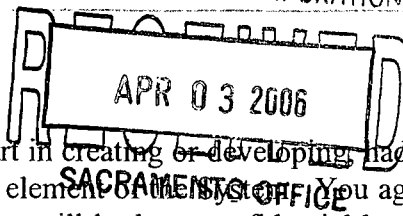


KidzArt®

15.10 You acknowledge that you took no part in creating or developing, had no prior knowledge of, and have no rights or claims in or to any element of the System. You agree that all materials loaned or, licensed, or made available to you will be kept confidential by you and will remain the our property of KidzArt.

~~You will not disclose, exhibit or reproduce any confidential element of the System which becomes known to you through KidzArt® in any manner, except to those persons employed by you to whom disclosure must be made to enable you to operate the Office under the terms of this Agreement. After the expiration or sooner termination of this Agreement, neither you and your employees, nor any of your officers, directors, or shareholders if you are incorporated, will disclose, exhibit or reproduce any confidential information or trade secrets to any corporation, association, partnership or person.~~

~~You recognize that all of the existing or future Marks, related practices, systems, procedures and methods are trade secrets, that KidzArt has made a substantial investment in these trade secrets and that disclosure of the trade secrets is prohibited. You agree to cause your employees to execute proprietary information agreements containing the provisions of this Subsection and any confidentiality agreements if requested by KidzArt.~~

15.11 We possess (and will continue to develop and acquire) certain confidential information, some of which constitutes trade secrets under applicable law (the "Confidential Information"), relating to developing and operating KidzArt® Offices, including (without limitation): (a) the substance, design, organization, and presentation of our proprietary and copyrighted curriculum; (b) training and operations materials and manuals; (c) methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge, and experience used in developing and operating KidzArt® Offices; (d) marketing and advertising programs for KidzArt® Offices; (e) knowledge of specifications for and suppliers of operating assets and other products and supplies; (f) any computer software or similar technology that is proprietary to us or the System, including, without limitation, digital passwords and identifications and any source code of, and data, reports, and other printed materials generated by, the software or similar technology; (g) knowledge of the operating results and financial performance of KidzArt® Offices other than the Office; and (h) graphic designs and related intellectual property.

You acknowledge and agree that you will not acquire any interest in Confidential Information, other than the right to use it as we specify while operating the Office during this Agreement's term, and that Confidential Information is proprietary, includes our trade secrets, and is disclosed to you only on the condition that you agree, and you hereby do agree, that you:

- (i) will not use Confidential Information in any other business or capacity;
- (ii) will keep confidential each item deemed to be a part of Confidential Information, both during and after this Agreement's term (afterward for as long as the item is not generally known in the art or drawing instruction industry);
- (iii) will not make unauthorized copies of any Confidential Information disclosed via electronic medium or in written or other tangible form; and

(iv) will adopt and implement reasonable procedures to prevent unauthorized use or disclosure of Confidential Information, including, without limitation, restricting its disclosure to Office personnel, Certified Instructors, and others and using non-disclosure and non-competition agreements with those having access to Confidential Information, including your instructors. We have the right to regulate the form of agreements that you use and to be a third party beneficiary of those agreements with independent enforcement rights. You must keep copies of those agreements and send them to us upon request. We also have the right to require your instructors to sign non-disclosure and non-competition agreements directly with us.

Confidential Information does not include information, knowledge, or know-how that you can demonstrate lawfully came to your attention before we provided it to you directly or indirectly; that, at the time we disclosed it to you, already had lawfully become generally known in the art or drawing instruction industry through publication or communication by others (without violating an obligation to us); or that, after we disclose it to you, lawfully becomes generally known in the art or drawing instruction industry through publication or communication by others (without violating an obligation to us). However, if we include any matter in Confidential Information, anyone who claims that it is not Confidential Information must prove that one of the exclusions provided in this paragraph is satisfied.

All ideas, concepts, techniques, or materials relating to a KidzArt® Office, whether or not protectable intellectual property and whether created by or for you or your owners, employees, or instructors, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System, and works made-for-hire for us. If any item does not qualify as a "work made-for-hire" for us, by this paragraph you assign ownership of that item, and all related rights to that item, to us and agree to take whatever action (including signing assignment or other documents) we request to evidence our ownership or to help us obtain intellectual property rights in the item.

SECTION 16 -CONDEMNATION AND CASUALTY

16.1 You may operate from your home or office, but if your home is damaged or destroyed, or you are not able to operate for any reason, the minimum monthly royalty will continue to be due with no interruption, except ~~up to 3 months~~ upon written approval from KidzArt^{us}.

SECTION 17 -RESTRICTIONS ON COMPETITION

17.1 ~~During the term of this License and Agreement, you will~~License Term, you and your owners (if you are an Entity) shall not directly or indirectly, individually or through corporations, partnerships, trusts, associations, joint ventures, unincorporated businesses, or any other business entity, perform any services for, engage in or acquire, be an employee of, have any financial, beneficial or equity interest in, or have any interest based on the profits or revenues of, any business providing art or drawing instruction or similar creative services, wherever located or operating. For a period of two (2) years following this Agreement's expiration or termination of the License and this Agreement, you may not have such~~or the date on which all persons restricted by this Subsection begin to comply with this Subsection, whichever is later, you and your owners (if you are an Entity) may not have the interests prohibited above in, or engage in such~~the activities prohibited above for, any business providing art or drawing instruction or similar

services and operating within the Territory or within 25 miles of any KidzArt® Office in operation on the later of the effective date of this Agreement's expiration or termination or the date on which the persons restricted by this Subsection first begin to comply with this Subsection. If any person restricted by this Subsection refuses voluntarily to comply with these obligations, the two (2) year period for that person will commence with the entry of a court order enforcing this provision. You and your owners expressly acknowledge that you possess skills and abilities of a general nature and have other opportunities for exploiting these skills. Consequently, our enforcing the covenants made in this Subsection will not deprive you of your personal goodwill or ability to earn a living.

17.2 ~~Nothing in this Section will prevent any active officer of yours or member of your family, either individually or collectively, from owning not more than a total of 5% of the stock of any company which is subject to the reporting requirements of the Securities and Exchange Act of 1934.~~ ownership interests of any company whose ownership interests are traded on a recognized United States stock exchange.

17.3 ~~You will~~ You may not at any time employ or otherwise interfere with the employment relationship of any person who is employed by KidzArt or a KidzArt® franchisee;

17.4 ~~If any court having jurisdiction to determine the validity or enforceability of this Section determines that, strictly applied, it would be invalid or unenforceable, the definition of "similar business" or the time or geographical provisions of this Section will be deemed modified to the extent necessary (but only to that extent) so that such restrictions, as modified, will be valid and enforceable.~~

(a) divert or attempt to divert any actual or potential business or student of the Office or any other KidzArt® Office to a competitive business;

(b) engage in any other activity that might injure the goodwill of the Marks and System; or

(c) recruit or hire any person then employed by or then in an independent contractor relationship with, or who was employed within the immediately preceding twelve (12) months by or was in an independent contractor relationship within the immediately preceding twelve (12) months with, us, any of our affiliates, or another KidzArt® franchisee without obtaining the existing or former employer's or hiring party's prior written permission. If any of our affiliates or franchisees is the affected employer or hiring party under this subparagraph due to your actions, that affiliate or franchisee will be a third party beneficiary of this provision with an independent right to enforce it against you.

~~17.4~~ 17.5 You acknowledge that, as a KidzArt® franchisee, you will have access to KidzArt® Trade Secrets and confidential practices Confidential Information and therefore be in a unique position to use the special knowledge you will have gained while a franchisee. You acknowledge that a breach of the covenants contained in this Section 17 will be deemed to threaten immediate and substantial irreparable injury to KidzArtus. Accordingly ~~Therefore~~, you agree that KidzArt-

~~will~~we have the right, without prior notice to you, to obtain immediate injunctive relief without limiting any other rights or remedies.

~~17.5 17.6 In the event that~~If you are not an individual Entity, this Section will~~17~~ also will apply to ~~the~~your owners, officers, directors, stockholders, trustees, beneficiaries, and/or principals of you, ~~the franchisee~~, and any persons controlled by, controlling, or under common control with you.

SECTION 18 -TERMINATION OF LICENSE

18.1 Termination by you.

If you are in substantial compliance with this Agreement and ~~KidzArt breaches~~we breach this Agreement and ~~fails~~fail to cure the breach within thirty (30) days after you deliver a written notice of the breach ~~is delivered to KidzArt by you~~us, you may terminate the License and this Agreement, effective ten (10) days after the delivery to KidzArt of a written notice of termination to us. There are no other provisions in this Agreement that grant you the right to terminate the License and this Agreement, and ~~any~~your termination of this Agreement ~~by you~~ other than in accordance with this Agreement Subsection 18.1 will be considered a termination without cause, and your breach of this Agreement.

Should you terminate the License and this Agreement in compliance with this Subsection, you ~~are required to~~still must comply with the termination procedures as set forth in Subsection 18.4.

18.2 Termination by KidzArt without Notice.

~~Unless KidzArt promptly, after discovery of the relevant facts, notifies you to the contrary in writing, the License and this Agreement will immediately terminate without notice (or in the event notice is required by law, immediately upon the giving of such notice or at the earliest time thereafter permitted by applicable law) in the event that:~~

A. ~~A permanent or temporary receiver or trustee for the Office or all or substantially all of your property is appointed by any court, or any such appointment is consented to or not opposed through legal action by you, or you make a general assignment for the benefit of your creditors or you make a written statement to the effect that you are unable to pay your debts as they become due, or a levy or execution is made on the License, or an attachment or lien remains on the Office for 30 days unless the attachment or lien is being duly contested in good faith by you and KidzArt is advised;~~

B. ~~You lose possession or the right of possession of all or a significant part of the Office through condemnation, casualty, lease termination or mortgage foreclosure and the Office is not relocated or reopened as provided in Section 16;~~

C. ~~You contest in any court or proceeding the validity of, or our ownership of, any of the Marks;~~

D. ~~A breach of Section 19 (Assignment) occurs; or~~

We may terminate this Agreement, effective upon delivery of written notice of termination to you, if:

(a) you (or any of your owners) have made or make any material misrepresentation or omission in acquiring the franchise or operating the Office;

(b) you do not begin operating the Office within the applicable time period specified in Subsection 9.1 above, or you commence operating the Office before the conditions for opening have been satisfied;

(c) you (or your Managing Owner) do not satisfactorily complete initial training;

(d) you abandon or fail actively to operate the Office for five (5) or more consecutive business days, unless you close the Office for a purpose we approve or because of casualty or government order, provided, however, that if a casualty requires you to cease operating the Office, you must notify us within five (5) days after the casualty to obtain written approval to remain closed for an agreed upon time period as is necessary under the circumstances before we will require you to resume the Office's operation;

(e) E. You are a corporation and any action is taken which purports to merge, consolidate, dissolve or liquidate youyou surrender or transfer control of the Office's operation without our prior written consent;

~~18.3 Termination by KidzArt With Notice.~~

~~The License and this Agreement will terminate on notice under certain circumstances. The License will terminate on the termination date specified in any notice by KidzArt to you (without any further notice of termination unless required by law), provided that:-~~

~~A. The notice is hand delivered or mailed at least 30 days (or any longer period as may be required by law) in advance of the termination date;~~

~~B. The notice reasonably identifies one or more breaches or defaults in your obligations or performance under this Agreement or the Manual;~~

~~C. The notice specifies the manner in which the breach(es) or default(s) may be remedied; and~~

~~D. The breach(es) and default(s) are not fully remedied before, or as of, the termination date specified in the notice.~~

~~The period given to remedy breaches and defaults will, if permitted by law, be 10 days instead of 30 days if you will have engaged in repeated breaches or defaults under this Agreement within the preceding 24 months for which you have received notice of termination and termination failed to take effect because the breaches or defaults were remedied. The period will be extended if the breach cannot reasonably be cured in such 10 or 30 days, provided that:-~~

A. ~~You have taken all steps to completion towards a cure that are possible within such 10 or 30 day period;~~

B. ~~You diligently prosecute a cure to completion; and~~

C. ~~Such period will in no event be extended by more than 60 days.~~

(f) you (or any of your owners) are or have been convicted by a trial court of, or plead or have pleaded no contest to, a felony;

(g) you fail to maintain the insurance we require and do not correct the failure within ten (10) days after we deliver written notice of that failure to you;

(h) you (or any of your owners) engage in any dishonest or unethical conduct that, in our opinion, adversely affects the Office's reputation or the goodwill associated with the Marks;

(i) you (or any of your owners) make or attempt to make an unauthorized assignment of this Agreement, an ownership interest in you, or the Office;

(j) you lose the right to occupy the Location (if you are not home-based), or the Location is damaged to such an extent that you no longer can operate the Office at the Location over a thirty (30) day period, and you fail to relocate to a substitute site, and to begin operating the Office from that substitute site, within thirty (30) days;

(k) you (or any of your owners) knowingly make any unauthorized use or disclosure of any part of the Manual or any other Trade Secrets or Confidential Information;

(l) you violate any law, ordinance, or regulation and do not begin to cure the violation immediately, and correct the violation within seventy-two (72) hours, after you receive notice from us or any other party;

(m) you fail to pay us (or our affiliates) any amounts due and do not correct the failure within ten (10) days after we deliver written notice of that failure to you;

(n) you fail to pay when due any federal or state income, service, sales, or other taxes due on the Office's operation, unless you are in good faith contesting your liability for those taxes or have received an extension from the applicable government agency of the time within which to make such payments;

(o) you understate the Office's Gross Revenues three (3) times or more during this Agreement's term or by more than five percent (5%) on any one occasion;

(p) you (or any of your owners) (a) fail on three (3) or more separate occasions within any twelve (12) consecutive month period to comply with this Agreement, whether or not we notify you of the failures, and, if we do notify you of the failures, whether or not you correct the failures after our delivery of notice to you; or (b) fail on two (2) or more separate occasions within any six (6) consecutive month period to comply with the

same obligation under this Agreement, whether or not we notify you of the failures, and, if we do notify you of the failures, whether or not you correct the failures after our delivery of notice to you;

(q) your or any of your owners' assets, property, or interests are blocked under any law, ordinance, or regulation relating to terrorist activities, or you or any of your owners otherwise violate any such law, ordinance, or regulation; or

(r) you (or any of your owners) fail to comply with any other provision of this Agreement or any System standard, specification, or operating procedure and do not correct the failure within thirty (30) days after we deliver written notice of the failure to you.

Section 21 also describes grounds upon which this Agreement will be terminated.

18.3 18.4 Effect of Termination or Expiration.

In an instance of expiration or termination If this Agreement expires or is terminated, you will cease to be a licensed participant in the System; and you will must:

A. Promptly pay KidzArtus all amounts owing by you owe us based on operations your operation of the Office through the date of termination or expiration plus interest at 18% per annum the rate described in Subsection 7.3;

B. Immediately discontinue the use of all Marks, signs, structures, forms of advertising, telephone listings and service, the Manual, and all materials and products of any kind which are identified or associated with the System and return all these materials and products to KidzArt and, at KidzArt's request, assign your telephone number to KidzArt; Deliver to us or allow us to take from the Office, on the day we specify, all signs, sign-faces, sign-cabinets, copies of curriculum, marketing materials, forms, and other materials containing any Mark or otherwise identifying or relating to a KidzArt® Office that we request. If you fail to comply with this requirement, we or our representatives may enter the Location at our convenience and remove these items from the Office without liability to you or third parties for trespass or any other claim;

C. Within the timeframe we specify and at your own expense, to take the closing steps and make the alterations specified in our Manual (or otherwise) to distinguish the Office clearly from its former appearance and from other KidzArt® Offices in order to prevent public confusion (if you maintain a commercial site for the Office's operation). If you fail to comply with this requirement, we or our representatives may enter the Location at our convenience and take this action without liability to you or third parties for trespass or any other claim. We need not compensate you or the landlord for any such alterations;

D. Within fifteen (15) days, to notify the telephone company and all telephone directory publishers of the termination or expiration of your right to use any telephone, facsimile, or other numbers and telephone directory listings associated with any Mark; to authorize the transfer of these numbers and directory listings to us or at our direction; and/or to instruct the telephone company to forward all calls made to your numbers to

numbers we specify. If you fail to do so, we may take whatever action and sign whatever documents we deem appropriate on your behalf to effect these events;

E. C. Make no representation nor state that you are in any way approved, endorsed, or licensed by KidzArt^{us} or associated or identified with the KidzArt® System in any manner;

E. D. Immediately take all steps necessary to amend or terminate any registration or filing of any d/b/a/assumed or fictitious name or any other registration or filing containing the Marks so as to delete the Marks and all references to anything associated with the System filing you have made relating to the Marks. If you fail to do so, we may take whatever action and sign whatever documents we deem appropriate on your behalf to do so;

G. E. Provide KidzArt Upon our request, comply with the option to purchase required by rights specified in Section 20; and

H. F. Comply with the provisions of Subsections 15.9 and 17.1. Comply with the provisions of Subsections 15.9, 15.11, and 17.1.

18.5 If, within 30 days after expiration or termination of this Agreement by KidzArt, you fail to remove all displays of the Marks from the Office which are identified or associated with the System, KidzArt may enter the Office to effect removal. In this event, KidzArt will not be charged with trespass nor be accountable or required to pay for any displays or materials.

18.6 If, within 30 days after expiration or termination, you have not taken all steps necessary to amend or terminate any registration or filing of any fictitious name or any other registration or filing containing the Marks, you hereby irrevocably appoint KidzArt as your true and lawful attorney for you, and in your name, place and stead and on your behalf, to take action as may be necessary to amend or terminate all registrations and filings, this appointment being coupled with an interest to enable KidzArt to protect the System.

18.4 18.7 Expiration or termination of this Agreement will not affect, modify, or discharge any claims, rights, causes of action, or remedies which KidzArt may we have against you, whether such claims or rights arise before or after expiration or termination.

SECTION 19 -ASSIGNMENT

19.1 General.

None of your rights under this Agreement or the License granted, all of which are personal in nature to you, may be the subject of any pledge, lien, levy, attachment, or security arrangement; or acquired through execution, foreclosure, or like a similar action. None of your rights or obligations under this Agreement or the License granted are assignable or transferable (including by will, declaration of or transfer in trust, or under the laws of intestate succession) without our prior written consent and compliance in all other respects with the terms of this Section. If you are a general partnership, limited partnership or corporation, no initial personal an Entity, no ownership interest in the general partnership, limited partnership, or corporation Entity is

assignable or transferable without our prior written consent, which will not be unreasonably withheld if you comply in all other respects with the terms of this Section. The KidzArt® Office may not be assigned separate and apart from this Agreement. Any purported action contrary to this Section will be a material breach of this Agreement and will be void, and have no effect, meaning that you will continue to be obligated to us for all of your obligations under this Agreement.

~~With and after each valid assignment of this Agreement pursuant to this Section, the assignee or assignees will be deemed to be you, the franchisee, under this Agreement and will be bound by and liable for all of your existing and future obligations. No stockholder in any corporation or limited liability company which becomes the franchisee will have any rights under this Agreement by reason of his, her or its ownership, and the name of such corporation or limited liability company will not include any of the Marks.~~

19.2 Conditions to Assignments and Transfers.

~~We will not approve a transfer or assignment of this Agreement will be approved by KidzArt or be effective and the License, or an ownership interest in you (if you are an Entity), and so such transfer or assignment will become effective, unless and until:~~

A. ~~There be~~ is no outstanding default in the performance or observance of any of your obligations under this Agreement or any other agreement with KidzArtus.

B. You have settled all outstanding accounts with KidzArtus, and you ~~(and every principal of your corporation or other entity)~~ your owners, if you are an Entity have executed a general release in a form satisfactory to us of KidzArt and all principals of KidzArt from all claims that may be brought by you or any principal all claims you or your owners might have against us and our owners, officers, directors, and employees.

C. The proposed transferee pays KidzArt a Transfer Fee in the amount of \$2,500.00us, a Transfer Fee equal to twenty-five percent (25%) of our then current initial franchise fee for the type and size of territory being transferred, unless the transferee is:

1. ~~A corporation or limited liability company~~ An Entity of which you or a child, parent, sibling or spouse of yours is the majority owner, ~~in which case no Transfer Fee will be required, or~~

2. Another franchisee of KidzArt,

~~2. Another franchisee of KidzArt, in which case the~~ no Transfer Fee will be \$500.00 ~~charged, although we have the right to require the transferee to attend and pay us for any training programs we specify.~~

D. ~~The proposed transferee will execute a separate Franchise Agreement with KidzArt, using~~ signs our then current form of Franchise Agreement, any and all of the terms of which may differ materially from those contained in this Agreement, including, without limitation, a modified Territory (which may be smaller than the Territory granted under this Agreement-) and increased minimum Gross Revenues number.

E. The proposed transferee will ~~pay~~(or its managing owner) ~~pays~~ for, attend~~attends~~, and satisfactorily ~~complete~~completes the training program for new franchisees ~~unless~~;

1. The transferee is a current franchisee in good standing in the System, or
2. The transferee is and has been a manager for a period of one year or more of an Office in good standing.

F. The individual proposed transferee, or the owners or trustees and beneficiaries of a proposed corporate, limited liability company, partnership or trust transferee, will each execute a personal guarantee; transferee's owners (if the transferee is an Entity) sign a personal guaranty jointly and severally guaranteeing the performance of the proposed transferee's obligations.

G. The proposed transferee will ~~have demonstrated~~or its owners demonstrates to our satisfaction that he or she ~~in all respects~~ meets our standards applicable to new franchisees regarding experience, personal and financial reputation and stability, willingness and ability to devote his or her full time and best efforts to the operation of the franchised business, and any other conditions as ~~we may~~ reasonably apply in evaluating new franchisees. We must be ~~provided~~receive all information about the proposed transferee ~~as that~~ we ~~may~~ reasonably require. Because of the confidential information available to a franchisee, no assignment to a competitor of KidzArt® will be permitted.

H. The parties to the proposed transaction will have entered a binding agreement subject only to ~~the our~~ rights of KidzArt. KidzArt will be furnished. You must send us a copy of this binding agreement (a "Purchase Offer"), and ~~KidzArt we~~ must waive in writing ~~its our~~ rights under Section 20. You will advise each prospective transferee of this provision and the other terms of this Agreement.

19.3 If you are an individual and you desire to transfer your rights under this Agreement to a corporation, limited liability company, partnership or trust ~~which an Entity that~~ you will newly form and of which you will be a majority shareholder, member, partner, trustee, beneficiary and/or an executive officer~~owner~~, you may do so only if:

A. Your name remains on this Agreement and the corporation, limited liability company, partnership or trust Entity is added as a co-Franchisee;

B. You continue to devote your full time and best efforts to manage the Office's day-to-day operations ~~of the franchised business unless you have an operational partner or manager approved by KidzArt~~ a different Managing Owner we approve;

C. The corporation's, limited liability company's, partnership's or trust Entity's activities ~~be~~are confined exclusively to operating the franchised business Office; and

D. The corporation, limited liability company, partnership, trust Entity and all officers~~owners~~ sign an agreement with KidzArt~~us~~ assuming jointly and severally all your obligations under this Agreement.

It is expressly understood that ~~thean Entity's~~ assumption of your obligation by ~~any corporation, limited liability company, partnership or trust~~ under this Agreement does not limit your personal obligations under this Agreement; and that you and the ~~corporation, partnership or trust~~ Entity will be jointly and severally liable.

~~19.4 Upon the death of an individual Franchisee, the rights granted by this Agreement may pass (without payment of any Transfer Fee) to the next of kin or legatees, provided that your legal representatives will within 120 calendar days of your death apply in writing to KidzArt for the right to transfer to the next of kin or legatee your rights under this Agreement. KidzArt will not unreasonably withhold its permission so long as the proposed transferees meet each of the requirements set forth in Subsection 19.2.~~

~~19.4~~ 19.5 Any attempt by you to transfer any of your rights or interest under this Agreement or the License, without having received our prior written consent, will constitute a material breach of this Agreement. However, if Upon the death of an individual Franchisee, the rights granted by this Agreement may pass (without payment of any Transfer Fee) to the next-of-kin or legatees, provided that your legal representatives, within 120 calendar days after your death, apply to us in writing for the right to transfer to the next-of-kin or legatee. We will not unreasonably withhold our permission as long as the proposed transferee meets each of the requirements set forth in Subsection 19.2. If you die and your personal representative does not desire to sell the Office, and if under controlling local law your interest in the Office, the License, and this Agreement are distributable to heirs or legatees who are members of your immediate family and who otherwise would qualify as assignees, then, such attempted assignment by operation of law will not be deemed in a violation of this Agreement, provided that such heirs or legatees accept the conditions imposed on otherwise permitted assignees.

~~19.5~~ 19.6 You will not have the right to grant a subfranchise.

~~19.7 KidzArt may assign its rights under this Agreement, or change its ownership or form, as it sees fit without notice to you.~~

~~19.6~~ You acknowledge that we maintain a staff to manage and operate the System and that staff members can change as employees come and go. You represent that you have not signed this Agreement in reliance on any particular owner, director, officer, or employee remaining with us in that capacity. We may change our ownership or form and/or assign this Agreement and any other agreement to a third party without restriction. After our assignment of this Agreement to a third party who expressly assumes the obligations under this Agreement, we no longer will have any performance or other obligations under this Agreement.

SECTION 20 -OPTION TO PURCHASE

20.1 Unless otherwise explicitly provided by this Agreement, KidzArt ~~will be entitled to~~ we may exercise the rights provided in this Section immediately upon:

A. ~~The expiration without renewal or the~~ termination for any reason of the License or of this Agreement for any reason;

B. Any breach, default, or other event that gives KidzArt the right to terminate the ~~License or this Agreement~~; or

C. ~~The~~Our receipt by KidzArt of a copy of a Purchase Offer.

20.2 Upon any event described in Subsection 20.1, ~~KidzArt will~~we have the option to purchase all of your rights, title, and interest in the Office, ~~and~~; all its improvements, furniture, fixtures, equipment and products; ~~and all of your accounts, contract rights, customer and vendor lists, work in progress and other business assets.~~

20.3 The purchase price for assets itemized in Subsection 20.2 will be the current fair market value if Subsection 20.1A or 20.1B is applicable or the price specified in any ~~written purchase offer~~Purchase Offer received by you if Subsection 20.1C is applicable. If ~~you~~we and KidzArt ~~you~~ cannot agree on fair market value within a reasonable time, an independent appraiser will be designated by each of us, and those two appraisers will jointly choose a third appraiser. An average of the 3 appraised values will be binding. Appraised values will exclude any and all consideration ~~for~~of any goodwill or going concern value created by your association with the Marks and business system licensed to you, the System, and our brand.

If ~~KidzArt elects~~we elect to exercise any option to purchase provided in this Subsection, ~~KidzArt will have the right to~~we may set off all amounts due from you under the Franchise Agreement and the cost of the appraisal, if any, against any payment.

20.4 ~~KidzArt~~We will notify you of ~~its~~our intention to exercise ~~its~~our rights to purchase (a "Notice of Intent") within ~~60~~30 days ~~following~~after an event described in Subsection 20.1. The Notice of Intent will specify the assets to be purchased and ~~the~~what we believe their fair current market value as ~~determined by KidzArt to be~~. You will have 14 days following receipt of our Notice of Intent to object to any of the prices specified therein, and ~~any~~our proposed fair market value determination. Any disputes over pricing will be resolved through appraisal as specified in Subsection 20.3. If ~~KidzArt declines~~we decline to exercise ~~its~~our rights under this Section within ~~60~~30 days, you may thereafter sell or dispose of the franchised business to a third party, but not at a lower price nor on more favorable terms than those set forth in the Purchase Offer, if any, and subject to ~~the~~our prior written permission ~~of KidzArt~~ and satisfaction of the other conditions to assignment set forth in Section 19.

20.5 The purchase and sale contemplated in this Section will be consummated as soon as practicable. Following the delivery of a Notice of Intent as specified in Subsection 20.4, ~~KidzArt~~we or ~~its~~our designee will have the right to take possession of the Office and to carry on and develop the franchised business for ~~the~~our or our designee's exclusive benefit ~~of KidzArt or its designee.~~

20.6 ~~In the event that KidzArt elects~~If we elect not to exercise ~~its~~our option to purchase under this Section, the provisions of Section 19 will apply to any proposed transfer ~~by you.~~

SECTION 21 -BANKRUPTCY OR INSOLVENCY

You will be deemed to be in default under this Agreement, and all rights granted ~~herein~~under this Agreement will terminate automatically ~~terminate~~ without notice, in the event of the following:

- A. You become insolvent or make a general assignment for the benefit of creditors;
- B. You file a petition for bankruptcy; or do not oppose a petition filed against you;
- C. You consent to the filing of a receivership or other custodianship for your business assets;
- D. ~~You have~~There is instituted by or against you a proceeding for a composition with creditors under any state or federal law;
- E. You have a final judgment filed against you which remains unsatisfied or of record for 30 days or longer (unless a supersedeas bond is filed);
- F. You are dissolved;
- G. An execution is levied against your franchise or property contained in the Office, or a suit to foreclose any lien against the Office or equipment is instituted against you and not dismissed within 30 days, provided that this provision will not apply if a supersedeas bond is timely filed; or
- H. Your Office's property is sold after levy by any sheriff, marshal, or constable.

SECTION 22 -MISCELLANEOUS

22.1 Relationship of Parties.

~~You neither have nor will you exercise any authority, express, implied or apparent, to act on behalf of or as an agent of KidzArt or any of its affiliates or subsidiaries, for any purpose, and will take no action which might tend to create an apparent employer-employee or agency relationship between you and KidzArt. No fiduciary relationship exists between you and KidzArt. You are, and will remain, an independent contractor responsible for all obligations and liabilities of, and for all loss or damage to, the Office and its business and for all claims and demands based on damages or destruction of property or based on injury, illness or death of any person or persons, directly or indirectly arising from or in connection with the operation of the Office. KidzArt will neither have, nor exercise the right to, control the day-to-day managerial operations of the Office.~~

You and we understand and agree that this Agreement does not create a fiduciary relationship between you and us, that you and we are and will be independent contractors, and that nothing in this Agreement is intended to make either you or us a general or special agent, joint venturer, partner, or employee of the other for any purpose. You agree to identify yourself conspicuously in all dealings with students, suppliers, public officials, Office personnel, and others as the Office's owner under a franchise we have granted and to place notices of independent ownership

on the forms, business cards, stationery, advertising, and other materials we require from time to time.

We and you may not make any express or implied agreements, warranties, guarantees, or representations, or incur any debt, in the name or on behalf of the other or represent that our respective relationship is other than franchisor and franchisee. We will not be obligated for any damages to any person or property directly or indirectly arising out of the Office's operation or the business you conduct under this Agreement.

We will have no liability for any sales, use, service, occupation, excise, gross receipts, income, property, or other taxes, whether levied upon you or the Office, due to the business you conduct (except for our income taxes). You are responsible for paying these taxes and must reimburse us for any taxes we must pay to any state taxing authority on account of either your operation or payments that you make to us.

22.2 No Conflict with Other Agreements.

You represent that you are not a party to or subject to agreements that might conflict with the terms of this Agreement and agree not to enter into any conflicting agreements during the License Term.

22.3 Cost of Enforcement.

If ~~KidzArt incurs~~we incur costs and expenses in enforcing this Agreement against you due to your failure to comply with this Agreement, you agree, whether or not ~~KidzArt initiates~~we initiate a formal legal proceeding, to reimburse ~~KidzArt~~us for all of the costs and expenses that ~~KidzArt incurs~~we incur, including, without limitation, reasonable accounting, attorneys', arbitrators', and related fees.

22.4 No Waiver.

~~No failure, forbearance, neglect or delay of any kind on the part of KidzArt in connection with the enforcement or exercise of any rights under this Agreement will affect or diminish KidzArt's right to strictly enforce and take full benefit of each provision of this Agreement at any time, whether at law for damages, in equity for injunctive relief or specific performance, or otherwise. No custom, usage or practice with regard to this Agreement by you, KidzArt, or other franchisees will preclude the strict enforcement of this Agreement in accordance with its literal terms. No waiver by KidzArt of performance of any provision of this Agreement will constitute or be implied as a waiver of KidzArt's right to enforce that provision at any future time.~~

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

We and you will not waive or impair any right, power, or option this Agreement reserves (including, without limitation, our right to demand compliance with every term, condition, and covenant or to declare any breach to be a default and to terminate this Agreement before its term expires) because of any custom or practice that varies from this Agreement's terms; our or your failure, refusal, or neglect to exercise any right under this Agreement or to insist upon the other's compliance with this Agreement, including, without limitation, any System standard, specification or operating procedure; our waiver of or failure to exercise any right, power, or option, whether of the same, similar, or different nature, with other KidzArt® Offices; the existence of franchise agreements for other KidzArt® Offices that contain provisions differing from those contained in this Agreement; or our acceptance of any payments due from you after any breach of this Agreement. No special or restrictive legend or endorsement on any check or similar item given to us will be a waiver, compromise, settlement, or accord and satisfaction. We are authorized to remove any legend or endorsement, which then will have no effect.

Neither we nor you will be liable for loss or damage or be in breach of this Agreement if our or your failure to perform our or your obligations results from: (1) compliance with the orders, requests, regulations, or recommendations of any federal, state, or municipal government; (2) acts of God; (3) fires, strikes, embargoes, war, acts of terrorism or similar events, or riot; or (4) any other similar event or cause. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that these causes will not excuse payments of amounts owed at the time of the occurrence or payment of Royalty Fees or Advertising Fund contributions due afterward.

22.5 Entire Agreement; Amendments.

The preambles and exhibits are a part of this Agreement which, together with the System standards, specifications, and operating procedures contained in the Manual (which may be periodically modified), constitutes our and your entire agreement, and there are no other oral or written understandings or agreements between us and you, or oral or written representations by us, relating to the subject matter of this Agreement, the franchise relationship, or the Office (any understandings or agreements reached, or any representations made, before this Agreement are superseded by this Agreement). You may not rely on any alleged oral or written understandings, agreements, or representations not contained in this Agreement.

Any policies that we adopt and implement from time to time to guide us in our decision-making are subject to change, are not a part of this Agreement, and are not binding on us. Except as expressly provided in this Agreement, nothing in this Agreement is intended or deemed to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

NoSubject to our right to modify the Manual and System standards, specifications, and operating procedures, no change, termination, or waiver of any provision of this Agreement, and no consent or approval under this Agreement, will be binding upon you or KidzArtus or effective unless in writing signed by you and KidzArt'sour President or Vice President, except that a waiver need be signed only by the party waiving.

22.6 Severability.

If any term or provision of this Agreement or the application thereof to any person, property or circumstances will to any extent be invalid or unenforceable, the remainder of this Agreement will be unaffected and will remain in full force and effect, and each term and provision will be valid and enforced to the fullest extent permitted by law. Should this prove impractical, KidzArt will have the option of terminating this Agreement upon written notice to you.

Except as expressly provided to the contrary in this Agreement, each section, paragraph, term, and provision of this Agreement is severable, and if, for any reason, any part is held to be invalid or contrary to or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency, or tribunal with competent jurisdiction, that ruling will not impair the operation of, or otherwise affect, any other portions of this Agreement, which will continue to have full force and effect and bind the parties.

If any covenant that restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, and/or length of time, but would be enforceable if modified, you and we agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law determines the covenant's validity.

If any applicable and binding law or rule of any jurisdiction requires more notice than this Agreement requires of this Agreement's termination or of our refusal to enter into a renewal franchise, or some other action that this Agreement does not require, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any System standard, specification, or operating procedure is invalid, unenforceable, or unlawful, the notice and/or other action required by the law or rule will be substituted for the comparable provisions of this Agreement, and we may modify the invalid or unenforceable provision or System standard, specification, or operating procedure to the extent required to be valid and enforceable or delete the unlawful provision in its entirety. You agree to be bound by any promise or covenant imposing the maximum duty the law permits that is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement.

22.7 ~~Governing Law~~Governing Law/Consent to Jurisdiction.

~~This Agreement has been made and accepted in the State of Texas and it, and the franchise relationship between KidzArt and you, will be interpreted in accordance with and governed by the laws of the State of Texas, provided, however, that all arbitration matters will be governed by the Federal Arbitration Act (as provided in Subsection 22.8 below), and federal law also shall govern any other aspects of this Agreement and our and your relationship that are subject to such federal law. You hereby consent to jurisdiction in Texas.~~

ALL MATTERS RELATING TO ARBITRATION WILL BE GOVERNED BY THE FEDERAL ARBITRATION ACT (9 U.S.C. §§ 1 ET SEQ.). EXCEPT TO THE EXTENT GOVERNED BY THE FEDERAL ARBITRATION ACT, THE UNITED STATES TRADEMARK ACT OF 1946 (LANHAM ACT, 15 U.S.C. SECTIONS 1051 ET SEQ.), OR OTHER FEDERAL LAW, THIS AGREEMENT, THE FRANCHISE, AND ALL CLAIMS ARISING FROM THE RELATIONSHIP BETWEEN US AND YOU WILL BE

GOVERNED BY THE LAWS OF THE STATE IN WHICH THE OFFICE IS LOCATED, WITHOUT REGARD TO ITS CONFLICT OF LAWS RULES, EXCEPT THAT ANY LAW OF THAT STATE REGULATING THE SALE OF FRANCHISES OR GOVERNING THE RELATIONSHIP OF A FRANCHISOR AND ITS FRANCHISEE WILL NOT APPLY UNLESS ITS JURISDICTIONAL REQUIREMENTS ARE MET INDEPENDENTLY WITHOUT REFERENCE TO THIS SUBSECTION.

SUBJECT TO THE PARTIES' ARBITRATION OBLIGATIONS IN SUBSECTION 22.8 BELOW, YOU AND YOUR OWNERS AGREE THAT ALL ACTIONS ARISING UNDER THIS AGREEMENT OR OTHERWISE AS A RESULT OF THE RELATIONSHIP BETWEEN YOU AND US MAY BE COMMENCED IN THE STATE OR FEDERAL COURT OF GENERAL JURISDICTION CLOSEST TO OUR THEN CURRENT PRINCIPAL BUSINESS ADDRESS, AND YOU (AND EACH OWNER) IRREVOCABLY SUBMIT TO THE JURISDICTION OF THOSE COURTS AND WAIVE ANY OBJECTION YOU (OR THE OWNER) MIGHT HAVE TO EITHER THE JURISDICTION OF OR VENUE IN THOSE COURTS.

22.8 Arbitration.

~~KidzArtWe~~ and you agree that, except for controversies, disputes, or claims related to or based on improper use of the Marks or confidential information, all controversies, disputes, or claims between ~~KidzArtus~~ and ~~its~~our affiliates, ~~and our~~ and their respective shareholders, officers, directors, agents, and/or employees, and you (and/or your owners, guarantors, affiliates, and/or employees) arising out of or related to:

- (1) this Agreement or any other agreement between you and ~~KidzArtus~~;
- (2) ~~KidzArt's~~our relationship with you;
- (3) the validity of this Agreement or any other agreement between you and ~~KidzArtus~~; or
- (4) any aspect of the System;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association. The arbitration proceedings will be conducted by one arbitrator and, except as this Subsection otherwise provides, according to the then current commercial arbitration rules of the American Arbitration Association. All proceedings will be conducted at a suitable location chosen by the arbitrator that is within ~~New Braunfels, Texas~~ (10) miles of the franchisor's then current principal business address. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction.

The arbitrator has the right to award or include in his or her award any relief which he or she deems proper, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief, and attorneys' fees and costs, provided that the arbitrator may not declare any Mark generic or otherwise invalid or award any punitive or exemplary damages against either party (~~KidzArtwe~~ and you hereby waiving to the

fullest extent permitted by law any right to or claim for any punitive or exemplary damages against the other).

~~KidzArt~~We and you agree that, in any arbitration proceeding, each must submit or file any claim which would constitute a compulsory counterclaim (as defined by the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim ~~which~~that is not submitted or filed as required is forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either you or ~~KidzArt~~us.

~~KidzArt~~We and you agree that arbitration will be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between ~~KidzArt~~us and ~~its~~our affiliates, ~~and our~~ and their respective ~~shareholders~~owners, officers, directors, agents, and/or employees, and you (and/or your owners, guarantors, affiliates, and/or employees) may not be consolidated with any other arbitration proceeding between ~~KidzArt~~us and any other person.

Despite the parties' agreement to arbitrate, ~~KidzArt~~we and you each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction; provided, however, that ~~KidzArt~~we and you must contemporaneously submit ~~their~~our dispute for arbitration on the merits as provided in this ~~Section~~Subsection.

The provisions of this ~~Section~~Subsection are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

22.9 Notices.

All written notices, reports, and payments permitted or required to be delivered by this Agreement or the ~~Operations~~ Manual will be deemed to be delivered:

1. at the time delivered by hand;
2. at the time delivered via computer transmission;
3. one (1) business day after transmission by facsimile or other electronic system if the sender has confirmation of successful transmission;
4. one (1) business day after being placed in the hands of a nationally recognized commercial courier service for next business day delivery; or
5. three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid.

Any notice to us must be sent to the address specified on the first page of this Agreement, although we may change this address for notice by giving you fifteen (15) days' prior notice by any of the means specified in subparagraphs (1) through (5) above. Any notice that we send to you may be sent to a single person (such as your Managing Owner), even if you have multiple owners, at the address specified on the first page of this Agreement or in any communication

from you to us. You may change the address for notice only by giving us fifteen (15) days' prior notice by any of the means specified in subparagraphs (1) through (5) above.

Any required payment or report ~~which~~that we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least two (2) days before then) will be deemed delinquent.

22.10 Certain References.

References to days, weeks, and months mean calendar days, weeks, and ~~calendar~~ months unless otherwise specified. References to persons mean legal entities as well as natural persons. Whenever the pronoun "he" or "his" is used herein in this Agreement, it refers to masculine, feminine, and neuter genders and also singular and plural. Except as otherwise specifically set forth in this Agreement, this Agreement will inure to the benefit of and be binding on you and KidzArtus and our and your respective heirs, executors, administrators, personal representatives, successors and assigns.

22.11 Waiver of Punitive Damages and Jury Trial.

EXCEPT FOR YOUR OBLIGATION TO INDEMNIFY US FOR THIRD PARTY CLAIMS UNDER SUBSECTION 14.4, AND EXCEPT FOR PUNITIVE DAMAGES AVAILABLE TO EITHER PARTY UNDER FEDERAL LAW, WE AND YOU (AND YOUR OWNERS) WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN US AND YOU, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.

WE AND YOU IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF US.

22.12 ~~22.11~~ Acknowledgment.

YOU ACKNOWLEDGE THAT YOU HAVE CONDUCTED AN INDEPENDENT INVESTIGATION OF THE KIDZART® SYSTEM AND RECOGNIZE THAT THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS, AND SUCCESS WILL BE LARGELY DEPENDENT UPON THE ~~ABILITY OF YOU~~YOUR ABILITIES AS AN INDEPENDENT BUSINESS PERSON. ~~KIDZART TEXAS, LLC~~WE EXPRESSLY ~~DISCLAIMS~~DISCLAIM THE MAKING OF, AND YOU ACKNOWLEDGE THAT YOU HAVE NOT RECEIVED OR RELIED UPON, ANY WARRANTY OR GUARANTEEGUARANTY, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS, OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

YOU ACKNOWLEDGE THAT YOU HAVE RECEIVED A COPY OF THE COMPLETE KIDZART® FRANCHISE AGREEMENT AT LEAST 5 BUSINESS DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT WAS EXECUTED. YOU FURTHER

ACKNOWLEDGE THAT YOU RECEIVED THE KIDZART® UNIFORM FRANCHISE OFFERING CIRCULAR AT LEAST 10 BUSINESS DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT WAS EXECUTED.

YOU ACKNOWLEDGE THAT YOU HAVE READ AND UNDERSTAND THIS AGREEMENT AND THAT ~~KIDZART HAS~~WE HAVE ACCORDED YOU AMPLE TIME AND OPPORTUNITY AND ~~HAS~~HAVE ENCOURAGED YOU TO CONSULT WITH ADVISORS OF YOUR OWN CHOOSING ABOUT THE POTENTIAL BENEFITS AND RISKS OF ENTERING INTO THIS AGREEMENT.

This entire Agreement, including corrections, changes, and all attachments and addenda, will only be binding upon ~~KidzArtus~~ when executed or initialed by ~~KidzArt's~~our President or Vice-President.

[Signature Page Follows]

~~You and KidzArt, intending~~Intending to be legally bound, ~~we and you~~ have duly executed, sealed, and delivered this Agreement in duplicate this _____ day of _____ 20____.

Franchisee, Individually

Franchisee, Individually

and/or as an officer or partner of

By: _____
(Signature)

Title: _____
A _____ Corporation

_____ Partnership

_____ limited liability company

KidzArt Texas, LLC

President

Date