEE by FRANCHISOR and that such Operating Manual and other such information are confidential and a trade secret of FRANCHISOR. FRANCHISEE agrees that it will maintain the absolute confidentiality of the Operating Manual and all such other information during and after the term of the Franchise Agreement, disclosing the same to the other employees of the Kids 'R' Kids Center only to the extent necessary for the operation of the Kids 'R' Kids Center in accordance with this Franchise Agreement, and that FRANCHISEE will not use the Operating Manual and such other information in any other business or in any manner not specifically authorized or approved in writing by FRANCHISOR.

E. Interference with Employees. FRANCHISEE shall not interfere with the employees and agents of FRANCHISOR in the performance of such employees' and agents' duties. FRANCHISEE further agrees that during the term of this Franchise Agreement, any renewal term or extension of this Franchise Agreement and for one (1) year thereafter, it will not employ or seek to employ any of FRANCHISOR'S employees or agents, any employees or agents of FRANCHISOR'S affiliates, or any of FRANCHISOR'S Franchisees, for a period of at least one (1) year following the separation of any such employee from employment with FRANCHISOR or its affiliates or the termination of an agency relationship with FRANCHISOR or its affiliates, nor shall FRANCHISEE induce, contract or solicit in any manner whatsoever any such employee or agent during such period to leave such employment or affiliation.

F. Ownership. All trade secrets and confidential information furnished or disclosed by FRANCHISOR to FRANCHISEE hereunder are and shall remain the property of FRANCHISOR. Any reproductions, notes, summaries or similar documents relating to the trade secrets and confidential information and any files, memoranda, reports, price lists, customer lists, interior and exterior layout plans, construction plans and specifications, equipment and decor plans and specifications and other documents relating to the Kids 'R' Kids System shall become and remain the property of FRANCHISOR immediately upon their creation. Upon termination of this Franchise Agreement or upon the prior demand of FRANCHISOR, FRANCHISEE shall immediately return all such materials together with all copies thereof to FRANCHISOR.

G. Center Directors and Employees. At FRANCHISOR'S request, FRANCHISEE shall cause each of its Center Directors, System Directors and other employees designated by

FRANCHISOR, before and as a condition of employment of any such persons by FRANCHISEE, to sign a non-compete and nondisclosure agreement in form and substance satisfactory to FRANCHISOR. FRANCHISEE agrees to cause such non-compete and nondisclosure agreement to be signed not later than the time such Center Directors, System Directors and other employees as designated by FRANCHISOR are hired.

H. Severability and Enforceability of Covenants. Each of the covenants contained in Section 11 herein shall be considered separate and independent from each other. FRANCHISEE acknowledges and agrees that the enforceability of each of the covenants in Section 11 herein shall not be affected by the non-enforceability of any other covenant in this Franchise Agreement or by the failure of FRANCHISOR to comply with any obligations under this Franchise Agreement.

SECTION 12. REPORTS, AUDITS & INSPECTIONS

A. Records and Bookkeeping. FRANCHISEE shall prepare and maintain true and accurate records, reports, accounts, books and data which accurately reflect all particulars relating to FRANCHISEE’S operation of FRANCHISEE’S Kids ‘R’ Kids Center in compliance with the standard procedures and specifications which are or may be prescribed from time to time by FRANCHISOR for record keeping and reporting. FRANCHISEE shall establish a bookkeeping and record keeping system conforming to any requirements prescribed by FRANCHISOR, relating without limitation to the use and retention of daily receipts, purchase orders, purchase invoices, payroll records, check stubs, bank statements, sales tax records and returns, cash receipts and disbursements, journals and general ledgers.

B. Weekly and Annual Reports. In addition to the weekly reports and information as set further in Section 8, Paragraph E herein, FRANCHISEE agrees to submit to FRANCHISOR (a) along with the Royalty Fee, a weekly report of the total Tuition Sales and Drop-in Sales at the Center and such other information and supporting records as FRANCHISOR requires; (b) within ten (10) days following the last day of the previous month, FRANCHISEE shall deliver to FRANCHISOR monthly balance sheets and income statements; and (c) within sixty (60) days following the close of FRANCHISEE’S fiscal year, or at anytime upon written request of FRANCHISOR, copies of a balance sheet and Profit and Loss Statement prepared and certified to by a certified public accountant which covers the previous twelve (12) months of Center operations and copies of all tax returns filed for such period, including but not limited to Federal and State Income Tax Returns.

In addition to the above-mentioned annual reports, FRANCHISEE agrees to provide, within thirty (30) days upon the written request of FRANCHISOR, a letter from FRANCHISEE’S accountant addressed to FRANCHISEE stating whether or not:

- (1) All required federal and state payroll tax returns have been filed paid to the end of the fiscal period.
- (2) All Federal Income Tax returns have been filed and taxes paid, fees have been paid.
- (3) All state income and franchise tax returns and other similar documents have been filed and taxes or fees have been paid.

Each such statement and report shall be accompanied by a statement sworn to under the

Initials

penalty of perjury by FRANCHISEE, or by the President and Vice President of any FRANCHISEE which is a corporation, or by each partner of any FRANCHISEE which is a partnership that the items contained therein are true and accurate and completely and fully describe and disclose the information sought in such statement and that the signer thereof has made diligent and careful efforts to ascertain the truth, accuracy and completeness of such information.

C. Audits. FRANCHISEE is required by this Franchise Agreement to periodically submit to FRANCHISOR certain financial statements, sales reports and tax returns. FRANCHISOR shall have the right to audit or cause to be audited such financial statements, sales reports and tax returns. FRANCHISEE shall make such financial statements, sales reports and tax returns available for inspection, examination or audit by FRANCHISOR, its agents and/or its representatives at all reasonable times and at such locations as may be designated by FRANCHISOR from time to time. As long as the audit does not disclose an understatement of Gross Sales Such, the audits will be conducted at the expense of FRANCHISOR. If an audit discloses an understatement of Gross Sales reported to FRANCHISOR of greater than two percent (2%) for the period being inspected by FRANCHISOR, then FRANCHISEE, within fifteen (15) days after notice and receipt of the audit report, shall pay all audit fees and other expenses incurred by FRANCHISOR in conducting said audit. Additionally, upon notice and demand FRANCHISEE shall immediately pay FRANCHISOR any deficiency in Royalty or Advertising Fees as disclosed on examination, together with (i) interest at the lower of the maximum rate permitted by law or eighteen percent (18%) per annum, from the date such payments were originally due for payment to FRANCHISOR; and (ii) a late fee of ten percent (10%) of the amount of fees so understated or the maximum payment allowed by law.

D. Inspections. FRANCHISEE is further required by the Franchise Agreement to allow FRANCHISOR to make inspections of the Center, both in person and via the approved parental viewing internet system, and to audit business records during normal working hours, without prior notice to FRANCHISEE, its employees, or agents. Inspections are made at FRANCHISOR'S expense, unless FRANCHISOR is required to make two inspections in connection with FRANCHISEE'S repeated or continuing failure to comply with the Franchise Agreement, in which case FRANCHISEE will be charged for the costs of making all further inspections in connection with FRANCHISEE'S failure to comply, including without limitation travel expenses, room and board and compensation of FRANCHISOR'S employees.

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**SECTION 13. ASSIGNMENT, DEATH OR DISABILITY,
INCORPORATION, PARTNERSHIPS**

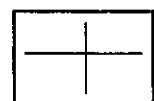
A. Assignment by FRANCHISOR. FRANCHISOR may assign its rights and obligations under this Franchise Agreement without obtaining the consent of the FRANCHISEE. This Franchise Agreement shall inure to the benefit of any assignee or any other legal successor to the interest of FRANCHISOR. FRANCHISEE shall execute any forms that FRANCHISOR may reasonably request to effectuate any such transfer or assignment by FRANCHISOR.

B. Assignment by FRANCHISEE. Neither FRANCHISEE nor any of its Affiliates shall sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any equity, profit or voting interest in FRANCHISEE, or any right and/or interest in this Franchise Agreement, any license, the Franchise, its business or the assets related thereto, including but not limited to the Center Site (all of the above interests in this Section 13 shall collectively be referred to as the "Interests"), without the prior, written consent of FRANCHISOR or except as otherwise provided herein. Any attempt to assign any of the Interests without first obtaining the FRANCHISOR'S prior, written consent shall be void ab initio.

C. Right of First Refusal. FRANCHISEE, its heirs or personal representatives, may sell and assign its rights under this Franchise Agreement to a bona fide and qualified purchaser as hereafter set forth.

(1) Right to Purchase. Subject to Paragraph E herein, FRANCHISEE may sell and assign its rights in this Agreement, the Franchise, the Business, the Center Site and all of the assets owned by FRANCHISEE and its Affiliates and used in FRANCHISEE'S business (including but not limited to any real property comprising the Center Site and improvements thereon, if applicable) (the "Business Assets"), pursuant to this Paragraph C, including the transfer by any shareholder, partner or venturer of a corporate partnership or joint venture FRANCHISEE, providing that FRANCHISEE shall first offer to sell to FRANCHISOR upon the same terms and conditions as offered to other prospective purchasers and as set forth herein. FRANCHISEE shall submit to FRANCHISOR an exact copy of the offer fully set forth in writing, and FRANCHISOR shall have sixty (60) days from its receipt thereof within which to accept any offer.

Subject to the terms of this Paragraph C, FRANCHISOR shall have the option to purchase the Business Assets for the same purchase price, terms and conditions of the proposed sale as set forth in the offer submitted, provided that (a) FRANCHISOR may substitute equivalent cash for any form of payment proposed in such offer, and (b) the purchase price of the Business Assets, which shall include any real property and improvements thereon comprising the Interests, if any, which are subject of such offer shall be the lower of the purchase price set forth in the original offer or the fair market value thereof as determined pursuant to this Paragraph C. Should FRANCHISOR not exercise this right to purchase and should the sale contemplated by the original offer not be completed within one hundred twenty (120) days after the receipt of such offer by FRANCHISOR, or should the terms and conditions thereof be altered in any way, the right of first refusal shall be reinstated and any subsequent proposed sale, or the altered terms and conditions of the current transaction, must again be offered to FRANCHISOR in accordance with this Section. Should FRANCHISOR elect to exercise its right of right refusal, FRANCHISEE shall take all action necessary to cause the Lease to be assigned to FRANCHISOR without additional cost in accordance with the terms of the Lease. The above provisions shall apply to both voluntary and involuntary dispositions or transfers.



The "fair market value" as used hereinabove shall be equal to the sum of (a) the fair market value of the real property and improvements thereon comprising the Business Assets (net of all liens and/or encumbrances to which the Business Assets to be conveyed shall be subject), as determined by averaging the appraisals submitted by three (3) qualified independent MAI appraisers, one of which shall be selected by FRANCHISOR, another of which shall be selected by FRANCHISEE and the third to be appointed by the first two appraisers so selected, PLUS (b) the lesser of FRANCHISEE'S or its Affiliate's depreciated cost or fair market value of all of the personal property comprising the Business Assets (the "Purchase Price"). For purposes of the determination by such appraisers of the fair market value of the real property and improvements thereon comprising the Business Assets, such fair market value shall be the amount of cash which FRANCHISEE or its Affiliates would realize if such real property and improvements were sold by a willing seller to a willing buyer to be used as a Kids 'R' Kids Center as contemplated in this Agreement and for no other purpose.

In addition to the foregoing, the FRANCHISOR shall have the right to deduct from the Purchase Price the sum of the following (a) in the event that the original offer of purchase and sale included a real estate commission, then a customary real estate commission equal to five percent (5%) (or a % equal to the original offer %) of the fair market value of the real property and improvements comprising the Business Assets (b) any sums owing, as of the date of the closing, from FRANCHISEE and any of its Affiliates to FRANCHISOR and any of its Affiliates under or in connection with this Agreement or any other agreements to which FRANCHISOR or any of its Affiliates and FRANCHISEE or any of its Affiliates are parties, and (c) any sums expended by FRANCHISOR to cure any defaults by FRANCHISEE and any of its Affiliates, as applicable, under any deeds to secure debt, mortgages, deeds of trust or other liens or encumbrances affecting the Business Assets.

(2) Closing of the purchase. Closing of the purchase of the Business Assets shall occur within ninety (90) days after FRANCHISOR'S election of such option, but in no event later than one hundred twenty (120) days after the original offer was received by FRANCHISOR. At the closing of the purchase of the Business Assets, this Agreement shall be terminated but FRANCHISEE and its Affiliates shall remain responsible for their respective obligations hereunder which survive the termination hereof. FRANCHISEE and its Affiliates shall transfer and deliver all of the Business Assets to FRANCHISOR free and clear of any and all liens and encumbrances, other than recorded easements and restrictions of record, and with all warranties of title that are the property of FRANCHISEE or in which FRANCHISEE is the beneficiary.

(3) Terms. If FRANCHISOR does not exercise its right to purchase under the right of first refusal as set forth herein within sixty (60) days of its receipt of the original offer from FRANCHISEE, pursuant to this Paragraph C, FRANCHISEE may conclude the sale to the prospective purchaser within one hundred twenty (120) days specified above, provided that FRANCHISEE is not in default hereunder and further provided that FRANCHISOR may impose certain conditions on any assignment permitted hereunder which may include, without limitation, the following:

(a) FRANCHISEE shall not be in default under this Franchise Agreement or any other Franchise Agreement between FRANCHISOR and FRANCHISEE;

(b) All indebtedness hereunder or otherwise due and payable to FRANCHISOR shall be paid in full by FRANCHISEE, or proposed assignor must fully satisfy all



obligations to FRANCHISOR or others arising out of the operation of the Center, or proposed ASSIGNEE must agree to assume and discharge all obligations to FRANCHISOR or others arising out of the operation of the Center;

(c) Proposed assignee must satisfactorily demonstrate to FRANCHISOR that it meets at least the same financial and managerial criteria required of other prospective FRANCHISEES in qualifying for the purchase and operation of a Kids 'R' Kids Franchise;

(d) Proposed assignee must be interviewed by FRANCHISOR'S representatives at a location selected by FRANCHISOR. FRANCHISOR shall notify FRANCHISEE of its approval or rejection of the proposed assignee within fifteen (15) days after such interview;

(e) Upon acceptance by FRANCHISOR, the proposed assignee shall attend and satisfactorily complete FRANCHISOR'S initial training program. All expenses incurred by the proposed assignee as a result of attending the training program shall be paid by the proposed Assignee;

(f) FRANCHISEE and/or proposed assignee, prior to effectiveness of assignment, shall pay to FRANCHISOR in cash an amount of Twenty Five Thousand Dollars (\$25,000);

(g) Upon acceptance by FRANCHISOR, the proposed Assignee and its principals must execute FRANCHISOR'S current form of Franchise Agreement and any other ancillary agreements as FRANCHISOR may require, including but not limited to the Personal Guaranty;

(h) FRANCHISEE must execute a general release of all claims against FRANCHISOR arising out of or relating to this Franchise Agreement together with such other documents as FRANCHISOR may reasonably require relating to the termination of this Franchise Agreement;

(i) FRANCHISEE or the proposed Assignee must make such improvements as may be required to modernize, renovate, equip and decorate the Center, specifically including, but not limited to, cleanliness, paint, carpet, and the condition of equipment, so as to reflect the then current standards of FRANCHISOR; and

(4) Other Agreements. In the event of assignment of any of the Interests, FRANCHISEE shall also assign, where applicable, all of its rights, title and interest in and to the Lease and other agreements between FRANCHISEE and FRANCHISOR or its affiliates to the assignee. In addition, FRANCHISEE must provide to FRANCHISOR an executed assignment and assumption agreement with respect to the Lease, if applicable, a Collateral Assignment and/or Nondisturbance Agreement (if applicable) and such other agreements as FRANCHISOR shall require, all of which shall be signed by the assignee and other parties in a form acceptable to the FRANCHISOR. Any assignment under this Paragraph C shall not release FRANCHISEE from any of its obligations under the Lease or the other assigned agreements.

D. Death or Disability of FRANCHISEE. Notwithstanding any provisions contained in Paragraph C of this Section, a transfer predicated upon the death or permanent incapacity or disability of FRANCHISEE to the heirs, surviving spouse, conservators, or personal or other legal representative of FRANCHISEE or a partner or shareholder of FRANCHISEE (collectively, "Successor Transferees") shall not be subject to FRANCHISOR'S right of first refusal or right to terminate for failure to obtain written approval so long as the Successor Transferee: (1) within thirty (30) days of such death, reasonably proves to FRANCHISOR that he is qualified to act as a Franchisee pursuant to this Section 13 and is approved in writing by FRANCHISOR, and (2) performs all other applicable acts required under Section 13, Paragraph C(3). FRANCHISEE shall be deemed to have a "permanent incapacity or disability" if the usual, active participation in the Center by FRANCHISEE as contemplated pursuant to this Franchise Agreement is for any reason curtailed for a continuous period of six (6) months. Failure to so dispose of such interest, as herein provided, within said period of time shall constitute a breach of this Franchise Agreement. FRANCHISOR'S consent to a transfer of any interest subject to the restrictions of this Paragraph, shall not constitute a waiver of any claims it may have against the assignor, nor shall it be deemed a waiver of FRANCHISOR'S right to demand exact compliance with any of the terms or conditions of the Franchise by the assignee.

E. Incorporation.

(1) FRANCHISOR'S Approval. If FRANCHISEE desires to form a corporation following the execution of this Franchise Agreement, FRANCHISOR will consent to the assignment of this Franchise Agreement to a corporation approved by FRANCHISOR provided FRANCHISEE complies with the provisions hereinafter specified and any other condition that FRANCHISOR may require, including that (a) the number of stockholders of the assignee corporation may be limited; (b) FRANCHISOR may refuse to allow a person or entity to be a shareholder of the assignee corporation; (c) the assignee corporation shall be closely held and shall not engage in any business activity other than those directly related to the operation of the Kids 'R' Kids Center, pursuant to the terms and conditions of franchise agreements with FRANCHISOR; and (d) no new equity or voting interests or new shares of stock in the transferee corporation be issued to any person, partnership, trust, foundation, or corporation without obtaining FRANCHISOR'S prior, written consent, and then only upon disclosure of the terms and conditions contained herein being made to the prospective new holders of the stock and their fulfillment of all obligations contained herein.

(2) If the rights of a FRANCHISEE are assigned to a corporation, FRANCHISEE must be the legal and majority stock holder (at least fifty-one percent (51%) ownership in the assignee corporation) and shall act as such corporation's principal officer. Provided FRANCHISEE retains controlling interest of the assignee corporation, FRANCHISEE may sell transfer or assign stock in such assignee corporation to members of its immediate family or to a trustee in trust for the same, to its operating managers, or to other Franchisees of FRANCHISOR if the Franchisee to whom such stock interest is assigned is not then in default of any of the terms of other Franchise Agreements with FRANCHISOR. Written notice shall be made to FRANCHISOR within ten (10) days of any transfer made, pursuant to this provision, detailing to whom and what percent of ownership was transferred.

(3) If FRANCHISEE is a corporation, the shareholders of said corporation existing at the time of the execution of this Franchise Agreement (the "Original Shareholders") must be the legal and majority stockholder(s) (hold at least 51% ownership in said corporation) at all times. Provided the Original Shareholders of said corporation retain a controlling interest in the assignee corporation, it may sell, transfer or assign its issued stock, which stock was existing at the time of the execution of this Franchise Agreement, to members of the Original Shareholders' immediate family or to a trustee in trust for the same, to its operating managers, or to other Franchisees of FRANCHISOR if the Franchisee to whom such stock interest is assigned is not then in default of any of the terms of other Franchise Agreements with FRANCHISOR. Written notice shall be made to FRANCHISOR within ten (10) days of any transfer made, pursuant to this provision, detailing to whom and what percent of ownership was transferred.

The Articles of Incorporation and the Bylaws of the assignee corporation shall reflect that the issuance and transfer of shares of stock are restricted, and all stock certificates shall bear the following legend, which shall be printed legibly and conspicuously on the face of each stock certificate:

"The transfer of this stock is subject to the terms and conditions of a Franchise Agreement with Kids 'R' Kids International, Inc. Reference is made to said Franchise Agreement and to restrictive provisions and bylaws of this corporation."

FRANCHISEE acknowledges that the purpose of the aforesaid restriction is to protect FRANCHISOR'S trade name, trademarks, service marks, trade secrets and operating procedures as well as FRANCHISOR'S general high reputation and image, and is for the mutual benefit of FRANCHISOR, FRANCHISEE and other Franchisees and that any attempt by FRANCHISEE to transfer any of its rights or interests under this Franchise Agreement without the prior written consent of FRANCHISOR shall constitute a material breach of this Franchise Agreement and that FRANCHISOR shall have the right to terminate this Franchise Agreement as set forth in Section 14 and Paragraph A herein.

F. Partnerships. If FRANCHISEE, following the execution of the Franchise Agreement, desires to form a partnership, the names of all partners and their respective ownership interests shall be disclosed in writing to FRANCHISOR upon execution of this Franchise Agreement; said disclosure shall be updated on an annual basis and within ten (10) days after the occurrence of a material change. The right of any partner to sell, assign, pledge, mortgage or transfer its partnership interest shall be subject to the same conditions governing the sale, assignment, pledge, mortgage or transfer of FRANCHISEE'S interest, as set forth in this Section 12, herein.

G. Personal Guarantee. FRANCHISEE agrees that in the event a partnership or corporation is formed, FRANCHISEE and all principals in FRANCHISEE will personally and unconditionally guarantee the obligations of said partnership or corporation, and FRANCHISEE shall be personally subject to and bound by all terms, conditions, restrictions and prohibitions contained in this Franchise Agreement.



FRANCHISEE, as a partner or shareholder, agrees to personally and in its separate and individual capacity, and for its personal representatives, heirs, and successors, to act as surety for the full and faithful performance of all of the obligations, commitments and payments required of the partnership or corporation. In such capacity, FRANCHISEE agrees that FRANCHISOR does not have to pursue any remedies it may have against the partnership or corporation; but rather, FRANCHISOR may proceed directly and primarily against FRANCHISEE with or without joining the partnership or corporation as principal or as a named party in any such proceeding.

SECTION 14. DEFAULT AND TERMINATION

A. Termination. This Franchise Agreement may not be terminated, except as provided herein. Termination of this Franchise Agreement shall not relieve FRANCHISEE of any unfulfilled obligation created hereunder unless agreed to in writing by FRANCHISOR.

This Franchise Agreement may be terminated as follows:

B. Refund of Initial Franchise Fee. This Franchise Agreement automatically terminates and becomes null and void if FRANCHISEE fails to complete or fails to be certified by FRANCHISOR as a graduate of FRANCHISOR'S Initial Training Program. Pursuant to Section 3, FRANCHISOR shall not refund any portion of the Initial Franchise Fee.

C. Mutual Agreement. This Franchise Agreement may be terminated upon mutual written consent of the parties hereto.

D. Unilateral. FRANCHISEE may unilaterally terminate this Franchise Agreement for good cause if FRANCHISOR commits a material breach of this Franchise Agreement, except as provided in Paragraphs E and F herein, and fails to cure such breach within sixty (60) days after written notice from FRANCHISEE to cure same, and termination is effective ten (10) days after delivery of written notice of termination.

E. Automatic. FRANCHISOR may terminate this Franchise Agreement automatically without an opportunity to cure the default, and termination is effective ten (10) days after delivery of written notice of termination to FRANCHISEE, if FRANCHISEE:

(1) is adjudicated bankrupt or insolvent or has a receiver, whether permanent or temporary, appointed for all or substantially all of FRANCHISEE'S property or FRANCHISEE makes general assignment for the benefit of creditors, or any composition or creditor's agreement, or FRANCHISEE files a voluntary petition under any bankruptcy or debtor relief or reorganization law, or any such petition with respect to FRANCHISEE is not dismissed within sixty (60) days thereafter, or FRANCHISEE takes advantage of any reorganization, debtor relief or moratorium statute;

(2) or any of its owners attempts to sell, assign, transfer, convey or encumber any interest in the Franchise without FRANCHISOR'S prior, written consent;

(3) ceases to do business or voluntarily abandons the Kids 'R' Kids Center operation for five (5) consecutive days or any shorter period in which FRANCHISOR reasonably concludes

that FRANCHISEE does not intend to continue to operate the Center Site, without the prior written approval of FRANCHISOR, except due to acts of God and other circumstances clearly beyond FRANCHISEE'S control;

(4) is convicted of or pleads nolo contendere to a felony or any offense involving moral turpitude, or is convicted of a crime which adversely affects the operation of the Kids 'R' Kids Center;

(5) within ninety (90) days following the execution of this Franchise Agreement, fails to enter into a lease for the Center Site or to enter into a purchase contract with respect to the purchase of the Center Site on terms and conditions satisfactory to FRANCHISOR, including the lease provisions or purchase provisions required and set forth in Section 9 hereof;

(6) or any other party to this Franchise Agreement is deceased or permanently incapacitated and his interest is not disposed of in accordance with the terms of the Franchise Agreement;

(7) or any of its owners commits and fails to cure within sixty (60) days a material breach of any other Franchise Agreement with FRANCHISOR.

(8) or any of its owners acquires any interest in a business in violation of the provisions or Section 11 herein which prohibits, during the term of the Franchise Agreement, FRANCHISEE from engaging in, or acquiring any financial or beneficial interest in, any child day care center business; or if FRANCHISEE appropriates, uses or duplicates any materials, systems, procedures or knowledge pertaining to the Kids 'R' Kids System or any portion thereof for use at any other business;

(9) or any of its owners has made any material misrepresentation on its application for or relating to the acquisition of the Franchise;

(10) or any of its owners engages in conduct which reflects materially and unfavorably upon the operation and reputation of FRANCHISOR or the Kids 'R' Kids System;

(11) defaults on its obligations under any promissory note executed to FRANCHISOR;

(12) continues to employ any person who FRANCHISEE knows or has reason to know has been engaged in, convicted of or pled nolo contendere to a felony, any offense involving moral turpitude, or any other criminal misconduct which adversely affects the operation of the Kids 'R' Kids Center;

F. With Notice - Thirty Day Cure. FRANCHISOR may terminate this Franchise Agreement upon thirty (30) days, prior written notice and failure to cure the same within such thirty (30) days if FRANCHISEE:

(1) suffers a violation of any law, ordinance, rule or regulation of a governmental agency in connection with the operation of the Center, and permits the same to go uncorrected after notification thereof, unless there is a bona fide dispute as to the violation or legality of such law,

ordinance, rule, or regulation, and FRANCHISEE promptly resorts to courts or forums of appropriate jurisdiction to contest such violation's legality;

(2) fails to promptly pay when due all taxes, accounts, liabilities and indebtedness of any kind incurred in the conduct of the Center;

(3) fails to obtain or continue any insurance, license, permit or bond required by this Franchise Agreement or necessary for the operation of the Center;

(4) sells, transfers, assigns or passes the Center or ownership thereof from the actual control of FRANCHISEE without the prior, written approval of FRANCHISOR;

(5) commits the same default for which FRANCHISOR has given prior, written notice to FRANCHISEE within the next six (6) month period;

(6) continues to operate after the end of any term hereof without exercising an option to renew this Franchise Agreement;

(7) operates the Center in such a manner which, in the opinion of FRANCHISOR, constitutes an imminent danger to public health or safety;

(8) defaults in the payment or the reporting of Royalty or Advertising Fees or any other indebtedness or obligation due hereunder within thirty (30) days following the date when such payment is due and payable under the terms of this Franchise Agreement;

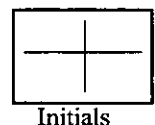
(9) has levied against it any judgment or judgments aggregating in excess of Twenty-Five Thousand Dollars (\$25,000.00) or has levied against its property any judgment or federal, state or local tax lien in excess of One Thousand Dollars (\$1,000) and said levy remains unsatisfied or unbonded of record in excess of thirty (30) days;

(10) violates Section 5, Paragraph P of this Franchise Agreement, which provides that FRANCHISEE shall not represent in any manner that FRANCHISEE has acquired any ownership rights in the Marks, and that FRANCHISEE shall not use any of the Marks other than as expressly authorized by the Franchise Agreement or fails to cure a default under this Franchise Agreement which materially impairs the goodwill associated with the marks;

(11) sells, distributes, or gives away at or about the Kids 'R' Kids Franchise System any products, goods, or items, other than those designated by FRANCHISOR and made from approved products, or which fail to conform to Kids 'R' Kids Systems specifications for those products allowed, or if FRANCHISEE fails to sell all those products designated by FRANCHISOR;

(12) denies FRANCHISOR the right to inspect the Center at any reasonable time or to photograph the Center or remove for inspection samples of any product at the Center;

(13) fails to provide FRANCHISOR with all reports and other requirements of Sections 8 and 12 of this Franchise Agreement, or the discovery that FRANCHISEE'S Gross Sales for any period exceeded the amount actually reported as gross sales to FRANCHISOR in FRANCHISEE'S reports to FRANCHISOR by an amount equal to two percent (2%) or more of the amount reported;



(14) defaults in any way under any lease or sublease of its Center Site, equipment or fixtures for the Kids 'R' Kids Franchise or fails to comply with FRANCHISOR'S requirements regarding the same;

(15) fails to operate the Center Site in compliance with the terms of this Franchise Agreement, the Manual, or any quality or operations standards or guidelines issued in writing by FRANCHISOR from time to time.

G. With Notice - Sixty Day Cure. FRANCHISOR may terminate this Franchise Agreement if FRANCHISEE violates any other term or condition of this Franchise Agreement and FRANCHISEE fails to cure such violation within sixty (60) days after written notice from FRANCHISOR to cure the same.

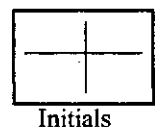
H. Nonwaiver. Waiver by FRANCHISOR of any particular default by FRANCHISEE shall not affect or impair FRANCHISOR'S rights in respect to any subsequent default of the same or a different kind, nor shall any delay or omission of FRANCHISOR to exercise any right arising from any default effect or impair FRANCHISOR'S rights as to the same or any future default. If any material provision of this Franchise Agreement (as determined by FRANCHISOR) is stricken or declared invalid, or in the event legislation, regulation or case law first effective after the date of the Franchise Agreement materially affects the relative rights and obligations of the parties (as determined by FRANCHISOR and including, without limitation, rights of termination or non-renewal), FRANCHISOR may terminate the Franchise and shall not thereby incur any liability to FRANCHISEE or others, provided however that FRANCHISOR shall not have any Right of First Option to Purchase as provided in Section 13 of this Franchise Agreement, if the Franchise is so terminated.

I. Obligations After Termination.

(1) Upon the termination by FRANCHISOR for default of this Franchise Agreement by FRANCHISEE, FRANCHISEE shall cease to be an authorized FRANCHISEE and shall pay FRANCHISOR for all sums then owing, to include but not limited to Royalty Fees, Advertising Fees, amounts owed for purchases by FRANCHISEE from FRANCHISOR, and interest and penalties due on any of the foregoing from the operation of the Kids 'R' Kids Franchise or arising under the terms this Franchise Agreement within fifteen (15) days after the effective date of termination or expiration or such later date that the amounts due to FRANCHISOR are determined;

(2) Upon the termination of this Franchise Agreement for any reason including default FRANCHISEE, FRANCHISEE shall cease to be an authorized FRANCHISEE and shall:

- (a) within fifteen (15) days discontinue the use of all Marks;
- (b) within fifteen (15) days pay FRANCHISOR all sums then owing from the operation of the Center or arising under the terms of this Franchise Agreement;
- (c) within fifteen (15) days return all Manuals, forms, mailing list, records and contracts to FRANCHISOR;
- (d) within fifteen (15) days discontinue all advertising as a FRANCHISEE;



(e) maintain all books, records and reports required, pursuant to this Franchise Agreement for a period of not less than one (1) year after termination of this Franchise Agreement and allow FRANCHISOR to make full inspection and audit of FRANCHISEE'S books, records and reports within said one (1) year period for the purpose of verifying that all fees and other appropriate amounts have been paid as required herein;

(f) assign to FRANCHISOR or its designee all of FRANCHISEE'S rights, title, and interest in and to FRANCHISEE'S telephone numbers, telephone directory listings and advertisements, store leases and governmental licenses or permits used for the operation of the Center;

(g) unless terminated for a material breach (as provided in Section 14 hereof), allow FRANCHISOR to assume FRANCHISEE'S status and replace FRANCHISEE as lessee and FRANCHISEE shall upon exercise of that right by FRANCHISOR, be fully released and discharged from all liability for rent and all other future liability under such lease (though not from any liability for unpaid rent or any other then existing liability to Lessor under the lease). In no case, however, shall FRANCHISOR be required to assume or in any manner be responsible for said lease except under FRANCHISOR'S sole election;

(h) cease to operate the Kids 'R' Kids Center business and refrain from doing anything which would indicate that FRANCHISEE is, or ever was, an authorized Franchisee including, but not limited to, the use of any reproduction, copy or imitation of the Center in conjunction with business similar to or the same as any business conducted pursuant to this Franchise Agreement;

(i) within sixty (60) days, following FRANCHISOR'S request, make such modifications or alterations as may be required by FRANCHISOR to distinguish the Center from its former appearance and from any other Center (including, without limitation, the repainting of all or any part of the former Center, the removal of all signs, panels and silhouette frames, and the repainting of all signs identifying or advertising the former Center). In addition, FRANCHISEE shall make such specific additional changes as FRANCHISOR may reasonably request for this purpose. If FRANCHISEE fails to comply with this obligation, FRANCHISOR shall have the right to enter upon such premises and make such modifications at FRANCHISEE'S expense without committing any trespass or other illegal act and FRANCHISOR shall not be liable in any manner to FRANCHISEE for so doing. FRANCHISOR shall not arbitrarily enforce the terms of this subparagraph, but only make use of this right for good cause;

(j) have no ownership or other interest in the Area, the Approved Location, or the Franchise System, the Franchise Agreement or FRANCHISOR. FRANCHISEE will maintain sole liability and all ownership interest in all leases and assets that FRANCHISEE may have purchased during the operation of the Center. FRANCHISEE will receive no payment or adjustment whatsoever for any goodwill which FRANCHISEE may have established prior to or during the operation of the Center;

(k) pay to FRANCHISOR, within fifteen (15) days following demand therefore, all damages, costs and expenses, including attorneys' fees, incurred by FRANCHISOR subsequent to the termination or expiration of the Franchise Agreement in obtaining injunctive or other equitable relief for the enforcement of any provision of the Franchise Agreement, which obligation shall give rise to and remain, until paid in full, a lien in favor of FRANCHISOR against any and all personal property (including, without limitation, inventory, signs, furniture, fixtures, equipment and supplies) owned or used by Franchisee in connection with the former Center at the time of default;

(l) within fifteen (15) days turn over to FRANCHISOR the Confidential Operating Manual, all other manuals, records, files, instructions, correspondence, and any and all materials in FRANCHISEE'S possession relating to the construction, equipping and operation of the former Center, and all copies thereof, and shall only retain FRANCHISEE'S copy of this Franchise Agreement, and any correspondence between the parties.

J. Repurchase. Upon termination for any reason or natural expiration of the Franchise Agreement, FRANCHISOR shall have the option, but not the obligation, exercisable to sixty (60) days, to purchase all of the assets of FRANCHISEE'S Kids 'R' Kids Center. The purchase price for such assets and the covenants of FRANCHISEE would be determined by an independent appraiser chosen by two independent appraisers, one of whom is chosen by FRANCHISEE and one of whom is chosen by FRANCHISOR. If FRANCHISEE owns the property on which the Center is located, FRANCHISOR has the option of purchasing the property for a similarly determined price.

The gross purchase price for the Business Assets purchased under this Section 14, Paragraph J shall be calculated in the same manner as the Purchase Price described in Section 13, Paragraph C. FRANCHISOR shall have the right to deduct from such gross purchase price the same deductions as the Purchase Price Deductions set forth in Section 13, Paragraph C, as well as the value of any lease or sublease under which FRANCHISEE leases the Center Site or any other Business Assets or any Business Assets which FRANCHISOR, in its sole and reasonable opinion, deems to be unusable or obsolete.

The real property or improvements thereon comprising the Center Site shall only be included in the Business Assets if such real property or improvements are owned by FRANCHISEE or any of its Affiliates at the time of the expiration or termination of this Franchise Agreement. The closing of any such purchase shall take place at a time and location to be selected by FRANCHISOR; provided, however, that such closing shall not occur until thirty (30) days after FRANCHISOR gives the notice described above. At such closing, FRANCHISEE or its Affiliates shall convey all Business Assets which FRANCHISOR elects to purchase with all warranties of good and marketable title, free and clear of all liens and encumbrances, except those which FRANCHISOR notifies FRANCHISEE or its Affiliates in writing prior to closing that FRANCHISOR is willing to assume. FRANCHISEE and its Affiliates shall execute all other documents as required by FRANCHISOR in such form as is approved by FRANCHISOR in order to consummate such transaction.

SECTION 15. PERSONAL GUARANTY

Upon execution of this Franchise Agreement or at any time thereafter, FRANCHISOR may require any or all of FRANCHISEE’S principals and/or Affiliates to execute a Personal Guaranty substantially in the form of Exhibit G attached hereto and incorporated herein by this reference, agreeing to personally guarantee the financial and other obligations of FRANCHISEE under this Franchise Agreement and other agreements relating to the Center Site and/or this Franchise Agreement.

SECTION 16. NOTICE

All notices, requests, demands, payments, consents and other communications hereunder shall be transmitted in writing and shall be deemed to have been duly given when hand delivered, upon delivery when sent by courier, overnight mail or other overnight or next day delivery service, or three (3) days after the same has been sent by registered or certified United States mail postage prepaid, return receipt requested, or when deposited with a public telegraph company for immediate transmittal charges prepaid, addressed as follows:

FRANCHISOR:

Kids ‘R’ Kids International Inc.
1625 Executive Drive South
Duluth, GA 30096
Attn. Mr. Patrick D. Vinson, President

FRANCHISEE:

To FRANCHISEE’S Approved Location set forth in Section 2, Paragraph E.

Either party may change the address specified herein for service of notices by giving written notice of such change of address to the other party.

**SECTION 17. CONSTRUCTION, SEVERABILITY,
GOVERNING LAW, JURISDICTION AND ARBITRATION**

A. If any part of this Agreement shall for any reason be declared invalid, unenforceable or impaired in any way, the validity of the remaining portions shall remain in full force and effect as if the Agreement had been executed with such invalid portion eliminated, and it is hereby declared the intention of the parties that they would have executed the remaining portion of this Agreement without including therein any such portions which might be declared invalid or unenforceable, then FRANCHISOR shall have the right to terminate this Agreement upon written notice to FRANCHISEE. If any clause or provision herein would be deemed invalid or unenforceable as written, it shall be deemed modified or limited to such extent or in such manner as may be necessary to render the clause or provision valid and enforceable to the greatest extent possible in light of the interest of the parties expressed in that clause or provision, subject to the provisions of the preceding sentence.

Initials

B. FRANCHISEE ACKNOWLEDGES THAT FRANCHISOR MAY GRANT NUMEROUS FRANCHISES THROUGHOUT THE UNITED STATES ON TERMS AND CONDITIONS SIMILAR TO THOSE SET FORTH IN THIS AGREEMENT, AND THAT IT IS OF MUTUAL BENEFIT TO FRANCHISEE AND TO FRANCHISOR THAT THESE TERMS AND CONDITIONS BE UNIFORMLY INTERPRETED. THE PARTIES AGREE THAT, TO THE EXTENT THAT THE LAW OF THE STATE OF GEORGIA DOES NOT CONFLICT WITH LOCAL FRANCHISE STATUTES, RULES AND REGULATIONS, GEORGIA LAWS APPLY TO THE CONSTRUCTION OF THIS AGREEMENT AND SHALL GOVERN ALL QUESTIONS WHICH ARISE WITH REFERENCE HERETO.

C. Except to the extent that FRANCHISOR seeks injunctive or other equitable relief to enforce provisions of this Agreement (specifically including, but not limited to enforcing FRANCHISOR'S rights to trade names, trademarks, service marks, copyrights or other proprietary rights of FRANCHISOR), the parties agree that any claim, controversy, or dispute arising out of our relating to this Agreement or the performance thereof, which cannot be amicably settled, be referred to and finally settled by an arbitrator agreed upon by the FRANCHISOR and FRANCHISEE, but if they cannot agree, then appointed in accordance with the rules of the American Arbitration Association. The decision of the arbitrator shall be final and binding upon the parties. The location of the arbitration proceedings shall be in the greater Metropolitan Atlanta, Georgia area. The costs of any such arbitration, including but not limited to the administrative fee, arbitrators' fees, and attorneys' fees, shall be borne by the losing party. The FRANCHISOR and FRANCHISEE further agree that the arbitrator may make any award(s) or enter such order(s) as may be deemed appropriate by the arbitrator which shall be the sole and exclusive remedy between the parties regarding any and all claims.

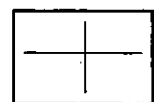
The parties agree that service of process in any proceeding arising out of or relating to this Agreement or the performance thereof may be made as to FRANCHISEE by serving a person of suitable age and discretion (such as the person in charge of the office) at the address of FRANCHISEE specified in this Agreement, and as to FRANCHISOR by serving the president or a vice-president of FRANCHISOR at the address of FRANCHISOR specified in this Agreement, or by serving FRANCHISOR'S registered agent.

SECTION 18. MISCELLANEOUS GENERAL PROVISIONS

A. Further Acts. The parties agree to execute such other documents and perform all further acts as may be necessary or desirable to carry out the purposes of this Franchise Agreement.

B. Heirs and Successors. This Franchise Agreement shall be binding upon and inure to the benefit of the parties, their heirs, successors and assigns.

C. Entire Agreement. This Franchise Agreement represents the entire understanding between the parties and supersedes all other negotiations, agreements, representations and covenants, oral or written, other than information contained in FRANCHISOR'S Offering Circular and any other agreement executed by FRANCHISOR or its affiliates and FRANCHISEE in connection herewith. The parties intend this Franchise Agreement to be the entire integration of all of their agreements of any nature on the subject matter hereof. This Franchise Agreement may not be modified except by a written instrument signed by the parties.



D. Approvals. Except as otherwise provided herein, FRANCHISOR may withhold any consent or approval provided for herein at its reasonable discretion. Furthermore, except as specifically noted otherwise, any consent or approval FRANCHISEE is required to obtain from FRANCHISOR shall be deemed withheld unless given in writing.

E. Waiver. Failure by either party to enforce any rights under this Franchise Agreement shall be construed as waiver of such rights. Any waiver, including waiver of default, in any one instance shall not constitute a continuing waiver or a waiver in any other instance. Any acceptance of money or other performance by FRANCHISOR from FRANCHISEE shall not constitute a waiver of any default except as to the payment of the particular payment or performance so received.

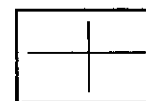
F. Effectiveness. The submission of this Franchise Agreement does not constitute an offer to license and this Franchise Agreement shall become effective only upon execution thereof by FRANCHISEE and FRANCHISOR.

G. Construction and Venue. This Franchise Agreement SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF GEORGIA; however, if this Franchise Agreement concerns a Center Site located in a state other than the State of Georgia and the laws of such state require terms other than those or in addition to those contained herein, then this Franchise Agreement shall be deemed modified so as to comply with the appropriate laws of such state, but only to the extent necessary to prevent the invalidity of this Franchise Agreement or any provision hereof, the imposition of fines or penalties, or the creation of civil or criminal liability on account thereof. In the event of any dispute between the parties arising out of or in connection with this Franchise Agreement and/or the operation of the Center Site, the parties agree that the proper forum for any cause of action shall be in either the Superior Court of Gwinnett County, Georgia or the United States District Court for the Northern District of Georgia, Atlanta Division.

H. Severability. In the event that any term or provision in this Franchise Agreement is held invalid, void, illegal or unenforceable in any respect, the Franchise Agreement shall not fail but shall be deemed amended to delete the void or unenforceable term or provision, and the remainder of this Franchise Agreement shall be enforced in accordance with its terms and shall not in any way be affected or impaired thereby. In the event that any term or provision of this Franchise Agreement is held to be unreasonable, the same shall not fail but shall be deemed amended only to the extent necessary to render it reasonable, and the parties agree to be bound by the same as thus amended.

I. Counterparts. This Franchise Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

J. Disclaimer of Warranties. FRANCHISEE hereby acknowledges and agrees that FRANCHISOR has made no promises, representations, guarantees or warranties whatever, of any nature, that the Center Site will be successful or profitable. FRANCHISEE further represents to FRANCHISOR that FRANCHISEE has independently reviewed and evaluated the business to be conducted by FRANCHISEE hereunder, and the decision to enter into this Franchise Agreement was made by FRANCHISEE solely in reliance upon such independent evaluation.



K. Relationship of Parties. The relationship of the parties is governed solely by the terms of this Franchise Agreement. Nothing herein shall be deemed or construed to create any joint venture or partnership between FRANCHISOR and FRANCHISEE.

IN WITNESS WHEREOF, the parties have executed this Franchise Agreement on the date set forth below.

FRANCHISOR:

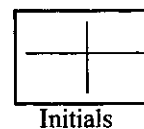
KIDS 'R' KIDS INTERNATIONAL, INC.,
d/b/a Kids 'R' Kids, a Georgia Corporation

[CORPORATE SEAL]

By: _____
Patrick D. Vinson, President

Date of Execution
by FRANCHISOR: _____, _____

Attest: _____
Janice W. Vinson, Vice President



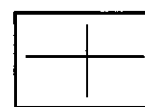
INDIVIDUAL FRANCHISEE

FRANCHISEE:

Date of Execution
by Franchisee: _____, _____

FRANCHISEE:

Date of Execution
by Franchisee: _____, _____



Initials

PARTNERSHIP FRANCHISEE

FRANCHISEE:

By: _____

Its: General Partner

Date of Execution
by Franchisee: _____, _____

By: _____

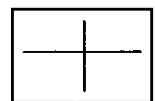
Its: Limited Partner

Date of Execution
by Franchisee: _____, _____

By:

Its: Limited Partner

Date of Execution
by Franchisee: _____, _____



Initials

CORPORATE FRANCHISEE

[CORPORATE SEAL]

FRANCHISEE:

Date of Execution
by Franchisee: _____, _____

By: _____

Its:

Date of Execution
by Franchisee: _____, _____

By: _____

Its:

