

**EXHIBIT B
TO THE KINDERDANCE
UNIFORM FRANCHISE OFFERING CIRCULAR**

Franchise Agreement

KINDERDANCE INTERNATIONAL, INC.

FRANCHISE AGREEMENT

Agreement Date:

Franchise Owner:

Address:

Territory:

Check as Appropriate:

Gold ____ Silver ____ Bronze ____

Initial Franchise Fee:

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KINDERDANCE INTERNATIONAL, INC.
Franchise Agreement
Additional Schedules Control Sheet

The standard KINDERDANCE INTERNATIONAL, INC. Franchise Agreement contains the following additional Schedules and is made apart of the Agreement. However, not all Franchise Agreements require every additional Schedule. Therefore, we have noted below by writing "included" next to each Schedule which Schedules are used in this Franchise Agreement for you.

	Schedule One:	Acknowledgement By Franchisee
	Schedule Two:	Territory
	Schedule Three:	Initial Supplies (Silver, Bronze & Gold)
	Schedule Four:	Glossary of Terms
	Schedule Five:	Gold Addendum
	Schedule Six:	Bronze Addendum
	Schedule Seven:	Conversion/Renewal Addendum
	Schedule Eight:	Additional Teaching Locations
	Schedule Nine:	Assignment/Assumption Amendment
	Schedule Ten:	College Support Program
	Schedule Eleven:	Promissory Note
	Schedule Twelve:	Additional Territory

You hereby acknowledge and agree that the included Schedules noted above are for use in this Franchise Agreement.

FRANCHISEE

Print Name: _____

Signature: _____

Date: _____

KINDERDANCE INTERNATIONAL, INC.

By: _____

Name: _____

Title: _____

Date: _____

KINDERDANCE INTERNATIONAL, INC.

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (this "Agreement") is effective as of _____,
2_____ (the "Agreement Date"). The parties to this Agreement are you,
_____, as franchise owner, and us, KINDERDANCE
INTERNATIONAL, INC., as franchisor, an Arizona corporation, with our principal office located at
1333 Gateway Drive, Suite 1003, Melbourne, Florida 32901.

1. INTRODUCTION.

This Agreement has been written in an informal style to make it more easily understandable and to help you become thoroughly familiar with all of its terms before you sign it. In this Agreement, we refer to KINDERDANCE INTERNATIONAL, INC. as "we," "us" or "our," or in some cases as the "Franchisor." We refer to you as "you," "your" or in some cases as the "Franchise Owner." For convenient reference, a Glossary of Terms is attached as Schedule 4.

1.1 The Kinderdance System. Through the expenditure of considerable time and effort, we have developed a distinctive system for marketing, promoting, advertising, and managing businesses providing dance, gymnastics and fitness programs for young children ("Kinderdance Businesses"). We have researched and designed a variety of dance, motor development, gymnastics and fitness programs. The "KINDERDANCE" program is designed for children aged 3 to 5 to learn the basics of ballet, tap, acrobatics, motor development skills, and creative movement, blended with educational concepts. The "KINDERGYM" program is designed for children aged 3 to 5, but focuses on gymnastics, motor development and fitness. The "KINDERTOT" program is for children age 2; focusing on pre-dance, motor development, fitness and tumbling skills. Finally, the "KINDERCOMBO" program is for teaching children aged 6 to 8, beginning ballet, tap, modern dance and fitness. We refer to all of these programs collectively as the "KINDERDANCE PROGRAMS." Kinderdance Businesses generally provide their services at child-care centers, pre-schools, grade schools, YMCA's and various other locations. Kinderdance Businesses operate under distinctive business formats, systems, methods, procedures, designs and specifications, all of which we may improve, further develop or otherwise modify from time to time (collectively, the "Kinderdance System"). Kinderdance Businesses work exclusively with the Kinderdance Programs.

We own, use, promote and license certain trademarks, service marks, trade names, slogans and other commercial symbols including the trade names Kinderdance, Kindergym, Kindertots and KinderCombo and the slogan Kinderdance Education Through Dance (the "Marks"), in the operation of Kinderdance Businesses. We may in the future, develop, enhance or modify various aspects of the Kinderdance System and/or the Marks as well as add new trademarks, trade names, service marks, trade dress, and other commercial symbols.

We grant to persons who meet our qualifications and are willing to undertake the necessary investment and efforts the right to own and operate Kinderdance Businesses in a certain geographic area.

1.2 Acknowledgments. We are presenting this Agreement to you because you expressed the desire to own and operate a Kinderdance Business. You understand that the terms of this Agreement are reasonably necessary to maintain our highest standards of quality and service and the uniformity of those standards at each Kinderdance Business and to protect and preserve the goodwill of the Marks and the Kinderdance System. In signing this Agreement, you acknowledge: (a) the importance of operating your Kinderdance Business in strict conformity with our standards; (b) that you have conducted an independent investigation of Kinderdance Businesses and recognize that, like any other businesses, their nature may

evolve and change over time; (c) that an investment in a Kinderdance Business involves business risks; and (d) that the success of this business venture is primarily dependent on your business abilities and efforts.

1.3 No Guaranties. We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, sales, profits or success of the business venture contemplated by this Agreement or the extent to which we will continue to develop and expand the network of Kinderdance Businesses. You acknowledge that:

(a) any statements regarding the potential or probable revenues, sales or profits of the business venture are made solely in the Franchise Offering circular delivered to you prior to signing this Agreement;

(b) any statement regarding the potential or probable revenues, sales or profits of the business venture or statistical information regarding any existing Kinderdance Business that is not contained in our Franchise Offering Circular is unauthorized, unwarranted and unreliable and should be reported to us immediately;

(c) any information you obtained from Kinderdance franchise owners relating to revenues, sales, profits or otherwise does not constitute information obtained from us and we do not warrant or guaranty the accuracy of any such information; and

(d) you have not received or relied on any representations about the Franchise made by us, or our officers, directors, employees or agents that are contrary to the statements made in our Franchise Offering Circular or to the terms of this Agreement.

If there are any exceptions to any of the foregoing, you must: (1) immediately notify our chief executive officer; and (ii) note such exceptions by attaching a statement of exceptions to this Agreement prior to signing it (any such statement must be signed by both you and us).

1.4 Representations. To induce us to enter into this Agreement with you, you represent and warrant that:

(a) in all of your dealings with us, our officers, directors, employees and agents act only in a representative capacity and not in an individual capacity;

(b) this Agreement, and all business dealings between you and such individuals as a result of this Agreement, are solely between you and us;

(c) you have made no misrepresentations in obtaining the Franchise (as defined below); and

(d) you have read this Agreement and our Franchise Offering Circular in their entirety.

2. GRANT OF FRANCHISE.

2.1 Grant. You have applied for a franchise to own and operate a Kinderdance Business. We have approved your application in reliance on all of the representations you made in that application. Subject to all the terms and conditions of this Agreement, we grant to you a franchise (the "Franchise") for a Kinderdance Business to operate solely in the territory (the "Territory") we have approved, as identified in Schedule 2 to this Agreement.

2.2 Territorial Rights. We do not grant exclusive Territories, but we do warrant that we will not grant more than one franchise per each 100,000 population, or part thereof, in your Territory. We do grant non exclusive territories consisting of an area with up to 400,000 population or part thereof. Historically, these territories provide an average of two hundred, fifty (250) to four hundred (400) teaching locations in which to market your program. County population figures will be determined according to the most recent United States census report. The Territory will generally consist of a county. You must not operate your Kinderdance Business at any location, at any time, temporarily or otherwise, outside of the Territory, without our prior written consent. However, you may market and advertise anywhere. You must not attempt to underbid, or, by whatever means, approach or solicit clients, customers or locations which are then currently an active client, customer or location of an existing Kinderdance Business in the Territory.

2.3 Location Restrictions. You must not operate (by providing classes, etc.) at more than 20 locations in the Territory.

2.4 Reservation of Rights. Subject to Section 2.2 above, we retain the following rights, through affiliates or directly, without granting any rights to you:

(a) to operate and grant to other franchisees the right to operate Kinderdance Businesses anywhere within the Territory and in any other territory on such terms and conditions as we deem appropriate; and

(b) to sell anywhere (or authorize others to sell) products and services identified by the Marks or competitive with Kinderdance® Products in any manner, including via catalogue or the Internet, Intranet, Website or other form of electronic commerce (including sales within the Territory) without any compensation to franchise owners.

2.5 National Accounts. We have devoted considerable resources to develop a national accounts program for the benefit of all Kinderdance Businesses. A "National Account" is a customer or group of customers that operate under common ownership or control, under the same trademarks or service marks through independent franchises or some other association that we have arranged to provide services at multiple locations. The locations of some of the National Accounts may be in your Territory. However, the Franchise Agreement prevents us or other franchise owners from approaching or soliciting clients, customers or locations which are then currently an active client, customer or location of your under most circumstances. Nevertheless, you want us to encourage the development of National Accounts and recognize that customer satisfaction at each of the National Accounts multiple locations is critical to the success of such a program. Accordingly, you and we agree as follows:

(a) Territorial Rights: You agree that we may approach and solicit clients, customers or locations in your Territory, whether or not you currently provide services to them, in order to develop them as National Accounts. We may do so without violating any of your territorial rights or any other provision of the Franchise Agreement.

(b) Best Efforts: You agree to utilize your best efforts to perform services to National Accounts located in your Territory on the terms and conditions specified in the program for those National Accounts. These terms may vary from National Account to National Account depending on the situations and circumstances.

(c) Alternative Services: At your option, you may decide not to perform services for any one or more of the National Accounts operating in your Territory. In addition, you recognize that some National Accounts, for whatever reason, may decide that they do not want to do business with you. If that

happens, we will cooperate with you to the fullest extent practicable to resolve the National Account's concerns. However, if after we exercise what we believe to be reasonable efforts to rectify the problem, the National Account continues to refuse to do business with you, then you agree that we or any other franchise owner we designate may provide services for that National Account in your Territory. You also agree that we or any franchise owner we designate may perform services for any National Account located in your Territory for whom you have declined to provide services. Neither we nor any of such franchise owners will be liable or obligated to pay you any compensation for doing so and neither we nor such franchise owner will be considered in breach of any provision of the Franchise Agreement or any other agreement between you and us. You release us and such franchise owner from any liability or obligation to you for providing services to such National Accounts and we will indemnify, defend and hold you harmless from and against any claims brought by a National Account arising out of our, or another franchise owner's performance of services in your Territory.

(d) Reports and Forms: For purposes of coordinating efforts and results of National Account programs, you must timely provide us with copies of all reports, forms and notices relating to performing services for National Accounts that we may specify from time to time. You also agree to coordinate with us any solicitations you conduct that may have potential for development as National Accounts.

(e) Eligibility: Due to the need to ensure adherence to System Standards in performing services for National Accounts, you will not be eligible for assignment of National Accounts unless you are in full compliance with the Franchise Agreement.

2.6 Full Term Performance. You will perform your obligations under this Agreement faithfully, honestly and diligently. You will continuously exert your best efforts to promote and enhance your Kinderdance Business, for the full term of this Agreement. Furthermore, you agree not to engage in any other business or activity that may conflict with your obligations under this Agreement. The Franchise granted to you by this Agreement is to use the Marks and the Kinderdance System only for purposes of conducting a Kinderdance Business in accordance with the provisions of this Agreement and our Kinderdance System Standards, as described in this Agreement or as otherwise communicated to you from time to time. You are obligated to participate personally in the direct operation of the Kinderdance Business, although you may employ a manager to assist you in the day-to-day operations. Your manager must have completed our initial training satisfactorily. Without our prior approval, you must not:

(a) operate a Kinderdance Business or any other related or similar facility or business in any territory other than the Territory permitted under this Agreement except pursuant to another franchise agreement with us; or

(b) use the Kinderdance System or the Marks for any purpose other than to conduct your Kinderdance Business within or without your Territory; or

(c) engage in the operation of any other children's dance, gymnastics or fitness business that is similar to Kinderdance Business within or without your Territory.

3. TERM AND SUCCESSION.

3.1 Term. The Franchise allows you to operate a Kinderdance Business solely in the Territory and to use the Marks and the Kinderdance System in the operation of your Kinderdance Business for a term of 10 years starting on the Agreement Date. For purposes of this Agreement, the phrases "term of this Agreement" or "term of the Franchise" means the 10-year period just described and any extension(s) of it.

3.2 Succession Rights. This Agreement terminates at the end of the initial 10-year term. At the expiration of this Agreement, you will be eligible to obtain a successor franchise for your Kinderdance Business if:

- (a) you have substantially complied with the Agreement and all other agreements between you and us;
- (b) you have not received more than 3 notices of default during the term of this Agreement; and
- (c) you satisfy the requirements we then impose on new franchise owners generally, including the replacement, refurbishment, and/or re-equipment of equipment and materials utilized in the operation of the franchise, in a timely fashion. Any grant of a successor franchise to you must meet all of the conditions of this Section 3.

3.3 Notices. You must give us written notice of your election to obtain a successor franchise at least 3 months (but not more than 6 months) before the end of the term of this Agreement. (If we do not timely receive that notice from you, you will be deemed to have elected not to obtain a successor franchise.) We will notify you of your eligibility to obtain a successor franchise not less than 2 months prior to the expiration of the term of this Agreement or any renewal. If our notice indicates that we will permit you to obtain a successor franchise, your right to obtain a successor franchise will be contingent on your continued full compliance with this Agreement and any other agreement between you and us and/or our affiliates. If, at any time during the term of this Agreement, you have failed to substantially comply with the Agreement or any other agreement between you and us and/or our affiliates, we may refuse to grant you a successor franchise. Our notice will then state the reasons for our decision.

3.4 Upgrades. You must cause your Kinderdance Business to comply with all other then-current standards for design, equipment, signage, provision of services, methods of operation and other Kinderdance System Standards.

3.5 New Agreement; Releases. To obtain a successor franchise to operate your Kinderdance Business, you (and if a corporation or partnership is the Franchise Owner, its shareholders or partners) must sign and deliver to us: (a) the form of standard franchise agreement and any ancillary agreements we are then customarily using in the grant of Kinderdance franchises, but with appropriate modifications to reflect the fact that the agreement relates to the grant of a successor franchise; and (b) general releases, in a form satisfactory to us, of any and all claims against us, our affiliates, and all of our and their officers, directors, employees, agents, successors and assigns. If you fail or refuse to sign and deliver to us those agreements and releases within 30 days after their delivery to you, you will be deemed to have elected not to obtain a successor franchise. The successor franchise agreement will then govern the franchise relationship and may contain terms different from this Agreement (including payment amounts).

3.6 Training and Refresher Programs. Our grant of a successor franchise is also conditioned on your satisfactory completion (or completion by a manager of yours approved by us) of any new training and refresher programs we reasonably require.

3.7 Fees and Expenses. Our grant of a successor franchise is contingent on your payment to us of a successor franchise fee equal to 10% of our then-current initial franchise fee. We must receive the fee from you at the time of your election to obtain a successor franchise. In addition, we have the right to charge you for services we render to you and expenses we incur in conjunction with the grant of the successor franchise. Payment of those charges is due upon your receipt of our invoice. The successor franchise fee does not include the purchase of any Kinderdance Materials.

3.8 Subsequent Successor Franchises. The fees and other conditions for any later granting of subsequent successor franchises will be governed by the successor franchise agreement (as described above); except that the first successor agreement will permit at least one additional successor franchise.

4. OPERATING PROCEDURES.

4.1 Authorized Services and Products. The reputation and goodwill of Kinderdance Businesses is based upon, and can be maintained and enhanced only by, the furnishing of high quality services and products. We will provide you during the training program with a list of the services and products authorized for Kinderdance Businesses and may from time to time issue revisions. You agree that you will offer all services and products authorized for Kinderdance Businesses and will not, without our prior written approval, offer any type of service or sell any product that is not authorized by us for your Kinderdance Business.

4.2 Approved Kinderdance Equipment and Materials. The reputation and goodwill of Kinderdance Businesses is based upon, and can be maintained and enhanced only by, the use of high quality equipment and materials. We may from time to time modify the list of approved equipment and materials and/or approved suppliers. You agree that you will not, without our prior written approval, use or authorize your employees to use any equipment or materials not authorized by us for Kinderdance Businesses.

Our approval of equipment and materials will be given in the form of specifications and in approval of specific types, models, and brands of equipment and materials. In approving types, model, brands and suppliers, we may take into consideration such factors as quality, reliability and price. We may approve one or a limited number of suppliers in order to obtain lower prices, better advertising support or more uniform and/or higher quality of equipment and materials.

If you want to use any type, model, or brand of equipment and materials, or any supplier which is not currently approved by us, you will notify us of your desire to do so and submit to us sufficient specifications, photographs, samples and/or other information requested by us concerning such type, model, brand and/or supplier for a determination by us whether such type, model or brand complies with our specifications and/or such supplier meets our approved supplier criteria. We have the right to charge you a reasonable fee to cover our costs incurred in making such a determination. Within a reasonable time, we will determine whether such proposed type, model, brand and/or supplier are approved. We may from time to time prescribe procedures for the submission of requests for approval of types, models, brands or suppliers and obligations which approved suppliers must assume. We may also reevaluate such suppliers at any time.

4.3 Pre-Opening Obligations. You must not open your Kinderdance Business and commence business until you have satisfactorily completed all initial training and all amounts then due us have been paid. You must comply with the pre-opening obligations and open your business within 3 months after the Agreement Date.

4.4 Compliance with Laws and Good Business Practices. You will secure and maintain in force in your name all required licenses, permits and certificates relating to the operation of the Franchise. You will operate the Franchise in full compliance with all applicable laws, ordinances and regulations, including, without limitation, all government regulations relating to occupational hazards and health, worker's compensation insurance, unemployment insurance, and withholding and payment of federal and state income taxes, social security taxes and sales taxes. You must also comply with all lease requirements imposed by any landlords you contract with. All advertising and promotion by you will be completely factual and will conform to the highest standards of ethical advertising. You will, in all

dealings with customers, suppliers, us and the public, adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business or advertising practice which may be injurious to our business and the goodwill associated with the Kinderdance System, the Marks and other Kinderdance Businesses. You must secure adequate telephone service (minimum of one direct line) for use in the business and a Kinderdance telephone information listing, with an answering machine for the business during both business and non business hours. No other business will be transacted or advertised using any telephone number assigned to the business.

4.5 Hiring and Training of Employees by You. You will hire all employees of your Kinderdance Business, and will be exclusively responsible for the terms of their employment and compensation. You will not employ or permit any person to perform services for your Kinderdance Business who has not been satisfactorily trained by us or you and signed a nondisclosure and "Covenant Not to Compete" agreement in the form approved by us. You must conduct the classes for the Kinderdance Programs yourself unless you have been certified by us as capable of training instructors.

4.6 Franchisee-Owned Dance Center. If you operate your Kinderdance Business at your own center, you must use the name "Kinderdance" as part of the trade name for that center (i.e., "Miss Jane's Kinderdance Center" or "Miss Mary's Kinderdance Center"). You are not authorized to conduct any other business or offer any services that are not in compliance with the services or products as described in our operation manual without express written authorization from Kinderdance (us).

5. TRAINING AND PERSONNEL.

5.1 Initial Training. Prior to opening your Kinderdance Business, you must attend and satisfactorily complete the initial training program we hold for our Franchise Owners. Our initial training program covers the basic Kinderdance Programs, as well as how to operate and run your franchise business. The training program is furnished at our headquarters or another location that we designate for a period of 5-7 days before you open your business. We provide the initial training free of charge to you. You must pay all your own expenses incurred in connection with the initial training, including, for example, travel, local transportation expenses and wages. COMPLIMENTARY HOTEL ACCOMODATIONS (ONE ROOM) DURING INITIAL TRAINING FOR UP TO SIX DAYS AND NIGHTS ARE REIMBURSED BY KINDERDANCE AFTER SUCCESSFUL COMPLETION OF THE INITIAL TRAINING PROGRAM (hotel location must be approved by Kinderdance). We charge a separate tuition fee for training more than 1 person per Franchise Owner.

5.2 Training of Other Personnel. It is very important to the operation of your Kinderdance Business that all your employees have the appropriate training for their jobs. You are responsible for ensuring that all employees of your Kinderdance Business are qualified, properly trained to capably perform their duties and responsibilities, and duly licensed. We require you to have your employees trained by us unless we have certified you to do so. We charge \$500 per employee for training at our headquarters. You are responsible for all the employee's expenses incurred in connection with the training. We may certify you to train your employees yourself, in which case you may be required to purchase a training kit from us for \$150 for each employee you train. We may require that you and other personnel attend supplemental and refresher training programs during the term of the Franchise, to be furnished at such time and place as we may designate.

5.3 Additional Training and Conference Attendance. You agree that you will attend and complete any additional training programs or conferences that we designate as mandatory, at such places and time as we may specify from time to time during the term of this Agreement. The training programs and conferences will be at such times and places and on such subjects as we determine appropriate from time to time. Currently, we hold free continuing education training programs for advanced levels of Kinderdance®, Kindergym® and Kindercombo at our annual conferences. Should you fail to attend any

of the first three conferences after your initial training, you will be subject to a fine in the amount of Two Hundred and Fifty Dollars (\$250.00) per absence. You are required to attend the first three conferences after your initial training. Three absences are allowed during the remaining term of the franchise. Subjects for training may include instruction in materials and teaching skills, business procedures, cost control, advertising and marketing, and other matters helpful to the successful operation of the franchise. We may, at our discretion, provide other special training to your personnel or other assistance in operating your Kinderdance Business that you request; however, if we do so, you must pay all expenses for that training or assistance, including a per diem charge and travel and living expenses for our personnel.

5.4 Fees and Expenses. You will be responsible for all costs relating to attendance at these programs or conferences, such as, without limitation, the cost of travel, lodging, meals, educational material, and other related incidental expenses incurred by you or your manager(s), as well as any fees or service charges we require.

5.5 Location Availability. You will cooperate with us to make your teaching locations available to us for "in class" training of new Franchisees. You must: (a) notify us of the name, address and principal contact at each location and (b) specify to us the rental or other arrangements for securing the location.

6. GUIDANCE AND MANUALS.

6.1 Manuals. During the term of this Agreement, we will lend you one copy of each of the manuals that we may authorize from time to time (collectively, the "Manuals"). The Manuals are our property. The Manuals contain mandatory and suggested specifications, standards, and operating procedures which we prescribe from time to time for Kinderdance Businesses, as well as information about other obligations you have in the operation of your Kinderdance Business. The Manuals may be modified from time to time to reflect changes in the standards, operating procedures and other aspects of operating your Kinderdance Business. Revisions to the Manuals are effective 15 days after delivery of notice to you, unless a later effective date is specified in such notice. All Manual modifications will be equally applicable to all similarly situated Franchisees and no modification will alter your fundamental status and rights.

You must keep your copy of the Manuals current by immediately inserting all new and modified pages we furnish to you. If any of the Manuals are lost, stolen or damaged, you must obtain a replacement from us at our then-current price. If a dispute develops with respect to the contents of the Manuals, the master copy we maintain at our principal office will be controlling. You agree that you will neither permit any part of the Manuals to be copied nor disclose them or any of their contents to anyone not having a need to know their contents for purposes of operating your Kinderdance Business.

6.2 Guidance and Assistance. During the term of this Agreement, we will from time to time furnish you guidance and assistance with respect to the Kinderdance System Standards. This guidance and assistance will, in our discretion, be furnished in the form of the Manuals, bulletins, written reports and recommendations, other written materials, telephone consultations, training programs, meetings, conferences and/or personal consultations at our offices or at a mutually convenient place. As we determine necessary from time to time, our guidance and assistance will relate to:

- (a) site selection assistance;
- (b) dance, gymnastics and fitness education;
- (c) the sales and marketing of the products and services offered by Kinderdance Businesses and the use of Kinderdance System Standards;

- (d) coordinating the activities of all Kinderdance Businesses;
- (e) development and implementation of local advertising and promotional programs;
- (f) methods of performing authorized services, including any new techniques; and
- (g) changes in any of the above that may occur from time to time.

6.3 Opening Assistance. Within 180 days of the Initial Training Period, and for a period of time to be determined by us, we will make available at your request, one of our representatives on site for the purpose of further training, presentation of dance materials, and facilitating the operation of your Kinderdance Business. Our representative will assist you in establishing, standardizing and refining procedures and techniques essential to the operation of your Kinderdance Business. There is no extra fee for this initial assistance for Silver and Gold Level Franchises (minimal charge for Bronze Level Franchises).

7. MARKS.

7.1 Ownership and Goodwill. Your right to use the Marks is derived solely from this Agreement and is limited to the operation of your Kinderdance Business pursuant to and in compliance with this Agreement and all applicable standards and operating procedures we prescribe from time to time during the term of this Agreement. If you make any unauthorized use of any of the Marks, it will constitute a breach of this Agreement and an infringement of our rights in and to the Marks. You agree that all your use of the Marks and any goodwill established by your use will inure to our benefit exclusively due to our ownership of them. This Agreement does not confer any ownership, goodwill or other interests in the Marks on you (other than the right to operate your Kinderdance Business in compliance with this Agreement).

7.2 Additional Marks. All provisions of this Agreement applicable to the Marks will apply to any additional trademarks, service marks, commercial symbols, designs, artwork, trade dress and logos we may authorize and license you to use during the term of this Agreement.

7.3 Limitations on Use. You agree to use the Marks as the sole trade identification of your Kinderdance Business, except that you must also identify yourself as an independent owner in the methods we prescribe. You agree not to use any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms, designs, or symbols, or in any modified form, without our prior written approval. You agree not to use any Mark or any commercial symbol similar to any Mark in connection with the performance or sale of any unauthorized services or products, or in any manner we have not expressly authorized in writing. You will not employ any of the Marks in any manner that we have determined may result in liability to us for any indebtedness or obligation of yours. You will display the Marks in the manner we prescribe in connection with advertising and marketing materials. You must also use, along with the Marks, any notices of trademark and service mark registrations that we specify. You must obtain any fictitious name, assumed name or "doing business as" registrations that may be required under applicable law. You must not use any Mark in any advertising relating to the transfer, sale or other disposition of your Kinderdance Business or any interest in the Franchise Owner, without our approval.

7.4 Infringements and Claims. You must promptly notify us in writing of any apparent infringement of or challenge to your use of any Mark, or claim by any person of any rights in any Mark, within 5 business days of your becoming aware of the claim. You will not communicate with anyone except us and our attorneys in connection with any such infringement, challenge or claim. We may take

whatever action we deem appropriate. We will have the sole right to control any litigation or other proceeding arising out of any infringement, challenge or claim relating to any Mark, including the right to direct any settlement of such claims. You must sign any documents, give any assistance, and do any acts that our attorneys believe are necessary or advisable to protect and maintain the interests we have in any litigation or administrative proceeding related to the Marks. You may not, at any time during the term of this Agreement or after its termination or expiration, contest the validity or ownership of any of the Marks, or assist any other person in contesting the validity or ownership of any of the Marks.

7.5 Discontinuance of Use. If it becomes advisable at any time in our sole judgment for your Kinderdance Business to modify or discontinue the use of any of the Marks or for your Kinderdance Business to use one or more additional or substitute trademarks or service marks, you agree to comply with our directions to modify or otherwise discontinue the use of such Mark, or use one or more additional or substitute trademarks or service marks, within a reasonable time after notice to you. We have no liability or obligation to you for such modification or discontinuance.

7.6 Consent to Use of Marks. Your rights to use the Marks are nonexclusive. You acknowledge and agree that we may grant franchises to other franchise owners to operate Kinderdance Businesses using the Marks. You agree that, whenever we may request from time to time, you will give your written consent to such use of the Marks by such franchise owners.

7.7 Copyrights. Our Operations Manual, Training Manual, and other materials are copyrighted. To the extent relevant, the provisions of this Article 7 concerning the Marks also apply to our copyrighted information.

8. RELATIONSHIP OF THE PARTIES; INDEMNIFICATION.

8.1 Independent Contractor; No Fiduciary Relationship. This Agreement does not create a fiduciary relationship between you and us; and no fiduciary relationship will exist between you and us. You are an independent contractor, and nothing in this Agreement is intended to make either party a general or special agent, joint venturer, partner, or employee of the other for any purpose whatsoever. You will conspicuously identify yourself in all your dealings with customers, suppliers, public officials, personnel working at your Kinderdance Business (or otherwise employed by you) and others as the owner of your Kinderdance Business pursuant to a franchise agreement with us, and agree to place any other notices of independent ownership on your forms, business cards, stationery, advertising, and other materials that we may require from time to time.

8.2 No Liability; No Warranties. Neither you nor we will make any express or implied agreements, warranties, guarantees or representations, or incur any debt, in the name of or on behalf of the other or represent that the relationship between you and us is other than that of franchise owner and franchisor. We will not be liable for any agreements, representations, or warranties you make that are not expressly authorized under this Agreement. We will not be obligated for any damages to any person or property directly or indirectly arising out of the operation of the business you conduct pursuant to this Agreement, whether or not caused by your negligent or willful action or failure to act, or your use of the Marks in a manner not in accordance with this Agreement. You must not employ any of the Marks in signing any contract or applying for any license or permit or in a manner that may result in our liability for your debts or obligations.

8.3 Taxes and Regulations. We will not be liable for any sales, service, use, exercise, income, gross receipts, property, payroll or other taxes levied against you or your assets or against us in connection with the business you conduct or any payments you make to us pursuant to this Agreement or any other agreement (except for our own income taxes and any taxes we are required by law to collect from you on purchases from us). We will not be liable or responsible for your compliance (or failure to

comply) with any and all laws, rules and regulations imposed by any state or federal governmental agency. It is your responsibility to ensure compliance with such laws and regulations.

8.4 Indemnification. You must indemnify, defend and hold us, our shareholders, directors, officers, employees, affiliates, agents and assignees and other Kinderdance franchise owners (collectively, "Indemnified Parties") harmless against and reimburse the Indemnified Parties for all losses, liabilities, obligations, damages, and taxes arising out of the operation of your Kinderdance Business (including those described in Sections 8.2 or 8.3 above) for which any of the Indemnified Parties are held liable and for all costs any of the Indemnified Parties reasonably incur in the defense of any such claim brought against any of the Indemnified Parties or in any such action in which any of the Indemnified Parties is named as a party, including but not limited to actual and consequential damages, reasonable attorneys', accountants', and expert witness fees, cost of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. The Indemnified Parties have the right to defend any such claim against them and may settle any such claim with respect to them only, with no obligation to you. Your indemnification obligations will continue in full force after, and survive any, expiration or termination of this Agreement.

9. CONFIDENTIAL INFORMATION; EXCLUSIVE RELATIONSHIP.

9.1 Types of Confidential Information. We have developed certain confidential and proprietary information to be used in the establishment and operation of Kinderdance Businesses (the "Confidential Information"). We have the right to use and impart the Confidential Information which includes without limitation:

- (a) the Kinderdance System, the Kinderdance System Standards and the know-how related to their use;
- (b) sources and specifications of equipment, forms, materials, services and supplies;
- (c) advertising, marketing and promotional programs for Kinderdance Businesses;
- (d) any computer software programs we provide or recommend for use in Kinderdance Businesses and the hardware specifications for running such software;
- (e) the selection, recruitment and training of managers, service providers and other employees for Kinderdance Businesses;
- (f) the selection and procurement of locations for Kinderdance Programs;
- (g) methods, techniques, formats, specifications, standards, systems, procedures, information, sales and marketing techniques, and knowledge of and experience in the development, operation, and franchising of Kinderdance Businesses;
- (h) training materials, programs and conference materials designed for franchise owners and personnel of Kinderdance Businesses;
- (i) all information contained in and contents of all of the Manuals; and
- (j) knowledge of operating results and financial performance of Kinderdance Businesses other than your Kinderdance Business.

9.2 Disclosure and Limitations on Use. We will disclose much of the Confidential Information to you and personnel of the Kinderdance Businesses by furnishing the Manuals to you and by providing training, guidance and assistance to you. In addition, in the course of the operation of your Kinderdance Business, you or your employees may develop ideas, concepts, methods, techniques or improvements ("Improvements") relating your Kinderdance Business, which you agree to disclose to us. We will be deemed to own the Improvements and may use them and authorize you and others to use them in the operation of Kinderdance Businesses. Improvements will then also constitute Confidential Information.

9.3 Confidentiality Obligations. You agree that your relationship with us does not vest in you any interest in the Confidential Information other than the right to use it in the development and operation of your Kinderdance Business, and that the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. You acknowledge and agree that the Confidential Information is proprietary, includes trade secrets belonging to us and is disclosed to you or authorized for your use solely on the condition that you agree, and you therefore do agree, that you:

- (a) will not use the Confidential Information in any other business or capacity;
- (b) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement;
- (c) will not make unauthorized copies of any portion of the Confidential Information disclosed via electronic medium, in written form or in other tangible form, including, for example, the Manuals; and
- (d) will adopt and implement all reasonable procedures we may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including, restrictions on disclosure to your employees and the use of nondisclosure and noncompetition agreements we may prescribe for employees or others who have access to the Confidential Information.

9.4 Exceptions to Confidentiality. The restrictions on your disclosure and use of the Confidential Information will not apply to the following:

- (a) disclosure or use of information, processes, or techniques which are generally known and used by businesses providing dance, gymnastics, motor development or fitness instruction to children (as long as the availability is not because of a disclosure by you), provided that you have first given us written notice of your intended disclosure and/or use; and
- (b) disclosure of the Confidential Information in judicial or administrative proceedings when and only to the extent you are legally compelled to disclose it, provided that you have first given us the opportunity to obtain an appropriate protective order or other assurance satisfactory to us that the information required to be disclosed will be treated confidentially.

9.5 Exclusive Relationship. You agree that we would be unable to protect the Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among Kinderdance Businesses if owners of franchised Kinderdance Businesses were permitted to hold interests in any Competitive Businesses, as defined below. You also acknowledge that we have entered into this Agreement with you in part in consideration of and in reliance on your agreement to deal exclusively with us. Therefore, you agree as follows:

(a) **Competitive Restrictions:** During the term of this Agreement, neither you, nor any member of your immediate family (and if a corporation or partnership is the Franchise Owner, neither their shareholders, officers, directors, partners nor any members of their immediate families) will:

(i) engage in a Competitive Business or perform services for a Competitive Business directly or indirectly, as a director, owner, proprietor, officer, manager, employee, consultant, representative, agent, independent contractor or otherwise, except under a franchise agreement with us or our affiliates; and/or

(ii) have any direct or indirect interest, as disclosed, record or beneficial owner, in a Competitive Business, except under franchise agreements with us or our affiliates; and/or

(iii) have any direct or indirect interest, as a disclosed or beneficial owner, in any entity which is granted or is granting franchises or licenses to others to operate any Competitive Business, except Kinderdance Businesses under franchise agreements with us or our affiliates; and/or

(iv) recruit or hire any employee of ours or our affiliates or our franchise owners without our prior written consent and/or that of the other franchise owner (as the case may be); and/or

(v) knowingly engage in any activity to solicit, encourage or induce any customer doing business with any Kinderdance franchise owner (wherever located) to commence doing business with you instead and/or

(vi) directly or indirectly, on behalf of yourself or any other person, or as an employee, proprietor, owner, consultant, agent, contractor, employer, affiliate, partner, officer, director or associate, or stockholder of any other person or entity, or in any other capacity, solicit, divert, take away, or interfere with any of the business, customers, clients, contractors, referral sources, trade or patrons of ours, our affiliates or our franchise owners as such may exist throughout the term of this Agreement.

(b) **Competitive Business:** The term "Competitive Business" as used in this Agreement means any business or facility owning, operating or managing (or granting franchises or licenses to others to do so) any service providing dance or gymnastics or motor development or fitness instruction to children in any format or system, or any other business that provides the same or similar services as are customarily offered by Kinderdance Businesses.

(c) **Public Companies:** Notwithstanding the foregoing, any aggregate ownership of 5% or less of the issues and outstanding shares of any class of stock of a publicly traded company is not prohibited by the provisions of this section.

10. PAYMENTS TO US.

10.1 Initial Franchise Fee.

(a) **Timing and Refunds:** When you sign this Agreement, you must pay us in cash a non-recurring initial franchise fee of \$18,000 (the "Initial Franchise Fee"). Under all circumstances, the Initial Franchise Fee is non-refundable and is fully earned by us when paid. In consideration for this Initial Franchise Fee we: (i) grant you a franchise to operate a Kinderdance Business; (ii) provide you with initial training for 1 person; and (iii) provide you with an initial supply of Kinderdance Materials for use in your Kinderdance Business.

(b) **Kinderdance Materials:** The "Kinderdance Materials" are the posters, flashcards, dance clothing, mat, cassette tapes, video tapes, business development forms, bookkeeping and accounting

forms, and other items which we may sell from time to time. The items included in the initial supply of Kinderdance Materials are shown on Schedule 3.

(c) In addition to the initial supply of Kinderdance Materials as shown on Schedule 3 which you receive at no additional cost as part of your Franchise fee, you will be required to purchase a minimum starting inventory of children's dancewear for resale. The items will be based on the most popular sizes, colors and styles requested by your customers. The dollar amount of inventory will vary depending on the level of your Franchise as follows:

Bronze	- \$100
Silver	- \$250
Gold	- \$500

Dancewear prices will be those published on our Franchisee's wholesale dancewear order form.

(d) Conversion: If your Territory is eligible, after the Agreement Date, you may convert from a Silver to a Gold franchise by signing a new current Franchise Agreement for the unexpired term of the original agreement and paying us a conversion fee equal to our then-current initial franchise fee for Gold franchises in geographic areas with similar population demographics less the amount of the initial franchise fee you have paid us in cash for the Silver franchise. All amounts owed to us for financing and for unpaid royalties must be paid prior to the conversion. Once you have paid us the conversion fee, you will also be entitled to pay royalties on a Gold level basis beginning the next calendar month following the conversion payment.

10.2 Royalties. You must pay us a continuing royalty of the greater of \$300 per month or the amount determined in accordance with the following schedule:

Monthly Gross Sales	Royalty
Up to \$5,999.99	10%
From \$6,000 to \$6,999.99	9%
From \$7,000 to \$7,999.99	8%
\$8,000 and above	7%

(a) General: The obligation to pay royalties commences immediately upon receipt of tuition received for any Kinderdance classes taught. The "minimum" obligation commences beginning the sixth calendar month after completion of the initial training. Royalty payments are due on the 10th day of each month, based on the Gross Sales of the immediately preceding calendar month. You must also pay any federal, state or local taxes imposed on the royalties in accordance with applicable laws and regulations.

(b) The minimum shall be reduced to \$150 per month during the months of June, July and August.

10.3 Advertising Contributions. Recognizing the value of advertising to the goodwill and public image of Kinderdance Businesses, we have established an advertising fund (the "Advertising Fund") for advertising, promotion and publications as we deem appropriate in our sole discretion. You must pay monthly contributions to the Advertising Fund ("Advertising Contributions") in an amount equal to 3% of your monthly Gross Sales. Your Advertising Contributions are payable by the 10th day of each month based on your Gross Sales of the immediately preceding month. Our obligations regarding the Advertising Fund are described in Section 12 of this Agreement.

10.4 Definition of Gross Sales. As used in this Agreement, the term "Gross Sales" means all revenue you derive from operating the Kinderdance Business including dancewear sales, tuition fees, lesson charges, fees, compensation and all amounts you receive at or from any locations, whether from cash, check, barter, credit card or credit transactions, associated with Kinderdance Programs or their Marks' but excluding: (a) all federal, state or local sales, use or service taxes collected from customers and paid to the appropriate taxing authority, and (b) customer refunds, credits and allowances actually made.

10.5 Kinderdance Products. We reserve the right to offer Kinderdance shirts, leotards, dance clothing, and other items ("Kinderdance Products") to Franchise Owners for sale by Franchise Owners in their Kinderdance Businesses. If you elect to sell Kinderdance Products, you must purchase from us, and we will sell to you, all of the Kinderdance Products you require for your Kinderdance Business. We will sell the Kinderdance Products to you at the purchase price we publish from time to time in our standard price lists, as long as you are in compliance with all of the provisions of this Agreement. Payment for the Kinderdance Products must be received by us prior to shipment to you. You are responsible for all freight, shipping, handling and insurance charges.

10.6 Interest on Loan Payments. Certain amounts due for purchases by you from us or our affiliates, and other amounts which you owe to us or our affiliates bear interest after the due date at the highest applicable legal rate for open account business credit, not to exceed 1.5% per month. The provision in this Agreement concerning interest on late payments does not mean that we accept or condone late payments, nor does it indicate that we are willing to extend credit to, or otherwise finance the operation of, your Kinderdance Business. If, for any reason, the amounts you owe us for interest exceed the amounts allowed by applicable law, and you have made such payments to us, we will credit the excess amount against the delinquent amounts owed, unless you notify us that you want the excess amount returned to you.

10.7 Application of Payments. When we receive a payment from you, we may apply it as we see fit to any amounts you owe to us, regardless of how you may direct a particular payment to be applied.

10.8 Payment Offsets. We may set off from any amounts that we may owe you any amount that you owe to us for any reason whatsoever. We may do so without notice to you at any time. However, you do not have the right to offset payments owed to us for amount purportedly due to you from us.

10.9 Discontinuance of Service. If you do not timely pay amounts due us, or otherwise violate this Agreement, we may discontinue any services to you. You agree that you will not, on grounds of the alleged nonperformance by us of any of our obligations under this Agreement, withhold payment of any fee or other sum payable to us under this Agreement, or of any other sum payable to us or our affiliate companies.

11. KINDERDANCE SYSTEM STANDARDS.

11.1 Importance of Uniformity. You acknowledge that every detail of your Kinderdance Business is important--not only to you, but to us and to all Kinderdance franchise owners and affiliates--in order to: (a) develop and maintain high and uniform operating standards; (b) increase the demand for the products and services provided by Kinderdance Businesses; and (c) establish and maintain a reputation for providing uniform and high quality services. You also acknowledge that a fundamental requirement of this Agreement is the operation of your Kinderdance Business in accordance with the mandatory specifications, standards, operating procedures and rules that we prescribe for the development and operation of Kinderdance Businesses (the "Kinderdance System Standards"). Your operation of your

Kinderdance Business in accordance with the Kinderdance System Standards is essential to preserve the goodwill of the Marks and of all Kinderdance Businesses. Therefore, during the term of this Agreement, you must at all times develop, maintain and operate your Kinderdance Business in accordance with each and every Kinderdance System Standard, as periodically modified and supplemented by us from time to time.

11.2 Examples of Kinderdance System Standards. Among the aspects of the development and operation of your Kinderdance Business that may be regulated by Kinderdance System Standards are the following:

- (a) dance and gymnastics teaching techniques;
- (b) periodic maintenance, replacement of obsolete equipment and signs, use of signs, logos and the Marks;
- (c) types, models and brands of required or authorized equipment, signs, products, materials and supplies;
- (d) types, coverage's, policy terms and carriers of insurance;
- (e) accounting and bookkeeping methods and systems;
- (f) terms and conditions of sale and delivery of and payment for products, services, materials, and supplies sold by us, or our affiliates or unaffiliated suppliers and vendors;
- (g) the use, and terms for usage, of preferred suppliers;
- (h) sales and marketing activities, advertising and promotional activities, customer communication and retention programs, and materials and media required or authorized for use in such activities and programs;
- (i) use and display of the Marks, and use and display of other trademarks and commercial symbols, including trademarks of approved suppliers;
- (j) services required or authorized to be offered by your Kinderdance Business;
- (k) arrangements for third parties (including national or regional accounts) for the furnishing to the customers of your Kinderdance Business of services required or authorized to be available from your Kinderdance Business;
- (l) acceptance of various payment systems;
- (m) uniforms and/or apparel to be worn while operating the Kinderdance Business in public locations;
- (n) use of specified equipment, computer software and hardware, and communication systems and any modifications or enhancements;
- (o) compliance with applicable laws; obtaining required licenses and permits; adherence to good business practices; observing high standards of honesty, integrity, fair dealing and ethical business conduct in all dealings with customers, suppliers, vendors, us, and our affiliates;

(p) regulation of such other elements and aspects of the development, appearance and operation of, and conduct of business by you, as we determine from time to time to be useful or required to preserve or enhance the operation, image or goodwill of the Marks and Kinderdance Businesses in general;

(q) preparation and retention of records; and

(r) use of standard forms and contracts.

You agree that Kinderdance System Standards prescribed from time to time in the Manuals, or otherwise communicated to you in writing (including by means of our Administrative Bulletins), constitute provisions of this Agreement as if fully described in it. Accordingly, all references to this Agreement include all Kinderdance System Standards as periodically modified.

11.3 Modification of Kinderdance System Standards. We may periodically modify Kinderdance System Standards. In addition, we may accommodate regional or local variations in Kinderdance System Standards in our discretion. Modifications to Kinderdance System Standards may obligate you to invest additional capital in your Kinderdance Business and/or incur higher operating costs. Nevertheless, any modifications to Kinderdance System Standards will not alter your fundamental status and rights under this Agreement.

11.4 Class Size. While we do not limit the number of classes that may be taught at each location, nor the number of students that may be taught in each class, we recommend that, in order to maintain proper control and teaching excellence, class size be limited to 12 children.

11.5 Pro-Active Sales Efforts. You recognize that the operation of Kinderdance Businesses involves heavy emphasis in sales solicitation and marketing. We have granted you the franchise based on your commitment to devote the necessary time, skill and energy both personally and through employees (if the franchise owner is a corporation or partnership, through your principal owners) to the active and continuous sales solicitation and marketing activities.

11.6 Approved and Prohibited Activities. You agree that: (a) your Kinderdance Business will offer, in the manner we prescribe, all services and products that we from time to time authorize for Kinderdance Businesses; and (b) your Kinderdance Business will not offer or provide any products or services we have not approved for Kinderdance Businesses. You acknowledge and agree that we have the right to impose conditions including successful completion of additional training, which all franchise owners, including you, must fulfill in order to offer new programs. Such authorizations and conditions will, in our sole discretion, depend and be based on such factors as the facilities and equipment of your Kinderdance Business, your qualifications and experience and those of your employees and other considerations we deem relevant.

11.7 Research and Testing. From time to time we may conduct research and testing to determine the feasibility of new programs, market trends, and the marketability of new programs. You agree to cooperate and participate in our research and testing programs upon our request, by test marketing new programs at your Kinderdance Business and by providing us with timely reports and other relevant information regarding research and testing programs. In connection with test marketing of any new program, you agree to make reasonable efforts to sell any products and services comprising the new program.

11.8 Insurance.

(a) Requirements: Before you open your Kinderdance Business, you must obtain and maintain in full force and effect during the entire term of the franchise, at your expense, an insurance policy or policies protecting you and us against any loss, liability or expense for personal injury, death, property or equipment damage, or otherwise arising or occurring in connection with your Kinderdance Business, and other coverages described in the Manuals. Each policy must have coverage limits and amounts as specified in the Manuals. You must name us as an additional insured on each policy. Each insurance policy must be written by an insurance carrier acceptable to us.

(b) Certificates: Within 30 days of the signing of this Agreement, but in no event later than the date on which you commence operation of your Kinderdance Business, you must furnish to us the certificates of insurance showing compliance with these requirements for approval by us. The certificates must state that each policy will not be canceled or altered without at least 10 days prior written notice to us.

(c) Maintenance: Maintenance of such insurance and the performance by you of the obligations under this paragraph does not relieve you of liability under the indemnity provisions of this Agreement. If you, for any reason, do not procure and maintain the insurance coverage required by this Agreement, then we have the right, at our option, to immediately procure such insurance upon notice, and you must reimburse us immediately for these costs.

12. ADVERTISING AND PROMOTION.

12.1 Establishment of Advertising Fund. Due to the value of advertising and the importance of promoting the public image of Kinderdance Businesses, we establish and maintain and administer an Advertising Fund. You must pay us Advertising Contributions each month equal to 3% of your monthly Gross Sales. Your Advertising Contributions must be paid to us by the 10th day of each month based on the Gross Sales of the immediately preceding month. Kinderdance Businesses controlled by us or our affiliates will contribute to the Advertising Fund on the same basis as you.

12.2 Use of the Fund. You acknowledge and agree that we will be entitled to direct all advertising programs financed by the Advertising Fund, with sole discretion over the creative concepts, materials, and endorsements used in them, and the geographic, market, and media placement and allocation of the programs. You agree that the Advertising Fund may be used to pay the costs of preparing and producing video, audio, and written advertising materials; telemarketing programs; direct mail programs; administering national, multi-regional, regional or local advertising programs, including, for example, purchasing media advertising, and employing advertising agencies to assist in those activities; supporting public relations, market research and marketing activities; and providing advertising and marketing materials to Kinderdance Businesses. The Advertising Fund may also be used to pay our costs of traveling to and attending national and regional conventions and trade shows. We may also solicit Franchise

Owners at these events. The Advertising Fund will furnish you with approved advertising materials at its direct cost of producing them, including shipping and handling.

12.3 Advertising Reimbursement. The Advertising Fund may also be used to reimburse you (and other Franchise Owners) for approved local advertising. To be eligible for reimbursement, you must provide us with copies of the advertising and verification of the expenses. However, the reimbursement is limited to the lesser of: (a) your actual local advertising expenditures; and (b) 25% of the total of your Advertising Contributions paid during the previous year.

12.4 Accounting for the Fund. The Advertising Fund will be maintained and operated by us in such form and manner as we determine from time to time in our sole discretion. The Advertising Fund will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for any salaries, administrative costs and overhead we may incur in activities reasonably related to the administration of the Advertising Fund and its advertising programs including, for example, conducting market research, preparing advertising and marketing materials, and collecting and accounting for contributions to the Advertising Fund. We may spend in any fiscal year an amount greater or less than the total contribution of Kinderdance Businesses to the Advertising Fund in that year. We may cause the advertising Fund to borrow from us or other lenders to cover deficits, or cause the Advertising Fund to invest any surplus for future use. If we lend money to the Advertising Fund, we may charge interest at an annual rate equal to the "prime rate" charged by leading financial institutions plus 3%. You authorize us to collect for remission to the Advertising Fund any advertising monies or credits offered by any supplier to you based upon purchases you make. All interest earned on monies contributed to the Advertising Fund will be used to pay advertising costs of the Advertising Fund before other assets of the Advertising Fund are expended. We will prepare an annual statement of monies collected and costs incurred by the Advertising Fund and will furnish it to you upon written request. We may incorporate the Advertising Fund or operate it through a separate entity as we deem appropriate. Any such successor entity will have all rights and duties as are accorded to us pursuant to this Section 12.

12.5 Advertising Fund Limitations. You acknowledge that the Advertising Fund, if created, is intended to maximize recognition of the Marks and patronage of Kinderdance Businesses in general. Although we would try to use the Advertising Fund to develop advertising and marketing materials and to place advertising in a manner that will benefit all Kinderdance Businesses, we undertake no obligation to ensure that expenditures by the Advertising Fund in or affecting any geographic area are proportionate or equivalent to the Advertising Contributions by Kinderdance Businesses operating in that geographic area or that any Kinderdance Business will benefit directly or in proportion to its Advertising Fund Contributions. Except as expressly provided in this Section 12, we assume no direct or indirect liability or obligation to you or the Advertising Fund with respect to the maintenance, direction, or administration of the Advertising Fund or with respect to the collection of contributions to the Advertising Fund from other Kinderdance Businesses. Accordingly, we will not be liable for any act or omission with respect to the Advertising Fund which is consistent with this Agreement, or other information provided to you by us, or which is done in good faith.

12.6 Collection Efforts. We may, but are not required to, use collection agents and to institute legal proceedings to collect Advertising Contributions from you and other franchise owners on behalf of, and at the expense of, the Advertising Fund. We may also forgive, waive, settle and compromise any claims by or against the Advertising Fund.

12.7 Local Advertising and Promotion. Prior to their use, you must submit samples of all advertising and promotional materials, not prepared or previously approved by us, for approval. If you do not receive written approval from us within 15 days from the date of our receipt of the materials, we will be deemed to have given the required approval. You must not use any advertising or promotional materials that we have disapproved. In no event will your advertising contain any statement or material which may be considered: (a) in bad taste or offensive to any group of persons; (b) defamatory on any person or an attack on a competitor; (c) inconsistent with our public image; or (d) not in accord with Kinderdance System Standards. You must maintain a yellow pages listing under the name "Kinderdance " in at least one city in the Territory in accordance with the standards described in the Manual.

12.8 Websites. You acknowledge and agree that any Website constitutes "advertising" under this Agreement. Any Website you develop or utilize must meet all other terms and conditions for advertising described in this Agreement. For this purpose, a "Website" means an interactive electronic

document, contained in a network of computers linked by communications software that you operate or authorize others to operate and that refers to your Kinderdance® Business, the Kinderdance® Programs, the Marks, us, and/or the Kinderdance® System. The term "Website" includes Internet and World Wide Web home pages. You must not establish any Website without our prior written approval of its form, content and information presented due to our substantial interest in protecting the Marks, the Kinderdance® Programs, the Kinderdance® System and the Confidential Information. Furthermore, in connection with any Website, you agree to the following:

- (a) Before establishing any Website, you must submit to us a sample of the Website format and information in the form and manner that we may reasonably require.
- (b) You must comply with our standards and specifications for Websites as prescribed by us from time to time in the manual or otherwise.
- (c) We may require that you establish electronic links to our Website and to other franchise owners' Websites as part of your Website. We also may require that your Website be part of our Website.
- (d) You agree that we may establish electronic links from our Website to your Website, and that other franchise owners may establish electronic links to your Website from their Websites, without any compensation to you.
- (e) If you want to change any material aspect of your Website at any time, or any of the information contained in your Website, you must submit such revisions to us in advance. You must not make any such revisions or modifications until you have obtained our approval.
- (f) You must not use any Mark as part of any domain name, Internet or "E-mail" address, or any other identification of you in any electronic medium or with any prefix, suffix or other modifying words, terms, designs or symbols, or in any modified form, without our prior written consent.
- (g) If this Agreement expires or terminates for any reason, you must immediately stop using any Websites that utilize any of the Marks, the Kinderdance® Programs or the Kinderdance® System, or that are linked to any of our Websites or the Websites of any of our franchise owners. You must also then remove and change any domain names, Internet addresses, E-mail addresses or other identification that utilize any of the Marks.

13. ACCOUNTING, REPORTS AND FINANCIAL STATEMENTS.

13.1 Accounting Records. During the term of this Agreement, you must establish and maintain record keeping and accounting systems conforming to the requirements prescribed by us from time to time. You must prepare and preserve for 5 years from the dates of their preparation (and for such other time period as required by law), full, complete and accurate books, records and accounts prepared pursuant to our approved method of accounting, including, but not limited to, invoices, cash receipts, contracts, disbursement records, accounts payable, general ledgers, itemized bank deposit slips and statements, and copies of sales, use and service tax returns and state and federal payroll and income tax returns reflecting the operation of your Kinderdance Business.

13.2 Reports. You must furnish to us the following reports utilizing any forms and instructions we specify for such purpose: (a) on or before the 10th day of each month, a profit and loss statement including a statement of Gross Sales for the immediately preceding calendar month; and (b) within 30 days after the end of each fiscal year, an annual profit and loss statement for such fiscal year for your Kinderdance Business and a balance sheet for your Kinderdance Business as of the end of such fiscal year. This report must be prepared in accordance with generally accepted accounting principles. In addition, by written notice to you, we may require that this report be audited by an independent certified public accountant.

You must furnish to us such other reports, information and supporting records as we may request from time to time. All such reports, financial statements and information must be on any approved forms

which we may require, must be accurate, and must be verified and signed by you. You must also furnish to us copies of all license applications, regulatory reports and filings, visitation reports, and all notices and correspondence from and with any regulatory agencies concerning any aspect of your Kinderdance Business.

13.3 Returns and Financial Records. You must maintain readily available for our inspection, and furnish to us upon request, exact copies of any state and local sales, use and service tax returns and federal and state payroll and income tax returns filed by you that reflect the operation of your Kinderdance Business. You must furnish to us, and to those designed by us, for inspection or audit, such forms, reports, records, financial statements, sales and income tax returns and other information as we may require. You must maintain records for your Kinderdance Business for 5 years. You must make such financial records and other information available at our principal office or such other locations as we request; and you must provide us and our designees with full and free access to such records and information during regular business hours. We and our designees have the right to make extracts from, and copies of, all such records and information.

14. INSPECTIONS AND AUDITS.

14.1 Our Right to Inspect. To determine whether you and your Kinderdance Business are complying with this Agreement and with the Kinderdance System Standards, we or our agents have the right, at any reasonable time and without advance notice to you, to:

- (a) observe the operations of and teaching methods used in your Kinderdance Business for such periods as we deem necessary;
- (b) interview personnel of your Kinderdance Business (including temporary and full-time employees);
- (c) interview present and former customers of your Kinderdance Business;
- (d) interview the landlords or other providers of locations for the Kinderdance programs; and
- (e) inspect and copy any business records, bookkeeping and accounting records, licensing applications and reports, sales, payroll and income tax records and returns and other records of your Kinderdance Business (and the books and records of any corporation or partnership which is the franchise owner under this Agreement).

You must cooperate fully with us in connection with any of these inspections, observations and interviews. You must send us (within 5 days of your receipt) copies of all notices, reports and correspondence to or from regulatory authorities concerning the operation or licensing of your Kinderdance Business.

14.2 Our Right to Audit. We have the right at any time during business hours, and without advance notice to you, to inspect and audit, or cause to be inspected and audited, the business records, bookkeeping and accounting records, licensing applications and reports, sales, payroll and income tax records and returns and other records of your Kinderdance Business (and the books and records of any corporation or partnership which is the franchise owner under this Agreement).

(a) Cooperation: You must fully cooperate with our representatives and any independent accountants we may hire to conduct any inspection or audit.

(b) Reimbursements: Further, if the inspection or audit is made necessary by your failure to furnish the reports, supporting records, other information, or financial statements required by this Agreement, or to furnish such information on a timely basis, or if such information is determined by an audit or inspection to understate your Gross Sales by more than 5% for any month, you must reimburse us for the cost of such inspection or audit (including, but not limited to, the charges of attorneys and any

independent accountants, and the travel expenses, room and board and applicable per diem charges for our employees and agents). The above remedies are in addition to all our other remedies and rights under this Agreement and under applicable law.

(c) Payment: You must pay us, within 15 days after receipt of the audit report, all amounts you owe us, plus interest, in accordance with Section 10.7.

15. OWNERSHIP AND TRANSFER REQUIREMENTS.

15.1 Transfer by Us. This Agreement (or any portion of it) is fully transferable by us and will inure to the benefit of any person or entity to whom we transfer it or to any other legal successor to our interest in this Agreement. If we transfer this Agreement, we will have no further obligation to you.

15.2 Transfer by You. You understand and acknowledge that the rights and duties created by this Agreement are personal to you and that we have entered into this Agreement in reliance on your character, skill, aptitude, attitude, business ability, and financial capacity (and if you are a cooperation or partnership, on these qualities of your owners). Therefore, except as provided with respect to assignment to a controlled corporation in Section 15.5 below, neither this Agreement (or any interest in it), your Kinderdance Business (or any interest in it), nor any part or all of the ownership of the Franchise Owner may be transferred without our prior written approval, and any such transfer or attempted transfer without our prior written approval constitutes a breach of this Agreement, and will convey no rights to, or interests in, this Agreement, the Kinderdance Business or the Franchise Owner and will be void.

As used in this Agreement, the term "transfer" means and includes the voluntary, involuntary, direct or indirect assignment, sale, or other transfer by you of: (a) any interest in this Agreement; (b) any part or all of the ownership of the Franchise Owner; or (c) your Kinderdance Business or any interest in it. An assignment, sale, or other transfer also includes:

(i) the transfer of ownership of capital stock or partnership interest or any other form of ownership in the Franchise Owner;

(ii) merger or consolidation, or issuance of additional securities representing an ownership interest in the Franchise Owner;

(iii) transfer of interest in the Franchise Owner or your Kinderdance Business in a divorce proceeding or otherwise by operation of law; or

(iv) transfer of an interest in the Franchise Owner or your Kinderdance Business in the event of the death of the Franchise Owner or an owner of the Franchise Owner by will, declaration of or transfer in trust, or under the laws of intestate succession.

15.3 Conditions for Approval of Transfer. If you are in full compliance with this Agreement, we will not unreasonably withhold our approval of a transfer that meets all the applicable requirements of this Section 15. The proposed transferee or its owner(s) must be of good moral character and otherwise meet our then-applicable standards for franchise owners. You must provide us with a minimum of 60 days prior written notice of any proposed transfer with all of the information pertaining to the proposed transfer. A transfer of ownership in your Kinderdance Business may only be made in conjunction with a transfer of this Agreement. All transfers must meet the following conditions prior to, or concurrently with, the effective date of the transfer:

(a) the transferee must have sufficient business experience, aptitude, and financial resources to operate a Kinderdance Business;

(b) all your obligations incurred in connection with this Agreement must be assumed by the transferee;

(c) you must pay such amounts owed to us or our affiliates, which are then due and unpaid and all debts to third parties arising out of the operation of your Kinderdance Business must be satisfied or assumed by the transferee;

(d) the transferee and/or its owner(s) must have satisfactorily completed our training program at the transferee's expense;

(e) the transferee must agree and enter into either (i) our then current form of franchise agreement and all related documents, and such other agreements with us required to operate the Kinderdance Business, for the full unexpired term of this Agreement or (ii) a written assignment with you and us, in a form satisfactory to us, whereby the transferee assumes all of your obligations under this Franchise Agreement;

(f) you or the transferee must pay us a transfer fee in the amount determined by the type of Franchise being transferred as follows: Bronze- \$3,000.00, Silver- \$5,000.00 and Gold-\$8,000.00. The fee is to reimburse us for all of our costs incurred in evaluating the transferee, the transfer terms, training the transferee, on site visits to Silver and Gold transferees and to meet all legal requirements.

(g) the Franchise Owner and its owners must execute a general release, in form satisfactory to us, of any and all known and unknown claims against us, our affiliates, and our and their officers, directors, employees, and agents.

(h) the Franchise Owner and its transferring owners must sign and deliver to us a written agreement in favor of us and the transferee, agreeing that for a period of not less than 1 year, commencing on the effective date of the transfer, to comply with the post-term competitive restrictions described in this Agreement (Section 17.5);

(i) if we are reasonably unsatisfied with the qualifications of the proposed transferee, then you must at our request, guarantee the full payment and performance of the obligations assumed by or assigned to the transferee;

(j) if you or your owners finance any portion of the purchase price, you or your owners must agree that the transferee's obligations to you or your owners are subordinate to the transferee's obligations to us;

(k) if, in the opinion of Kinderdance International, the price to be paid for the franchise appears, to result in an unsatisfactory return on investment, Kinderdance International may, without liability to the Franchisee, counsel with such prospective purchaser regarding such opinions;

(l) the transfer must be approved by all necessary regulatory authorities; and

(m) all such other conditions as we may reasonably impose based on the circumstances of the proposed transfer.

If the transferee is a corporation, no new shares of common or preferred voting stock in the transferee corporation may be issued to any person, partnership, trust, foundation, or corporation without obtaining our prior written consent. In addition, each stock certificate of the transferee corporation must

have conspicuously endorsed upon it a statement that it is held subject to and any further assignment or transfer is subject to, all restrictions imposed upon assignments by this Agreement.

15.4 **Death or Disability.** If you (or any person owning a controlling interest in the Franchise Owner where the Franchise Owner is a corporation) die or become permanently disabled, the executor, administrator, conservator, or other personal representative of that person must transfer that interest to a third party approved by us within a reasonable time (not to exceed 90 days), from the date of death or permanent disability. The transfer will be subject to all the terms and conditions for transfers under Section 15.3 of this Agreement. Failure to transfer in accordance with the provisions of this Section 15.4 or failure to comply with this Agreement after such death or disability and before such transfer constitutes a breach of this Agreement. "Permanent disability" means any condition that prevents or curtails your normal participation in the operation of your Kinderdance Business for periods totaling 6 months or more during any 12-month period.

15.5 **Transfer to a Controlled Corporation.** This Agreement and the assets and liabilities of your Kinderdance Business may be assigned to a corporation that conducts no business other than your Kinderdance Business, so long as you actively manage the corporation, and remain the principal executive officer of the corporation, and you own, control and the right to vote 51% or more of its issued and outstanding capital stock. All accrued monetary obligations you owe to us must be satisfied prior to the transfer if you are an individual. The articles of incorporation, bylaws and other organizational documents of such corporation must recite that the issuance and assignment of any ownership interest in the corporation are restricted by the terms of this Agreement, and all issued outstanding stock certificates of such corporation must bear a legend reciting or referring to the restrictions of this Agreement on the issuance and transfer of stock in the corporation. As a condition of our approval of the issuance or transfer of stock in such corporation to any person other than you, we require (in addition to the other requirements we have the right to impose) that the proposed shareholder execute an agreement, in a form provided or approved by us, agreeing to be bound jointly and severally by, to comply with, and to guaranty the performance of, all of your obligations under this Agreement. No new shares of common or preferred voting stock in the transferee corporation may be issued to any person, partnership, trust, foundation or corporation without obtaining our written consent.

15.6 **Effect of Consent to Transfer.** Our consent to a proposed transfer of the Franchise or any interest in you or your Kinderdance Business pursuant to the provisions of this Section 15 will not constitute a waiver of: (a) any claims we may have against you, or your owners; or (b) our right to demand exact compliance with any of the terms or conditions of this Agreement by any transferee. Any dispute between you and us relating to our failure to consent to a proposed transfer must be submitted to arbitration pursuant to the provisions of this Agreement.

15.7 **Compliance with Laws.** In connection with any proposed transfer of an interest in this Agreement, your Kinderdance Business or you, you will comply with any laws and regulations that apply to the transfer, including state and federal laws and regulations governing the offer, sale, and transfer of franchises. You must indemnify and hold us and our affiliates and our and their officers, directors, shareholders, and employees harmless against any and all claims arising, and expense incurred (including attorneys' fees), directly or indirectly, from, as a result of, or in connection with, any alleged failure on your part to comply with any franchise law or other applicable law in connection with the transfer.

16. TERMINATION OF THE FRANCHISE.

16.1 **Termination by You.** If you are in compliance with this Agreement and we materially breach this Agreement and do not correct the breach within 60 days of your written notice to us specifying the breach (or take reasonable steps to correct the breach if it cannot be cured within 60 days), you may terminate this Agreement effective 30 days after delivery to us of written notice of termination.

Your termination of this Agreement for any other reason or without such notice will be deemed a termination without cause.

16.2 Termination by Us. We may terminate this Agreement in accordance with the following provisions:

(a) 30-Day Notice: We may terminate this Agreement effective 30 days after notice of termination to you on the occurrence of any of the following events and your failure to cure within such time period:

(i) you fail to pay when due any amounts due to us or our affiliates; or

(ii) you fail to comply with this Agreement or any other agreement with us or our affiliates, or any of the Kinderdance System Standards; or

(iii) you engage in any dishonest or unethical conduct that may adversely affect the reputation of your Kinderdance Business, or the goodwill associated with the Marks; or

(iv) you fail to pay when due any federal or state income, service, sales or other taxes arising from operation of your Kinderdance Business, unless you are in good faith contesting your liability for such taxes; or

(v) you do not complete to our satisfaction, or you fail to attend, without good cause in our judgment, any mandatory training program or conference, except that you are allowed to skip 3 of our annual conventions during the 10 year term.

(b) On Notice: We may terminate this Agreement immediately on notice to you, and without any right to cure:

(i) if you fail to open for business within 6 weeks after the Agreement Date;

(ii) if you repeatedly fail to conform or adhere to any one or more of our Kinderdance System Standards or any other provision of this Agreement or any other agreement with us or our affiliates (after we have previously notified you of the noncompliance and even though you may have cured previous noncompliance); or

(iii) if you (or your affiliate(s)) default under the terms of any promissory note you have given us or under any lease agreement with us or our affiliates; or

(iv) if, without our advance written approval, you abandon, surrender or transfer control of the operation of your Kinderdance Business or otherwise fail to continuously and actively operate your Kinderdance Business for a period of 3 or more consecutive months; or

(v) if you have made any material misrepresentation or omission in applying for the Franchise; or

(vi) if a judgment is rendered against you involving any claim that is likely to adversely affect your reputation, particularly any claims involving child abuse or molestation; or

(vii) if you file a voluntary or involuntary petition in bankruptcy or have a petition in bankruptcy filed against you or you otherwise make an assignment for the benefit of creditors or

experience any act of insolvency or enter into any proceedings for the benefit of creditors, or if your real or personal property is levied on or attached and such levy or attachment is not cured; or

(viii) if you are (or have been) convicted by a trial court of or plead no contest to a felony, or other crime or offense that is likely to adversely affect your reputation, our reputation, or the reputation of your Kinderdance Business or any other Kinderdance Business, particularly any crime involving rape, abuse, or sexual assault or battery; or

(ix) if you fail to timely pay amounts due us (or our affiliates), on 3 or more separate occasions, within a 12 month period; or

(x) if you make any unauthorized use, duplication or disclosure of any Confidential Information, the Marks, or the Manuals; or

xi) 90 days after death, or appointment of guardian of the person or personal representative of the estate of Franchise Owner, if Franchise Owner is an individual; 90 days after the death, insanity, or appointment of a guardian of the person or personal representative of the estate of the principal shareholder, if you are a corporation; provided, however, this Agreement will not terminate if, within such 90 days, it is assigned in accordance with the provisions of this Agreement; or

(xii) if a court of proper jurisdiction declares invalid or unenforceable any part of the Agreement relating to either (1) our right to sell, and your requirement to purchase, the Kinderdance Materials and Products or (2) the preservation of any trade names, service marks, trademarks, trade secrets, or trade formulas; or

(xiii) if any license which you are required to have in order to operate is suspended or revoked or you have received notice from regulatory authorities indicating your license to operate will be terminated or canceled and you do not, or cannot, cure the deficiencies or violations within the time limits imposed; or

(xiv) if regulatory developments occur that renders our relationship to you (in our judgment) an undue legal risk.

17. RIGHTS AND OBLIGATIONS UPON TERMINATION OR EXPIRATION OF THE FRANCHISE.

17.1 Payment of Amounts Owed to Us. You agree to pay us or our affiliates within 7 days after the effective date of termination or expiration of this Agreement, or any later date that the amounts due to us are determined, any amounts owed for your purchases from us, amounts due us under any promissory notes, interest or penalties due on any of the above, and all other amounts owed to us or our affiliates, which are then unpaid. In addition, you must pay all preferred suppliers all amounts owed to them as of the date of termination. In the event of a termination by you without cause, or by us with cause, you will be responsible for the total minimum monthly royalty payment requirements due for the then unexpired term of this agreement plus re-imbursement for loss or damage sustained as a result of such termination.

17.2 Marks. No later than 7 days after the termination or expiration of this Agreement, you must:

(a) not directly or indirectly at any time identify yourself or any business with which you are associated as a current or former Kinderdance Business or franchise or franchise owner;

(b) not use any Mark or any colorable imitation of any Mark in any manner or for any purpose, or use for any purpose any trademark or other commercial symbol that suggests or indicates an association with us;

(c) return to us, remove the Marks from, or destroy (whichever we specify) all forms and materials containing any Mark or otherwise relating to a Kinderdance Business office;

(d) take any action that may be required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark;

(e) stop any use or sale of the Kinderdance Materials and Products and teaching of the Kinderdance Programs;

(f) assign to us all of your right, title and interest in and to our telephone numbers for the Kinderdance Business;

(g) assign to us all of your right, title and interest in and to all teaching locations at which you have been operating the Kinderdance Business; and

(h) file all necessary documents to change your corporate name so that it does not include any of the Marks or anything similar to the Marks, including the name Kinderdance.

17.3 De-Identification. You must comply with the following:

(a) **Identification:** You must not directly or indirectly at any time or in any manner identify yourself or any business as a current or former Kinderdance Business, or as a franchisee, licensee or dealer of us or our affiliates, or formerly as a franchisee, licensee or dealer of us or our affiliates, nor use any Mark, any colorable imitation of the Marks or other indicia of a Kinderdance Business in any manner or for any purpose or utilize for any purpose any trade name, trademark or service mark or other commercial symbol that suggests or indicates a connection or association with us or our affiliates.

(b) **Name Cancellation:** You must take such actions as may be required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any of the Marks.

(c) **Materials and Supplies:** At our option, you must return all Kinderdance Materials and Products and other materials and supplies identified by the Marks to us for credit or purchase by us at the lesser of net book value as shown on your books and records or fair market value. If any of the Kinderdance Materials or Products are fully depreciated, the purchase price will be the salvage value, not to exceed 5% of the original cost. We may exercise our option to purchase by giving notice to you no later than 10 days after the effective date of termination. You must dispose of all other Kinderdance Materials and Products and other materials and supplies identified by the Marks within 45 days after the effective date of termination or expiration of this Agreement. We have no obligation to repurchase any Kinderdance Materials or Products or other materials or supplies from you.

(d) **Satisfactory Evidence:** You must furnish us with satisfactory evidence of your compliance with your post-termination obligations within 30 days after the effective date of termination or expiration of this Agreement.

17.4 Confidential Information. You agree that on termination or expiration of this Agreement you will immediately cease to use any of the Confidential Information, and will not use it in any business or for any other purpose. You further agree to immediately return to us your copies of the

Manuals and any other materials containing any of the Confidential Information which we have loaned or otherwise provided to you.

17.5 Post-Term Competitive Restrictions. In the event of transfer, termination or expiration of this Agreement in accordance with its terms, you (and each shareholder or partner of any corporation or partnership that is the Franchise Owner) agree that for a period of 1 year after the effective date of termination or expiration, or the date on which you stop operating your Kinderdance Business, whichever is later, neither you, nor any member of your immediate family, nor any such shareholder or partner will:

(a) engage in a Competitive Business, directly or indirectly, on behalf of yourself or any other person or as an employee, proprietor, owner, partner, agent, contractor, employer, consultant, affiliate, or as a director, officer or associate or as a stockholder of any person or entity within the Territory, and/or within the Territory of any Kinderdance Business.

(b) have any direct or indirect interest, as a disclosed or beneficial owner, in any Competitive Business within the area described in subsection 17.5(a) above, except in accordance with other franchise agreements with us; and/or

(c) perform services as a director, officer, manager, employee, consultant, representative, agent, independent contractor or otherwise for any Competitive Business, except other Kinderdance Businesses operated under franchise agreements with us; and/or

(d) have any direct or indirect interest in any entity which is granted or is granting franchises or licenses to others to operate a Competitive Business, except other Kinderdance Businesses operating under franchise agreements with us; and/or

(e) recruit or hire any employee of ours, our affiliates or our franchise owners without our prior written consent and/or that of the other franchise owner or affiliate; and/or

(f) directly or indirectly, on behalf of yourself or any other person, or as an employee, proprietor, consultant, agent, contractor, employer, affiliate, partner, owner, officer, director or associate, or stockholder of any other person or entity; or in any other capacity, solicit, divert, take away, or interfere with any of the business, customers, referral sources, clients, contractors, trade or patronage of ours, our affiliates or any of our franchise owners as such may exist during the term of this Agreement or afterwards.

Notwithstanding the foregoing, the ownership of other Kinderdance Businesses under agreements with us and the aggregate ownership of 2% or less of the issued and outstanding shares of any class of stock of a publicly traded company by the persons to whom this Section 17.5 applies is not prohibited by this Section. The time period of the post-term competitive restrictions will be extended by any length of time in which you or any of your affiliates, successors or assigns or any other party described above are in breach of any term of this Agreement. The terms of this Section 17.5 will continue in full force and effect through the duration of the extended time period.

If any part of the restriction provided in Section 17.5 is found to be unreasonable in time, each month of time may be deemed a separate unit and will be interpreted and applied consistent with the requirements of reasonableness and equity. Any judicial reformation of these restrictions consistent with this interpretation will be enforceable as though contained in this Agreement and will not affect any other provisions or terms of this Agreement.

17.6 Continuing Obligations. All obligations under this Agreement (whether yours or ours) which expressly or by their nature survive the expiration or termination of this Agreement (including any indemnification obligations) will continue in full force and effect after and notwithstanding its expiration or termination until they are satisfied in full or by their nature expire.

18. ENFORCEMENT.

18.1 Severability; Substitution of Valid Provisions. Except as otherwise stated in this Agreement, each term of this Agreement, and any portion of any term, are severable. The remainder of this Agreement will continue in full force and effect. To the extent that any provision restricting your competitive activities is deemed unenforceable, you and we agree that such provisions will be enforced to the fullest extent permissible under governing law. This Agreement will be deemed automatically modified to comply with such governing law if any applicable law requires: (a) a greater prior notice of the termination of or refusal to renew this Agreement; or (b) the taking of some other action not described in this Agreement; or (c) if any Kinderdance System Standard is invalid or unenforceable. We may modify such invalid or unenforceable provision to the extent required to be valid and enforceable. In such event, you will be bound by the modified provisions.

18.2 Waivers. We will not be deemed to have waived our right to demand exact compliance with any of the terms of this Agreement, even if at any time: (a) we do not exercise a right or power available to us under this Agreement; or (b) we do not insist on your strict compliance with the terms of this Agreement; or (c) if there develops a custom or practice which is at variance with the terms of this Agreement; or (d) if we accept payments which are otherwise due to us under this Agreement. Similarly, our waiver of any particular breach or series of breaches under this Agreement or of any similar term in any other agreement between you and us or between us and any other franchise owner, will not affect our rights with respect to any later breach by you or anyone else. Actions permitted under this Agreement may be taken at any time and from time to time in the actor's sole discretion.

18.3 Limitation of Liability. Neither of the parties will be liable for loss or damage or deemed to be in breach of this Agreement if failure to perform obligations results from:

- (a) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state or municipal government or any department or agency thereof;
- (b) acts of God;
- (c) acts or omissions of a similar event or cause; or
- (d) any such delay as may be reasonable.

However, such delays or events do not excuse payments of amounts owed at any time.

18.4 Approval and Consents. Whenever this Agreement requires our advance approval, agreement or consent, you agree to make a timely written request for it. Our approval or consent will not be valid unless it is in writing; and will be given in our sole discretion, unless this Agreement states otherwise elsewhere. Except where expressly stated otherwise in this Agreement, we have the absolute right to refuse any request by you or to withhold our approval of any action or omission by you. If we provide to you any waiver, approval, consent, or suggestion, or if we neglect or delay our response or deny any request for any of those, we will not be deemed to have made any warranties or guarantees which you may rely on, and will not assume any liability or obligation to you.

18.5 Waiver of Punitive Damages. WITHOUT LIMITING YOUR OBLIGATIONS TO INDEMNIFY US UNDER THIS AGREEMENT, YOU AND WE EACH WAIVE TO THE FULL EXTENT PERMITTED BY LAW ANY RIGHT TO, OR CLAIM FOR, ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER. YOU AND WE ALSO AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN YOU AND US, THE PARTY MAKING A CLAIM WILL BE LIMITED TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.

18.6 Limitations of Claims. ANY AND ALL CLAIMS ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP AMONG YOU AND US MUST BE MADE BY WRITTEN NOTICE TO THE OTHER PARTY WITHIN 1 YEAR FROM THE OCCURRENCE OF THE FACTS GIVING RISE TO SUCH CLAIM (REGARDLESS OF WHEN IT BECOMES KNOWN); EXCEPT FOR CLAIMS ARISING FROM: (A) UNDERPAYMENT OF AMOUNTS OWED TO US OR OUR AFFILIATES; (B) CLAIMS FOR INDEMNIFICATION; AND/OR (C) UNAUTHORIZED USE OF THE MARKS. HOWEVER, THIS PROVISION DOES NOT LIMIT THE RIGHT TO TERMINATE THIS AGREEMENT IN ANY WAY.

18.7 Governing Law. EXCEPT TO THE EXTENT THIS AGREEMENT OR ANY PARTICULAR DISPUTE IS GOVERNED BY THE U.S. TRADEMARK ACT OF 1946 (LANHAM ACT, 15 U.S.C. § 1051 AND THE SECTIONS FOLLOWING IT) OR OTHER FEDERAL LAW, THIS AGREEMENT AND THE FRANCHISE ARE GOVERNED BY THE LAW OF THE STATE OF FLORIDA. ALL MATTERS RELATING TO ARBITRATION ARE GOVERNED BY THE FEDERAL ARBITRATION ACT. References to a law or regulation also refer to any successor law or regulation and any implementing regulations for any statute, as in effect at the relevant time. References to a governmental agency also refer to any successor to that agency's functions.

18.8 Jurisdiction. YOU CONSENT AND IRREVOCABLY SUBMIT TO THE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION LOCATED IN BREVARD COUNTY, FLORIDA AND WAIVE ANY OBJECTION TO THE JURISDICTION AND VENUE OF SUCH COURTS.

18.9 Waiver of Jury Trial. YOU AND WE EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER YOU OR US.

18.10 Cumulative Remedies. The rights and remedies provided in this Agreement are cumulative and neither you nor we will be prohibited from exercising any other right or remedy provided under this Agreement or permitted by law or equity.

18.11 Costs and Attorneys' Fees. If a claim for amounts owed by you to us or any of our affiliates is asserted in any legal or arbitration proceeding or if either you or we are required to enforce this Agreement in a judicial or arbitration proceeding, the party prevailing in such proceeding will be entitled to reimbursement of its costs and expenses, including reasonable accounting and attorneys' fees. Attorneys' fees will include, without limitation, reasonable legal fees charged by attorneys, paralegal fees, and costs and disbursements, whether incurred prior to, or in preparation for, or contemplation of, the filing of written demand or claim, action, hearing, proceeding to enforce the obligations of the parties under this Agreement.

18.12 Binding Effect. This Agreement is binding on and will inure to the benefit of our successors and assigns. Except as otherwise provided in this Agreement, this Agreement will also be binding on your successors and assigns, and your heirs, executors and administrators.

18.13 Entire Agreement. This Agreement, including the introduction, addenda and schedules to it, constitutes the entire agreement between you and us. There are no other oral or written understandings or agreements between you and us concerning the subject matter of this Agreement. Except as expressly provided otherwise in this Agreement, this Agreement may be modified only by written agreement signed by both you and us.

18.14 No Liability to Others; No Other Beneficiaries. We will not, because of this Agreement or by virtue of any approvals, advice or services provided to you, be liable to any person or legal entity who is not a party to this Agreement. Except as specifically described in this Agreement, no other party has any rights because of this Agreement.

18.15 Construction. The headings of the sections and the glossary are for convenience only. If two or more persons are at any time franchise owners, whether or not as partners or joint venturers, their obligations and liabilities to us are joint and several. "A" or "B" means "A" or "B" or both. The word "including" means "including but not limited to". This Agreement may be signed in multiple copies, each of which will be an original.

18.16 Certain Definitions. The term "family member" refers to parents, spouses, offspring and siblings, and the parents and siblings of spouses. The term "affiliate" means any company directly or indirectly owned or controlled by a person, or under common control with a person. The terms "franchisee, franchise owner, you and your" are applicable to one or more persons, a corporation or a partnership, as the case may be. The singular use of any pronoun also includes the plural and the masculine and neuter usages include the other and the feminine. The term "person" includes individuals, corporations, partnership and all artificial entities. The term "section" refers to a section or subsection of this Agreement.

18.17 Timing Issues. It is a material breach of this Agreement to fail to perform any obligation within the time required. In computing time periods from one date to a later date, the words "from" and "commencing on" (and the like) mean "from and including"; and the words "to", "until" and "ending on" (and the like) mean "to but excluding." Indications of time and day mean Florida time.

19. MEDIATION AND ARBITRATION.

19.1 Agreement to Mediate and Arbitrate. EXCEPT FOR CLAIMS (AS DEFINED BELOW) RELATED TO OR BASED ON THE MARKS (WHICH AT OUR SOLE OPTION MAY BE SUBMITTED TO ANY COURT OF COMPETENT JURISDICTION) AND EXCEPT AS OTHERWISE EXPRESSLY PROVIDED BY SECTION 19.4 OF THIS AGREEMENT, any litigation, claim, dispute, suit, action, controversy, proceeding or otherwise ("Claim") between or involving you and us (and/or involving you and/or any claim against or involving any of our affiliates, shareholders, directors, partners, officers, employees, agents, attorneys, accountants, affiliates; guarantors or otherwise), which is not resolved within 45 days of notice from either you or us to the other, will be submitted to mediation before a mediator provided by a professional mediation firm and if settlement cannot be agreed on, such matter will be submitted to arbitration in Brevard County, Florida. The arbitration will be conducted by the American Arbitration Association pursuant to its Commercial Arbitration Rules. The parties to any arbitration will execute an appropriate confidentiality agreement, excepting only such disclosures and filings as are required by law.

19.2 Place and Procedure. The arbitration proceedings will be conducted in Brevard County, Florida. Any Claim and any arbitration will be conducted and resolved on an individual basis only and not a class-wide, multiple plaintiff or similar basis. Any such arbitration proceeding will not be consolidated with any other arbitration proceeding involving any other person, except for disputes involving affiliates of the parties to such arbitration. The parties agree that, in connection with any such

arbitration proceeding, each must submit or file any claim which would constitute a compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within the same proceeding as the Claim to which it relates. Any such Claim which is not submitted or filed in such proceeding will be barred.

19.3 Awards and Decisions. The arbitrator will have the right to award any relief which he deems proper in the circumstances, including, for example, money damages (with interest on unpaid amounts from their due date(s)), specific performance, temporary and/or permanent injunctive relief, and reimbursement of attorneys' fees and related costs to the prevailing party. The arbitrator will not have the authority to award exemplary or punitive damages. The award and decision of the Arbitrator will be conclusive and binding and judgment on the award may be entered in any court of competent jurisdiction. The parties acknowledge and agree that any arbitration award may be enforced against either or both of them in a court of competent jurisdiction and each waives any right to contest the validity or enforceability of such award. Without limiting the foregoing, the parties will be entitled in any such arbitration proceeding to the entry of an order by a court of competent jurisdiction pursuant to an opinion of the arbitrator for specific performance of any of the requirements of this Agreement. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final and non-appealable.

19.4 Specific Performance. Nothing in this Agreement bars our rights to obtain specific performance of the provisions of this Agreement and injunctive relief against threatened conduct that will cause us loss or damage, under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions, by application to a court of competent jurisdiction. You agree that we may have injunctive relief, without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law, and your sole remedy, in the event of the entry of such injunction, will be the dissolution of such injunction, if warranted, upon hearing duly had (all claims for damages by reason of the wrongful issuance of any such injunction being expressly waived hereby).

19.5 Survival. This provision continues in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement for any reason.

20. NOTICES AND PAYMENTS.

All written notices and reports permitted or required under this Agreement or by the Manuals will be deemed delivered:

- (a) at the time delivered by hand;
- (b) 1 business day after transmission by facsimile, telecopy or other electronic system;
- (c) 2 business days after being placed in the hands of a commercial airborne courier service for next business day delivery; or
- (d) 3 business days after placement in the United States mail by registered or certified mail, return receipt requested, postage prepaid.

All such notices must be addressed to the parties as follows:

If to Us:

KINDERDANCE INTERNATIONAL, INC.
1333 Gateway Drive, Suite 1003, Melbourne, Florida 32901
Attention: _____

If to You:

Attention: _____

Either you or we may change the address for delivery of all notices and reports and any such notice will be effective within 10 business days of any change in address. Any required payment or report not actually received by us during regular business hours on the date due (or postmarked by postal authorities at least 2 days prior to such date, or in which the receipt from the commercial courier service is not dated prior to 2 days prior to such date) will be deemed delinquent.

Intending to be bound, you and we sign and deliver this Agreement in 2 counterparts effective on the Agreement Date.

FRANCHISEE

KINDERDANCE INTERNATIONAL, INC.

Print Name: _____

By: _____

Signature: _____

Name: _____

Date: _____

Title: _____

Date: _____

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