

EXHIBIT A

FRANCHISE AGREEMENT

Franchise Agreement

Between

YOUNG REMBRANDTS FRANCHISE, INC.

and

(Name of Franchisee)

(Street)

City State Zip Code

Area Code Telephone

Young Rembrandts Franchise, Inc.
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Exhibit A – Franchisee’s Territory

Addendum to Franchise Agreement for Silver Franchise (if applicable)

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT made and entered into this ____ day of _____, 200__, by and between Young Rembrandts Franchise, Inc. (the "Company") an Illinois corporation having its principal office at 23 North Union Street, Elgin, IL 60123 and _____ (the "Franchisee") having its principal office at _____.

ARTICLE I. RECITALS

1.1 Right to License. The Company and Ms. Bette Fetter, the Company's Secretary and Founder, who originally began operating the business in 1988 and incorporated it in Illinois under the name Young Rembrandts, Inc. on March 9, 1988 (the "Affiliate"), along with her husband, Mr. Bill Fetter, the Company's President and Treasurer, have developed, and the Company has the right to license, the uniform formats, systems, methods, procedures and standards (the "System") for establishing, developing and operating a business which offers quality, professional drawing classes including instruction in artistic techniques primarily to preschool and elementary school age children with weekly "lesson plans" in public and private schools, day care centers, Montessori schools, local community recreation departments (the "Business").

1.2 The System. The distinguishing characteristics of the System include a unique, specially developed concept which provides the services and products set forth above; a specially designed method for offering and marketing such services and products by the Franchisee to the customer; operating, instructional and teaching procedures; methods and techniques for financial controls, record keeping, accounting and reporting, sales and sales promotion, marketing and advertising; and the proprietary know how developed by the Company and the Affiliate, any part of which System, services and products may be further developed, improved, changed and modified by the Company from time to time.

1.3 Operation of the Business. The Franchisee will offer and perform the services described above in a diligent, competent and professional manner. The Franchisee is expected to be able to market, make sales of and enter into contracts for such services; to execute the required weekly lesson plans for projects; and to coordinate and oversee the teaching and instruction of the art classes. Invoicing to the customer will be done by the Franchisee who will collect the receivables.

1.4 The Trade/Service Marks. The Company is the owner of and has the right to license the use of the name "Young Rembrandts" and certain trademarks, service marks, logos, trade names, domain names and other commercial symbols now or hereafter used in connection with the System (the "Marks").

1.5 Grant of Licenses. The Company grants to persons who meet the Company's qualifications, and are willing to undertake the investment and effort, a franchise to establish and

operate a "Young Rembrandts" business within a specific Territory as set forth in Exhibit A to this Agreement and a non-exclusive license to use the Marks in connection therewith.

1.6 Agreement to Obtain/Grant Franchise. The Franchisee desires a franchise to establish and operate a Young Rembrandts business and the Company is willing to grant such a franchise on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties, in consideration of the undertakings of each to the other, agree as follows:

ARTICLE II. **ACKNOWLEDGMENTS**

To induce the Company to enter into this Agreement the Franchisee acknowledges, warrants and represents that:

2.1 Independent Investigation. The Franchisee has had the opportunity to conduct an independent investigation of the business opportunity offered herein and the terms and provisions of this Agreement utilizing the services of counsel, accountants and other advisors (if the Franchisee so elects). The Franchisee recognizes that the nature of the enterprise conducted by a Young Rembrandts business may evolve and change over time, that an investment involves business risks and that the success of the venture depends primarily upon the Franchisee's business ability and efforts.

2.2 Existing Franchisees. Prior to the execution of this Agreement, the Franchisee has had the opportunity to contact existing franchisees of the Company, if any.

2.3 No Representations Regarding Profits of the Franchise. No representations have been made by the Company, the Affiliate, or by their officers, directors, shareholders, employees or agents, and relied upon by the Franchisee, as to future or past income, expenses, sales volume or potential profitability, earnings or income of the Young Rembrandts business franchised hereby, or of any other business of the Affiliate, other than as provided in Item 19 of the Company's Offering Circular.

2.4 Reservation of Rights by the Company. The Company has certain rights reserved to it to own and operate other Young Rembrandts businesses, to operate other businesses offering the same services; to franchise other Young Rembrandts franchisees; and, to otherwise use the System, the Marks, know how, techniques and procedures including, without limitation, those expressly set forth in Section 3.2 of this Agreement.

2.5 Different Franchise Agreements. Other franchisees of the Company have or will be granted franchises at different times, in different situations and under different circumstances and the provisions of such franchise agreements may vary substantially from those contained in this Agreement.

2.6 Uniform Franchise Offering Circular. The Franchisee has received from the Company a copy of the Company's Offering Circular, together with a copy of all proposed Exhibits and Agreements relating to the sale of the franchise, at the earliest of: the first personal meeting to discuss this Franchise; or ten (10) business days prior to signing this Agreement; or at least ten (10) days prior to any payment to the Company for the sale of this franchise; and has received this Agreement containing all material terms at least five (5) days before the Franchisee has signed this Agreement.

2.7 No Representation Regarding Barriers to Entry. No representation has been made by the Company, or by its officers, directors, shareholders or employees or agents, or by the Affiliate, and relied upon by the Franchisee, regarding (i) the Franchisee's ability to procure any required license or permit that may be necessary to perform any of the services contemplated to be offered by the Young Rembrandts business or (ii) the Franchisee's ability to conduct classes in every preschool, elementary school, private school, day care center or park district.

2.8 The Company's Rights to Sell. The Franchisee affirms and agrees that the Company may sell any or all of its assets, the Marks or the System outright to a third party; may go public; may engage in a private placement of some or all of its securities; may merge, acquire other entities, or be acquired by another entity; may undertake a refinancing, recapitalization, leveraged buyout or other restructuring; and, with regard to any or all of the above transactions (which may involve an entity which is in the business of franchising or sale of services or products similar or identical to such as provided by the Business), the Franchisee expressly and specifically waives any claims, demands or damages arising therefrom or related thereto.

2.9 The Franchisee's Advisors. The Franchisee has been advised to consult with its own advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereby, and the prospects for that business. The Franchisee has either consulted with such advisors or has deliberately declined to do so.

2.10 Covenants Not to Compete. The covenants not to compete in this Agreement are fair and reasonable, and will not impose any undue hardship on the Franchisee, since the Franchisee has other considerable skills, experience and education which affords the opportunity to earn income from such other endeavors.

2.11 Franchisee Information. The Franchisee affirms that all information set forth in any and all applications, financial statements and submissions to the Company is true, complete and accurate in all respects, with the Franchisee being aware and expressly acknowledging that the Company is relying upon the truthfulness, completeness and accuracy of such information.

2.12 Franchisee Defined. "Franchisee" means each person executing this Agreement. If the Franchisee is an entity, all owners of such entity shall, concurrently with the execution of this Agreement, execute the Company's standard form guaranty pursuant to which all obligations and duties of the Franchisee are jointly and severally guaranteed by such individuals and the individual Franchisee shall remain liable for full performance. Should the Franchisee be in default, the

Company may proceed directly against each such signatory, shareholder, member or other owner (the "Guarantors") without first proceeding against the Franchisee and without proceeding against or naming in such suit any other Franchisee, or any of the Guarantors. The obligations of the Franchisee and each such Guarantor shall be joint and several.

ARTICLE III. GRANT OF FRANCHISE

3.1 Grant of Franchise and License. Subject to the terms and conditions herein, the Company hereby grants to the Franchisee, and the Franchisee hereby accepts from the Company, (A) a non-exclusive franchise to open and operate a Business and (B) a non-exclusive license to use the Marks, solely in connection with the operation of the Business within the area described in Exhibit A ("Territory"). Termination or expiration of this Agreement shall constitute a termination of the foregoing franchise and license. So long as the Franchisee is in compliance with the Minimum Annual Gross Revenues requirements set forth in Section 3.3 below, the Company will not establish another franchised or Company-owned or affiliate-owned Business utilizing the Marks in the Territory.

3.2 Retention of Rights. Except as explicitly and specifically granted to the Franchisee herein, all rights in and to the Marks, the System, the Business and the goodwill associated with each of them is hereby reserved to the Company and to the Affiliate. Specifically, but without limitation, the Company and the Affiliate retain the right, but shall not be obligated, to:

A. Franchise and establish Company-owned and Affiliate-owned Young Rembrandts businesses outside the Territory.

B. Establish, operate and franchise the System or any other programs, products and/or services under trade names, trademarks, service marks, or logos other than the Marks within or outside of the Territory.

C. Sell or provide services and products licensed to be provided hereunder, utilizing the Marks, under a different distribution system than franchising, including the Internet, within or outside of the Territory. Specifically, without limitation, the Company or the Affiliate may offer instruction services and products directly to customers on the Internet.

3.3 Territorial Rights; Minimum Gross Revenues.

A. The grant of the franchise and license described in Section 3.1 is limited to the conduct of the Business, utilizing the Marks within the Territory, except as specifically permitted in Section 3.4. In consideration of the grant of the franchise, Franchisee at all times during the term of this Agreement shall use Franchisee's best efforts to promote and increase the sales and services of the Young Rembrandts System and to effect the widest and best possible distribution and sale of Young Rembrandts services and related products and to solicit potential customers and accounts for Young Rembrandts services and related products within the Territory.

B. Beginning on the one (1) year anniversary from the Opening Date of the Business and through the end of the term, Franchisee must achieve Gross Revenues sufficient to generate an average monthly royalty payment of at least Five Hundred Dollars (\$500.00). If over any period of six (6) consecutive months the royalty payments due to the Company from Franchisee do not average at least Five Hundred Dollars (\$500.00) per month, if after giving Franchisee six (6) months notice and Franchisee failing to increase Gross Revenues so that the monthly royalty payments average at least Five Hundred Dollars (\$500.00) over the previous six (6) consecutive months, the Company has the right to either (1) terminate the Franchisee's franchise, or (2) terminate the Franchisee's exclusive rights to the Territory. In such event, others or the Company may market in and service the Territory.

3.4 Conduct of Business Outside Territory. Franchisee may conduct classes outside of Franchisee's Territory if the classes are located in an area that is not part of a territory granted to another franchisee. Once a franchise is granted for any area in which Franchisee is conducting classes outside of Franchisee's Territory and the new franchisee has completed initial training, Franchisee agrees to cease conducting classes in the new franchisee's Territory as soon as the current class session ends. Franchisees further agrees to provide such information and assistance to the new franchisee as is reasonably necessary in order to increase the likelihood that the new franchisee will be able to retain the customer as a Young Rembrandts customer and continue to conduct sessions at that location in the future. If Franchisee conducts classes outside of Franchisee's Territory in the territory of another franchisee in violation of this Section 3.4, Franchisee will be assessed a fine of Two Hundred Dollars (\$200.00) per class conducted, due upon demand. This fine is in addition to any and all other remedies available to the Company for Franchisee's breach of this provision.

ARTICLE IV.

TERM AND SUCCESSOR FRANCHISE AGREEMENTS

4.1 Term. The term of this Agreement shall be ten (10) years (the "Term") commencing on the Opening Date of the Business. The "Open Date of the Business" means the first date following the Franchisee's satisfactory completion of the Initial Training on which Franchisee begins soliciting and marketing for customers of the Business.

4.2 Right to Obtain Successor Franchise Agreements. The Franchisee shall have the right to obtain one (1) additional franchise agreement for one term of ten (10) years (the "Successor Agreement"), provided that the following conditions have been met in each instance:

A. The Franchisee has given the Company notice between one hundred eighty (180) and two hundred seventy (270) days before the end of the Term;

B. Throughout the term of this Agreement, the Franchisee has complied with all the material terms and conditions of this Agreement, including the Minimum Gross Revenues requirements of Section 4.3, and with the Company's material operating and quality standards and

procedures;

C. All monetary obligations owed by the Franchisee to the Company have been satisfied prior to commencement of such Successor Agreement, and have been met, when due, throughout the Term;

D. The Franchisee has made, at its expense, such expenditures as determined by the Company to upgrade the computer and software to conform to the image of the System prior to the expiration of the term;

E. The Franchisee executes the then current Franchise Agreement, which may have different terms from this Agreement, and pays the Renewal Fee in the amount of One Thousand Five Hundred Dollars (\$1,500.00);

F. The Franchisee executes and delivers a general release (except as limited by law) of any and all claims it may have against the Company, the Affiliate and its and their shareholders, officers, directors, employees, agents, and representatives in a form satisfactory to the Company.

ARTICLE V.

SERVICES OF THE COMPANY

Pre-Opening.

5.1 Initial Training/Supplemental Initial Training.

A. The Franchisee shall attend and complete, to the Company's satisfaction, the Company's Initial Training Program ("Initial Training"). The Initial Training shall be conducted at the Company's principal offices, and/or at such other place as the Company designates, for up to five (5) days. The Initial Training covers all material aspects of the operation of the Business including, without limitation, techniques to market and sell the Franchisee's services, make proposals to customers, supervise and perform teaching and instruction, maintain an appropriate inventory of art supplies; pre-opening advertising; sales, customer service, bookkeeping, accounting and financial methods and controls, computer and software training, advertising, promotion, sales and marketing techniques, maintenance of quality standards, and other topics selected by the Company. All expenses incurred by the Franchisee in attending the Initial Training including wages, travel, room and board expenses shall be the Franchisee's responsibility. The opening of the Business can commence promptly after satisfactory completion of Initial Training. No person may be employed as a manager of the Business until completion of such Initial Training to the Company's satisfaction. Company will provide the Initial Training Program for up to two (2) people. However, if the second person does not attend the Initial Training with Franchisee, he or she must attend the training within two (2) years of the date of this Agreement in order to receive the training for no additional fee. The Company may charge a training fee for additional persons who attend training. The training of additional persons is subject to availability as determined by the Company.

B. If the Company terminates this Agreement due to Franchisee's failure to satisfactorily complete Initial Training, the Company will refund the Initial Franchise Fee previously paid by the Franchisee to the Company less a reasonable amount as determined by the Company to cover its costs and expenses of recruiting, qualifying and training the Franchisee, which amount shall not exceed one-half of the Initial Franchise Fee paid. The refund shall be paid to Franchisee upon Franchisee's execution and delivery to Company of a general release (except as limited by law) of any and all claims it may have against the Company, the Affiliate, and its and their shareholders, officers, directors, employees, agents, and representatives in a form satisfactory to the Company. This Agreement thereafter will be null, void and of no effect (except for those post-termination obligations of this Agreement, which by their terms shall remain binding).

C. At the Company's option, the Franchisee shall attend and complete, to the Company's satisfaction, the Company's Supplemental Initial Training during the fourth (4th) or fifth (5th) month of operation ("Supplemental Training"). The Supplemental Initial Training, if required by the Company for Franchisee, shall be conducted at the Company's principal offices, and/or at such other place as the Company designates, for up to two (2) days. The Supplemental Initial Training reviews the subjects covered during Initial Training and other issues relating to the operation of the Business. All expenses incurred by the Franchisee in attending the Supplemental Initial Training including wages, travel, room and board expenses shall be the Franchisee's responsibility.

5.2 Specifications. The Company shall deliver to the Franchisee specifications for the equipment, computer system, art materials and supplies and for other materials necessary for opening and operating the Business and shall consult and advise the Franchisee with respect thereto. The Company shall provide the Franchisee with a list of all such goods and services reasonably necessary for the opening and operation of the Business and, where applicable, with lists of approved vendors, sources of supply, and standards and specifications.

5.3 Confidential Operations Manual.

A. In order to protect the reputation and goodwill of the Company, to maintain uniform standards of the services, programs, products, and operations offered and sold under the Marks, to promote the goodwill of all Businesses and for the mutual benefit of the Company and the Franchisee, the Company at the Initial Training shall lend to the Franchisee one (1) hard copy or CD of, or give Franchisee electronic access to, the Company's Confidential Operations Manual, which may consist of one or more manuals or handbooks ("the Manual").

B. The Franchisee shall conduct the operation of the Business in strict compliance with the Company's operational systems, procedures, policies, methods and requirements as prescribed in the Manual and in any supplements thereto (the "Supplements"), all of which shall be deemed a part of the Manual.

C. In addition to the requirements of Section 5.3A. and B. above, the subject matter of the Manual may include (but need not be limited to nor necessarily include all of) the following

matters: requirements, duties, standards, procedures, policies, systems, techniques, guidelines and specifications pertaining to the System, to the operation of the Business and/or the products and/or services of the System; staff composition and organization systems; quality assurance programs; supervision systems; record keeping systems and materials; advertising systems and materials; purchasing procedures; proprietary nature of the manual; book-keeping and accounting materials and techniques; management and control systems; revenue reports; display of signs and notices; authorized or required equipment, computers, software, and other items; hours of operation; required uses of the Marks; insurance requirements; license requirements; required attire; required manner of offering and selling System programs and services; standards of maintenance and appearance; customer satisfaction; staff training requirements; training specifications; and, additions to, deletions from, modifications to and variation of the programs, services, and other components constituting the System, including standards and specifications relating thereto.

D. The Company retains the right to prescribe additions to, deletions from or revisions to the Manual which shall become binding on the Franchisee upon being mailed or otherwise delivered to the Franchisee, as if originally set forth therein.

E. The Manual remains the property of the Company. The Franchisee shall keep the Manual in its place of business at all times. The Franchisee, its agents, independent contractors, and employees shall at all times treat the Manual and the information contained therein as confidential, and shall use all reasonable efforts to maintain such information as confidential. The Franchisee, its agents, independent contractors, and employees shall not at any time copy, duplicate, record or otherwise reproduce the foregoing materials, in whole or in part, nor otherwise make the same available to any unauthorized person. Upon the expiration or other termination for any reason of this Agreement, the Franchisee shall return the Manual to the Company.

F. The Franchisee shall ensure that the Franchisee's copy of the Manual is current and up-to-date. In the event of any dispute as to compliance with the Manual, the terms of the master copy of the Manual maintained at the Company's principal office shall control.

5.4 Pre-Opening Advertising. The Company will provide Franchisee with initial advertising copy and lay-out for advertising and marketing materials for Franchisee to customize for Franchisee's Young Rembrandts Business.

Opening and Post Opening

5.5 Additional Training/Annual Conference.

A. The Company from time to time may require that previously trained franchisees or their managers attend and successfully complete refresher training programs to be conducted at the Company's principal offices or at such other location that the Company shall designate. If a manager is required because the Franchisee is granted an additional franchise, the manager must attend additional training. Training for the Franchisee will be conducted at the expense of the Company. The Franchisee and/or the Franchisee's manager, if any, shall attend all additional training at its expense, provided that such attendance outside the Territory will not be required at

more than one (1) such training program in any calendar year. All expenses incurred in attending such additional training shall be the sole responsibility of the Franchisee.

B. Franchisee shall each year during the term of this Agreement attend the Company's Annual Conference of franchisees if the Company holds an Annual Conference. If a manager is required because the Franchisee is granted an additional franchise, the manager must also attend the Annual Conference. The Annual Conference fee shall be set each year by the Company based on the cost to hold the conference. The Annual Conference fee shall be payable to the Company by Franchisee whether or not Franchisee or a manager (if required) attends the conference. This provision shall not obligate the Company to hold an Annual Conference of franchisees each year. If no Annual Conference is held, Franchisee shall not be obligated to pay the Annual Conference fee. All expenses incurred in attending the Annual Conference shall be the sole responsibility of Franchisee.

5.6 Guidance. During the operation of the Business the Company will:

- A. Render, upon written request of the Franchisee, advisory services;
- B. Provide advisory, training, referral and other services as reasonably needed.
- C. Make available to the Franchisee, from time to time, all changes, improvements, and additions to the System to the same extent as made available to other franchisees of the System;
- D. Provide all Supplements to the Manual;
- E. Provide forms to be used by the Franchisee to report to Company all information required by the Company;
- F. Provide forms and procedures helpful in operating the Business.
- G. Provide the Franchisee with a disk or other methods of Franchisee's development of any advertising materials developed by the Company for the Young Rembrandts System as well as business identification items (business cards, envelopes, stationery as stipulated in the Manual).
- H. Make its staff available at its principal offices for consultation about problems relating to the operation of the Business, by telephone or written correspondence, and the Company shall use reasonable efforts to diligently respond to such inquiries; and
- I. Send Customer Satisfaction cards and make calls to the Franchisee's customers to verify that maintenance of satisfactory levels of service is received.

5.7 Inspections. The Company or its designee(s) may enter the premises of the Franchisee's customers and observe the Franchisee's operations to review quality of service, to

review programs and their implementation, to confer with the Franchisee's employees and customers and to ascertain that the services provided, the quality of the materials, the installation, and the operations are satisfactory and meet the Company's quality and performance standards. The Franchisee will cooperate with the Company and its designees and will promptly undertake to correct any deficiencies brought to the Franchisee's attention. The Franchisee specifically authorizes the Company to situate the Company's personnel, representatives or designees at the Franchisee's or its customers' premises or observe customer calls or classes being conducted, or send Customer Satisfaction cards and make calls to customers, at such times as the Company may determine to be necessary.

5.8 Lesson Plans.

A. The Company, at no additional charge, will loan to Franchisee weekly lesson plans for forty-eight (48) weeks each calendar year and periodic camp lesson plans for use by the Franchisee in camp programs conducted in park districts and other locations. The lesson plans include instructions and drawings for use in teaching Young Rembrandts classes. Franchisee must use and strictly follow the weekly lesson plans and camp lesson plans in providing services to the customers of the Young Rembrandts Business. The Franchisee shall not use any lesson plans developed by the Franchisee or any third party.

B. The lesson plans are owned by Company's Affiliate, remain the property of Company's Affiliate, and are proprietary. The lesson plans are Confidential Information subject to the restrictions as set forth in Article VII below and subject to copyright protection. The lesson plans shall only be used by Franchisee, its employees and independent contractors in conducting Young Rembrandts classes under this Agreement. Franchisees, its employees and independent contractors shall not at any time copy, duplicate, reproduce or publicly display or assist any other person or entity in copying, duplicating, reproducing or publicly displaying the lesson plans, including instructions and drawings, in whole or in part, or any derivative works without first obtaining the written consent of the Company and Company's Affiliate, except for the temporary display of the students' images of the drawings at the site of the Young Rembrandts classes.

C. The Company retains the right to require Franchisee to discontinue using and to return to Company at Franchisee's expense any lesson plans, in part or in whole upon Franchisee's receipt of written notice of the discontinuance.

D. Upon the expiration or other termination for any reason of this Agreement, the Franchisee shall return all lesson plans, including all copies, to the Company.

E. The Franchisee shall immediately notify the Company in writing of any apparent infringement of the Company's Affiliate's lesson plans, including instructions and drawings, in whole or in part, including derivative works. The Franchisee shall not directly or indirectly communicate with any person other than the Company, the Company's Affiliate and its counsel in connection with any such infringement. The Company's Affiliate shall have sole discretion and exclusive right to take such action as it deems appropriate to control any litigation, Copyright Office proceeding or other administrative proceeding arising out of such infringement or otherwise

relating to the Company's Affiliate's lesson plans. Franchisee shall execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of the Company's Affiliate's counsel, be necessary or advisable to protect and maintain the interests of the Company's Affiliate in any such litigation, or administrative proceedings, or to otherwise protect and maintain the interest of the Company's Affiliates in the lesson plans.

ARTICLE VI.
OPENING AND OPERATION OF THE BUSINESS

6.1 Territory. Except as provided in Section 3.4, the Franchisee shall operate the Business only within the Territory. All classes must be held within the Territory.

6.2 Opening of Business. The Franchisee shall complete Initial Training to Company's satisfaction, obtain the equipment, computer system and supplies necessary to operate the business; obtain all required insurance, permits and licenses and, in general, do all that is necessary for the Business to open for business prior to the Opening Date of the Business, which in no event shall be later than ninety (90) days after signing this Agreement.

6.3 Computer System and Internet. Throughout the term of this Agreement, Franchisee must maintain an active e-mail account and have access to the Internet for communicating with and receiving information from the Company. Franchisee must use the e-mail address provided by the Company for promoting and operating the business and for communicating with the Company. Franchisee must purchase and/or lease and use in its operation of the Young Rembrandts franchise, the computer hardware and software specified by the Company in the Operations Manual. If Company develops and/or custom designs proprietary software for use in the operation of the Business, Franchisee may be required to purchase or lease and use the proprietary software from the Company or a third party designated by the Company, to enter into a software license agreement with the Company or such third party, and/or to purchase ongoing support services for the proprietary software from the Company or such third party. Franchisee is prohibited from making any unauthorized use of the proprietary software or the information contained therein. Franchisee shall be responsible for becoming proficient in the use of any required software programs, including as necessary, arranging for and attending instructional classes. The Company shall have the right to access, for any purpose or use related to its operation, management and/or monitoring of the System, any information or reports generated or stored by the required software. The Company shall have the right to require Franchisee to replace any of the components of Franchisee's computer system (hardware or software) if, in the future, the Company deems the component to be (a) undersized or otherwise insufficient for the efficient operation and management of the Young Rembrandts franchise, or (b) incompatible with the Company's computer hardware or software or the computer hardware or software that the Company designates for franchise network use.

6.4 Maintain Standards. In order to protect the System and to maintain the uniform standards of operation under the Franchise granted herein, the Franchisee shall operate the Business at all times in strict compliance with the requirements of this Agreement and of the Manual.

6.5 Maintain Appearance. The Franchisee agrees to maintain the condition and appearance of all aspects of the Business consistent with the Company's standards for the image of the Business, including replacement of worn out or obsolete equipment, computer hardware and software, art materials and supplies, and uniforms.

6.6 Purchase of Equipment, Materials and Supplies. The Franchisee shall, in the operation of the Business, use only equipment, materials and supplies which meet the specifications or standards of quality, performance, delivery and warranty established by the Company or are from suppliers which have been approved by the Company. If the Franchisee proposes to use any equipment, materials or supplies that have not been approved by the Company as meeting its specifications and standards, the Franchisee shall submit samples of the supplier's product to the Company, along with a written statement describing why such product or supply should be approved. The Company shall notify the Franchisee within a reasonable time whether such item meets its specifications and standards. The Company shall have the right to reinspect any approved supplier or its products, and revoke its approved status if the supplier or its product fails to meet the Company's standards and specifications.

6.7 Compliance with Laws. The Franchisee shall, at its expense, secure and maintain in force all required approvals, licenses, and business permits, and certificates relating to the operation of the Business and shall operate the Business in strict compliance with all applicable local, state and federal laws, rules and regulations. The Franchisee agrees to refrain from any sales, advertising or promotional practice which is unethical or may be injurious to the business of the Company, other Businesses, the System or to the goodwill associated with the Marks.

6.8 Payment of Liabilities and Taxes. The Franchisee shall pay, when due, all of its obligations, liabilities and taxes to the Company, suppliers, lessors, creditors and taxing authorities. The Franchisee's failure to comply with this provision shall be deemed a material breach of this Agreement.

6.9 Standardization. The Franchisee will wear and will require its employees to wear such attire as may be designated by the Company and will comply with such programs of standardization as may from time to time be promulgated by the Company to promote the common business image and to protect the goodwill associated with the Business and the Marks.

6.10 Management. The Business shall be at all times under the direct supervision of the Franchisee or of a trained full-time manager who shall have successfully completed the Company's Initial Training. The use of a manager by the Franchisee shall not relieve the Franchisee of its obligation to participate directly in the operation and management of the Business. If the Franchisee conducts operations in more than one Territory or if the Franchisee with the Company's consent does not devote full-time to conducting the Business, at least one trained and competent employee shall act as a full-time manager. The Franchisee shall keep the Company informed at all times of the identity of any manager of the Business. The Company shall make training available, within certain time frames, as is reasonably necessary, for all managers designated by the Franchisee. The Franchisee shall at all times faithfully, honestly and diligently perform the

obligations hereunder, use its best efforts to promote and enhance the Business, and shall not engage in any business or other activity that will conflict with the Franchisee's obligations hereunder.

6.11 Staffing. The Franchisee shall hire and train such employees as are necessary for the operation of the Business in compliance with this Agreement and the standards and specifications set forth in the Manual. Franchisee must carefully screen all employees, including the use of background checks, before employing them, to ascertain their fitness for employment in the child education industry. Specifically, Franchisee must use its best efforts, including taking every action required by applicable laws related to background checks of persons working in the educational field, to ensure that no person is employed who has a record of child molestation or abuse, immoral conduct, drug, alcohol or substance abuse, criminal behavior, or any other pattern of conduct which might jeopardize the welfare of the students in Franchisee's Young Rembrandts classes or reflect adversely on the reputation of the Company's image and System. In the event any customer or facility where classes are conducted notifies the Franchisee of any allegation or claim made against Franchisee or employee relating to physical, verbal or sexual abuse or harassment of any child or other inappropriate or illegal behavior, the Franchisee must immediately conduct an investigation and take such action as is reasonable and appropriate based on the results of the investigation, including but not limited to termination of employment, to protect the customers of the Franchisee and to prevent any material impairment to the goodwill of the Business, the Marks and System.

6.12 Marketing. Franchisee shall promote the Business and market for new customers throughout the term of the franchise. The Franchisee may only directly market in the Territory and is strictly prohibited from direct marketing outside of the Territory. Direct marketing shall include all forms of advertising and promotion to new customers and to new facilities for location of instruction which can reasonably be related to a geographic area, including but not limited to cold calling, telephone solicitation, direct mailings and local media.

6.13 Notice to the Company. The Franchisee shall notify the Company in writing within five (5) days of the commencement of any action, suit, or proceeding and the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality which may adversely affect the operation or financial condition of the Business. In the event Franchisee becomes aware that any allegation or claim has been made against the Business, Franchisee or Franchisee's employees which could materially impair the goodwill associated with the Business, the Marks or the System, Franchisee shall notify the Company in the manner set forth in the Manual.

6.14 Modifications to the System. The Franchisee understands and agrees that due to changes in competitive circumstances, presently unforeseen changes in the needs of customers, and/or presently unforeseen technological innovations, the System may need to undergo changes in order that it best serve the interests of the Company, the Franchisee and the System. Accordingly, the Franchisee expressly understands and agrees that the Company may from time to time change the components of the System, including, but not limited to, altering the products, services, methods, standards, form, policies and procedures of the System; adding to, deleting from, or modifying those products and services which the Business is authorized to offer; and, changing, improving or modifying the Marks. Subject to the other provisions of this Agreement, Franchisee

expressly agrees to abide by any such modifications, changes, additions, deletions and alterations, and to make such expenditures as are reasonably required by such modifications, changes, additions, deletions or alterations to the System. However, such changes shall not materially and unreasonably increase the Franchisee's obligations hereunder.

6.15 Scholarship Programs. The Franchisee shall each year provide scholarships to children and shall participate in the Company's scholarship program as set forth in the Operations Manual.

6.16 Entity as Franchisee. If at any time during the term of this Agreement Franchisee is an entity, Franchisee and its owners agree and represent that: (i) the owners will have the authority to execute, deliver, and perform Franchisee's obligations under this Agreement and all related agreements; (ii) the entity shall be duly organized or formed and validly existing in good standing under the laws of its state of incorporation or formation; (iii) the entity's organizational documents, operating agreement, or partnership agreement, as applicable, will recite that this Agreement restricts the issuance and transfer of any ownership interests in the entity, and all certificates and other documents representing ownership interests in the entity will bear a legend referring to this Agreement's restrictions; (iv) subject to Company's rights and Franchisee's obligations under Article XIV, all owners shall sign and deliver to the Company a revised Guaranty and Assumption of Obligations to reflect any permitted changes in the ownership of the entity; and (v) the entity shall conduct no business other than the operation of a Young Rembrandts business.

ARTICLE VII. **CONFIDENTIAL INFORMATION**

7.1 Confidential Information. The Franchisee specifically understands and affirms that the following, without limitation, are deemed to constitute confidential information, proprietary information and trade secrets of the company; procedures and processes of selling, marketing and promoting the services to customers; all other systems of operation, services, programs, products, procedures, policies, standards, techniques, specifications and criteria which now comprise or in the future may comprise a part of the System; the Manual (as same may be amended from time to time) and supplements and/or amendments to the Manual; lesson plans; records pertaining to customers or billings; methods of advertising and promotion; instructional materials and videos; staff composition and organization systems; quality assurance programs; supervision systems; recommended services; record keeping systems and materials; bookkeeping systems and materials; business forms; general operations materials; revenue reports; activity schedules; job descriptions; advertising, promotional and public relations materials/campaigns/guidelines/philosophy; specifications, systems, standards, techniques, philosophies and materials, guidelines, policies and procedures concerning the System; additions to, deletions from, and modifications and variations of the components constituting the System or the systems and methods of operations which are now, or may in the future, be employed by the Company, including all standards and specifications relating thereto and the means and manner of offering and selling same; and, all other components, specifications, standards, requirements and duties imposed by the Company, or any affiliate, subsidiary or designee. All such confidential information, proprietary information and trade secrets will be referred to this Agreement as "Confidential Information." Confidential Information shall

not include, however, any information that: (a) is now or subsequently becomes generally available to the public through no fault of Franchisee, (b) Franchisee can demonstrate was rightfully in Franchisee's possession, without obligation of nondisclosure, prior to disclosure pursuant to this Agreement; (c) is independently developed without the use of any Confidential Information; or (d) is rightfully obtained from a third party who has the right, without obligation of nondisclosure, to transfer or disclose such information.

7.2 Requirement of Confidentiality. Franchisee acknowledges that the Company will disclose Confidential Information to Franchisee during the training program, through the Manual, and as a result of guidance furnished to Franchisee during the term of this Agreement. Franchisee shall not acquire any interest in the Confidential Information, other than the right to utilize it in the development and operation of Franchisee's Young Rembrandts business and in performing Franchisee's duties during the term of this Agreement. Franchisee acknowledges that the use or duplication of the Confidential Information in any other business venture would constitute an unfair method of competition. Franchisee acknowledges that the Confidential Information is proprietary and is disclosed to Franchisee solely on the condition that Franchisee (a) shall not use the Confidential Information in any other business or capacity; (b) shall maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement; (c) shall not make any unauthorized copies of any portion of the Confidential Information disclosed in written or other tangible form; and (d) shall adopt and implement all reasonable procedures prescribed from time to time by the Company to prevent unauthorized use or disclosure of the Confidential Information. Franchisee shall enforce this Section as to Franchisee's officers, directors, managers, and employees, and shall be liable to the Company for any unauthorized disclosure or use of Confidential Information by any of them.

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

7.4 Employee Confidentiality. The Franchisee and any manager who is required to successfully complete the Initial Training shall divulge only the Confidential Information as may be necessary, and then only to such of the Franchisee's employees, agents or independent contractors as must have access to it in order to conduct the operation of the Business. The Franchisee shall take precautions to ensure that such employees and other parties retain such information in confidence, and take whatever steps are necessary to accomplish the foregoing, including requiring

managers and other designated employees to sign confidentiality and non-competition agreements in a form approved by the Company. Franchisee shall provide to Company at Company's request copies of the confidentiality and non-competition agreements signed by Franchisee's employees.

7.5 Return of Confidential Information. Upon the expiration or other termination of this Agreement or the term of any Successor Agreement, the Franchisee shall return to the Company all materials containing Confidential Information including but not limited to books, records, software, manuals and lesson plans and other materials which are in the Franchisee's possession.

ARTICLE VIII. **TRADEMARKS**

8.1 Ownership. The Franchisee acknowledges the validity of the Marks and that they are the sole property of the Company and of the Affiliate. The Franchisee's right to use the Marks is derived solely from this Agreement and is limited to the conduct of the Business by the Franchisee pursuant to and in compliance with this Agreement and all applicable standards, specifications and operating procedures prescribed by the Company from time to time. Any unauthorized use of the Marks by the Franchisee is a breach of this Agreement and an infringement of the rights of the Company. All usage of the Marks by the Franchisee and any goodwill established by the Franchisee's use of the Marks shall inure to the exclusive benefit of the Company and of the Affiliate. All provisions of this Agreement applicable to the Marks apply to any additional trademarks, service marks, logos and commercial symbols hereafter authorized for use by and licensed to the Franchisee.

8.2 Use. Franchisee shall use the Marks as the sole identification of the Business, except as prescribed by the Company for purposes of Franchisee identifying Franchisee as the independent owner of the Business pursuant to this Agreement. The Franchisee shall use the Marks only as authorized, directed or approved by the Company. The Franchisee shall not use the Marks as part of the name of any entity or trade name, or within any prefix, suffix, or other modifying words, terms, designs, or symbols, or in any modified form. Franchisee shall not use the Marks in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized by the Company. The Franchisee shall give such notice of trademark and service mark registration as the Company specifies and obtain such fictitious or assumed name registrations as may be required under applicable law. The non-exclusive personal right of the Franchisee to use the Marks in connection with the Business and its right to use the Marks and the System apply only in the Territory and only so long as the Franchisee shall fully perform and comply with all of the conditions, terms and covenants of this Agreement and the Manual. The Company reserves the right to alter, change, amend or add to the Marks and Franchisee shall comply with the Company's directions relating thereto within a reasonable amount of time after receipt of notice from the Company of the change or addition. If, in the judgment of the Company, the acts of the Franchisee infringe upon or demean the goodwill, standards of uniformity or quality, or business standing associated with the Marks and the System, then the Franchisee shall immediately, upon notice from the Company, modify its use of the Marks and the System in the manner prescribed by the Company. The Franchisee shall not, during or after the Term of this Agreement or the term of any Successor Agreement, do anything directly or indirectly which would

infringe upon, harm, mislead or contest the rights of the Company and of the Affiliate in the Marks or the System.

The Company's Email address on the Internet's World Wide Web at the Universal Resource Locator of: yr@youngrembrandts.com and any other Email address the Company may hereafter acquire (the "YR Email") is the sole property of the Company. The Company has developed a web site (the "YR web site") at www.youngrembrandts.com. The Company may market and sell from the YR web site various products and services worldwide that may compete with the Franchisee and other franchisees within and outside the Territory. The YR web site as it may be developed and changed from time to time is the sole property of the Company. Company may provide to Franchisee a page on the YR web site. The specifications and procedures Franchisee must follow for developing and maintaining a page on the YR web site shall be set forth in the Manual or otherwise in writing.

The Franchisee shall not obtain any domain names for the Internet incorporating the Marks. The Franchisee shall not directly or indirectly create, develop, maintain and/or use its own web site on the Internet using any of the Marks, or use any of the Marks on the Internet in any other manner without the prior written consent of the Company.

8.3 Infringement. The Franchisee shall immediately notify the Company in writing of any apparent infringement of or challenge to the Franchisee's use or Company's ownership of and right to use or license of the Marks and of any claim by any person of any rights in the Marks or in any similar trade name, trademark, service mark or logo of which the Franchisee becomes aware. The Franchisee shall not directly or indirectly communicate with any person other than the Company and its counsel in connection with any such infringement, challenge or claim. The Company shall have sole discretion and exclusive right to take such action as it deems appropriate to control any litigation, U.S. Patent and Trademark Office proceeding, ICANN Uniform Domain Name Dispute Resolution Policy proceeding, or other administrative proceeding arising out of such infringement, challenge or claim or otherwise relating to the Marks. We have the right, but not the obligation, to take action against uses by others that constitute infringement of the Marks. The Franchisee shall execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of the Company's counsel, be necessary or advisable to protect and maintain the interests of the Company in any such litigation, or administrative proceedings, or to otherwise protect and maintain the interest of the Company in the Marks.

8.4 Indemnification. The Company shall defend and indemnify the Franchisee against and reimburse the Franchisee for all damages (but specifically excluding any consequential damages, including but not limited to, loss of revenue and/or profits) for which it is held liable in any legal proceeding brought against the Franchisee arising out of the Franchisee's authorized use of any of the Marks pursuant to this Agreement, provided, that the Franchisee shall have timely notified the Company of such claim or proceeding and has otherwise complied with this Agreement and, provided further, that the Company shall have had the right to adequately defend any such claim.

8.5 Substitutions. If there is a claim by any third party that its right to any use of the

Marks is superior, or if there is any claim by a governmental entity that use of any of the Marks is objectionable or is prohibited, and if the Company determines that such claim is legally meritorious or if the Company determines, in its sole discretion, that it is advisable for the Company and/or the Franchisee to modify or discontinue the use of any of the Marks, and/or use one or more additional or substitute Marks, then upon notice from the Company the Franchisee will immediately make such changes and amendments to the Marks as may be required by the Company. Company shall reimburse the Franchisee for all reasonable out-of-pocket expenses incurred by the Franchisee in connection with changing the Principal Mark. In no event shall the Company have any liability to the Franchisee for consequential or other damages because of such modification or discontinuance of any of the Marks and the need to substitute other marks for the modified or discontinued Marks.

ARTICLE IX.

FEES

9.1 Initial Franchise Fee. Upon the execution of this Agreement, the Franchisee shall pay to the Company the Initial Franchise Fee in the amount of _____ Dollars (\$_____) by certified or cashier's check. The Initial Franchise Fee shall be non-refundable and deemed fully earned by the Company when paid, except as otherwise expressly stated to the contrary in this Agreement.

9.2 Royalty and Other Fees. In addition to the Initial Franchise Fee, the Franchisee will pay to the Company beginning on the Opening Date of the Business and throughout the term, and without offset, credit, or deduction of any kind, the Royalty Fee, the National Marketing Fee (if and when established) and any other payments due to the Company from the Franchisee in a timely manner (monthly). The monthly Royalty Fee to be paid to Company by Franchisee is ten percent (10%) of Gross Revenues on the first Seventy-Five Thousand Dollars (\$75,000) in Gross Revenue for each period from August 1 through July 31 and eight percent (8%) of Gross Revenues in excess of \$75,000 for the same August 1 through July 31 period. The monthly Royalty Fee is paid based on the Gross Revenues received in the previous calendar month. Notwithstanding the foregoing, beginning with the first full calendar month that begins at least thirty (30) days after the date Franchisee completes the Initial Training Program, Franchisee must pay a minimum Royalty Fee in the amount of Two Hundred Fifty Dollars (\$250.00) per month during the first and second years of operation, in the amount of Four Hundred Dollars (\$400.00) per month during the third and fourth years of operation, and in the amount of Five Hundred Dollars (\$500.00) beginning in the fifth year of operation and through the end of the Term ("Minimum Royalty Payment").

9.3 Payment. On or before the 10th day of the month for the preceding month, the Franchisee shall submit to the Company on a form and in the manner prescribed by the Company, a correct statement signed by the Franchisee of the Franchisee's Gross Revenues received in the previous month, and shall make payment to the Company in the manner prescribed by the Company, including the right to require payment by electronic funds transfer, based on the Gross Revenues received in the previous month. Once implemented, Franchisee must promptly provide bank and account information to the Company and sign such documents and forms as may be required from time to time by the Company to permit it to withdraw amounts due it and its affiliates from the bank account for the Business. Prior to any change in banks or accounts, Franchisee must

provide to the Company such information and execute such documents and forms as may be necessary for the Company to make electronic funds transfers from the new bank and/or account. Franchisee's failure to provide information on or execute and return documents regarding the new bank or account within five (5) days of a receipt of a request by the Company or your withdrawal of consent for withdrawals by the Company on the old account shall be a breach of this Agreement. If Franchisee fails to report Gross Revenues for any calendar month on a timely basis, the Company has the right to withdraw the Royalty Fee and National Marketing Fee for the unreported calendar month in the amount of the Royalty Fees and National Marketing Fee paid for the most recent reported month or a higher amount if the Company reasonably estimates that the Business is generating higher Gross Revenues than the most recent reported month, provided that any amounts will be reconciled and adjusted as needed when the Company receives actual reports on Gross Revenues from Franchisee. Notwithstanding any designation by the Franchisee, the Company shall have the discretion to apply any payments from customers of the Franchisee to any past due indebtedness of the Franchisee.

9.4 Late Fee. If payment under 9.2 or 9.3 is not received by the fifteenth (15th) day of the month for the preceding month, a late fee of ten percent (10%) of the fees payable will be charged to the Franchisee, plus interest at the highest legal rate up to 1½% per month accrues 10 days after payments are due.

9.5 Gross Revenues. "Gross Revenues" means the total receipts of all money or property of any kind, for or in connection with the services rendered by the Franchisee within the Territory or otherwise, directly or indirectly, in connection with the Business. The term shall be deemed to include checks, drafts, money orders, credit card payments, and all other instruments and forms of payment whether received by the Franchisee or by the Company pursuant to billings made by the Company to the Franchisee's customers, whether or not the same are postdated or are later dishonored or rescinded or payment is stopped thereon. Gross Revenues will be deemed received for purposes of this Agreement on the date that payment in whatever form is actually collected and received by the Business. The term shall not include applicable sales, use or service taxes. Rent, incentive fees, refunds or any other amounts paid to the owner or operator of a facility at which Franchisee's services are conducted are not excluded from Gross Revenues.

ARTICLE X.

ADVERTISING AND PROMOTION

10.1 Advertising Assistance. The Company may, from time to time, develop advertising, promotional and marketing programs and materials for the Young Rembrandts System that the Company will make available to Franchisee.

10.2 Marketing Programs. Franchisee agrees to implement any promotional programs or services developed and offered by the Company from time to time.

10.3 National Marketing Fee and Fund. When the Company establishes a National Marketing Fund, the Company will, upon sixty (60) days written notice to the Franchisee, begin to

collect from the Franchisee the monthly National Marketing Fee of up to two percent (2%) of Gross Revenues to be paid into such Fund to be administered by the Company for the benefit of all franchisees. The Company and its affiliate will pay the same National Marketing Fee for its own Young Rembrandts businesses. The Company will give the Franchisee sixty (60) days written notice before increasing or decreasing the percentage of the National Marketing Fee.

The Company shall be entitled to direct all advertising, marketing and promotional programs financed by the National Marketing 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. The Franchisee agrees that the National Marketing Fund may be used to pay the costs of preparing and producing video, audio, written and electronic advertising materials; administering national, regional or local advertising programs including, without limitation, direct mail and other media advertising, and employing advertising agencies to assist in those activities; establishing and maintaining a website for the franchise system; supporting public relations, market research and marketing activities; and providing advertising, marketing and promotional materials to Young Rembrandts franchisees. The National Marketing Fund will furnish you with approved advertising, marketing and promotional materials on the same terms and conditions as such materials are furnished to other Young Rembrandts franchisees.

The National Marketing Fund will be a separate and distinct account, and will be accounted for separately from the other funds of the Company and will not be used to defray any of the Company's general operating expenses, except for any reasonable salaries, administrative costs and overhead the Company may incur in activities reasonably related to the administration of the National Marketing Fund and its advertising, marketing and promotional programs (including, without limitation, conducting market research, preparing advertising, marketing and promotional materials, and collecting and accounting for contributions to the National Marketing Fund). The Company may spend in any fiscal year an amount greater or less than the total contribution of franchisees to the National Marketing Fund in that year. The Company may cause the National Marketing Fund to borrow from the Company or other lenders to cover deficits of the National Marketing Fund or cause the National Marketing Fund to invest any surplus for future use by the National Marketing Fund. All interest earned on monies contributed to the National Marketing Fund will be used to pay advertising, marketing and promotional costs of the National Marketing Fund before other assets of the National Marketing Fund are expended. The Company will prepare an annual statement of monies collected and costs incurred by the National Marketing Fund and will furnish it to the Franchisee on written request.

The Franchisee understands and acknowledges that the National Marketing Fund is intended to maximize recognition of the Marks and patronage of Young Rembrandts franchisees. Although the Company will endeavor to use the National Marketing Fund to develop advertising, marketing and promotional material, and to place advertising in a manner that will benefit all franchisees, the Company undertakes no obligation to ensure that expenditures by the National Marketing Fund in or affecting any geographic area are proportionate or equivalent to contributions to the National Marketing Fund by the franchisees operating in that geographic area or that any franchisees will benefit directly or in proportion to their contribution to the National

Marketing Fund from the development of advertising, marketing and promotional materials or the placement of advertising. Except as expressly provided in this Section 10.3, the Company assumes no direct or indirect liability or obligation to the Franchisee with respect to the maintenance, direction or administration of the National Marketing Fund.

The Company has the right to discontinue or to reestablish the National Marketing Fund. In the event the Company discontinues the National Marketing Fund, the Company will distribute all unspent amounts existing in the National Marketing Fund on the date of discontinuance to franchisees in proportion to their respective contributions for the most recent six months.

ARTICLE XI. RELATIONSHIP OF PARTIES/INDEMNIFICATION

11.1 Relationship of the Parties. This Agreement does not create a fiduciary relationship between the parties. The Franchisee understands and agrees that, under this Agreement, the Franchisee is and shall be an independent contractor of the Company. 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.

The Franchisee shall conspicuously identify itself and the Business, and in all dealings with customers, suppliers, public officials, and others, as an independent franchisee of the Company, and shall place such notice of independent ownership on all forms, business cards, stationery, advertising, signs and other materials and in such fashion as the Company, in its sole and exclusive discretion, specifies and requires from time to time in the Manual.

11.2 No Liability for Act of the Other. Except as otherwise expressly authorized by this Agreement, neither party hereto 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 party, or represent that the relationship between the Company and the Franchisee is other than that of Franchisor and Franchisee. The Company does not assume any liability, and will not be deemed liable for any agreements, representations, or warranties made to or by the Franchisee which are not expressly authorized under this Agreement, nor will the Company be obligated for any damages to any person or property which directly or indirectly arise from or relate to the operation of the Business. The Company shall not have the power to hire or fire the Franchisee's employees and, except as herein expressly provided, the Company may not control or have access to the Franchisee's funds or the expenditure thereof, or in any other way exercise dominion or control over the Business. The Company shall not be obligated for any damages to any person or party, directly or indirectly, arising out of the operation of the Business whether caused by the Franchisee's negligent or willful action or failure to act. It is expressly understood and agreed that neither the Franchisee nor any employee or independent contractor of the Franchisee whose compensation for services is paid directly or indirectly by the Franchisee may, in any way, directly or indirectly, expressly or by implication, be construed to be an employee of the Company for any purpose, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any state, local or federal governmental

agency. The Company shall have no liability for any sales, use, occupation, excise, gross receipts, income, property or other taxes, whether levied upon the Franchisee, the Business, or the Franchisee's property, or upon the Company, in connection with sales made or business conducted by the Franchisee or payments to the Company pursuant hereto.

11.3 Indemnification. The Franchisee agrees at all times to defend at the Franchisee's own cost, and to indemnify and hold harmless to the fullest extent permitted by law, the Company, the Affiliate and corporate subsidiaries, affiliates, successors, assigns and designees, and their respective directors, officers, employees, agents, shareholders, designees, and representatives (the Company and all other hereinafter referred to collectively as "Indemnitees") from all losses and expenses (as hereinafter defined) incurred in connection with any action, suit, proceeding, claim, demand, investigation, or formal or informal inquiry (regardless of whether same is reduced to judgment) or any settlement thereof which arises out of or is related to Franchisee's operation of the Business.

For the purpose of this Section 11.3, the term "losses and expenses" shall be deemed to include, without limitation, all losses, compensatory, exemplary or punitive damages, fines, charges, costs, expenses, lost profits, attorneys' fees, experts' fees, court costs, settlement amounts, judgments, compensation for damages to the Company's or the Affiliate's reputation and goodwill, costs of or resulting from delays, financing, costs of advertising material and media time/space, and costs of changing, substituting or replacing same, and any and all expenses of recall, refunds, compensation, public notices and other such amounts incurred in connection with the matters described.

The Franchisee agrees to give the Company notice of any such action, suit, proceeding, claim, inquiry or investigation. At the expense and risk of the Franchisee, the Company may elect to assume (but under no circumstance is obligated to undertake) the defense and/or settlement of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that the Company will seek the advice and counsel of the Franchisee, and shall keep the Franchisee informed, with regard to any such proposed or contemplated settlement(s). Such an undertaking by the Company shall in no manner or form diminish the Franchisee's obligation to indemnify the Company and to hold it harmless.

In order to protect persons or property, or its reputation or goodwill, or the reputation or goodwill of others, the Company may, at any time and without notice as it in its judgment deems appropriate, offer, order, consent or agree to settlements or take such other remedial or corrective actions as it deems expedient with respect to the action, suit, proceeding, claim, demand, inquiry or investigation.

All losses and expenses incurred under this Section 11.3 shall be chargeable to and paid by the Franchisee pursuant to its obligations of indemnity regardless of any actions, activity or defense undertaken by the Company or the subsequent success or failure of such actions, activity or defense. Under no circumstances shall the Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against the Franchisee. The Franchisee agrees that the failure to pursue such recovery or mitigate loss will in no way reduce the

amounts recoverable by the Indemnitees from the Franchisee.

The Indemnitees and assumptions of liabilities and obligations set forth in this Agreement shall continue in full force and effect subsequent to, and notwithstanding the expiration or termination of, this Agreement.

ARTICLE XII. INSURANCE

12.1 Required Insurance. To standardize insurance and to afford the Franchisee and the Company and other Indemnitees protection against insurable risks, the Company requires minimum standards, limits, and certain types of insurance coverage to be purchased by the Franchisee. Such standards and limits may be established through the Manual or by other written notice.

A. The Franchisee shall purchase at its sole expense, and maintain in effect at all times during the term of this Agreement and any successor Agreements, the following categories of insurance coverage through licensed and admitted insurance companies acceptable to the Company:

- (1) Broad form comprehensive general liability coverage, and broad form products and contractual liability coverages in an amount and form and with a carrier or carriers satisfactory to the Company; but in no event, in an amount less than One Million (\$1,000,000) Dollars aggregate; nor shall such insurance have a deductible or self-insured retention in excess of Five Thousand (\$5,000) Dollars for which amount the Franchisee is liable;
- (2) Worker's Compensation and Employer's Liability Insurance for the Franchisee's Business employees (in statutory amounts);
- (3) Unemployment Insurance for the Franchisee's Business employees;
- (4) Fire and Extended Coverage Insurance in an amount adequate to replace owned or leased products in the event of an insured loss;
- (5) Automobile liability insurance including owned, hired and non-owned vehicle coverage, with a combined single limit of at least One Million (\$1,000,000) Dollars;

B. The insurance coverage acquired and maintained by the Franchisee at its expense, as set forth in subsection (A) shall:

- (1) be acceptable to the Company;
- (2) contain no provision which in any way limits or reduces coverage for the Franchisee in the event of a claim by any one (1) or more of the Indemnitees;

- (3) extend to and provide indemnity for all obligations assumed by the Franchisee hereunder and all other items for which the Franchisee is required to indemnify the Company under the provisions of this Agreement;
- (4) be primary to and without right of contribution from any other insurance purchased by the Indemnitees;
- (5) be written on an occurrence basis; and
- (6) provide, by endorsement, that the Company is entitled to receive at least thirty (30) days prior written notice of any intent to reduce policy limits, restrict coverage, cancel or otherwise alter or amend said policy.

The Franchisee shall provide written evidence of the required insurance coverage to Company prior to Franchisee's Opening Date of the Business and on or before each expiration date for coverage.

The Franchisee shall not reduce the policy limits, restrict coverage, cancel or otherwise alter or amend said insurance policies without the Company's prior written consent.

In the event of a claim by any one (1) or more of the Indemnitees against the Franchisee, the Franchisee shall, on request of the Company, assign to the Company any and all rights which the Franchisee then has or thereafter may have with respect to such claim against the insurer(s) providing coverages described in Section 12.1.

12.2 The Company's Right to Purchase. If the Franchisee fails to purchase insurance conforming to the standards and limits prescribed by the Company, the Company may (but is not required to) obtain, through agents and insurance companies of its choosing, such insurance as is necessary to meet such standards on behalf of the Franchisee. Payments for such insurance shall be borne by the Franchisee and the Franchisee expressly agrees to forthwith pay the required premiums or to reimburse the Company therefor. Nothing contained herein shall be construed or deemed to impose any duty or obligation upon the Company to obtain or maintain any specific forms, kinds or amounts of insurance for or on behalf of the Franchisee.

12.3 Disclaimer. Nothing contained herein shall be construed or considered an undertaking or representation by the Company that such insurance and bonding as may be required to be obtained by the Franchisee, or by the Company for the Franchisee, will insure the Franchisee against any or all insurable risks of loss which may or can arise out of or in connection with the operation of the Business.

12.4 Additional Insureds. Except for the insurance coverages provided in Section 12.1 A (2) and (3) above, all insurance purchased by the Franchisee (or by the Company for the Franchisee) shall name the Company and the Indemnitees identified in Section 11.3 of this Agreement as additional insureds for the Term hereof and the Term of any Successor Franchise Agreement, and shall provide that the Company shall be given at least thirty (30) days prior written notice of any

termination, amendment, cancellation or modification thereof. The Franchisee shall promptly provide the Company with Certificates of Insurance evidencing such coverage no later than ten (10) days prior to the date that the Business will commence operations. All insurance policies and documents shall be renewed, and upon such renewal, a renewal Certificate of Insurance shall be furnished to the Company prior to the expiration date of the existing term(s) of the policy(ies) in question. The Company may at any time require the Franchisee to forward to the Company full copies of all or any insurance policies.

12.5 Notice of Claims. The Franchisee shall notify the Company of any and all claims or demands against the Franchisee, the Business and/or the Company within three (3) days of the Franchisee receiving actual notice of any such claim or demand. The Franchisee agrees to respond to all claims within the time required by law, rule or regulation. The Franchisee shall cooperate with the Company (or its designee) in every fashion possible to defend the Company and the Franchisee against any and all claims made by employees, customers or third parties. The Franchisee shall, when necessary, make appearances at administrative or other hearings to present or reinforce such defenses.

12.6 Failure to Insure - Right to Terminate. Failure by the Franchisee to purchase or maintain any insurance required by this Agreement, or failure to reimburse the Company for its purchase of such insurance on behalf of the Franchisee, shall constitute a material breach of this Agreement which, unless waived by the Company, shall entitle the Company to terminate this Agreement unilaterally if the Franchisee fails to cure the breach within ten (10) days of receipt of written notice by the Franchisee, and this Agreement shall be null, void and of no effect (except for those post-termination and post-expiration provisions which by their nature shall survive).

12.7 Minimum Coverages. The minimum limits of insurance coverage required to be procured by the Franchisee may be modified from time to time by the Company, in its sole and exclusive discretion, by written notice transmitted by the Company to the Franchisee. Upon delivery (or attempted delivery) of such written notice, the Franchisee shall be obligated to immediately purchase insurance conforming to the newly-established standards and limits prescribed by the Company.

ARTICLE XIII.

REPORTS, FINANCIAL STATEMENTS AND AUDIT RIGHTS

13.1 Books and Records. The Franchisee shall establish and maintain at the Franchisee's expense a bookkeeping, accounting and record keeping system conforming to the requirements prescribed by the Company from time to time. With respect to the operation and financial condition of the Business, the Franchisee shall sign, verify the accuracy of, and furnish the following reports, financial statements and returns to the Company in the form and in the manner prescribed by the Company.

A. On or before the 10th of each month, a report of the Gross Revenues of the Business for the preceding month and such other data, information and supporting records for the Business as the Company shall require as set forth in the Manual;

B. Within thirty (30) days after the end of each quarter, a profit and loss statement;

C. Within sixty (60) days after the end of the fiscal year a profit and loss statement, balance sheet and cash flow statement for the fiscal year reflecting all year-end adjustments.

D. At the Company's request, exact copies of all federal and state income tax returns as reflect the operations of the Business.

E. The Franchisee must follow the student art work photo submission format outlined in the Manual for classroom programs.

13.2 Records of Gross Revenues - Computer. The Franchisee shall accurately record Gross Revenues and other financial information as Company prescribes with a computer and software which has been approved or specified by the Company. Franchisee agrees to allow Company access to any data relating to the Business on such computer system.

13.3 Additional Reporting. Franchisee shall submit to the Company such other periodic reports, forms and records relating to the financial, marketing and operational aspects of the Business as specified, and in the manner and at the time as specified by the Company in the Manual or otherwise in writing.

13.4 Audit of Books and Records. All records shall be kept for a period of at least four (4) years following the end of each fiscal year. The Company may, from time to time, cause one or more complete audits to be made of the affairs and records relating to the operations of the Business. Upon request by the Company, the Franchisee shall make such books, records and information available to the Company or its designated representative at a reasonable time and place for review and audit by the Company. If such audit results in a determination that the Royalty Fee is deficient (underpaid) by more than three percent (3%), the Franchisee shall promptly pay to the Company an amount equal to three (3) times the defined Royalty Fee and other indebtedness shown to be due, plus interest at the highest legal rate not to exceed 1½% per month on the deficiency and all costs and expenses incurred by the Company in conducting such audit, including salaries of the Company's representatives, travel costs, room and board and audit fees. If the deficiency is less than three (3%) percent, the Franchisee shall promptly pay the actual deficiency and interest at the highest legal rate not to exceed 1½% per month on the deficiency. If the audit is conducted due to the Franchisee's failure to report Gross Revenues or to provide other reports or financial information as required, the Franchisee shall promptly pay any deficiency disclosed and interest at the highest legal rate not to exceed 1½% per month on the deficiency and all costs and expenses incurred by the Company in conducting such audit. Nothing contained herein shall constitute an agreement by the Company to accept any payments after the same are due or commitment by the Company to extend credit to or otherwise finance the Franchisee's operation of the Business.

ARTICLE XIV.
TRANSFER OF FRANCHISE

14.1 Assignment by the Company. The Company shall have the right to assign this Agreement provided that: (i) the assignee, at the time of such assignment, is financially responsible and economically capable of performing the obligations of the Company hereunder; and (ii) the assignee assumes and agrees to perform such obligations. Upon such assignment, the Company shall be released from any future obligations under this Agreement.

Nothing contained in this Agreement shall require the Company to remain in the business franchised hereby or to offer services franchised hereunder, whether or not bearing the Marks, to the Franchisee in the event that the Company exercises its rights hereunder to assign its rights in this Agreement.

14.2 Transfer to Entity by the Franchisee.

A. Subject to the Company's prior written consent, the Franchisee, if a natural person, may transfer its rights hereunder to a corporation, limited liability company or other entity without, however, being relieved of any personal liability. The Company will not unreasonably withhold such consent provided the following conditions are met:

- (1) The entity is newly organized and its activities are confined to the Business;
- (2) The Franchisee owns the controlling interest in the entity and is the chief executive officer;
- (3) The Company is advised of relevant information with respect to all owners of the entity;
- (4) All money and other obligations of the Franchisee to the Company are fully paid and performed;
- (5) The entity agrees, in form satisfactory to the Company, to assume all the Franchisee's obligations;
- (6) All owners of the entity guarantee, in form satisfactory to the Company, the full and prompt payment and performance of all obligations to the Company;
- (7) Each certificate of ownership interest in the entity shall have conspicuously endorsed upon it a statement that it is held, and that assignment thereof is, subject to all restrictions imposed upon assignments by this Agreement; and
- (8) No new interest in the entity shall be issued without obtaining the Company's prior written consent and then only upon disclosure of the terms and conditions

contained herein being made to the new owners.

B. No transfer, as defined below, of the ownership interest in an entity shall be made without the prior written consent of the Company except that there may be a transfer of all the ownership interest in the entity on the same terms as those on which a transfer of the Franchisee's franchise or the Business would be permitted hereunder. These restrictions shall be conspicuously noted on all certificates of ownership interest and all transferee owners shall be required to guarantee, in form satisfactory to the Company, the full and prompt payment and performance by the Franchisee of all obligations to the Company.

14.3 Transfer by the Franchisee. Subject to the Company's prior written consent, which will not be unreasonably withheld, the Franchisee may sell, transfer, lease or assign its interest in this Agreement or the Business, or may by merger, consolidation, stock exchange or in similar fashion effect such by operation of law ("Transfer"), provided the following conditions are met:

A. The purchaser, transferee, lessee, assignee or entity effecting such by operation of law as set forth immediately above ("Assignee") (or the principal owners of the Assignee if the Assignee is an entity) has the aptitude, skills, qualifications, credit and financial resources necessary, in the Company's judgment, to conduct the Business and to fulfill the Assignee's obligations to the Company. The proposed Assignee must provide such information to the Company as it requires to evaluate the proposed Assignee;

B. As of the date of any such Transfer, the Franchisee shall have fully complied with all its obligations hereunder or under any other agreement with the Company or the Affiliate, including, without limitation, all monetary obligations;

C. Assignee assumes all of the obligations of the Franchisee, and that there is no default;

D. Assignee executes, at our option, either (i) the Company's then-current form of Franchise Agreement (except that Assignee shall not be obligated to pay an Initial Franchise Fee), which may contain terms different from this Agreement or (ii) an assignment and assumption agreement in a form satisfactory to Company whereby the Assignee assumes Franchisee's obligations under this Agreement. The execution of the new Franchise Agreement shall, except for post-term obligations of the Franchisee, terminate this Agreement;

E. The Franchisee executes and delivers to the Company a general release, except as limited by law, of all claims against the Company, the Affiliate and its and their shareholders, officers, directors, employees, and agents in a form satisfactory to the Company;

F. Assignee shall have satisfactorily completed the Initial Training then required of all new franchisees unless such training is waived by reason of the Assignee's prior experience or training;

G. Company must approve the material terms and conditions of such assignment and

have determined that the price and terms of payment are not so burdensome as to adversely affect Assignee's future operations of the Business;

H. The Franchisee has first given the Transfer Notice and complied with Article XV;

I. Any advertisement for a Transfer shall make clear that the Franchisee and not the Company is the offeror;

J. The Franchisee pays a Transfer Fee in the amount of Five Thousand Dollars (\$5,000.00) to reimburse the Company's expenses to investigate such Transfer and to train the Assignee; and

K. The Franchisee pays any and all broker fees payable in connection with the Transfer.

14.4 Controlling Interest. The aggregate transfer of more than 10% of the ownership interest or voting power of any franchisee which is an entity is a Transfer.

14.5 Death or Incapacity of the Franchisee. The transfer of the Franchisee's interest in this Agreement and in the Business to the Franchisee's heirs, personal representatives or conservators, as applicable, in the event of death or legal incapacity of the Franchisee, shall not constitute a Transfer nor give rise to the Company's right of first refusal, provided that the heirs, personal representatives or conservators, as applicable, meet the Company's standards for new Franchisees; execute the then-current form of Franchise Agreement; and, that a manager has, or within ninety (90) days shall have, enrolled in and begun the Initial Training at the Company's then standard fee and charge and has satisfactorily completed the Initial Training within such three months. Such transfer does not require Franchisee to pay a Transfer Fee. Failure to transfer Franchisee's interest as provided in this Section 14.5 constitutes grounds for termination under Article XVI.

14.6 Subfranchising. The Franchisee may not subfranchise or otherwise attempt to sell, transfer or assign a portion, but not all, of its rights under or pursuant to this Agreement.

14.7 Notice. The Franchisee shall give the Company at least thirty (30) days prior notice of any Transfer.

14.8 No Encumbrance. The Franchisee may not pledge, encumber, or otherwise give a security interest in its rights under this Agreement without the prior written consent of the Company, which consent may be withheld for any reason whatsoever in the Company's sole, subjective judgment.

ARTICLE XV.

RIGHT OF FIRST REFUSAL

15.1 Right of First Refusal and Transfer. Prior to any Transfer under Section 14.3, the Franchisee shall deliver to the Company written notice (the "Transfer Notice"), setting forth all of

the terms and conditions of the proposed Transfer, including all documents of sale, transfer, assignment, merger, or acquisition and all available information of the proposed Assignee.

15.2 Right of First Refusal. Within fifteen (15) days after the Company's receipt of the Transfer Notice or if it requests additional information, within fifteen (15) days after receipt of such additional information (the "Review Period"), the Company may elect to receive the Transfer to itself or to its nominee, upon the terms and conditions in the Transfer Notice, by written notice to the Franchisee. The failure of the Company to deliver such notice shall constitute a waiver of its Right of First Refusal, provided that it has been furnished, in timely fashion, with all of the requisite documents and information.

15.3 Equivalent Consideration. In the event that the attempted Transfer is in a format or is for consideration that the Company cannot practicably or realistically duplicate (including, without limitation, a transaction in which the Franchisee would receive the stock of the Assignee) the Company may elect to pay the equivalent consideration in cash and to modify the Transfer format to reasonably duplicate the proposed Transfer.

15.4 Change in Terms. If the Company does not exercise its Right of First Refusal, the Franchisee shall have the right, for a period of ninety (90) days after the Review Period, to effect the Transfer upon the terms and conditions of the Transfer Notice. If the terms of the Transfer are changed, such changed terms shall be deemed a new offer and the Company shall again have such Right of First Refusal with respect to them.

ARTICLE XVI **DEFAULT & TERMINATION.**

16.1 The Company's Right to Terminate Prior to Opening.

A. The Company shall have the right to terminate this Agreement without prior notice to Franchisee if:

(1) The Franchisee shall have failed to satisfactorily complete Initial Training. The Franchisee acknowledges that because of the Company's superior skill and knowledge with respect to the training and skill required to manage the Business, the Company's judgment as to whether or not the Franchisee has satisfactorily completed such training may be exercised by the Company in its sole, subjective judgment, exercised in good faith; or

(2) Any financial, personal or other information provided by the Franchisee to the Company in connection with the Franchisee's application for the franchise is materially false, misleading, incomplete or inaccurate.

(3) The Franchisee does not open for business within ninety (90) days of signing this Agreement.

B. If the Company elects to terminate this Agreement pursuant to this Section, the

Company shall notify the Franchisee of its said election; and this Agreement shall be null, void and of no effect. Neither party shall have any further right or obligation to the other except those obligations which, by their nature, survive such termination.

16.2 The Company's Right to Terminate After Opening.

A. Grounds. The Company shall have the right to terminate this Agreement after the Business opens in the following events any of which shall constitute good cause:

(1) Without Opportunity to Cure. Events in which termination shall be effective immediately upon the mailing or delivery of written notice of termination and with respect to which the Franchisee shall have no right to cure the default:

(i) The Franchisee is convicted of, or pleads guilty to, or pleads no contest to, any criminal statute which carries a possible penalty (whether imposed or not) of imprisonment in excess of 30 days; or

(ii) The Franchisee voluntarily or otherwise abandons the Business by failing to operate it for a period of five (5) consecutive business days or more, unless the Business has been closed for a purpose previously approved by the Company in writing; or

(iii) The Franchisee or the Business is declared bankrupt or insolvent, or all or a substantial part of the assets of the Business are assigned to or for the benefit of any creditor, or the Franchisee admits its inability to pay its debts as they become due; or

(iv) The Franchisee, after twice curing any failure of the Franchisee to comply with any requirement of this Agreement (other than non-payment) after being given notice thereof and a reasonable opportunity to cure such failure, which in no event need be more than thirty (30) days, engages in the same non-compliance whether or not such non-compliance is corrected after notice; or

(v) The Franchisee makes a Transfer or attempted Transfer of the Agreement or of the Business without compliance with the provisions of Sections 14.2 through 14.8 and of the Company's Right of First Refusal in Article XV, above; or

(vi) The Company reasonably determines that operations by the Franchisee will result in substantial danger to the health or safety of the public or Franchisee's customers and Franchisee fails to take the necessary corrective action within three (3) business days after notice thereof from the Company; or

(vii) The Franchisee fails to pay any royalties or other amounts due the Company or the Affiliate when such are due on more than three (3) occasions in any two (2) year period.

(viii) The Business is seized, taken over or foreclosed; or a final judgment against the Franchisee is unsatisfied for thirty (30) days (unless a supersedeas or other bond has been filed); or a levy of execution has been made upon any property used in the Business and is not discharged within five (5) days of such levy; or

(ix) Franchisee makes any unauthorized use or disclosure of any Confidential Information, makes any unauthorized use of the Marks or any other identifying characteristics of the System or otherwise impairs the goodwill associated with these characteristic; or makes any unauthorized use or disclosure, or duplicates any portion of the Manual or other proprietary written materials.

(x) The Franchisee fails to comply with any of the non-competition covenants in Articles XVIII of this Agreement.

(2) With Opportunity to Cure. Events in which termination shall be effective after Franchisee's failure to cure the specified default within the cure period provided herein:

(i) The franchisee fails to accurately report Gross Revenues of the Business or to pay any royalties, advertising fees or any other amounts due the Company or the Affiliate within ten (10) days of notice of failure to pay;

(ii) The Franchisee fails to purchase the insurance required by this Agreement or fails to reimburse the Company for its purchase of such insurance on behalf of Franchisee within ten (10) days after notice from the Company.

(iii) The Franchisee fails, for a period of ten (10) days after notification of non-compliance, to comply with any federal, state or local law or regulation applicable to the operation of the Business; or

(iv) The Franchisee is involved in any act or conduct or failure to act which materially impairs the goodwill associated with the Business, Marks or the System and the Franchisee fails to cure such act or conduct or failure to act within twenty-four (24) hours of the receipt of notice thereof.

(v) The Franchisee fails to meet the minimum gross revenues requirement described in Section 3.3 above that requires Franchisee to pay the required minimum royalty payment, following notice and a six (6) month period in which to increase the Gross Revenues in order to meet the required minimum monthly royalty requirement.

(vi) Default by the Franchisee of any other obligations under the Agreement, including any mandatory specification, standard or operating procedure prescribed by the Company in the Manual or otherwise in writing, which is not cured within thirty (30) days after notice of default;

(3) Notwithstanding anything to the contrary contained in this Article 16, the

Company has the right to survey Franchisee's customers to determine their level of satisfaction with Franchisee. If, in any one calendar year, 25% or more of the Franchisee's customers are dissatisfied as evidenced by the written customer satisfaction surveys, the Company shall notify the Franchisee of the results of any such survey. If, upon completing a second survey of Franchisee's customers within three (3) months of completing the first survey, 25% or more of the Franchisee's customers are dissatisfied as evidenced by the written customer satisfaction surveys, the Company, at its option, may take over the Territory and terminate the Agreement.

B. Waiver. The Company may, in its sole discretion, waive its right to terminate under one or more sections of this Article as set forth above. Said waiver shall not be deemed continuing nor shall it be considered a precedent for this Agreement or for any other franchise. See Section 20.7, below.

C. Termination Procedure. If the Company elects to exercise its right to terminate this Agreement, it shall do so by giving the Franchisee written notice of termination stating the grounds therefor, advising whether there is an opportunity to cure any default and the effective date of termination. If the state in which the Business is located has a law governing notice and right-to-cure periods, such law shall govern.

D. Cross Default. Any default by the Franchisee of any other agreement between the Company and the Franchisee or the Affiliate and the Franchisee shall be deemed a default under this Agreement and any default by the Franchisee of this Agreement shall be deemed a default under any and all other agreements between the Company and the Franchisee. If the nature of such default under any other agreement would have permitted the Company to terminate this Agreement if such default had occurred under this Agreement, the Company shall have the right to terminate all of the other agreements between the Company and the Franchisee in the same manner as provided herein for termination of this Agreement.

16.3 Franchisee's Rights to Terminate.

A. Grounds. If the Franchisee is in full compliance with this Agreement and the Company breaches any material provision, term or condition, the Franchisee may terminate this Agreement as provided herein.

B. Procedure. The Franchisee shall not have any right to terminate this Agreement or commence an action against the Company for injunctive relief, violation of any state, federal or common law, unless and until:

(1) Written notice setting forth the alleged default in detail has been delivered to the Company by the Franchisee; and

(2) The Company fails to correct, or diligently make all reasonable efforts to correct, the alleged default within thirty (30) days after receipt of such written notice.

C. Required Notice-Waiver of Breach. If the Franchisee fails to give the Company

written notice of an alleged default of this Agreement within one (1) year from the date that Franchisee has knowledge of, determines, or is of the opinion that there has been a default by the Company, then the alleged default shall be deemed to be condoned, approved and waived by the Franchisee and the alleged default shall not be deemed to be a default of this Agreement.

ARTICLE XVII.
OBLIGATIONS UPON TERMINATION

17.1 Obligations. In the event of the termination or expiration of this Agreement, whether by reason of default, lapse of time or other cause, the Franchisee shall:

- A. promptly pay all amounts owed to the Company;
- B. promptly return to the Company the Manual, instructional materials and videos, the lesson plans provided by the Company, proprietary software, and other materials containing Confidential Information at Franchisee's expense;
- C. turn over all customer lists and all other customer data, contact information and other data regarding all schools, day care centers, park districts and other facilities where Franchisee conducted classes for customers, contracts or agreements, and other information and records regarding the customers and class locations serviced by Franchisee, and information and records on contacts with prospective customers and class locations in Franchisee's Territory. Franchisee expressly and specifically acknowledges and agrees that the foregoing information and records acquired during the term of the franchise are valuable property rights which Franchisee may use during the term of the Franchise Agreement, but which belong to Franchisor in the event of expiration or termination of the Franchise Agreement for any reason;
- D. maintain confidentiality of all Confidential Information furnished by the Company as required by Article VII;
- E. immediately cease using any of the Marks, including the e-mail address for the Business, or any colorable imitation of the Marks, or use any trade name, trademark, service mark, domain name or other commercial symbol that suggests or indicates a connection or association with the Company;
- F. not directly or indirectly at any time or in any manner identify Franchisee or any business of Franchisee as a current or former franchisee of the Company or as otherwise associated with the Company;
- G. promptly return to the Company or destroy (whichever Company specifies) all advertising and promotional materials, forms, and other materials containing the Marks or otherwise identifying or relating to a Young Rembrandts business;
- H. promptly take such action as may be required to cancel all fictitious or assumed name, "doing business as" or equivalent registrations relating to Franchisee's use of the Marks and

furnish to Company within ten (10) days after the effective date of termination or expiration evidence satisfactory of Franchisee's compliance with the foregoing obligations;

I. promptly notify the telephone company and all listing agencies of the termination or expiration of your right to use any telephone number and any telephone directory listings associated with the Marks and to authorize transfer of same to or at the direction of the Company. Franchisee acknowledges that as between the Company and Franchisee, the Company has the sole right to and interest in all telephone numbers and directory listings associated with the Marks, and Franchisee authorizes the Company, and hereby appoints the Company and any officer of the Company as Franchisee's attorney-in-fact, to direct the telephone company and all listing agencies to transfer same to the Company or at its direction, and should Franchisee fail or refuse to do so, the telephone company and all listing agencies may accept such direction or this Agreement as conclusive of the exclusive rights of the Company in such telephone numbers and directory listings and its authority to direct their transfer;

J. pay all costs, including attorneys' fees and costs, incurred by the Company in terminating this Agreement and in enforcing the terms of this Article XVII and Article XVIII.

17.2 Survival of Obligations. The expiration or termination of this Agreement shall be without prejudice to any of the rights and remedies of the Company against the Franchisee with respect to the foregoing obligations, non-competition covenants and other like matters that reasonably would survive the end of this Agreement.

ARTICLE XVIII.

NON-COMPETITION COVENANTS

18.1 In-Term and Post-Term Covenant Not to Compete. The Franchisee agrees that during the Term of this Agreement, and the Term of any Successor Agreement, and for a period of twenty-four (24) months following the termination or expiration of this Agreement for any reason or the date in which Franchisee ceases to conduct business, whichever is later, within twenty-five (25) miles of the Territory, the Franchisee will not, either directly or indirectly, engage in any other business which offers, provides or sells the same or similar services provided by the Franchisee hereunder, or engage in any of the activities which this Agreement contemplates will be engaged in by the Franchisee, or offers or sells any other service (or component thereof) which comprises or may in the future comprise a part of the System (or any service confusingly similar thereto) as an owner, partner, investor, shareholder, director, officer, employee, principal, agent, advisor, or consultant, nor shall the Franchisee divert any business from the Business to any other entity. It is the intention of this provision to preclude not only direct competition but also all forms of indirect competition, such as consultation for competitive businesses, service as an independent contractor for such competitive businesses, or any assistance or transmission of information of any kind or nature whatsoever which would be of any material assistance to a competitor.

During the term of this Agreement or any Successor Agreement, and for one (1) year thereafter, the Franchisee shall not hire personnel of the Company or of any other franchisee of the

Company.

If the Franchisee is an entity, the Franchisee shall cause its owners, directors, officers, managers and employees to refrain from any of the foregoing competitive activities in any manner which the Company may reasonably request, and shall cause each such Owner to execute a Guaranty of this Agreement in a form acceptable to the Company and shall cause any other directors, officers, managers and employees to execute confidentiality and non-competition agreements in a form satisfactory to Company.

18.2 After Termination. For a period of one (1) year after termination, the Franchisee may not solicit, contact or do any work for any customer or potential customer developed as a Young Rembrandts franchise at any time and may not solicit, contact, do any work for, or conduct any classes at any organization where the Franchisee conducted its classes as a Young Rembrandts franchisee.

18.3 Scope. The covenants in this Article XVIII shall not be applicable to any Business operated by the Franchisee under another Franchise Agreement with the Company.

18.4 Enforcement of Covenants Not to Compete. The Franchisee acknowledges that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to the Company for which no adequate remedy at law will be available. Accordingly, the Franchisee hereby acknowledges that the Franchisor may seek to obtain the entry of an injunction prohibiting any conduct by the Franchisee in violation of the terms of those covenants not to compete set forth in this Agreement. The Franchisee expressly agrees that it may conclusively be presumed that any violation of the terms of said covenants not to compete was accomplished by and through the Franchisee's unlawful utilization of the Company's confidential information, know-how, methods and procedures. Further, the Franchisee expressly agrees that the existence of any claims it may have against the Company, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by the Company of the covenants not to compete set forth in this Agreement. The Franchisee further agrees to pay all costs and expenses (including reasonable attorneys' and experts' fees) incurred by the Company in connection with the enforcement of those covenants not to compete set forth in this Agreement.

18.5 Court Modification. The non-competition restrictions set forth in this Article XVIII may be modified by a court to the extent necessary to make the non-competition agreements valid and enforceable against Franchisee.

ARTICLE XIX. ARBITRATION

19.1 Agreement to Arbitrate. All controversies, disputes or claims arising between the Company and the Franchisee (including any claim against the Affiliate Company's officers, directors, shareholders, agents and employees, in their capacity as such, or against the owners and guarantors of the Franchisee, if applicable) in connection with, arising from, or with respect to: (A) any provision of this Agreement or any other agreement related to this Agreement between the

parties; (B) the relationship of the parties hereto; (C) the validity of this Agreement or any other agreement between the parties related to this Agreement, or any provision thereof; or (D) any specification, standard or operating procedure relating to the establishment or operation of the Business (except controversies, disputes or claims relating to the Marks) which shall not be resolved within thirty (30) days after either party shall notify the other in writing of such controversy, dispute or claim, shall be submitted for arbitration on demand of either party. Such arbitration proceedings shall be conducted before a single arbitrator at the Company's offices or at another location specified by the Company and, except as otherwise provided in this Agreement, shall be conducted in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association or any successor. The arbitrator shall have the right to award or include in the award any relief which is deemed proper in the circumstances, including without limitation, money damages (with interest on unpaid amounts from the due date), specific performance and injunctive relief. The award and decision of the arbitrator shall be conclusive, binding and non-appealable upon all parties hereto and judgement upon the award may be entered in any court of competent jurisdiction, subject to the terms of this Agreement as to jurisdiction. The Company and the Franchisee (and their respective owners and guarantors, if applicable) hereby waive to the fullest extent permitted by law, their right to or claim for any punitive or exemplary damage against the other and agree that in the event of a dispute between them each shall be limited to the recovery of any actual damages sustained. The provisions of this Article shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement. The Franchisee and the Company agree that arbitration shall be conducted on an individual, not a class-wide, basis.

19.2 Severability. The provisions of this Article shall be construed as independent of any other covenant or provision of this Agreement; provided that, if a court of competent jurisdiction determines that any such provisions are unlawful in any way, such court shall modify or interpret such provisions to the minimum extent necessary to have them comply with the law. Notwithstanding any provisions of this Agreement relating to the state laws under which this Agreement shall be governed and construed, all issues relating to arbitrability or the enforcement of the agreement to arbitrate contained herein shall be governed by the United States Arbitration Act (9 U.S.C. 1 et seq.) and the federal common law of arbitration.

19.3 Mediation. Prior to any arbitration proceeding taking place, the Company or the Franchisee may, at its respective option, elect to (A) have the arbitrator conduct, in a separate proceeding prior to the actual arbitration, a preliminary hearing, at which hearing testimony and other evidence may be presented and briefs may be submitted, including without limitation a brief setting forth the then applicable statutory or common law methods of measuring damages in respect of the controversy or claim being arbitrated, or (B) submit the controversy or claim to non-binding mediation before the arbitrator or other mutually agreeable mediator, in which event both parties shall execute a suitable confidentiality agreement.

19.4 Exception to Arbitration. Nothing in this Agreement, including in particular the provisions of Section 19.1, shall be construed as limiting or precluding the Company, the Affiliate or the Franchisee from bringing any action in any court of competent jurisdiction for injunctive or other extraordinary relief, without the necessity of posting any bond (and if bond shall nevertheless

be required by a court of competent jurisdiction, subject to the terms of this Agreement relating to jurisdiction, the parties agree that the sum of \$100 shall be sufficient bond), as the Company or the Franchisee deem necessary or appropriate to (A) compel the other to comply with its obligations hereunder with respect to the use or display of the Marks or to otherwise protect the Marks; (B) compel the other to comply with its obligations upon termination or expiration of this Agreement or any Successor Agreement; and (C) prohibit any act or omission by the other, or their respective employees, that constitutes a violation of applicable law, is dishonest or misleading to the Franchisee's customers or prospective customers, or other Franchised Businesses, or constitutes a danger to the Franchisee's employees, or customers or to the public, or may impair the good will associated with the Marks or System. The parties agree to arbitrate any such dispute concurrently with and subsequent to the grant or denial of such injunctive relief.

ARTICLE XX. **MISCELLANEOUS**

20.1 Severability. All provisions of this Agreement are severable and this Agreement shall be interpreted and enforced as if all completely invalid and unenforceable provisions were not contained herein and partially valid and enforceable provisions shall be enforced to the extent valid and enforceable. If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination or refusal to extend the Term of this Agreement or prior notice of the refusal to grant the right to obtain a Successor Agreement than is required herein or the taking of some other action not required hereunder or if under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by the Company is invalid or unenforceable, the prior notice or other action required by such law or rule shall be substituted for the notice requirements hereof, or such invalid or unenforceable provision, specification, standard or operating procedure shall be modified to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdictions and shall be enforced as originally made and entered into in all other jurisdictions.

20.2 No Third Party Rights. Anything to the contrary herein notwithstanding, nothing in this Agreement is intended, nor shall it be deemed, to confer upon any third party other than the Company, the Affiliate, the Indemnitees identified in Section 11.3, or the Franchisee and permitted successors and assigns, any rights or remedies under or by reason of this Agreement.

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

20.4 Counterparts. This Agreement may be executed in one or more counterparts and each copy so executed shall be deemed an original but all copies together shall constitute one agreement.

20.5 Governing Law. This Agreement takes effect upon its acceptance and execution by the Company and shall be interpreted and construed in accordance with, and the franchise and any dispute between the parties governed by, the laws of the state of the principal office of the

Company without giving effect to the choice of law rules thereof, which law shall prevail in any event of conflict of law, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. 1051 et seq), or the United States Arbitration Act (9 U.S.C. 1 et seq).

20.6 Choice of Forum. The Company and the Franchisee agree that any action brought by one of them against the other (which is not to be arbitrated pursuant hereto or pursuant to law) shall be instituted exclusively in the state or federal court having jurisdiction over the county within which the principal office of the Company is located. Each party hereby irrevocably waives any objection they may have to the jurisdiction or the venue of such Court(s).

20.7 Waiver. The Company and the Franchisee may, by written instrument, unilaterally waive any obligation or restriction upon the other under this Agreement. Except as provided to the contrary herein, no acceptance by the Company of any payment by the Franchisee and no failure, refusal or neglect of the Company or the Franchisee to exercise any right under this Agreement or to insist upon full compliance by the other with its obligations hereunder, including, without limitation, any mandatory specification, standard or operating procedure, shall constitute a waiver of any provision of this Agreement.

20.8 Royalty or Other Fees. The Franchisee shall not, on the grounds of alleged non-performance by the Company of any of its obligations to the Franchisee, withhold payments of Royalty Fee or any other amounts due to the Company.

20.9 Attorneys' Fees. In the event the Company or Franchisee institutes a suit, action or proceeding to enforce any provision of this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party reasonable attorneys' fees to be set by the court in addition to reasonable costs or disbursements incurred by the party.

20.10 Notices; Approvals; Force Majeure; Miscellaneous.

A. Notices. All notices required herein shall be in writing, and (i) sent by registered or certified mail addressed to the Company or the Franchisee at their respective principal offices first above written or at such other address as the Company or the Franchisee may designate in writing; or (ii) hand delivered; or (iii) by Federal Express or other private delivery; or (iv) by Facsimile communication.

B. Approvals. Unless specifically provided otherwise, the Franchisee hereby waives, any claim that the Company has unreasonably withheld or delayed any consent or approval to a proposed act by the Franchisee under this Agreement.

C. Force Majeure. Whenever a time period is specified herein within which the Franchisee or the Company has a duty to perform some act, such period shall be extended for a time period corresponding to the duration of any delay caused by events or circumstances beyond the reasonable control of such party.

20.13 Binding Effect and Modifications. This Agreement is binding upon the parties and

their respective executors, administrators, heirs, assigns and successors, and shall not be modified except by written agreement, except that the Company has the right to unilaterally change the Manual and to make such other changes, additions and modifications as set forth herein.

20.14 Complete Agreement. This Agreement, together with any Exhibits or Addenda to this Agreement, contains the complete agreement between the parties and there are no promises, representations or inducements except as herein provided.

20.15 Submission of Agreement. The submission of this Agreement does not constitute an offer and this Agreement shall become effective only upon the execution hereof by the Company and the Franchisee. The date of execution by the Company shall be considered the date of execution of this Agreement.

20.16. Anti-Terrorism Laws. Franchisee and Franchisee's owners agree to comply with and/or assist Company to the fullest extent possible in Company's efforts to comply with Anti-Terrorism Laws (as defined below). In connection with such compliance, Franchisee and Franchisee's owners certify, represent and warrant that none of the property or interests of Franchisee or Franchisee's owners is subject to being "blocked" under any of the Anti-Terrorism Laws and that Franchisee and Franchisee's owners are not otherwise in violation of any of the Anti-Terrorism Laws. For purpose of this Section 8.8 "Anti-Terrorism Laws" means Executive Order 13244 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists and any other requirements of any Governmental Authority (including, without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorists acts and acts of war.

Franchisee and Franchisee's owners certify that none of Franchisee's employees, or anyone associated with Franchisee is listed in the Annex to Executive Order 13224. (The Annex is available at <http://www.treasury.gov/offices/enforcement/ofac/sanctions/terrorism.html>.) Franchisee agrees not to hire any individuals listed in the Annex. Franchisee and Franchisee's owners certify that they have no knowledge or information that, if generally known, would result in Franchisee, Franchisee's owners or employees, or anyone associated with Franchisee to be listed in the Annex to Executive Order 13224. Franchisee shall be solely responsible for ascertaining what actions must be taken by Franchisee to comply with the Anti-Terrorism Laws, and Franchisee specifically acknowledges and agrees that the indemnification responsibilities set forth in this Agreement pertain to your obligations under this Section 20.16.

Any misrepresentation by Franchisee under this Section or any violation of the Anti-Terrorism Laws by Franchisee or Franchisee's owners or employees shall constitute grounds for immediate termination of this Agreement and any other agreement you have entered with Company or an affiliate of Company, in accordance with the terms of Section 16.2. of this Agreement.

THIS AGREEMENT SHALL NOT BE BINDING ON THE COMPANY UNLESS AND UNTIL IT SHALL HAVE BEEN SIGNED BY AN AUTHORIZED OFFICER. UNTIL SO SIGNED, THE COMPANY MAY UNILATERALLY REFUSE TO ENTER INTO THIS AGREEMENT WITHOUT LIABILITY OF ANY KIND TO ITSELF, THE AFFILIATE, OR THEIR OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS.

THE COMPANY DISCLAIMS ANY WARRANTY OR REPRESENTATION AS TO THE POTENTIAL SUCCESS OF THE BUSINESS.

THIS IS A LEGAL DOCUMENT WHICH GRANTS SPECIFIC RIGHTS TO AND IMPOSES CERTAIN OBLIGATIONS ON THE COMPANY AND THE FRANCHISEE. CONSULT LEGAL COUNSEL TO BE SURE THAT YOU UNDERSTAND YOUR RIGHTS AND DUTIES.

FRANCHISEE HAS READ ALL OF THIS AGREEMENT AND HEREBY ACCEPTS AND AGREES TO ALL OF ITS PROVISIONS, COVENANTS AND CONDITIONS.

IN WITNESS HEREOF, the parties have signed this Agreement as of the day and year first above written.

"FRANCHISEE"

By _____

Its _____

"COMPANY"

YOUNG REMBRANDTS FRANCHISE, INC.

By _____

Its _____