

FRANCHISE DISCLOSURE DOCUMENT



KIDZART LLC
A Nevada Limited Liability Company
11820 Norfolk Rd.
Lake Cormorant, MS 38641

1-517-784-5000
info@kidzart.com

We offer franchises for the operation of businesses that provide art instruction and products to children and adults under the mark KidzArt® and Art Innovators®. We also offer franchises for the operation of businesses that provide educational and technology enrichment science programs for children ages 4 to 14 through a uniform system that includes quality products and proprietary curricula and business format under the mark Club Scientific®. This mark is owned by KidzArt, LLC.

We offer two sizes of territory for each franchise option.

A KidzArt, Club Scientific or Co-Branded Teach Franchise is a small territory with demographics of 15,000 qualified households (*qhh). A Teach territory is usually large enough for a franchise owner to operate by themselves or with 1-2 part-time staff depending on their development of their business.

A Teach Plus Franchise is 30,000 *qhh. Twice the size of the Teach franchise territory. This size territory is usually purchased by those wanting to build a larger business and who plan to hire others to teach.

* A qualifying household (*qhh) is a home with income over \$75,000.

The total investment necessary to begin operation of a KidzArt Teach franchised business is \$22,773 to \$39,207. This includes \$20,100 to \$27,300 that must be paid to the franchisor or its affiliate.

The total investment necessary to begin operation of a Club Scientific Teach franchised business is \$28,123 to \$54,607. This includes \$20,100. to \$28,300. that must be paid to the franchisor or its affiliate.

We also offer franchisees the option to purchase both a KidzArt Teach franchised business and Club Scientific Teach franchised business for a reduced initial fee. The total investment necessary to begin operation of a Co-Branded KidzArt and Club Scientific franchised business is \$42,928 to \$75,697. This includes \$34,400 to \$48,770. that must be paid to the franchisor or its affiliate.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact support at KidzArt LLC, P.O. Box ~~525~~811~~43~~, ~~Eaton Rapids~~Lansing, MI 48908-1143~~827~~, telephone 1-517-784-5000.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance date: ~~February~~March 12, 20234

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit B.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit D includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only KidzArt business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be KidzArt franchisee?	Item 20 or Exhibit B lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit A.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Mississippi. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Mississippi than in your own state.

2. **Mandatory Minimum Payments.** You must make minimum royalty, advertising, and other payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition on the right of a Franchisee to join an association of franchisees.
- (b) A requirement that a Franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this Act. This shall not preclude a Franchisee, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits a Franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the Franchisee to comply with any lawful provision of the Franchise Agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a Franchisor to refuse to renew a franchise without fairly compensating the Franchisee by repurchase or other means for the fair market value at the time of expiration of the Franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the Franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation.

This subsection applies only if:

- (i) the term of the franchise is less than 5 years; and
 - (ii) the Franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the Franchisee does not receive at least 6 months' advance notice of Franchisor's intent not to renew the franchise.
- (e) A provision that permits the Franchisor to refuse to renew a franchise on terms generally available to other Franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
 - (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the Franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a Franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a Franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

- (i) The failure of the proposed transferee to meet the Franchisor's then current reasonable qualifications or standards.
- (ii) The fact that the proposed transferee is a competitor of the Franchisor or Sub franchisor.
- (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
- (iv) The failure of the Franchisee or proposed transferee to pay any sums owing to the Franchisor or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

(h) A provision that requires the Franchisee to resell to the Franchisor items that are not uniquely identified with the Franchisor. This subdivision does not prohibit a provision that grants to a Franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the Franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the Franchisee has breached the lawful provisions of the Franchise Agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the Franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the Franchisee unless provision has been made for providing the required contractual services.

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

IF YOU HAVE ANY QUESTIONS ABOUT THIS NOTICE, DIRECT THEM TO THE DEPARTMENT OF THE ATTORNEY GENERAL OF THE STATE OF MICHIGAN, 670 LAW BUILDING, 525 WEST OTTAWA, LANSING, MICHIGAN 48913, (517) 373-7117.

If this Franchise Disclosure Document has been registered in any of the states listed in the State Effective Dates Page, which precedes this page, the effective date of that authorization is listed in that Page.

KIDZART LLC
FRANCHISE DISCLOSURE DOCUMENT
TABLE OF CONTENTS

Item	Page Number
ITEM 1 THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES	1
ITEM 2 BUSINESS EXPERIENCE.....	4
ITEM 3 LITIGATION	4
ITEM 4 BANKRUPTCY.....	5
ITEM 5 INITIAL FEES.....	6
ITEM 6 OTHER FEES	9
ITEM 7 ESTIMATED INITIAL INVESTMENT.....	18
ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	34
ITEM 9 FRANCHISEE'S OBLIGATIONS.....	37
ITEM 10 FINANCING	39
ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING.....	39
ITEM 12 TERRITORY	57
ITEM 13 TRADEMARKS	60
ITEM 14 PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION.....	64
ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS	65
ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.....	66
ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION	66
ITEM 18 PUBLIC FIGURES	79
ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS	79
ITEM 20 OUTLETS AND FRANCHISEE INFORMATION.....	98
ITEM 21 FINANCIAL STATEMENTS	116
ITEM 22 CONTRACTS.....	117
ITEM 23 RECEIPTS	117

EXHIBITS

A	State Administrators and Agents for Service of Process
B	List of Franchisees
B1	Current Franchisees
B2	Former Franchisees
C	Franchisee Organizations
C1	Franchisee Organizations We Have Created, Sponsored or Endorsed
C2	Independent Franchisee Associations
D	Financial Statements
E	Table of Contents of Manuals
F	Agreements
F1	KidzArt Franchise Agreement
F2	Club Scientific Franchise Agreement
F3	Co-Branding Franchise Addendum
G	Franchisee Certification

H	State Addenda
I	Sample Renewal Addendum to Franchise Agreement
I1	Sample Renewal Addendum to KidzArt Franchise Agreement
I2	Sample Renewal Addendum to Club Scientific Franchise Agreement
J	Sample Consent to Transfer Agreement (with general release)
J1	KidzArt Sample Consent to Transfer Agreement (with general release)
J2	Club Scientific Sample Consent to Transfer Agreement (with general release)
K	State Effective Dates
L	Receipts

ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

The Franchisor

To simplify the language in this Disclosure Document, “we,” “us,” “our” or “KidzArt” means KidzArt LLC, the franchisor. “You” means the person, corporation, or other entity that acquires the franchise and is the franchisee. If a legal entity buys the franchise, “you” includes the franchisee’s owners. We are a Nevada limited liability company that was formed in July 2002. In August 2012, we changed the company name from KidzArt Texas, LLC to KidzArt LLC. We do not do business under any other names. Our principal business address is 11820 Norfolk Rd. Lake Cormorant, MS 38641.. Since July, 2002, we have offered franchises for the establishment, development, and operation of businesses offering art instruction products and services under the KIDZART® mark and system (the “KidzArt Franchised Business”). However, we do not use the KidzArt® mark in the following counties in California: San Luis Obispo, Kern, San Bernardino, Santa Barbara, Ventura, Los Angeles, Orange, Riverside, San Diego and Imperial. In these counties, we offer franchises under our Art Innovators® mark, which functions as the principal service mark for the Franchised Business.

On July 19, 2013, KidzArt LLC acquired its ownership of the Club Scientific marks, and all confidential information, copyrights, and related intellectual property associated with the establishment, development, and operation of businesses offering science based educational and technology enrichment programs for children under CLUB SCIENTIFIC® mark and system (the “Club Scientific Franchised Business”).

Our agents for service of process are listed in Exhibit A of this Disclosure Document.

The Franchise

The KidzArt Franchised Business

KidzArt Franchised Businesses are generally home-based office businesses that provide art instruction and products to children and adults ages 2-102 through a uniform system that includes quality products and proprietary curricula and business format (the “KidzArt System”). Franchisees offer a full range of portable classroom programs (the “Programs”) including after-school classes, “Squiggles” Mommy & Me activities for children two and three years old, pre-school day care activities, “TeenzArt”™ classes for elementary, middle and high school students, Palette Up!™ for adults in which participants bring their own wine or other beverages, SeniorzArt® for assisted living centers, birthday parties, fundraising activities, art programs for schools, summer and day camps, and more. Classes are typically held throughout the school year (30 to 36 weeks) and camps are typically held in the summer months or whenever school is out, making this a year round business. Camps are offered on a weekly basis and generally conducted between 9 am and 4 pm and each Camp has an individual curriculum. Programs can be hosted at many venues. We discourage store fronts because of the lease expense. The KidzArt System includes an online registration system.

KidzArt Franchised Businesses utilizes classrooms within a variety of venues, such as public and private schools, religious institutions, colleges and universities and community centers (collectively, the “Program Facilities”). KidzArt programs may not be located or conducted from your private residence in the event that you operate your KidzArt Franchised Business out of your home.

The KidzArt Franchised Business operates under the mark KidzArt® and other trade names, trademarks, and service marks that we now or in the future may designate in writing for use in connection with the System (the “KidzArt Proprietary Marks”).

The Club Scientific Franchised Business

Club Scientific Franchised Businesses are generally home-based office businesses that provide science and technology enrichment programs for children ages 4 to 14 through a uniform system that includes quality products and proprietary curricula and business format (the “Club Scientific System”). Club Scientific Franchised Businesses generally provide educational and enrichment portable classroom programs (the “Programs”) including afterschool classes, pre- school, labs for elementary, middle, high school students and families, birthday parties, assemblies, science programs for schools, summer and day camps and more. Classes are typically held throughout the school year (30 to 36 weeks) and offer a range of science instructional camps during the summer months (“Camps”) or whenever school is out, making this a year round business. Camps are offered on a weekly basis and generally conducted between 9 am and 4 pm and each Camp has an individual curriculum. Programs can be hosted at many venues. We discourage store fronts because of the lease expense. The Club Scientific System includes an online registration system.

Club Scientific Franchised Businesses utilizes classrooms within a variety of venues, such as public and private schools, religious institutions, colleges and universities and community centers (collectively, the “Program Facilities”). Club Scientific programs may not be located or conducted from your private residence in the event that you operate your Club Scientific Franchised Business out of your home.

The Club Scientific Franchised Business operates under the mark Club Scientific® and other trade names, trademarks, and service marks that we now or in the future may designate in writing for use in connection with the Club Scientific System (the “Club Scientific Proprietary Marks”). The KidzArt Proprietary Marks and the Club Scientific Proprietary Marks are collectively referred to herein as the “Proprietary Marks”.

The Co-Branded Franchise

We also offer franchisees the opportunity to purchase and operate both a KidzArt Franchised Business and a Club Scientific Franchised Business (the “Co-Branded Franchise”) within the same territory for a discounted initial fee. If you are a qualified candidate to operate a Co- Branded Franchise, you will execute a KidzArt franchise agreement, a Club Scientific franchise agreement and a Co-Branding Franchise Addendum (the “Co-Branding Franchise Addendum”).

The Market and the Competition

The market for services provided by KidzArt and Club Scientific businesses is developing. You will have to compete with other businesses, including franchised operations, national chains and independently owned companies, offering similar or related art and scientific educational programs. The products and services offered by the KidzArt and Club Scientific businesses are not seasonal in nature. Your competitive advantage in the marketplace will be based on your adherence to our standards and guidelines, as well as your entrepreneurial and managerial abilities and focus on customer service.

Laws and Regulations

The KidzArt Franchised Businesses, Club Scientific Franchised Business and Co-Branded Franchise is subject to federal, state and local laws and regulations in your county, state or municipality pertaining to businesses generally and any laws pertaining to the education of children, child safety, the regulation of art and science instruction, screening obligations involving initial and annual background checks and criminal records checks, as well as those laws and regulations regarding consumer protection and operations, permits and licenses (including, without limitation, all government regulations relating to occupational hazards and health, trade regulation, worker's compensation, and unemployment insurance). The type and extent of any required background checks varies depending on the school that will host your Franchised Business. Additionally, if you host Palette Up classes, we **do not** serve or provide liquor or alcohol. Please check out your state regulations so you know what you are able to offer. Certain states and local regulations require franchisees to obtain a liquor license if you serve or provide any kind of alcohol. You are also subject to employment laws such as the Fair Labor Standards Act and various state laws governing such matters as minimum wages, overtime and working conditions.

You will also be subject to other laws or regulations that are not specific to the industry, but applicable to businesses generally, including labor laws, insurance requirements, business licensing laws and tax regulations, and the Americans with Disabilities Act. We have not investigated the laws or regulations applicable to your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchises. You are solely responsible for your cost to comply with such laws and regulations, and you should do so before purchasing a franchise from us. We strongly suggest that you consult with an attorney, consultant and/or financial advisor regarding such regulations prior to purchasing a franchise from us. Applicable laws and regulations are subject to change.

Our Parents, Predecessors and Affiliates

KidzArt has no parents, affiliates, or predecessors.

We have no other business activities and have not previously offered nor do we currently offer franchises in any other lines of business. Other than as disclosed in this Disclosure Document,

we have no other parents, predecessors or affiliates that offer franchises in any line of business or provide the products or services offered under the KidzArt and/or Club Scientific System to our franchisees.

ITEM 2 BUSINESS EXPERIENCE

President, and Co-Owner – Robert Denton

Robert (Randy) Denton has served as President/Executive Director of Art to Grow On LLC, dba KidzArt from 2004 to ~~2024~~Present. Effective June 1, 2021, Mr. Denton assumed the role of President/CEO of KidzArt LLC. Mr. Denton's office is located in Lake Cormorant, Mississippi.

Co-Owner – Mary A. Denton

Mary (Alice) Denton has served as Vice President/Executive Director of Art to Grow On LLC, dba KidzArt from 2004 to Present. She serves as COO/Executive Director of KidzArt LLC. Mrs. Denton's office is located in Lake Cormorant, Mississippi.

ITEM 3 LITIGATION

Pending Litigation:

No litigation is required to be disclosed in this item.

Concluded Litigation:

No litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5 INITIAL FEES

Initial Franchise Fees The initial franchise fee for a KidzArt Teach Franchised Business with approximately 15,000 qualifying households ("KidzArt Teach") is \$14,900 (the "KidzArt Teach Franchise Fee") and is due and payable to KidzArt when you sign a "KidzArt Teach" franchise agreement. The initial franchise fee for a KidzArt Teach Plus Franchised Business with approximately 30,000 qualifying households ("KidzArt Teach Plus") is \$19,900. The ("KidzArt Teach Plus" Franchise Fee") and is due and payable to KidzArt when you sign a "KidzArt Teach Plus" franchise agreement.

The initial franchise fee for a Club Scientific Teach Franchised Business with approximately 15,000 qualifying households ("Club Scientific Teach") is \$14,900 (the "Club Scientific Teach Franchise Fee") and is due and payable to KidzArt when you sign a "Club Scientific Teach" franchise agreement.

The initial franchise fee for a Club Scientific Teach Plus Franchised Business with approximately 30,000 qualifying households ("Club Scientific Teach Plus") is \$19,900 (the "Club Scientific Teach Plus Franchise Fee") and is due and payable to KidzArt when you sign a "Club Scientific Teach Plus" franchise agreement.

The initial franchise fee for a "Co-Branded Teach Franchised Business with approximately 15,000 qualifying households ("Co-Branded Teach") is \$25,000 (the "Co- Branded Teach Franchise Fee") and is due and payable to KidzArt when you sign and you execute a KidzArt Teach franchise agreement, a Club Scientific Teach franchise agreement and the Co- Branding Teach Franchise Addendum at the same time. Except as provided in this Item, the KidzArt Teach Franchise Fee, Club Scientific Teach Franchise Fee and the Co-Branded Teach Franchise Fee are uniform to all franchisees.

The initial franchise fee for a "Co-Branded Teach Plus Franchised Business with approximately 30,000 qualifying households ("Co-Branded Teach Plus") is \$35,000 (the "Co- Branded Teach Plus Franchise Fee") and is due and payable to KidzArt when you sign and you execute a KidzArt Teach Plus franchise agreement, a Club Scientific Teach Plus franchise agreement and the Co-Branding Teach Plus Franchise Addendum at the same time. Except as provided in this Item, the KidzArt Teach Plus Franchise Fee, Club Scientific Teach Plus Franchise Fee and the Co-Branded Teach Plus Franchise Fee are uniform to all franchisees.

We may also allow you to expand your KidzArt, or Club Scientific franchise Territory beyond the standard 15,000 or 30,000 qualifying households respectively by paying us \$0.40 per additional qualifying household over 15,000 or under 14,000 qualified households for a Teach franchise and over 30,000 for a Teach Plus franchise business option you choose. We do not allow a territory to be under 5,000 qualified households. * If your territory purchase or addition reaches or exceeds 30,000 qualifying households, this would make you a Teach Plus franchise instead of a Teach franchise. The minimum monthly royalty fee increases when a territory of 30,000 or more qualifying households is purchased. If you purchase a Co-Branded Teach Franchise, you may expand your territory by paying us \$0.80 per additional qualifying household since it covers the expansion of both brands. A qualifying household is one with an annual income over \$75,000.

We offer a 10% discount off the initial franchise fees to qualified veterans. We offer this discount to honorably discharged veterans of the United States military who otherwise meet our requirements as for new franchisees.

We may, in our sole discretion, participate in contests and giveaways in which we provide a reduced initial franchise fee or eliminate the initial franchise fee depending upon the terms and conditions of the contest or giveaway and the prospect's qualifications.

The KidzArt Franchise Fee, Club Scientific Franchise Fee and Co-Branded Franchise Fee are not refundable under any circumstances and are deemed fully earned upon payment, in consideration of administrative and other expenses we incur in granting the franchise and for our lost or deferred opportunity to franchise others. Our franchise is portable. You are prepared to start conducting business as soon as you leave training. Leaving training is when you are considered ready to open and operate your business.

Initial Art or Science Inventory, Marketing Materials, Website, and Registration Fees

If you purchase a KidzArt Franchised Business or a Co-Branded Franchise, you must pay us a fee of \$2,000 upon signing a KidzArt Franchise Agreement for an initial inventory of art supplies (the “Initial Art Inventory Fee”) and a fee of \$800 either to us or to our designated vendor for initial marketing materials (the “KidzArt Initial Marketing Materials Fee”) needed to begin operating your KidzArt Franchised Business. You will receive the initial inventory of art supplies at initial training. We or our designated vendor will send the marketing supplies to you by mail or other, once you purchase these.

Before your KidzArt Franchised Business or Co-Branded Franchise opens, you must also pay us or our authorized supplier a fee of \$750 for the setup of a customized KidzArt website for your KidzArt Franchised Business (the “Initial KidzArt Website Fee”) and a \$650 setup fee for your online customer registration and class management program (the “KidzArt Initial Online Registration Setup Fee”).

Initial Science Inventory, Marketing Materials and Website and Registration Fees

If you purchase a Club Scientific Franchised Business or a Co-Branded Franchise, you must purchase from us an initial inventory of science materials, which ranges between \$2,000 and \$3,000 depending on the time of year you are commencing operations. Your initial inventory may be higher if you commence operations immediately preceding or during the summer camp season. You must pay a fee of \$800 either to us or to our designated vendor for marketing materials (the “Club Scientific Initial Marketing Materials Fee”) needed to begin operating your Club Scientific Franchised Business. If you plan to offer day camps, Club Scientific Initial Marketing Materials Fee is \$2,750. You will receive the inventory of initial lab materials at initial training. We or our designated vendor will send the marketing materials to you by mail or other means.

Before your Club Scientific Franchised Business or Co-Branded Franchise opens, you must pay us or our authorized supplier a fee of \$750 for setup of a customized Club Scientific website for your franchise (the “Initial Club Scientific Website Fee”) and a fee of \$650 for the setup of your online customer registration and class management program (the “Club Scientific Initial Online Registration Setup Fee”) prior to opening the Franchised Business.

Each fee listed in this Item 5 is payable in a lump sum and is not refundable. Our franchise is portable. You are prepared to start conducting business as soon as you leave training. Leaving training is when you are considered ready to open and operate your business.

**ITEM 6
OTHER FEES**

For KidzArt Franchises:

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
KidzArt Royalty	8% of monthly Gross Revenues The KidzArt Teach minimum monthly royalty is \$250 each month. If you expand your territory to 30,000 QHH or more than you fall under the KidzArt Teach Plus royalty requirements below. The KidzArt Teach Plus minimum monthly royalty is \$300 during each month of the first year of the franchise term and \$400 during each month of the remaining years of the franchise term.	First payment is due after the first full calendar month following the end of initial training. Payments are due on 1st day of each month and considered late if not received by us by 10th day of each month.	“Gross Revenues” include all retail amounts paid by your students, whether you receive them or not. It includes amounts paid by the customer directly to you or through a third party such as a community or recreation center or YMCA. Gross sales do not include sales tax, adjustments or credits. We may require electronic payment. ⁽²⁾ Teach Plus see Item 5

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
KidzArt Advertising Fee	The greater of (i) 1% of monthly Gross Revenue; or (ii) \$25 per month.	Same time as Royalty.	See Item 11 for a detailed discussion about the KidzArt Advertising Fund.
KidzArt Technology Fees	\$45 per month for web hosting service and support (the “KidzArt Monthly Web Hosting Fee”). For online customer registration and class management (the “KidzArt Monthly Registration Fee”), 1% of Gross Revenue charged through the system.	Same time as Royalty.	We collect this fee for ourselves or on behalf of authorized suppliers. We may increase these fees to reflect increases in our costs or increases in the Consumer Price Index.
Certified Instructor Training	Currently \$350 per person. We may increase this charge. Our Certified Trainer comes to you, unless we have approved you or your designee’s request to become a Certified Trainer for your employees. You also pay the Certified Trainer’s travel expenses.	Two weeks before beginning of training.	Training lasts one day. You may train one (1) Certified Instructor after you become a Certified Instructor. For all additional Certified Instructors, you must arrange for the training of your certified instructors after you complete the initial training program. You or a Certified Instructor can request to become a Certified Trainer to train your own employees by sending us a video of a full live class for our review. We will inform you if approved. Then you or your designated Certified Trainer can begin training your own staff.
Annual Review	Currently \$100 per trainer per year.	As incurred.	We review and critique digital media recordings of classes taught by you or your Certified Trainer.
Additional Territory Fee	\$0.40 per qualifying household (\$0.80 per qualifying household if you operate a Co-Branded Franchise).	Before Territory change made effective.	If you want to increase the size of your franchise territory (beyond the standard 15,000 or 30,000 qualifying households for a Teach or Teach Plus Franchise, you must pay us \$0.40 per qualifying household added to your Territory (\$0.80 per qualifying household if you operate a Co-Branded Franchise).
Additional Assistance	\$250 per day plus travel expenses.	30 days after billing.	For training or assistance beyond what KidzArt typically provides.

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
Transfer Fee	7% of the then-current Initial Franchise Fee.	Before transfer.	Payable before you sell your franchise. If a broker or KidzArt sales representative is involved in the transfer, you must pay his or her fees in addition to the transfer fee.
Audit	Cost of audit plus late fee and interest.	30 days after billing.	Cost of audit payable only if audit shows an understatement of at least 2% of Gross Revenues.
Indemnification	Will vary under circumstances.	As incurred.	You must reimburse KidzArt if it incurs costs or is held liable for claims from your franchised business.
Fees for Lost Manuals	Actual Replacement cost	Upon delivery	
Interest/Late Charges	Late fee equal to greater of 15% of amount due or \$50 for each late payment, plus 1½% interest per month for each payment more than 7 days late, but not more than the highest commercial interest rate law allows.	30 days after billing	
Dishonored Payments	\$100	As incurred	Due each time a check or an attempted debit from your account is dishonored due to insufficient funds, or you take any other action to impede the automatic debiting process.
Franchise Renewal Fee	Teach Territory \$1000 Teach Plus Territory \$2000 Co-Branded Territory \$2500	30 days prior to renewal	Initial franchise term is 10 years. Renewal is automatic, unless you provide notice that you do not wish to renew the agreement or the agreement is otherwise terminated. You will be granted a renewal term of 10 years under the terms of our then-current franchise agreement.
Reimbursement of Inspection Expenses and Corrective Action	Depends on our direct costs	As incurred	Due for follow-up inspection after we determine that you are in default or if we perform your obligations to protect KidzArt® brand.

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
Conference Fee	Depends on our direct costs	Before you attend	See Item 11 — You must pay our conference fee whether or not you attend the conference (although attendance is mandatory). You must also pay all travel and living expenses you incur to attend conference.
Insurance	Will vary under circumstances	After training and before you begin operating your Office.	You must reimburse us if we obtain insurance on your behalf.
Attorneys' Fees and Costs	Will vary under circumstances	As incurred	Due when you do not comply with the Franchise Agreement.
Advertising Cooperatives	Will vary under circumstances	Same time as Royalty.	Due if a regional advertising cooperative is designated for your area. We have not established any cooperatives as of the Issue Date of this Disclosure Document, and have not contemplated how much a Franchised Business might be required to contribute to such a cooperative (though it will not exceed your KidzArt Advertising Fee amounting to the greater of 1% of your Gross Sales each month or \$25 per month). Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative. Company-owned outlets will have the same voting power as franchisee-owned outlets.
Failure to Report Fee	Will vary under circumstances	As incurred	If you fail to report the Gross Revenue of the Franchised Business for any month, we may debit the EFT Account for 120% of the last Royalty Fee and Advertising Fee that we debited (together with the late fee noted above). If the amounts we debit from the EFT Account are less than the amounts you actually owe us (once we have determined the actual Gross Revenue), we will debit the EFT Account for the balance on the day we specify. If the amounts we debit from the EFT Account are greater than the amounts you actually owe us, we will

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
			credit the excess against the amounts due during the following month.
Liquidated Damages	Will vary under circumstances	As incurred	In the event you abandon your Franchised Business, we will incur damages, the actual amount of which would be speculative and difficult to calculate. As such, you agree to pay us, within 30 days after the effective date of such abandonment, in addition to royalties and all other amounts then owed to us under this Agreement, the agreed upon liquidated damages amount, which shall be calculated by determining the average monthly royalty owed to us in the immediately preceding 12 full calendar months (the "Average Royalty"), and multiplying the Average Royalty by 24 months (the "Liquidated Damages Amount").

Notes:

1. **All fees are payable to us and are non-refundable, unless otherwise expressly stated.**

2. All fees are payable electronically through one or more depository transfer accounts (an "EFT Account") or using such methods as we may designate in the Manuals or otherwise in writing. Before opening the KidzArt Franchised Business, you shall provide us with your bank's name, address and account number, a voided check from such bank account, and sign and give to us and your bank, all documents, including Schedule "E" to the KidzArt Franchise Agreement, necessary to effectuate the EFT Program and our ability to withdraw funds from such bank account via electronic funds transfer. You shall immediately notify us of any change in your banking relationship, including changes in account numbers. At our request, you agree to execute such other documents as we determine are necessary for us to process electronic funds transfers from your designated bank account for payment of the Royalties and Advertising Fee, if any, owed to us based on Gross Revenue payments due under the KidzArt Franchise Agreement.

3. Franchisees of Co-Branded Teach Franchises are treated as having two separate businesses for purposes of the fees set forth in this Item 6, so that such franchisees will pay all fees applicable to KidzArt Franchises and, separately, all fees applicable to Club Scientific Franchises. For example, Co-Branded Teach Franchises will pay royalty and advertising fees applicable to KidzArt Franchisees on Gross Revenues earned from their KidzArt business and will separately pay royalty and advertising fees on Gross Revenues applicable to Club Scientific Franchises on Gross Revenues earned from their Club Scientific business.

For Club Scientific Franchises:

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
Royalty	8% of monthly Gross Revenues The Club Scientific Teach minimum monthly royalty is \$250 each month. If you expand your territory to 30,000 (qhh) or more than you fall under the Club Scientific Teach Plus royalty requirements below. The Club Scientific Teach Plus minimum monthly royalty is \$300 during each month of the first year of the franchise term and \$400 during each month of the remaining years of the franchise term.	First payment is due after the first full calendar month following the end of initial training. Payments are due on 1st day of each month and considered late if not received by us by 10th day of each month.	“Gross Revenues” include all amounts paid by your students, whether you receive them or not. It includes amounts paid by the customer directly to you or through a third party such as a community or recreation center or YMCA. Gross sales do not include sales tax, adjustments or credits. We may require electronic payment.⁽²⁾ Teach Plus see Item 5
Club Scientific Advertising Fee	The greater of (i) 1% of monthly Gross Revenues; or (ii) \$25 per month.	Same time as Royalty.	See Item 11 for a detailed discussion about the Club Scientific Advertising Fund.
Club Scientific Technology Fees	\$45 per month for web hosting service and support (the “Club Scientific Web Hosting Fee”). For online customer registration and class management (the “Club Scientific Monthly Registration Fee”), 1% of Gross Revenue charged through the system.	Same time as Royalty.	We collect this fee for ourselves or on behalf of authorized suppliers. We may increase these fees to reflect increases in our costs or increases in the Consumer Price Index.

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
Certified Instructor Training	Currently \$350 per person. We may increase this charge. Our Certified Trainer comes to you, unless we have approved you or your designee's request to become a Certified Trainer for your employees. You also pay the Certified Trainer's travel expenses.	Two weeks before beginning of training.	Training lasts one day. You may train one (1) Certified Instructor after you become a Certified Instructor. For all additional Certified Instructors and Camp Counselors, you must arrange for the training of your Certified Instructors after you complete the initial training program. You or a Certified Instructor can request to become a Certified Trainer to train your own employees by sending us a video of a full live class for our review. We will inform you if approved. Then you or your designated Certified Trainer can begin training your own staff.
Annual Review	Currently \$100 per trainer per year.	As incurred.	We review and critique digital media recordings of classes taught by you and each Certified Instructor.
Additional Territory Fee	\$0.40 per qualifying household (\$0.80 per qualifying household if you operate a Co-Branded Franchise).	Before Territory change made effective.	If you want to increase the size of your franchise territory (15,000 or 30,000 qualifying households for a Teach or Teach Plus Franchise), you must pay us \$0.40 per qualifying household added to your Territory (\$0.80 per qualifying household if you operate a Co-Branded Franchise).
Additional Assistance	\$250 per day plus travel expenses.	30 days after billing.	For training or assistance beyond what KidzArt typically provides.
Transfer Fee	7% of the then-current Initial Franchise Fee.	Before transfer.	Payable before you sell your franchise. If a broker or KidzArt sales representative is involved in the transfer, you must pay his or her fees in addition to the transfer fee.
Audit	Cost of audit plus late fee and interest.	30 days after billing.	Cost of audit payable only if audit shows an understatement of at least 2% of Gross Revenues.
Indemnification	Will vary under circumstances.	As incurred.	You must reimburse KidzArt if we incur costs or are held liable for claims from your franchised business.
Fees for Lost Manuals	Actual Replacement cost	Upon delivery	

Type of Fee⁽¹⁾	Amount	Due Date	Remarks
Interest/Late Charges	Late fee equal to greater of 15% of amount due or \$50 for each late payment, plus 1½% interest per month for each payment more than 7 days late, but not more than the highest commercial interest rate law allows.	30 days after billing	
Dishonored Payments	\$100	As incurred	Due each time a check or an attempted debit from your account is dishonored due to insufficient funds, or you take any other action to impede the automatic debiting process.
Franchise Renewal Fee	Teach Territory \$1000 Teach Plus Territory \$2000 Co-Branded Territory \$2500	30 days prior to renewal	Initial franchise term is 10 years. Renewal is automatic, unless you provide notice that you do not wish to renew the agreement or the agreement is otherwise terminated. You will be granted a renewal term of 10 years under the terms of our then-current franchise agreement.
Reimbursement of Inspection Expenses and Corrective Action	Depends on our direct costs	As incurred	Due for follow-up inspection after we determine that you are in default or if we perform your obligations to protect Club Scientific® brand.
Conference Fee	Depends on our direct costs	Before you attend	See Item 11. You must pay our conference fee whether or not you attend the conference (although attendance is mandatory). You must also pay all travel and living expenses you incur to attend conference.
Insurance	Will vary under circumstances	After training and before you begin operating your Office.	You must reimburse us if we obtain insurance on your behalf.
Attorneys' Fees and Costs	Will vary under circumstances	As incurred	Due when you do not comply with the Franchise Agreement.
Advertising Cooperatives	Will vary under circumstances	Same time as Royalty.	Due if a regional advertising cooperative is designated for your area. We have not established any cooperatives as of the Issue Date of this Disclosure Document, and have not contemplated how much a Franchised Business might be

<i>Type of Fee⁽¹⁾</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
			required to contribute to such a cooperative (though it will not exceed your KidzArt Advertising Fee amounting to the greater of 1% of your Gross Sales each month or \$25 per month). Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative. Company-owned outlets will have the same voting power as franchisee-owned outlets.
Failure to Report Fee	Will vary under circumstances	As incurred	If you fail to report the Gross Revenue of the Franchised Business for any month, we may debit the EFT Account for 120% of the last Royalty Fee and Advertising Fee that we debited (together with the late fee noted above). If the amounts we debit from the EFT Account are less than the amounts you actually owe us (once we have determined the actual Gross Revenue), we will debit the EFT Account for the balance on the day we specify. If the amounts we debit from the EFT Account are greater than the amounts you actually owe us, we will credit the excess against the amounts due during the following month.
Liquidated Damages	Will vary under circumstances	As incurred	In the event you abandon your Franchised Business, we will incur damages, the actual amount of which would be speculative and difficult to calculate. As such, you agree to pay us, within 30 days after the effective date of such abandonment, in addition to royalties and all other amounts then owed to us under this Agreement, the agreed upon liquidated damages amount, which shall be calculated by determining the average monthly royalty owed to us in the immediately preceding 12 full calendar months (the "Average Royalty"), and multiplying the Average Royalty by 24 months (the "Liquidated Damages Amount").

Notes:

1. **All fees are payable to us and are non-refundable, unless otherwise expressly stated.**

2. All fees are payable electronically through one or more depository transfer accounts (an “EFT Account”) or using such methods as we may designate in the Manuals or otherwise in writing. Before opening the Franchised Business, you shall provide us with your bank’s name, address and account number, a voided check from such bank account, and sign and give to us and your bank, all documents, including Schedule “E” to the Club Scientific Franchise Agreement, necessary to effectuate the EFT Program and our ability to withdraw funds from such bank account via electronic funds transfer. You shall immediately notify us of any change in your banking relationship, including changes in account numbers. At our request, you agree to execute such other documents as we determine are necessary for us to process electronic funds transfers from your designated bank account for payment of the Royalties and Advertising Fee, if any, owed to us based on Gross Revenue payments due under the Club Scientific Franchise Agreement.

3. Franchisees of Co-Branded Teach Franchises are treated as having two separate businesses for purposes of the fees set forth in this Item 6, so that such franchisees will pay all fees applicable to KidzArt Franchises and, separately, all fees applicable to Club Scientific Franchises. For example, Co-Branded Teach Franchises will pay royalty and advertising fees applicable to KidzArt Franchisees on Gross Revenues earned from their KidzArt business and will separately pay royalty and advertising fees on Gross Revenues applicable to Club Scientific Franchises on Gross Revenues earned from their Club Scientific business.

ITEM 7 ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT- KIDZART FRANCHISE

<i>Type of Expenditure (Note 1)</i>	<i>Amount</i>		<i>Method of payment</i>	<i>When due</i>	<i>To whom payment is to be made</i>
	<i>Low</i>	<i>High</i>			
KidzArt Initial Franchise Fee (Note 2)	\$14,900	\$19,900	Lump sum	Upon signing KidzArt Franchise Agreement	KidzArt
Initial Training (Note 3)	\$1,000	\$2,500	Lump sum	One week prior to training	KidzArt

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Certified Instructor Training (excluding expenses) (Note 3)	\$0	\$700 (\$350 per person)	As incurred	Two weeks before training	KidzArt or a Certified Trainer KidzArt franchisee
Rent or Real Estate and Improvements	(Note 4)	(Note 4)			
Initial Art Inventory Fee (Note 5)	\$2000	\$2000	Lump sum	Upon signing KidzArt Franchise Agreement	KidzArt or our Designated Vendor
KidzArt Initial Marketing Materials Fee (Note 6)	\$800	\$800	Lump sum	When Franchise Agreement Signed	KidzArt
KidzArt Initial Website Fee and KidzArt Web Hosting Fee (3 months) (Note 7)	\$750	\$750	Lump sum	When Franchise Agreement signed	KidzArt or our Webmaster
KidzArt Initial Registration Setup Fee (Note 8)	\$650	\$650	Lump sum	When Franchise Agreement signed	KidzArt or our Software Manufacturer
Video Camera (Note 9)	\$0	\$600	Lump Sum	As incurred	Supplier
Local Advertising (Note 10)	\$34.68 or 1% of gross monthly revenue	\$940.92 or 1% of total gross monthly revenue	As incurred	After Opening	Media suppliers
Insurance (Note 11)	\$150	\$250	As arranged	As arranged	Insurance Company or Broker
Miscellaneous Opening Costs (Note 12)	\$2,000	\$4,500	As incurred	As incurred	Suppliers, Insurance, Utilities, etc.
Additional Funds – 3 months (Note 13)	\$500	\$2,500	As incurred	As incurred	Employees, Suppliers, Utilities
TOTALS (Note 14)	\$22,784.68 (excluding rent costs)	\$36,090.92 (excluding rent costs)			

Note 1: Except as otherwise described in the notes below, the table above provides an estimate of your initial investment and the costs necessary to begin operating a single KidzArt Franchised

Business. Actual costs will vary for each location depending on a number of factors including

market conditions and the geographic location of your KidzArt Franchised Business. All fees and payments are non-refundable, unless otherwise stated. The initial fee is not refundable under any circumstances.

Note 2: The KidzArt Initial Franchise Fee is \$14,900 for a KidzArt Teach franchise and \$19,900 for a KidzArt Teach Plus franchise. You will pay the KidzArt Initial Franchise Fee in full upon signing the KidzArt Franchise Agreement for the Teach or Teach Plus franchise you choose. See Item 5 for a description of the KidzArt Initial Franchise Fee. We may also allow you to expand your KidzArt Teach Territory (beyond the standard 15,000 qualifying households) for a KidzArt Teach Franchise or (beyond the standard 30,000 qualifying households) for a KidzArt Teach Plus Franchise by paying us \$0.40 per additional qualifying household. If you expand your territory to 30,000 qualifying households or more, you then fall under the KidzArt Teach Plus royalty requirements.

Note 3: See Items 6 and 11 for a complete explanation of our training program and training costs. Our estimate includes lodging accommodations and dining expenses for two people. Your travel expenses, if any, will depend upon the distance of travel, mode of transportation, and the time of year in which your training occurs. The low range of \$0 represents the cost to train new Certified Instructors when you or your teachers have become certified to train your employees. To become a Certified Trainer for your employees, you or your designee must send in a video of the teacher teaching a full class while utilizing correct teaching methods and times.

Note 4: We expect that you will operate from your home office, but you may choose to operate from a commercial location we approve under a lease. Typical locations are less visible, lower cost office space. The typical space ranges between 200 and 1,000 square feet. (See Items 11 and 12). Our franchise is portable. You are prepared to start conducting business as soon as you leave training. Leaving training is when you are considered ready to open and operate your business.

Note 5: If you purchase a KidzArt Franchised Business, you must pay us a fee of \$2,000 upon signing the KidzArt Franchise Agreement for an initial inventory of art supplies needed to begin operating your KidzArt Franchised Business. You will receive the initial inventory at initial training; you can also request to have this initial inventory mailed to you.

Note 6: You must pay us or our designated vendor the \$800 KidzArt Initial Marketing Materials Fee for initial marketing materials needed to begin operating your KidzArt Franchised Business. The KidzArt Initial Marketing Materials Fee is payable in full upon signing the KidzArt Franchise Agreement and we or our designated vendor will send the marketing materials to you by mail or other means we designate based on your order size.

Note 7: Prior to commencing operations of your KidzArt Franchised Business, you must pay us or our webmaster the \$750 KidzArt Initial Website Fee to cover the cost for a custom website for your KidzArt Franchise. This website will be designed, constructed, hosted and maintained by our KidzArt webmaster. You may not create or maintain any other websites for your KidzArt Franchise. The range above also includes three months of the \$45 KidzArt Monthly Web Hosting Fee.

Note 8: You must also pay us or our authorized supplier the \$650 KidzArt Online Registration Setup Fee for the setup of your online customer registration and class management program prior to opening the Franchised Business. (excluding a rent of 1% of the Gross Revenues run through our On-line vendor's system each month. This is the rent for their registration system. Plus credit card processing fees which are not included in this total listed above, but which you will pay) (also excludes credit card processing fees which are also not included in Item 7 as this will vary each month based on the revenue processed. You are responsible to pay these totals)). Please See Items 6 and 11 for more information.

Note 9: You must purchase or have access to a video camera and tripod and a digital camera. The low range of \$0 assumes you already own or have access to a video camera. A cell phone with good video and pictures can also be used.

Note 10: After opening, you must place advertisements for the KidzArt Franchised Business. You must spend 1% of your monthly gross revenue on marketing and advertisements. For 2023³⁴ the average monthly cost is \$166.5334.68; the lowest monthly cost being \$3.0625; and the highest monthly cost being \$986.15843.12. These figures are only estimates. The actual amount you will spend will be based on your actual monthly gross revenue.

Note 11: The amount specified in the chart represents our estimate of your first three months of insurance premiums.

Note 12: Includes other deposits, utility costs, equipment, telephone and communications costs, licenses, and legal fees.

Note 13: This amount is an estimate of additional funds needed (working capital) for the initial phase of your business (first three months) based on figures from our franchises, industry averages, and the current costs of operations. In addition, the estimates presented relate only to costs associated with the franchised business and do not cover any owners' salary or draw, any personal, "living," unrelated business or other expenses you may have, such as royalty payments, debt service on any loans, state sales, and/or use taxes on goods and services, and a variety of other amounts not described above. These figures do not include a training fee or travel and living expenses for a third or additional attendee at initial training. We recommend that, in addition to the additional funds shown, you have sufficient personal savings or income so that you will be self-sufficient for at least three months after start-up.

Note 14: This estimates your initial startup expenses. These figures are estimates only and are based upon KidzArt and its officer's 19 years of franchise experience. KidzArt cannot guarantee that you will not have additional expenses starting your business. Your expenses will depend on factors such as: how close you follow KidzArt's methods and procedures; your management skill, experience and business acumen; local economic conditions, e.g., the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period.

You should review these figures carefully with a business advisor before deciding to purchase the franchise. None of these payments are refundable.

KidzArt does not provide financing arrangements for you. If you obtain financing from others to pay for some of the expenditures necessary to establish and operate the franchise, the cost of financing will depend on your creditworthiness, collateral, lending policies, financial condition of the lender, and regulatory environment.

YOUR ESTIMATED INITIAL INVESTMENT- CLUB SCIENTIFIC FRANCHISE

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Club Scientific Initial Franchise Fee (Note 2)	\$14,900	\$19,900	Lump sum	Upon signing Club Scientific Franchise Agreement	KidzArt
Initial Training (Note 3)	\$1,000	\$2,500	Lump sum	One week before training	KidzArt
Certified Instructor Training (excluding expenses) (Note 3)	\$0	\$700 (\$350 per person)	As incurred	Two weeks before training	KidzArt or a Certified Trainer KidzArt franchisee
Rent or Real Estate and Improvements	(Note 4)	(Note 4)			
Initial Science Materials (Note 5)	\$2,000	\$3,000	Lump sum	Upon signing the Club Scientific Franchise Agreement	KidzArt
Initial Club Scientific Marketing Materials Fee (Note 6)	\$800	\$800	Lump sum	After Opening	KidzArt
Club Scientific Initial Website Fee and Club Scientific Web Hosting Fee (3 months) (Note 7)	\$750	\$750	Lump sum	When Franchise Agreement signed	KidzArt or our Webmaster
Club Scientific Initial Registration Setup Fee (Note 8)	\$650	\$650	Lump sum	When Franchise Agreement signed	KidzArt or our Software Manufacturer

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Video Camera (Note 9)	\$0	\$600	Lump Sum	As incurred	Supplier
Local Advertising (Note 10)	\$34.68 or 1% of gross monthly revenue	\$843.12 or 1% of gross monthly revenue	As incurred	After Opening	Media Suppliers
Laptop Computers/tablets (12) (Note 11)	\$600	\$1,800	Lump Sum	As needed	Third party vendors
Software Packages (Note 12)	\$2,750	\$2,750	Lump Sum	As needed	Third Party Vendors
Summer Camp Materials (per 20 students for 2 different subject matter camps) (Note 13)	\$2,000	\$3,000	Lump Sum	Before offering camps	Third party vendor
Materials for optional LEGO/engineering subject matter camps (Note 14)	\$0	\$6,850	Lump Sum	Before offering camps	Third party vendor
Insurance (Note 15)	\$150	\$250	As Arranged	As Arranged	Insurance Company or Broker
Miscellaneous Opening Costs (Note 16)	\$2,000	\$4,500	As incurred	As incurred	Suppliers, Insurance, Utilities, etc.
Additional Funds – 3 months (Note 17)	\$500	\$2,500	As incurred	As incurred	Employees, Suppliers, Utilities
TOTALS (Note 18)	\$28,134.68 (excluding rent costs)	\$51,393.12 (excluding rent costs)			

Note 1. Except as otherwise described in the notes below, the table above provides an estimate of your initial investment and the costs necessary to begin operating a single Club Scientific Franchise. Actual costs will vary for each franchise location depending on a number of factors including market conditions and the geographic location of your Franchise. All fees and payments are non-refundable, unless otherwise stated. The initial fee is not refundable under any circumstances.

Note 2. The Club Scientific Franchise Fee is \$14,900 for a Club Scientific Teach franchise or \$19,900 for a Club Scientific Teach Plus franchise. You will pay the Club Scientific Franchise Fee in full upon signing the Club Scientific Franchise Agreement. We may also allow you to expand your Club Scientific Territory by paying us \$0.40 per additional qualifying household. See Item 5 for a description of the Club Scientific Franchise Fee. . If you expand your territory to 30,000 qualifying households or more, you then fall under the Club Scientific Teach Plus royalty requirements.

Note 3. See Items 6 and 11 for a complete explanation of our training program, and training costs. Our estimate includes lodging accommodations and dining expenses for two people. Your travel expenses, if any, will depend upon the distance of travel, mode of transportation, and the time of year in which your training occurs. The low range of \$0 represents the cost to train new Certified Instructors when you or your teachers have become Certified Trainers. To become a Certified Trainer for your employees, you or your designee must send in a video of the teacher teaching a full class while utilizing correct teaching methods and times.

Note 4. We expect that you will operate from your home office, but you may choose to operate from a commercial location we approve under a lease. Typical locations are less visible, lower cost office space. The typical space at a commercial location contains 200 to 1,000 square feet. (See Items 11 and 12). Our franchise is portable. You are prepared to start conducting business as soon as you leave training. Leaving training is when you are considered ready to open and operate your business. *Note 5.* If you purchase a Club Scientific Franchised Business or a Co-Branded Franchise, you must purchase from us or our approved vendor, upon signing the Club Scientific Franchise Agreement, an initial inventory of lab materials needed to begin operating your Club Scientific Franchised Business. Club Scientific Initial Science Materials Fee is estimated to be between \$2,000 - \$3,000. The materials and supplies you will need for your startup will depend on what afterschool and or camp(s) you chose to offer. Each lesson/program includes the material list. You can price out the options you chose. Robotic, video game making and some of the engineering camps may have big one time purchases. However, since registration for any program is paid in advance, you will have revenue to help off-set some of the initial costs for the materials. Some classes/camps may charge a materials fee in addition to the lesson cost. This is to cover larger products that the student may take home. You will receive the inventory of initial lab materials at initial training.

Note 6. You must pay us or our designated vendor the Club Scientific Initial Marketing Materials Fee for initial marketing materials needed to begin operating your Club Scientific Franchised Business. The Club Scientific Initial Marketing Materials Fee is \$800 and covers afterschool class materials. This price will go up to \$2,000 if you plan to offer day camps. The Club Scientific Initial Marketing Materials Fee is payable in full upon signing the Club Scientific Franchise Agreement and we or our designated vendor will send the marketing materials to you by mail or other means we designate based on your order size.

Note 7. Prior to commencing operations of your Club Scientific Franchised Business, you must pay us or our webmaster the \$750 Club Scientific Initial Website Fee to cover the cost for a custom website for your Club Scientific Franchise. This website will be designed, constructed,

hosted and maintained by our webmaster. You may not create or maintain any other websites for your Club Scientific Franchised Business. The range above also includes three months of the \$45 Club Scientific Monthly Web Hosting Fee.

Note 8. You must also pay us or our authorized supplier \$650 for setup of your online customer registration and class management program (the “Club Scientific Initial Online Registration Setup Fee”) prior to opening the Franchised Business. (excluding a rent of 1% of the Gross Revenues run through our On-line vendor’s system each month. This is the rent for their registration system. Plus credit card processing fees which are not included in this total listed above, but which you will pay) (also excludes credit card processing fees which are also not included in Item 7 as this will vary each month based on the revenue processed. You are responsible to pay these totals). Please See Items 6 and 11 for more information.

Note 9. You must purchase or have access to a video camera and tripod and a digital camera. A good photo quality image on a cell phone for video and a camera are acceptable. The low range of \$0 assumes you already own or have access to a video camera, or a cell phone with good video and pictures can also be taken.

Note 10. After opening, you must place advertisements for the Club Scientific Franchised Business. You must spend 1% of your monthly gross revenue on marketing and advertisements. For 2024 the average monthly cost is \$927.52; the lowest monthly cost being \$250; and the highest monthly cost being \$1,290.47. These figures are only estimates. The actual amount you will spend will be based on your monthly gross revenue.

Note 11. You must purchase enough 12 used laptop computers/tablets, or other devices as we may specify, which will be used in connection with the Club Scientific Programs, the costs of which range from \$50 to \$150 per tablet/computer. Please see Item 11 for more information regarding the computer requirements.

Note 12. You must purchase from various third party supplier’s software used in the Programs, including certain software programs we designate. Please see Item 11 for more information.

Note 13. You must purchase summer camp materials from a third-party vendor. The amounts reflected above represents the estimated cost of purchasing materials for 10 students for 2 different subject matter Camps.

Note 14. In the event, you wish to offer optional Materials for optional LEGO/engineering subject matter camps, you will be required to purchase additional equipment, materials and kits. The low range represents your costs if you do not offer the optional LEGO/engineering subject matter camps and the high range represents the costs for 20 students.

Note 15: The amount specified in the chart represents our estimate of your first three months of insurance premiums.

Note 16: Includes other deposits, utility costs, equipment, telephone and communications costs, licenses, and legal fees.

Note 17: This amount is an estimate of additional funds needed (working capital) for the initial phase of your business (first three months) based on figures from our franchises, industry

averages, and the current costs of operations. This is only an estimate, and it is possible that you will need additional working capital during the first three months you operate your business and for a longer time period after that. In addition, the estimates presented relate only to costs associated with the franchised business and do not cover any owners' salary or draw, any personal, "living," unrelated business or other expenses you may have, such as royalty payments, debt service on any loans, state sales, and/or use taxes on goods and services, and a variety of other amounts not described above. These figures do not include a training fee or travel and living expenses for a third or additional attendee at initial training. We recommend that, in addition to the additional funds shown, you have sufficient personal savings or income so that you will be self-sufficient for at least three months after start-up.

Note 18: This estimates your initial startup expenses. These figures are estimates only and are based upon KidzArt and its officer's ~~19~~²⁰ years of franchise experience. These figures are estimates, and KidzArt cannot guarantee that you will not have additional expenses starting your business. Your expenses will depend on factors such as: how much you follow KidzArt's methods and procedures; your management skill, experience and business acumen; local economic conditions, e.g., the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period.

You should review these figures carefully with a business advisor before deciding to purchase the franchise. None of these payments are refundable.

KidzArt does not provide financing arrangements for you. If you obtain financing from others to pay for some of the expenditures necessary to establish and operate the franchise, the cost of financing will depend on your creditworthiness, collateral, lending policies, financial condition of the lender, and regulatory environment.

YOUR ESTIMATED INITIAL INVESTMENT- CO-BRANDED FRANCHISE

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Co-Branded Initial Franchise Fee (Note 2)	\$25,000	\$35,000	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum.	KidzArt

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Initial Training (Note 3)	\$1,000	\$2,500	Lump sum	One week before training	KidzArt
Certified Instructor Training (excluding expenses) (Note 3)	\$0	\$700 (\$350 per person)	Lump sum	Two weeks before training	KidzArt or a Certified Trainer KidzArt franchisee
Rent or Real Estate and Improvements	(Note 4)	(Note 4)			
Initial Art Inventory Fee (Note 5)	\$2,000	\$2,000	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt
Initial Science Inventory (Note 6)	\$2,000	\$3,000	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt
KidzArt Initial Marketing Materials Fee (Note 7)	\$800	\$800	Lump sum	After opening	KidzArt

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Club Scientific Initial Marketing Materials Fee (Note 8)	\$800	\$ 2,000	Lump sum	After Opening	KidzArt
KidzArt Initial Website Fee and KidzArt Web Hosting Fee (Note 9)	\$750	\$750	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt or our Webmaster
Club Scientific Initial Website Fee and Club Scientific Web Hosting Fee (3 months) (Note 10)	\$750	\$750	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt or our Webmaster
Initial KidzArt Registration Setup Fee (Note 11)	\$ 650	\$650	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt or our Software Manufacturer

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
Initial Club Scientific Registration Setup Fee (Note 12)	\$650	\$650	Lump sum	Upon signing the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and the Co-Branded Franchise Addendum	KidzArt or our Software Manufacturer
Video camera (Note 13)	\$0	\$600	Lump Sum	As incurred	Supplier
Laptop Computers/tablets (12) (Note 14)	\$600	\$1,800.	Lump Sum	Before Opening classes using laptops/tablets	Third party vendors
Club Scientific Software Packages (Note 15)	\$2,750	\$2,750	Lump Sum	Before Opening classes using laptops/tablets	Third Party Vendors
Summer Camp Materials ((per 20 students for 2 different subject matter camps) (Note 16)	\$2,000	\$3,000	Lump Sum	Before offering camps	Third party vendor
Materials for optional LEGO/engineering subject matter camps (Note 17)	\$0	\$6,850	Lump Sum	Before offering camps	Third party vendor
Insurance (Note 18)	\$150	\$250	As Arranged	As Arranged	Insurance Company or Broker
Local Advertising (Note 19)	\$48.14 or 1% of gross monthly revenue	\$447.79 or 1% of gross monthly revenue	As incurred	After opening	Media Suppliers
Miscellaneous Opening Costs (Note 20)	\$2,000	\$4,500	As incurred	As incurred	Suppliers, Insurance, Utilities, etc.
Additional Funds – 3 months (Note 21)	\$500	\$2,500	As incurred	As incurred	Employees, Suppliers, Utilities

Type of Expenditure (Note 1)	Amount		Method of payment	When due	To whom payment is to be made
	Low	High			
TOTALS (Note 22)	\$ 42,448.14 (excluding rent costs)	\$71,497.79 (excluding rent costs)			

Note 1. Except as otherwise described in the notes below, the table above provides an estimate of your initial investment and the costs necessary to begin operating a Co-Branded Franchise. Actual costs will vary for each franchise location depending on a number of factors including market conditions and the geographic location of your Co-Branded Franchise. All fees and payments are non-refundable, unless otherwise stated. The initial fee is not refundable under any circumstances.

Note 2. The initial franchise fee to open a Co-Branded Teach Franchise is \$25,000 and a Co-Branded Teach Plus Franchise is \$35,000 and is payable to KidzArt in full upon signing the Club Scientific Franchise Agreement and KidzArt Franchise Agreement and Co-Branding Franchise Addendum. We may also allow you to expand your Co-Branded Franchise's Territory by paying us \$0.80 per additional qualifying household. See Item 5 for a description of the Co-Branded Franchise Fee.

Note 3. See Items 6 and 11 for a complete explanation of our training program and training costs. Our estimate includes lodging accommodations and dining expenses for two people. Your travel expenses, if any, will depend upon the distance of travel, mode of transportation, and the time of year in which your training occurs. Your travel expenses, if any, will depend upon the distance of travel, mode of transportation, and the time of year in which your training occurs. The low range of \$0 represents the cost to train new Certified Instructors when you or your teachers have become Certified Trainers. To become a Certified Trainer for your employees, you or your designee must send in a video of the teacher teaching a full class while utilizing correct teaching methods and times.

Note 4. We expect that you will operate from your home office, but you may choose to operate from a commercial location we approve under a lease. Typical locations are less visible, lower cost office space. The typical space at a commercial location contains 200 to 1,000 square feet. (See Items 11 and 12). Our franchise is portable. You are prepared to start conducting business as soon as you leave training. Leaving training is when you are considered ready to open and operate your business.

Note 5. If you purchase a Co-Branded Franchise, you must pay us a fee of \$2,000 upon signing the KidzArt Franchise Agreement for an initial inventory of art supplies needed to begin operating your KidzArt Franchised Business. You will receive the initial inventory at initial training; you can also request to have this initial inventory mailed to you.

Note 6. If you purchase a Club Scientific Franchised Business or a Co-Branded Franchise, you must purchase from us, upon signing the Club Scientific Franchise Agreement, an initial

inventory of lab materials needed to begin operating your Club Scientific Franchised Business. You will receive the inventory of initial lab materials at initial training.

Note 7. You must pay us or our designated vendor the \$800 KidzArt Initial Marketing Materials Fee for initial marketing materials needed to begin operating your KidzArt Franchised Business. The KidzArt Initial Marketing Materials Fee is payable in full upon signing the KidzArt Franchise Agreement and we will send the marketing materials to you by mail or other means we designate.

Note 8. You must pay us or our designated vendor the Club Scientific Initial Marketing Materials Fee for initial marketing materials needed to begin operating your Club Scientific Franchised Business. The Club Scientific Initial Marketing Materials Fee is \$800 if you do not offer day camps and \$2,000 if you plan to offer day camps. The Club Scientific Initial Marketing Materials Fee is payable in full upon signing the Club Scientific Franchise Agreement and we will send the marketing materials to you by mail or other means we designate.

Note 9. Prior to commencing operations of your KidzArt Franchised Business, you must pay us or our webmaster the \$750 KidzArt Initial Website Fee to cover the cost for a custom website for your KidzArt Franchise. This website will be designed, constructed, hosted and maintained by our KidzArt webmaster. You may not create or maintain any other websites for your KidzArt Franchise. The range above also includes three months of the ~~\$3045~~ KidzArt Monthly Web Hosting Fee.

Note 10. Prior to commencing operations of your Club Scientific Franchised Business, you must pay us or our webmaster the \$750 Club Scientific Initial Website Fee to cover the cost for a custom website for your Club Scientific Franchise. This website will be designed, constructed, hosted and maintained by our webmaster. You may not create or maintain any other websites for your Club Scientific Franchised Business. The range above also includes three months of the ~~\$3045~~ Club Scientific Monthly Web Hosting Fee.

Note 11. You must also pay us or our authorized supplier the \$650 KidzArt Online Registration Setup Fee prior to opening the Franchised Business. -. Please See Items 6 and 11 for more information.

Note 12. You must also pay us or our authorized supplier the \$650 for Club Scientific Initial Online Registration Setup Fee prior to opening the Franchised Business. Please See Items 6 and 11 for more information.

Note 13. You must purchase or have access to a video camera and tripod and a digital camera. The low range of \$0 assumes you already own or have access to a video camera. A good photo quality image on a cell phone for video and a camera are acceptable.

Note 14. You must purchase 12 used laptop computers/tablets, which will be used in connection with the Club Scientific Programs, the costs of which range from \$50 to \$150 per computer. Please see Item 11 for more information regarding the computer requirements.

Note 15. You must purchase from various third party suppliers software used in the Programs, including certain software programs we designate. Please see Item 11 for more information.

Note 16. You must purchase summer camp materials from a third party vendor. The amounts reflected above represents the estimated cost of purchasing materials and kits for 20 students for 2 different subject matter Camps.

Note 17. In the event you wish to offer optional Materials for optional LEGO/engineering subject matter camps, you will be required to purchase additional equipment, materials and kits. The low range represents your costs if you do not offer the optional for optional LEGO/engineering subject matter camps and the high range represents the costs for 20 students.

Note 18. The amount specified in the chart represents our estimate of your first three months of insurance premiums.

Note 19. After opening, you must place advertisements for the Co-Branded Franchise. You must spend 1% of your monthly gross revenue on marketing and advertisements. For 2024³ the average monthly cost is \$~~48,142~~227.52; the lowest monthly cost being \$~~258~~7.53; and the highest monthly cost being \$~~1,524.93~~447.79. These figures are only estimates. The actual amount you will spend will be based on your actual monthly gross revenue.

Note 20. Includes other deposits, utility costs, equipment (including video camera and tripod), telephone and communications costs, licenses, and legal fees.

Note 21. This amount is an estimate of additional funds needed (working capital) for the initial phase of your business (first three months) based on figures from our franchises, industry averages, and the current costs of operations. In addition, the estimates presented relate only to costs associated with the franchised business and do not cover any owners' salary or draw, any personal, "living," unrelated business or other expenses you may have, such as royalty payments, debt service on any loans, state sales, and/or use taxes on goods and services, and a variety of other amounts not described above. These figures do not include a training fee or travel and living expenses for a third or additional attendee at initial training. We recommend that, in addition to the additional funds shown, you have sufficient personal savings or income so that you will be self-sufficient for at least three months after start-up.

Note 22. This estimates your initial startup expenses. These figures are estimates only and are based upon KidzArt and its officers ~~19~~20 years of franchise experience. KidzArt cannot guarantee that you will not have additional expenses starting your business. Your expenses will depend on factors such as: how much you follow KidzArt's and Club Scientific's methods and procedures; your management skill, experience and business acumen; local economic conditions, e.g., the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period.

You should review these figures carefully with a business advisor before deciding to purchase the franchise. None of these payments are refundable.

KidzArt does not provide financing arrangements for you. If you obtain financing from others to pay for some of the expenditures necessary to establish and operate the franchise, the cost of financing will depend on your creditworthiness, collateral, lending policies, financial condition of the lender, and regulatory environment.

ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We reserve the right to require that any equipment, products, services and/or supplies used in connection with the operation of the franchised business be purchased exclusively from us or our affiliates or suppliers or distributors we designate. You must use in the KidzArt Franchised Business, the Club Scientific Franchised Business or the Co-Branded Franchise only the art and/or science curricula we provide. We will provide the art and/or science curricula at no cost to you. We are the only approved supplier of art and science curricula.

You must purchase from us or our designated vendor the initial inventory of art materials, science lab materials and marketing materials you will need to begin operating your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise. We also require that you use an online customer registration and class management service provided by us or a vendor we have authorized. See Item 6 for the Technology Fees related to this service.

You currently must purchase from us certain supplies or products that apply to various KidzArt curricula or lesson plans. To do this, you must apply for and keep current a resale license in the state where the Office is located. Except as provided above, KidzArt is not an approved or designated supplier of any item that you must buy.

We may offer bulk purchasing to receive the lowest possible price for products and services sold by KidzArt and its franchisees. We may derive revenue from supplies and products you purchase from us as well as from suppliers that sell products to you. We will use this revenue to offset our operating expenses.

In the fiscal year ending December 31, 202~~23~~, KidzArt's revenue from franchisee purchases and leases totaled \$0, which represents approximately 0% of KidzArt's total revenues of ~~\$349,377.00~~61,126.58. None of our affiliates received revenues from required franchisees' purchases or leases during the fiscal year ended December 31, 202~~32~~.

To maintain quality and uniformity throughout the KidzArt and Club Scientific systems, we may require that the goods, services, supplies, fixtures, equipment, inventory, insurance, computer hardware and software, and the premises you use to operate your business meet certain standards or specifications. The Manuals and our websites provide you with the standards or specifications to which you must adhere, and the names and addresses of designated and recommended vendors, who may or may not be affiliated with us, with whom you must or may do business. We have the right to change our standards and specifications in our discretion, and you may incur additional costs in complying with this change, for which you are solely responsible. We may require you to purchase certain signs, furnishings, supplies, fixtures, computer hardware and software, and other equipment, inventory, services, and other products and services from us or from approved or designated third party supplies as we may specify from time to time. We may

require you to obtain art products from a designated source, and we

may require you to purchase the Computer System and software (defined in Item 11) from a designated source, although we do not impose these requirements now.

Other than as described above, you currently may purchase from any vendor of your choosing as long as you follow our standards and specifications and obtain our approval. We will give you our decision within 30 days in writing, either via e-mail or another form of written correspondence. We may base our approval of any proposed item or supplier on considerations relating not only directly to the item or supplier itself (such as the quality and safety of products, standards of service, the supplier's reputation in the marketplace, and the supplier's pricing), but also other factors such as the uniformity, efficiency and quality of operation we deem necessary or desirable in our system as a whole, the confidentiality of our standards and specifications, and our ability to earn revenue from your purchase of goods and services. Our criteria for approval of a particular supplier or product will be made available upon written request. We may revoke our approval of particular products or suppliers when we determine, in our sole discretion, that such products or suppliers no longer meet our standards. Upon receipt of written notice of such revocation, you must cease purchasing products from such suppliers. If we incur any costs in connection with testing a particular product or evaluating an unapproved supplier at your request, you must reimburse us for our actual testing costs, regardless of whether we subsequently approve the item or supplier. KidzArt sells you an initial inventory of art supplies, science materials and marketing materials. (See Item 5) During the franchise term, we may require you, on a going- forward basis, to obtain products and services that previously could be obtained from any approved or other available supplier only from sources we designate (including and/or limited to us and/or our affiliates).

You must purchase insurance coverage for your franchised business according to our specifications. You will obtain and maintain, at your own expense, such insurance as is described in the Manuals and such other insurance as may be required by law throughout the term of your Franchise Agreement. Currently, our minimum insurance requirements include the following: (i) a property deductible of \$250; (ii) comprehensive general liability insurance, containing minimum liability protection of one million dollars (\$1,000,000) combined single limit per occurrence, and two million dollars (\$2,000,000) in the aggregate; (iii) professional liability insurance, containing minimum liability protection of one million dollars (\$1,000,000) combined single limit per occurrence, and two million dollars (\$2,000,000) in the aggregate; (iv) products liability insurance of two million dollars (\$2,000,000); (v) fire damage legal liability insurance of one hundred thousand dollars (\$100,000); (vi) medial payments insurance of ten thousand dollars (\$10,000); (vii) hired and non-owned auto liability insurance of one million dollars (\$1,000,000) and (viii) any other insurance that we may specify in the Manuals or otherwise in writing from time to time. You shall add us and any other parties we may designate to all insurance policies as additional insureds under the insurance policies, the cost of which, if applicable, will be paid by you. All insurance policies shall be issued by insurance companies with a rating of A-VI or better as reported in the most recent edition of A.M. Best's Insurance Reports. Our acceptance of an insurance carrier does not constitute our representation or guarantee that the insurance carrier will be capable of meeting claims during the term of the insurance policy. All insurance policies will contain a waiver of subrogation in favor of us and any other party we designate. The insurance must be primary coverage without right of contribution from any other insurance coverage we maintain. You must provide us with copies of any insurance claims or insurance cancellations within 24 hours. You have a 24-hour

opportunity to cure any lapses in insurance coverage. The policy will provide that it may not be modified or canceled unless we are given at least 30 days' prior written notice by the insurance carrier. You will provide us with a certificate of such insurance issued by your insurance carrier before or on the date you commence operation of the Franchised Business and subsequently, before the renewal of such policy. We may, from time to time and in our sole discretion, increase or otherwise modify the minimum insurance requirements upon 30 days' prior written notice to you, and you shall comply with any such modification within the time specified in said notice. If you fail to obtain or maintain the required insurance in accordance with this section, we have the right to your Franchise obtain such insurance and keep same in force and effect and you shall pay us, on demand, the premium cost thereof and administrative costs of 18% in connection with our obtaining the insurance.

KidzArt may negotiate purchase arrangements with suppliers or vendors to obtain price terms and other benefits of a buying cooperative. KidzArt currently has no purchasing or distribution cooperatives. We do not provide material benefits to you (for example, renewal or granting additional franchises) for using designated or approved sources.

The purchases and leases described above are approximately 90% of your overall purchases and leases in establishing a KidzArt Franchised Business or Club Scientific Franchised Business. The purchases and leases described above are approximately 90% of your overall purchases and leases in operating a KidzArt Franchised Business or Club Scientific Franchised Business. Our officers own an interest in KidzArt Products, LLC. None of our officers owns an interest in any other supplier and no other persons affiliated with us are currently approved suppliers. No affiliate receives any revenue from required purchases or leases by franchisees.

Prior to the initial training, you must sign a form allowing Franchisor to conduct both a credit and criminal background check. Franchisor will cover all costs related to both the credit and criminal background check for you the Franchisee. If a criminal record is found, the franchisee is disqualified from owning a Franchised Business, which results in the voiding of the franchise agreement, ending of training, and return of the Initial Franchise Fee and any other fees paid by such franchisee to Franchisor. The type of background check that is required depends on the type required by the school that will host the programs offered by your Franchised Business. At a minimum, Franchisor requires that an all-state criminal review is run for Franchisee and each teacher-employee hired by Franchisee, if any. The cost of such background check is approximately \$25.00, but may change without notice across the country or in various areas. Franchisee will cover the cost of any background checks run for each teacher-employee hired by Franchisee, if any. Further, Franchisee and any teacher-employees, if any, must also be fingerprinted. Such fingerprinting is usually done by third-party vendors or the school that will host Franchisee's programs. Often the school will cover the cost of fingerprinting, but if not, Franchisee will be required to cover the costs, which is approximately

\$50.00, but may change without notice across the country or in various areas. We have no control over pricing for these services.

ITEM 9 FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.

<i>Obligation</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Section in Co- Branding Franchise Addendum</i>	<i>Disclosure Document Item</i>
a. Site selection and acquisition/lease	Section 1.2(a)	Section 1.2(a)	Section 2	Items 11 and 12
b. Pre-opening purchases/leases	Sections 1.2 and 1.3	Sections 1.2 and 1.3	Not applicable.	Items 7, 8 and 11
c. Site development and other preopening requirements	Sections 1.2 and 1.3	Sections 1.2 and 1.3	Section 2	Item 11
d. Initial and ongoing training	Section 1.5	Section 1.5	Not Applicable.	Item 11
e. Opening	Section 1.2	Section 1.2	Not Applicable.	Item 11
f. Fees	Section 2.1	Section 2.1	Sections 1,2 and 7	Items 5 and 6
g. Compliance with standards and policies/operating manual	Sections 1.4 and 1.6	Sections 1.4 and 1.6	Not applicable.	Items 8, 11 and 16
h. Trademarks and proprietary information	Sections 3.1 and 3.2	Sections 3.1 and 3.2	Not applicable.	Items 13 and 14

<i>Obligation</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Section in Co- Branding Franchise Addendum</i>	<i>Disclosure Document Item</i>
i. Restrictions on products/services offered	Section 1.1(d)	Section 1.1(d)	Not applicable.	Item 16
j. Warranty and customer service requirements	Section 1.6(b)	Section 1.6(b)	Not applicable.	Item 11
k. Territorial development and sales quotas	Sections 1.1(b) and 1.7(a)	Sections 1.1(b) and 1.7(a)	Section 2	Item 12
l. Ongoing product/service purchases	Section 1.3	Section 1.3	Not applicable.	Item 8
m. Maintenance, appearance and remodeling requirements	Section 1.2	Section 1.2	Not applicable.	Item 11
n. Insurance	Section 1.3(j)	Section 1.3(j)	Not applicable.	Items 7 and 8
o. Advertising	Section 1.7	Section 1.7	Section 1	Items 7 and 11
p. Indemnification	Section 6.2	Section 6.2	Not applicable	Item 13
q. Owner's participation / management / staffing	Section 1.5	Section 1.5	Section 5	Items 11 and 15
r. Records and reports	Sections 2.1 and 2.2	Sections 2.1 and 2.2	Not applicable.	Item 11
s. Inspections and audits	Section 2.2	Section 2.2	Not applicable.	Item 11

<i>Obligation</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Section in Co-Branding Franchise Addendum</i>	<i>Disclosure Document Item</i>
t. Transfer	Sections 4.1 and 4.2	Sections 4.1 and 4.2	Not applicable.	Item 17
u. Renewal	Section 5.1(b)	Section 5.1(b)	Not applicable.	Item 17
v. Post-termination obligations	Section 5.3	Section 5.3	Not applicable.	Item 17
w. Non-competition covenants	Section 3.3	Section 3.3	Sections 9	Items 16 and 17
x. Dispute resolution	Article VII	Article VII	Not applicable.	Item 17
y. Other: Personal Guaranty	Section 1.1(g)	Section 1.1(g)	Not applicable.	Item 15

ITEM 10 FINANCING

We do not offer direct or indirect financing. We do not guaranty your lease or any other obligation.

ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as listed below, we are not required to provide you with any assistance.

A. The KidzArt Franchised Business

Before Opening

Before you open your KidzArt Franchised Business or Co-Branded Franchise, we will provide the following assistance with respect to the following:

We will provide you an initial inventory of art supplies upon payment of the Initial Art Inventory Fee and initial marketing materials upon payment of the KidzArt Initial Marketing Materials Fee.

We will provide you with guidelines and criteria for Program Facilities, such as public and private schools, recreation centers, churches and other religious affiliated institutions and community centers, YMCAs and similar organizations (the "Program Facilities") from which

Programs will be offered. (KidzArt Franchise Agreement - Section 1.2(a).) Programs may not be conducted at your Site if the Site is located at your home office.

You will receive an exclusive Teach or Teach Plus territory with a population of approximately 15,000 qualifying households for a Teach territory or 30,000 qualifying households for a Teach Plus territory. A qualifying household is one with an annual income over \$75,000, as determined by U.S. Census Bureau. We may also allow you to expand your Territory beyond the standard 15,000 or 30,000 qualifying households by paying us \$0.40 per additional qualifying household. If you expand your territory to 30,000 qualifying households or beyond, this becomes known as a Teach Plus territory.

A Teach territory is 15,000 qualifying households. This size business model is for a franchisee that wants to get started and either teach themselves or hire 1-2 teachers. They can expand and grow by buying more qualifying households in neighboring zip codes that touch their current territory. This option allows a franchisee to keep more of their financial resources and only spend to enlarge their territory when they want a bigger business.

A Teach Plus territory is 30,000 qualifying households or larger. This size business model is for a franchisee that does not expect to teach many classes themselves. They come in expecting to grow a bigger business by hiring other people to teach while they concentrate on growing the business. The owner or manager will aggressively add more locations, classes, and students. A Teach Plus size territory is for those wanting to build a larger territory and business.

If you purchase a Co-Branded Franchise, you will choose either the Teach or Teach Plus territory size for your franchise. Each has a different Franchise Fee based on the size territory you want to own. You may expand your territory by paying us \$0.80 per additional qualifying household (See Items 5 and 6.) Your Territory will be delineated by counties, zip codes, boundary streets or highways, and will depend to some extent on the number of schools and facilities available to teach KidzArt classes or Club Scientific Programs. You maintain rights to your area even though the population increases.

We will loan to you and give you online access to our confidential manuals, which contain mandatory and suggested specifications, standards and procedures. (Franchise Agreement - Section 1.4(a).) The KidzArt Manuals currently contain approximately 527 pages. The tables of content of the current manuals are attached to this disclosure document as Exhibit E.

We provide an initial training program for you (or your managing owner if you are a legal entity) and a second person, as explained below in this Item 11. We also provide training of additional and replacement managers and employees who have not completed the initial training, at your expense. If you want to become a Certified Trainer so you can train your own staff you must submit a yearly video of you teaching a class. The annual review cost is \$100 per trainer reviewed.

We provide a custom website for your KidzArt Franchised Business. The Initial KidzArt Website Fee is used to cover our costs in employing a webmaster who designs, constructs,

hosts and maintains such websites. We will provide you with a website that includes some customizable pages that you agree to populate and maintain with current, relevant, and approved information. Any and all information, images, or other content you enter are subject to our approval. (KidzArt Franchise Agreement – Section 1.8(b). See Item 7.) You may not establish a separate Internet site or page without our prior written consent. We will provide mandatory policies regarding your use of social media.

We provide such other assistance with respect to pre-opening and opening activities as we deem necessary or desirable. We try to work with you the first week following training to make sure you are acquainted with and can demonstrate that you can access our material storage, emails, website, etc.

During Operation

During the operation of your KidzArt Franchised Business or Co-Branded Franchise, we will do the following:

We will research and possibly develop new services and methods and provide you with information about these developments. (KidzArt Franchise Agreement – Section 1.4(b).)

We may establish websites to advertise, market, and promote KidzArt, the Programs and other services and products they offer and sell, and the KidzArt franchise opportunity. We may use contributions to the KidzArt Advertising Fund to develop and implement website optimization programs, including obtaining paid listings, inserting meta tags into its website(s), and engaging in search engine optimization programs. We may discontinue operation of any such website at any time.

We will provide to you an information base in the form of the KidzArt portal or another method. (KidzArt Franchise Agreement – Section 1.8(d).)

We will not provide any assistance in establishing prices at which the franchisee must sell its products and services. You are responsible for keeping up-to-date on competitors' pricing in sales and service and charging revising pricing and specials.

We will provide support and guidance from time to time, either in person, by telephone, by e-mail, video, webinar or in writing, regarding the operation of the franchised business. At your request, and if we agree, we will furnish additional on-site guidance and assistance and, in such case, we may require you to pay our then-current fees and expenses. (KidzArt Franchise Agreement – Section 1.5(g).)

We may hold annual conferences to discuss on-going changes in the industry, operational techniques, product and service developments, personnel training, bookkeeping, accounting, performance standards, advertising programs, and new service procedures. (KidzArt Franchise Agreement – Section 1.5(g).) You must attend the annual conferences and pay our annual

conference fee. The conference fee will depend on the direct costs to KidzArt of retaining speakers and other direct expenses associated with the conference. (See Item 6.) You must pay all your travel and living expenses. These conferences will be held at our then- current corporate headquarters or another location we choose.

We will review all advertising materials you submit to us for your use in local advertising. (KidzArt Franchise agreement, Section 1.7.)

If you refer a prospective franchisee to us who ultimately purchases a KidzArt franchise, we reserve the right to pay you up to \$2,000, although we may stop this practice or change the amount of the payment at any time.

We provide such other assistance and support as we may deem necessary or desirable to assist you in connection with the operation of a KidzArt Franchised Business.

B. The Club Scientific Franchised Business

Before Opening

Before you open your Club Scientific Franchised Business or Co-Branded Franchise, we will provide the following assistance:

We will provide you an initial inventory of lab materials upon payment of the Initial Science Inventory Fee and initial marketing materials upon payment of the Club Scientific Initial Marketing Materials Fee.

We will provide you with guidelines and criteria for Program Facilities, such as public and private schools, recreation centers, churches and other religious affiliated institutions and community centers, YMCAs and similar organizations (the "Program Facilities") from which Programs will be offered. (Club Scientific Franchise Agreement - Section 1.2(a).) Programs may not be conducted at your Site if the Site is located at your home office.

We will loan to you and give you online access to our confidential Club Scientific manuals, which contain mandatory and suggested specifications, standards and procedures. (Club Scientific Franchise Agreement - Section 1.4(a).) The Club Scientific Manuals currently contain approximately 341 pages. The tables of content of the current manuals are attached to this disclosure document as Exhibit E.

We provide an initial training program for you (or your managing owner if you are a legal entity) and a second person, as explained below in this Item 11. We also provide training of additional and replacement managers and employees who have not completed the initial training, at your expense.

We provide a custom website for your Club Scientific Franchised Business. Our webmaster will design, construct, host and maintain such websites at your expense. (Club Scientific Franchise Agreement – Section 1.8(b). See Item 7.) You may not establish a separate Internet site or page without our prior written consent. We will provide mandatory policies regarding your use of social media.

We provide such other assistance with respect to pre-opening and opening activities as we deem necessary or desirable just before and including the first week of operation of your Club Scientific Franchised Business.

During Operation

During the operation of your Club Scientific Franchised Business, we will do the following:

We will research and possibly develop new services and methods and provide you with information about these developments. (Club Scientific Franchise Agreement – Section 1.4(b).)

We may establish websites to advertise, market, and promote Club Scientific, the services and products they offer and sell, and the Club Scientific franchise opportunity. We may use contributions to the Club Scientific Advertising Fund to develop and implement website optimization programs, including obtaining paid listings, inserting meta tags into its website(s), and engaging in search engine optimization programs. We may discontinue operation of any such website at any time.

We will provide to you an information base in the form of the Club Scientific portal or another method. (Club Scientific Franchise Agreement – Section 1.8(d).)

We will provide support and guidance from time to time, either in person, by telephone, by e-mail, video, webinar or in writing, regarding the operation of the franchised business. At your request, and if we agree, we will furnish additional on-site guidance and assistance and, in such case, we may require you to pay our then-current fees and expenses. (Club Scientific Franchise Agreement – Section 1.5(g).)

We may hold annual conferences to discuss on-going changes in the industry, operational techniques, product and service developments, personnel training, bookkeeping, accounting, performance standards, advertising programs, and new service procedures. (Club Scientific Franchise Agreement – Section 1.5(g).) You must attend the annual conferences and pay our annual conference fee. The conference fee will depend on the direct costs to KidzArt of retaining speakers and other direct expenses associated with the conference. (See Item 6.) You must pay all your travel and living expenses. These conferences will be held at our then-current corporate headquarters or another location we choose.

We will review all advertising materials you submit to us for your use in local advertising. (Club Scientific Franchise Agreement, Section 1.7.)

If you refer a prospective franchisee to us who ultimately purchases a Club Scientific franchise, we reserve the right to pay you up to \$2,000, although we may stop this practice or change the amount of the payment at any time.

We provide such other assistance and support as we may deem necessary or desirable to assist you in connection with the operation of a Club Scientific Franchised Business.

We will not provide any assistance in establishing prices at which the franchisee must sell its products and services. You are responsible for keeping up to date on competitors' pricing in sales and services and charging and revising pricing and specials.

Advertising

The KidzArt Advertising Fund

We have established and will administer a formal KidzArt Advertising Fund (the “KidzArt Fund”) for advertising, marketing, and public relations programs and materials we deem appropriate. We began operating the KidzArt Fund in March 2005. You must contribute to the KidzArt Fund the greater of (i) 1% of the gross revenues of your KidzArt Franchised Business; or (ii) \$25 per month. (KidzArt Franchise Agreement – Section 2.1(e).) KidzArt businesses operated by us or our affiliates are not required to contribute to the KidzArt Fund.

We direct all programs that the KidzArt Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The KidzArt Fund may pay for preparing and producing video, audio, and written materials and electronic media; developing, implementing, and maintaining an electronic commerce website and/or related strategies (like a franchise system intranet or extranet); obtaining and maintaining toll-free numbers for the KidzArt system; administering regional and multi-regional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising; using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public relations, market research, and other advertising, promotion, and marketing activities. The KidzArt Fund may advertise locally, regionally, or nationally in printed materials, on radio or television, or on the Internet, whatever we think is best. We or a local or regional advertising agency produce all advertising and marketing. The KidzArt Fund periodically will give you samples of advertising, marketing, and promotional formats and materials at no cost. You may obtain multiple copies from our specified vendor, often at bulk rates. Only after we have proofed, approved your content, and brand awareness in writing are you permitted to print the logos and/or purchase copies from your local merchant.

While we do not anticipate that any part of the KidzArt Fund contributions will be used for advertising which is principally a solicitation for KidzArt franchisees, we reserve the right to use the Advertising Fund for public relations or recognition of the “KidzArt” brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating “Franchises Available.” We may periodically assist franchises to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives (“Surveys”). The cost of such programs will be borne by the KidzArt Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below our established minimum standards for such Surveys.

We may choose, at our discretion, to advance or loan money to the Advertising Fund on the terms and conditions we deem appropriate. In the event that we advance monies to the Advertising Fund, we will determine, in our sole discretion, the manner and timing for the repayment to us, of some, or all, of the funds we advance.

We will account for the KidzArt Fund separately from other funds that we administer and will not use the KidzArt Fund for our general operating expenses. However, we may use the KidzArt Fund to pay the reasonable salaries and benefits of personnel who manage and administer the KidzArt Fund, the KidzArt Fund's other administrative costs, travel expenses of personnel while they are on KidzArt Fund business, meeting costs, overhead and other expenses that we incur in activities reasonably related to administering or directing the KidzArt Fund and its programs, including conducting market research; public relations; preparing advertising, promotion, and marketing materials; and collecting and accounting for KidzArt Fund contributions. During the 2022~~23~~ calendar year, KidzArt Fund spending was as follows: 97% on production of ads/ promotional materials, ~~16~~50% on marketing, 520% on web maintenance and ~~70~~23% on administrative expenses. The advertising funds were not exhausted within the fiscal year they were accrued.

The KidzArt Fund is not our asset and it is not a trust. We have a contractual obligation to hold all KidzArt Fund contributions for the benefit of the contributors and to use contributions only for their permitted purposes, as described above. We have no fiduciary obligation to you for administering the KidzArt Fund. The KidzArt Fund may spend in any fiscal year more or less than the total KidzArt Fund contributions collected in that year. It may borrow from us or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. We will use interest earned on KidzArt Fund contributions to pay costs before spending the KidzArt Fund's other assets. We will prepare an annual, unaudited statement of KidzArt Fund collections and expenses and give it to you upon written request. The KidzArt Fund is not required to be independently audited by an independent certified public accountant. We may incorporate the KidzArt Fund or operate it through a separate entity when we think it is best. The successor entity will have all of the rights and duties described here.

The KidzArt Fund is used to maximize recognition of the trademarks and to promote KidzArt businesses. Although we will try to use the KidzArt Fund to develop advertising and marketing materials and programs and to place advertising and marketing that will benefit all KidzArt businesses, we need not ensure that KidzArt Fund expenditures in or affecting any geographic area are proportionate or equivalent to KidzArt Fund contributions by KidzArt businesses operating in that geographic area or that any KidzArt business benefits directly or in proportion to its KidzArt Fund contribution from the development of advertising and marketing materials or the placement of advertising. We may use collection agents and institute legal proceedings to collect KidzArt Fund contributions at the KidzArt Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the KidzArt Fund. We assume no other direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the KidzArt Fund.

We may at any time defer or reduce a franchisee's KidzArt Fund contributions and, upon 30 days' prior written notice to you, reduce or suspend KidzArt Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the KidzArt Fund. If we terminate the KidzArt Fund, it will distribute all unspent monies to franchisees in proportion to their respective contributions during the preceding 12-month period. (KidzArt Franchise Agreement – Section 1.7(k).)

Co-Branded Teach Franchises are treated as having two separate businesses for purposes of advertising fund contributions, so that such franchisees will contribute to the KidzArt Fund

based on Gross Revenues from their KidzArt business and will separately contribute to the Club Scientific Fund based on Gross Revenues from their Club Scientific business.

The Club Scientific Advertising Fund

We have established and will administer a formal Club Scientific Advertising Fund (the "Club Scientific Fund") for advertising, marketing, and public relations programs and materials we deem appropriate. You must contribute to the Club Scientific Fund the greater of (i) 1% of the gross revenues of your Club Scientific Franchised Business; or (ii) \$25 per month. (Club Scientific Franchise Agreement – Section 2.1(e).) Club Scientific businesses operated by us or our affiliates are not required to contribute to the Club Scientific Fund. Franchisees operating under a different form of franchise agreement might not be required to contribute to the Club Scientific Fund at all or might contribute at different rates.

We direct all programs that the Club Scientific Fund finances, with sole control over the creative concepts, materials, and endorsements used and their geographic, market, and media placement and allocation. The Club Scientific Fund may pay for preparing and producing video, audio, and written materials and electronic media; developing, implementing, and maintaining an electronic commerce website and/or related strategies (like a franchise system intranet or extranet); obtaining and maintaining toll-free numbers for the Club Scientific system; administering regional and multi-regional marketing and advertising programs, including purchasing trade journal, direct mail, and other media advertising; using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public relations, market research, and other advertising, promotion, and marketing activities. The Club Scientific Fund may advertise locally, regionally, or nationally in printed materials, on radio or television, or on the Internet, whatever we think is best. We or a local or regional advertising agency produce all advertising and marketing. The Club Scientific Fund periodically will give you samples of advertising, marketing, and promotional formats and materials at no cost. You may obtain multiple copies from our specified vendor, often at bulk rates. Only after we have proofed, approved your content, and brand awareness in writing are you permitted to print the logos and/or purchase copies from your local merchant.

While we do not anticipate that any part of the Club Scientific Fund contributions will be used for advertising which is principally a solicitation for Club Scientific franchisees, we reserve the right to use the Club Scientific Fund for public relations or recognition of the "Club Scientific" brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." We may periodically assist Club Scientific franchises to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the Club Scientific Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below our established minimum standards for such Surveys.

We may choose, at our discretion, to advance or loan money to the Club Scientific Fund on the terms and conditions we deem appropriate. In the event that we advance monies to the Club Scientific Fund, we will determine, in our sole discretion, the manner and timing for the repayment to us, of some, or all, of the funds we advance.

We will account for the Club Scientific Fund separately from our other funds that we administer and not use the Club Scientific Fund for our general operating expenses. However, we may use the Club Scientific Fund to pay the reasonable salaries and benefits of personnel who manage and administer the Club Scientific Fund, the Club Scientific Fund's other administrative costs, travel expenses of personnel while they are on Club Scientific Fund business, meeting costs, overhead and other expenses that we incur in activities reasonably related to administering or directing the Club Scientific Fund and its programs, including conducting market research; public relations; preparing advertising, promotion, and marketing materials; and collecting and accounting for Club Scientific Fund contributions. During the 2022~~3~~ calendar year, Club Scientific Fund spending was as follows: 16~~9~~% on production of ads/promotional materials, 31~~9~~% on marketing, 20~~4~~% on web maintenance and 45~~6~~% on administrative expenses. The advertising funds were not exhausted within the fiscal year they were accrued.

The Club Scientific Fund is not our asset and it is not a trust. We have a contractual obligation to hold all Club Scientific Fund contributions for the benefit of the contributors and to use contributions only for their permitted purposes, as described above. We have no fiduciary obligation to you for administering the Club Scientific Fund. The Club Scientific Fund may spend in any fiscal year more or less than the total Club Scientific Fund contributions collected in that year. It may borrow from us or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. We will use interest earned on Club Scientific Fund contributions to pay costs before spending the Club Scientific Fund's other assets. We will prepare an annual, unaudited statement of Club Scientific Fund collections and expenses and give it to you upon written request. The Club Scientific Fund is not required to be independently audited by an independent certified public accountant. We may incorporate the Club Scientific Fund or operate it through a separate entity when we think it is best. The successor entity will have all of the rights and duties described here.

The Club Scientific Fund is used to maximize recognition of the trademarks and to promote Club Scientific businesses. Although we will try to use the Club Scientific Fund to develop advertising and marketing materials and programs and to place advertising and marketing that will benefit all Club Scientific businesses, we need not ensure that Club Scientific Fund expenditures in or affecting any geographic area are proportionate or equivalent to Club Scientific Fund contributions by Club Scientific businesses operating in that geographic area or that any Club Scientific business benefits directly or in proportion to its contributions to the Club Scientific Fund from the development of advertising and marketing materials or the placement of advertising. We may use collection agents and institute legal proceedings to collect Club Scientific Fund contributions at the Club Scientific Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Club Scientific Fund. We assume no other direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Club Scientific Fund.

We may at any time defer or reduce a franchisee's Club Scientific Fund contributions and, upon 30 days' prior written notice to you, reduce or suspend Club Scientific Fund contributions and operations for one or more periods of any length and terminate (and, if terminated, reinstate) the Club Scientific Fund. If we terminate the Club Scientific Fund, it will distribute all unspent monies to franchisees in proportion to their respective contributions during the preceding 12- month period. (Club Scientific Franchise Agreement – Section 1.7(k).)

Co-Branded Teach Franchises are treated as having two separate businesses for purposes of advertising fund contributions, so that such franchisees will contribute to the KidzArt Fund based on Gross Revenues from their KidzArt business and will separately contribute to the Club Scientific Fund based on Gross Revenues from their Club Scientific business.

Local Advertising

We may provide advertising and promotional materials and services to you that are prepared by our advertising agency and used by us, our affiliates, and other franchisees. Materials provided may include video and audiotapes, business card templates, press releases, social marketing and miscellaneous point-of-sale items. Some materials will be accessible to you via internet and can be sent directly to our printer once customized. We may use both outside advertising and marketing agencies and internal staff to create advertising. (KidzArt Franchise Agreement, Section 1.7(b); Club Scientific Franchise Agreement, Section 1.7(b).)

You may develop advertising materials for your own use that are consistent with our branding at your own cost. The advertising you use must prominently display the Marks and shall comply with any standards for use of the Marks we establish as set forth in the Manuals or otherwise in writing. KidzArt must approve the advertising materials in advance and in writing. KidzArt will approve or disapprove your advertising material within ten business days from receipt. If we have not notified you have our approval or disapproval within ten (10) business days after your submission for approval, the materials will be considered approved. We may withdraw our approval at any time. If we withdraw our approval, you will immediately cease the use, distribution and dissemination of such materials within the timeframe we prescribe and at your sole cost and expense. At the present time, advertising placement is done on a local basis, typically by the individual franchisee and local advertising agencies it hires. However, we reserve the right to advertise nationally and regionally.

Advertising Cooperatives and Councils

We will have the right, in our discretion, to designate any geographical area for purposes of establishing a regional advertising and promotional cooperative ("Cooperative"), and to determine whether a Cooperative is applicable to your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise. If a Cooperative is established applicable to your KidzArt Franchised Business, Club Scientific Franchised Business or Co- Branded Franchise, you must participate in the Cooperative.

Each Cooperative will be organized and governed in a form and manner, and will commence operation on a date, approved in advance by us. Each Cooperative will be organized for the exclusive purpose of administering regional advertising programs and developing, subject to our approval, standardized advertising materials for use by the members in local advertising. No promotional or advertising plans or materials may be used by a Cooperative or furnished to its members without our prior approval. All such plans and materials must be submitted to us in accordance with Section 1.7(b) of the KidzArt and Club Scientific Franchise Agreements. Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative. Company-owned outlets will have the same voting power as franchisee-owned outlets.

If we establish a Cooperative in your area, you must submit to the Cooperative, no later than the 10th of each month, for the preceding month, your respective contribution together with such other statements or reports as we may require or as may be required by the Cooperative with our approval. We may grant to you an exemption from participating in a Cooperative at its sole discretion, upon your written request stating reasons supporting such exemption. Our decision concerning such request for exemption will be final.

Since there are currently no regional or national advertising councils composed of franchisees that advises us on advertising policies regarding the KidzArt System, we have not contemplated how much a franchised business might be required to contribute to such a cooperative (though it will not exceed your KidzArt Advertising Fee amounting to the greater of 1% of your Gross Sales each month or \$25 per month). We have the right to require that an advertising cooperative and/or franchisee advisory council be formed, changed, dissolved or merged.

Territory Selection

You select your business territory before signing a KidzArt and/or Club Scientific Franchise Agreement, subject to our approval. (See Item 12.) We assist in territory selection by using factors that we have considered for other KidzArt and/or Club Scientific territories and locations. Generally, KidzArt and Club Scientific franchisees operate their businesses out of a home office. Programs provided by a KidzArt business will be held in schools and other venues located in the Territory. Science Programs offered by Club Scientific franchisees are held in school and other venues.

Nevertheless, you may choose to establish an office for your franchised business at a commercial site. (KidzArt Franchise Agreement – Section 1.2(a); Club Scientific Franchise Agreement – Section 1.2(a).) In that case, you must (a) locate a site for your office within the Territory and obtain our prior written approval of the site (which may not be a storefront); (b) obtain our prior written approval of any lease or purchase agreement for the site; (c) conform the site to applicable building code requirements and our specifications; (d) secure all permits and licenses for the site; (e) obtain our prior written approval of any construction and other plans for the site (and any deviations) so that we can ensure that the site's appearance meets our desired standards for KidzArt and/or Club Scientific locations; and (f) obtain our prior written approval of any outdoor sign and its proposed installation. All of this must be done soon enough so that you can begin operating the your KidzArt Franchised Business, Club Scientific Franchised Business or Co- Branded Franchise within 30 days after you or your Managing Owner satisfactorily complete initial training, which means that the location of the business should be selected at the time you sign a franchise agreement with us. We have the right to terminate your KidzArt Franchise Agreement and/or Club Scientific Franchise Agreement if you do not begin operations by this date. You may not change your commercial office design or appearance without our prior written consent and must, at your own expense, maintain and periodically renovate the office's interior and exterior as we require to maintain the KidzArt and/or Club Scientific design and appearance requirements. You agree to buy or lease, and to display at your commercial site (whether attached to a building or free-standing), only signs, emblems, logos, lettering and other materials that comply with our specifications. We periodically may revise these specifications, and you must comply with these revisions at your own expense.

Because we do not require you to establish an office for your franchised business at a commercial site, we impose no time limit to locate or approve the site. We only require that you open your franchised business within the time period described below.

Time of Opening

With respect to KidzArt Franchised Businesses, Club Scientific Franchised Businesses and Co-Branded Franchised Businesses, the typical length of time between signing the franchise agreement and opening the franchised business is two to four months. Factors may affect this time period include your ability to complete our initial training program to our satisfaction. You may not open your KidzArt Franchised Business, Club Scientific Franchised Business or Co- Branded Franchise until initial training has been satisfactorily completed by you or your Managing Owner and/or a second person to KidzArt's satisfaction and the initial franchise fees have been paid in full. (KidzArt Franchise Agreement – Section 1.2(b); Club Scientific

Franchise Agreement – Section 1.2(b).) You will be ready to start offering art instruction upon completing a KidzArt training. You must begin operating the KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise within thirty (30) days after you or your Managing Owner/and a second person satisfactorily completes initial training. Unless you receive an extension in writing, you must commence operations within ten (10) months of signing the Franchise Agreement. (KidzArt Franchise Agreement/Club Scientific Franchise Agreement – Section 1.2(c).) Your business office is usually home based. Classes are portable and typically held in various private or public school locations throughout your territory. It is your responsibility to make sure your office is fully operational prior to or immediately following initial training. No student class should ever be taught or held in your home.

Computer System

You must obtain and use any integrated computer hardware and software that we specify, including hardware components, dedicated telephone and power lines, modems, printers, and other computer-related accessories and peripheral equipment (the “Computer System”). (KidzArt Franchise Agreement – Section 1.3(g); Club Scientific Franchise Agreement – Section 1.3(g).) We have the right to require you to update or upgrade computer hardware components and/o software, as we deem necessary from time to time, with no limitations as to the number or cost of such updates or upgrades. We may modify specifications for and components of the Computer System. You also must maintain a functioning, branded e-mail address; your personnel and you may not use any personal e-mail address for communications relating to the Franchised Business. Our modification of specifications for the Computer System, and/or other technological developments or events, might require you to purchase, lease, and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System. The cost of the Computer System ranges between \$1,000 to \$2,000. A single Computer System may be used in the operation of a Co-Branded Franchise. Although we cannot estimate the future costs of the Computer System or required service or support, and although these costs might not be fully amortizable over the franchise term, you must incur the costs of obtaining the computer hardware and software comprising the Computer System (or additions and modifications) and required service or support. Within 30 days after you receive notice from us, you must obtain the Computer System components we designate and ensure that your Computer System, as modified, is functioning properly. We have no obligation to reimburse you for any Computer System costs.

If you purchase a Club Scientific Franchised Business or a Co-Branded Franchise, you will also be required to purchase 12 used laptop computers (PC)/tablets. The cost of the laptops ranges between \$110 and \$150 per computer. Tablets around \$50 on sale. Some local companies may donate their used laptops to you. In addition, you will be required to purchase Club Scientific Software package from our designated third party vendors. We have no control over these prices and may change without notice.

We may condition any license of proprietary software to you, your use of technology that we develop or maintain (whether on our own or by working with third parties), and your use of required software and computer programs for the Office on your signing the software license agreement or similar document we require to regulate your use of, and our, a designated third parties, and your respective rights and responsibilities with, the software or technology. We

may charge you fees, whether payable to us or third parties we designate, for any software or technology that we license, or arrange to be licensed, to you and for other maintenance and support services provided during the franchise term. Currently, we require you to contribute 45 per month per brand to a technology fund for ongoing support services.

If we develop or custom design a software program for conducting accounting, inventory and point-of-sale functions and/or related activities ("Proprietary Software Program"), you agree to obtain the Proprietary Software Program, the computer hardware required to implement the Proprietary Software Program into your Franchised Business, and to comply with all specifications and standards prescribed by us regarding the Proprietary Software Program as provided from time to time in the Manuals, at your expense. Our computer software and hardware requirements, including all standards and specifications related to Proprietary Software Programs are our proprietary and Confidential Information. It is possible that we might not be able to alter the Proprietary Software Program and system to accommodate every franchisee of the System, and therefore, at such time that we require the implementation of such software, you will only utilize the program as prescribed by us.

We have the right to require you to enter into a separate maintenance agreement for any required computer hardware and/or software. You have sole and complete responsibility for: (1) acquisition, operation, maintenance, and upgrading of the Computer System; (2) the manner in which your Computer System interfaces with our and any third party's computer system; and (3) any and all consequences if the Computer System is not properly operated, maintained and upgraded. We have the right to establish requirements that will permit us, as often as we deem appropriate, to access your computer system and to retrieve all information relating to the KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise. The Computer System must permit unlimited electronic communications between you and us, including your access to the internet and our then current intranet or extranet (if applicable) and our independent access to information and records regarding your operations that we specify.

You must use the current version of QuickBooks (either the desktop version or on-line version), with upgrades, if necessary, each year for payroll changes, and the current version of Microsoft Office Suite. You must use an online management/registration system currently in use and approved by us. We currently use a proprietary management software system. We may use a different program in the future. These third parties have no obligation to provide ongoing maintenance, repairs, upgrades, or updates unless you pay for them. We have not approved compatible equivalent programs. We do not require you to obtain any particular computer hardware as long as it can run the required software. We have been using the basic software since 2003 and our proprietary management software since 2012. We may require you to obtain new computer software during the franchise term. There are no contractual limitations on the frequency and cost of the obligation. The basic computer software enables you to print out marketing materials from our website and submit royalty payments, customer lists, and required annual financial statements. Our management software enables you to accept online registrations and purchases for classes you conduct and otherwise to maintain data for your franchised business.

You must purchase or have access to a video camera with a tripod and a digital camera. A good photo quality image on a cell phone for video and a camera are acceptable. In addition, you must

maintain a dedicated telephone line with voicemail dedicated to your office. In the event

you operate a Co-Branded Franchise, you may use a single dedicated telephone line. Upon the expiration, transfer or termination of your KidzArt Franchise Agreement and/or Club Scientific Franchise Agreement for any reason, you shall terminate your use of such telephone number and listing and assign same to us or our designee, and, at our option, will execute the Conditional Assignment of Telephone Numbers attached as Schedule "D" to the KidzArt Franchise Agreement and Club Scientific Franchise Agreement.

Website

We will maintain dedicated websites to advertise, market and promote KidzArt and Club Scientific Businesses, the products and services offered by such businesses and the KidzArt and Club Scientific franchise opportunity (collectively, the "System Website"). We own all intellectual property and other rights in the System Website, your web page (described below) and all information it contains. You acknowledge that we have final approval rights over all information on the System Website, including your web page. You agree not to register any Internet domain name in any class or category that contains words used in or similar to any brand name owned by us or our affiliates or any abbreviation, acronym, phonetic variation or visual variation of those words.

We will provide you with a website that includes specific sections that are customizable and you agree to populate and maintain with current, relevant, and approved information. Any and all information, images or other content you enter are subject to our approval. You must pay our then current fee for each additional update or addition that you request. Except as approved in advance in writing by us, you must not establish or maintain a separate website, splash page, profile or other presence on the Internet, or otherwise advertise on the Internet or any other public computer network in connection with the Franchised Business, including any profile on Facebook, Instagram, Twitter, LinkedIn, TikTok, YouTube or any other social media and/or networking site. You will not upload any videos or display in any fashion a video that shows our teaching or proprietary teaching methods without our express written consent.

Training Program

After you sign the Franchise Agreement, or any other time as may be mutually agreed upon in writing, we will train up to two people. You or, if you are a legal entity, an owner you designate to be responsible for overseeing and supervising the operation of the franchised business (the "Managing Owner") must complete the following initial training program to our satisfaction. (Franchise Agreement – Section 1.5(b)): You are trained and ready to open for business and offer classes upon completion of training.

TRAINING PROGRAM

<i>Subject</i>	<i>Hours of Classroom/ Follow-up Training</i>	<i>Hours of On the Job Training</i>	<i>Location</i>
Teaching Classes	6 Hours	None	Lake Cormorant, Mississippi, or Another Location we designate
Policies in Working With Children	2 Hours	None	Lake Cormorant, Mississippi or Another Location we designate
Class materials and methods	8 Hours	None	Lake Cormorant, Mississippi or Another Location we designate
Management	2 Hours	None	Lake Cormorant, Mississippi or Another Location we designate
Sales/marketing	6 Hours	None	Lake Cormorant, Mississippi or Another Location we designate
Operating Procedures	9 Hour	None	Lake Cormorant, Mississippi or Another Location we designate
Reporting	1 Hour	None	Lake Cormorant, Mississippi or Another Location we designate
Support Procedures	3 Hours	None	Lake Cormorant, Mississippi or Another Location we designate
Accounting	1 Hours	None	Lake Cormorant, Mississippi or Another Location we designate

Training will be provided by the following individuals or by others we designate:

Randy Denton – President/CEO has operated a successful KidzArt franchise and shared experiences with other Franchise owners for 18 years. He retired from FedEx Express after 20 years in Contract Management, Logistics, and Flight Management.

Alice Denton joined KidzArt in 2004 as a Franchise owner in Northwest Mississippi and became a Co-Owner of KidzArt LLC in 2021. Her area of expertise is Customer Relations and Enhancement.

Dianne Carlisle is our Accountant and Compliance Manager. She trains Franchisees on how to handle their accounting and payment management. She has been with KidzArt since February 2019 and has been working in the accounting field for over 30 years.

Leah Kamel helps our franchisees manage their websites, curriculum centers, and company email accounts. She also works with franchisees during training and supports franchisees on an individual basis as needed.

Current and/or former franchisees are often asked and used to provide additional expertise at or as part of training.

Training is included in your initial franchise fee for two attendees, for new purchases only. You must pay us \$3,000 for each additional person who attends the full initial training program. You must pay the travel and living expenses for you and/or your Managing Owner, your employees and your independent contractors to attend training.

We typically conduct training once every eight to ten weeks. Training for franchisees purchasing a KidzArt Franchised Business or a Club Scientific Franchised Business generally lasts four days. Training for franchisees purchasing a Co-Branded Franchise generally lasts six days. Instructional materials include the KidzArt Operations Manual, the Club Scientific Operations Manual, Curricula Manuals, live instruction, hands-on exploration with art materials, science experiments, role playing and more. You must complete training before beginning operations. Upon satisfactory completion of the initial training program, both you and your designee will be “certified instructors”, fully trained and certified to teach KidzArt classes and/or Science Programs using our methods. Until we qualify you or your designated trainer to do so, all of your subsequent certified instructors and Camp Counselors will be trained by our designated Certified Trainers (including existing qualified franchisees) for the then-current certified instructor training fee, which is currently \$350 per person (see Item 6.) You must arrange for the training of your additional certified instructors after you return from the initial training program, and until you are certified as a trainer yourself. You must pay all expenses (including travel, hotel, food, and related expenses) incurred in hiring a certified instructor. You must also pay for the trainer’s expenses of traveling to your Territory to conduct the training, or you must arrange for your certified instructors to travel to the trainer’s site for training. To become certified to train your employees, you or your designee must send in a video of the teacher teaching a full class while utilizing correct teaching methods and times.

Within four months after you complete initial training, you must send us a 1-hour DVD of you or your designated certified instructor teaching a KidzArt class and/or Science Program for our evaluation. If we do not believe the Art classes or Science Programs are being conducted properly, we may coach you or require you to return to our principal training location at your expense for one to two days of additional training.

ITEM 12 TERRITORY

You will receive an exclusive Teach or Teach Plus territory with a population of approximately 15,000 qualifying households for a Teach territory or 30,000 qualifying households for a Teach Plus territory. A qualifying household is one with an annual income over \$75,000, as determined by U.S. Census Bureau. We may also allow you to expand your Territory beyond the standard 15,000 or 30,000 qualifying households by paying us \$0.40 per additional qualifying household. If you expand your territory to 30,000 qualifying households or beyond, this becomes known as a Teach Plus territory.

A Teach territory is 15,000 qualifying households. This size business model is for a franchisee that wants to get started and either teach themselves or hire 1-2 teachers. They can expand and grow by buying more qualifying households in neighboring zip codes that touch their current territory. This option allows a franchisee to keep more of their financial resources and only spend to enlarge their territory when they want a bigger business.

A Teach Plus territory is 30,000 qualifying households or larger. This size business model is for a franchisee that does not expect to teach many classes themselves. They come in expecting to grow a bigger business by hiring other people to teach while they concentrate on growing the business. The owner or manager will aggressively add more locations, classes, and students. A Teach Plus size territory is for those wanting to build a larger territory and business.

If you purchase a Co-Branded Franchise, you will choose either the Teach or Teach Plus territory size for your franchise. Each has a different Franchise Fee based on the size territory you want to own. You may expand your territory by paying us \$0.80 per additional qualifying household (See Items 5 and 6.) Your Territory will be delineated by counties, zip codes, boundary streets or highways, and will depend to some extent on the number of schools and facilities available to teach KidzArt classes or Club Scientific Programs. You maintain rights to your area even though the population increases.

You will operate your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise from a single location within your Territory approved by us (typically your home office) and you must receive our permission before you relocate. KidzArt will approve any relocation as long as the new location meets our general standards then in effect and does not encroach on another franchise.

Your Territory is exclusive with respect to the offer and sale of KidzArt classes and/or Science Programs as long as the annual Gross Revenues from your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise (calculated each year during the franchise term) exceed a minimum level as described below. If you fail to satisfy this minimum annual requirement, we may elect in our discretion, effective upon delivery of notice to you, either (a) to allow others to offer KidzArt classes and/or Club Science Programs within your Territory, or (b) to reduce the geographic area that comprises your Territory. If we choose either of these options, you will no longer have an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive

brands that we control. This territory exclusivity clause has nothing to do with the Item 19 Financial performance representation.

We will not sell or authorize others to offer or sell KidzArt classes and/or Science Programs in any manner in your Territory, whether through other KidzArt businesses, Club Scientific businesses or via the Internet or other alternative methods of distribution, as long as you meet the minimum annual Gross Revenue levels. However, we may offer and sell to customers located in your Territory, through any distribution channels other than a KidzArt business, products and services bearing the KidzArt trademarks or other trademarks that are identical or similar to (or different from) the products and services offered by your franchised business, other than KidzArt classes. Such products and services may be distributed in your Territory by us, our affiliates, or our franchisees, licensees, or designees, in such manner and through such channels of distribution as we, in our sole discretion, will determine. These distribution channels may include, without limitation, retail stores, wholesale outlets, and other retail outlets, via the Internet, and through mail order catalogs. We and our affiliates do not pay any compensation for soliciting or accepting this type of business inside your Territory, nor do we grant you any rights to distribute these products or services.

We also reserve all rights not specifically granted to you under the Franchise Agreements, including, without limitation, the right to (i) own and operate KidzArt and/or Club Scientific Businesses at any location(s) outside of your Territory under the Marks and System, or to license others the right to own and operate KidzArt and/or Club Scientific Businesses at any location(s) outside of the Territory under the Marks and System; (ii) own and operate businesses under different marks at any location(s) inside or outside of your Territory, or license to others the right to own and operate businesses under different marks at any location(s) inside or outside of your Territory; (iii) use the KidzArt and Club Scientific Marks and System in connection with services and products, promotional and marketing efforts, or related items, or in alternative channels of distribution, including the sale of proprietary products and services through retail stores, wholesale outlets, and other retail outlets, via the Internet, and through mail order catalog, without regard to location; (iv) use the KidzArt and/or Club Scientific Marks and System, and license others to use the KidzArt and/or Club Scientific Marks and System, to engage in any other activities not expressly prohibited in the KidzArt Franchise Agreement or the Club Scientific Franchise Agreement; and (v) to acquire and operate, or be acquired by, any individual or entity, including, without limitation, an individual or entity operating one or more art or science education businesses, including, without limitation, businesses selling art or science education products or services under a trademark other than the KidzArt or Club Scientific Marks. In addition, we reserve the right to offer KidzArt or Club Scientific products and services to regional and national accounts that may have locations in the Territory. We also reserve the right to offer over the Internet or other electronic means Programs to children who are home schooled, physically or mentally unable to attend a Program in person or located in an area which would make the child's attendance impossible or impracticable. If we negotiate an arrangement that would require your KidzArt Franchised Business and/or Club Scientific Franchised Business to provide KidzArt and/or Club Scientific proprietary services, and you do not begin providing the services at the time, in the manner, and under the terms we require, we may, at our option: (1) provide or allow others (including other KidzArt or Club Scientific

Businesses) to provide the services within the Territory; or (2) terminate the KidzArt Franchise Agreement and/or Club Scientific Franchise Agreement.

If you operate a KidzArt Franchised Business, Club Scientific Franchised Business or a Co-Branded Franchise, your minimum annual Gross Revenues requirement is \$45,000 during each 12-month period of the franchise term, with the first 12-month period beginning with the 13th month after you complete initial training and running through the 24th month after you complete initial training. Each subsequent 12-month period will run on a calendar year basis, with the first of these subsequent 12-month periods ending on December 31 of the year in which the first 12-month period specified above ends (that is, the year in which falls the 24th month after you complete initial training). [As an example, if you complete initial training in June of a particular year, the first 12-month period of the franchise term during which you must satisfy the minimum annual Gross Revenues requirements would begin in July of the following year and end in June of the year after that. The second 12-month period effectively begins in January of that same year and then ends on December 31. So, part of the second 12-month period will include a portion of the first 12-month period. All 12-month periods after that remain on a January 1 through December 31 basis.] We may increase the \$45,000 minimum Gross Revenues number each calendar year during the franchise term, beginning with the second 12 month period during which we calculate the Office's minimum Gross Revenues, based on increases in the Consumer Price Index ("CPI") from the beginning of the first calendar year during which we began to calculate the Office's minimum Gross Revenues for purposes of determining your ability to retain territorial rights (subject to our rights described above). The annual adjustment of the minimum Gross Revenues number will be applied on January 1 of each calendar year based on CPI increases since the previous January 1. "CPI" means the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor, U.S. City Average, All Items, and Major Group Figures for all Urban Consumers (CPI-U 1982-84=100), or by a successor publication.

In addition, we may contact international, national or regional companies with headquarters or locations in your Territory for any purpose, including negotiating arrangements under which you would be required to provide KidzArt and/or Club Scientific services at a site located within your Territory that is hosted by the international, national, or regional company. If we negotiate an arrangement that would require you to provide KidzArt and/or Club Scientific services and you do not begin providing the services at the time, in the manner, and under the terms we require, we may, at our option: (1) provide or allow others (including other KidzArt or Club Scientific businesses) to provide the services from the host site located within your Territory; or (2) terminate your KidzArt Franchise Agreement or Club Scientific Franchise Agreement.

You may not solicit clients or promote KidzArt or Club Scientific services outside the Territory except when advertising cooperatively with appropriate franchisees. You may not advertise independently on the Internet. We maintain all KidzArt and Club Scientific web pages and domain names. We will forward to you any leads we obtain from the Internet for KidzArt classes or Club Scientific Programs in your Territory.

You may provide services only at host sites and other locations within the Territory (although students at those locations may reside outside the Territory). If you receive a request to provide services anywhere outside your Territory, you may not provide these services without our prior approval, which we may grant or deny as we deem best or on any conditions we deem appropriate.

We will approve any relocation of the site of your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise as long as the new location meets the current general standards and does not encroach on another franchise. Any relocation will be at your sole expense and we can charge you for any costs we incur, and a reasonable fee for our services, related to any relocation.

You have no options, rights of first refusal, or similar rights to acquire additional franchises within contiguous territories. Although we have the right to do so, we do not intend to establish other franchises, company-owned outlets or another distribution channel selling or leasing similar products or services under a different trademark.

Except as described above, we may not alter your Territory during the franchise term.

ITEM 13 TRADEMARKS

Under the KidzArt Franchise Agreement, we grant you the right to operate your KidzArt Franchised Business or Co-Branded Franchise under the mark KIDZART and the design shown below and on the cover of this disclosure document. You may also use our other current or future trade names, trademarks, service marks, commercial symbols, and logos used to identify KidzArt businesses (the “KidzArt Marks”).

For all trademarks and designs listed below that have been registered over 10 years, all required renewals for affidavits of use and trademark renewals have been filed.

The following KidzArt Marks are registered on the Principal Register of the United States Patent and Trademark Office (“USPTO”).

Mark	Registration No.	Registration Date
KIDZART and Design 	4,201,108	September 4, 2012
KIDZART	3,843,421	September 7, 2010
ART INNOVATORS 	3,657,548	July 21, 2009
SENIORZART	4,088,083	January 17, 2012
TEENZART	4,163,774	June 26, 2012
PALETTE UP!	4,523,178	April 29, 2014

Under the Club Scientific Franchise Agreement, we grant you the right to operate your Club Scientific Franchised Business or Co-Branded Franchise under the mark CLUB SCIENTIFC and the design shown below and on the cover of this disclosure document. You may also use our other current or future trade names, trademarks, service marks, commercial symbols, and logos used to identify Club Scientific businesses (the “Club Scientific Marks”).

For all trademarks and designs listed below that have been registered over 10 years, all required renewals for affidavits of use and trademark renewals have been filed.

The following Club Scientific trademarks (the “Club Scientific Marks”) are registered on the Principal Register of the USPTO.

Mark	Registration No.	Registration Date	
CLUB SCIENTIFIC and Design 	3,479,050	August 5, 2008	

Mark	Registration No.	Registration Date	Renewal Filed
CLUB SCIENTIFIC	5,626,790	December 11, 2018	

KidzArt, LLC, owns the Club Scientific Marks and has licensed us the indefinite right to use them and to sublicense them to system franchisees. The license agreement may be terminated only in the event we make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesces in the appointment of a trustee or receiver for KidzArt.

You must follow our rules when you use the KidzArt Marks or Club Scientific Marks, including giving proper notices of trademark and service mark registration and obtaining fictitious or assumed name registrations required by law. You may not use any KidzArt Mark or Club Scientific Mark in your corporate or legal business name; with modifying words, terms, designs, or symbols (except for those we license to you); in selling any unauthorized services or products; or as part of any domain name, homepage, electronic address, or otherwise with a website other than our own website. If we discover your unauthorized use of any KidzArt Mark or Club Scientific Mark, we may require you to destroy all offending items reflecting that unauthorized use.

After unsuccessfully opposing our federal trademark application at the USPTO, Kidsart, Inc. filed a lawsuit against us on September 19, 2008, asking the United States District Court for the Central District of California (CV08-06185) to overturn the USPTO decision. We settled this dispute by an agreement dated November 10, 2009, pursuant to which Kidsart, Inc. is permitted to use the Kidsart trademark in the following ten counties in California: San Luis Obispo, Kern, San Bernardino, Santa Barbara, Ventura, Los Angeles, Orange, Riverside, San Diego and Imperial. The settlement agreement allows us to use the KIDZART trademark in the rest of the U.S. in connection with educational services. The parties filed a consent judgment with the court November 17, 2009, reflecting the substance of the settlement agreement. We intend to use the ART INNOVATORS trademark in connection with educational services as our principal trademark in the ten counties in California in which we do not have the right to use the KIDZART

trademark in connection with educational services. We intend to continue to use KIDZART throughout the United States in connection with franchise services.

Other than as described above, there are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, and no pending infringement, opposition, or cancellation proceedings or material litigation, involving the principal trademarks. Except as described above, there are no agreements that limit our right to use or license the KidzArt Marks or the Club Scientific Marks. Except as provided above, we do not know of either superior prior rights or infringing uses that could materially affect your use of the trademarks in any state. We will advise you of any pre-existing uses of a substantially similar mark of which we become aware if we believe those uses will interfere with your ability to operate a KidzArt or Club Scientific franchise in your desired market area.

You must notify us immediately of any apparent infringement or challenge to your use of any KidzArt Mark or Club Scientific Mark, or of any person's claim of any rights in any KidzArt Mark or Club Scientific Mark, and you may not communicate with any person other than us and our attorneys, and your attorneys, regarding any infringement, challenge, or claim. We may take the action we deem appropriate (including no action) and control exclusively any litigation, USPTO proceeding, or other administrative proceeding arising from any infringement, challenge, or claim. You must assist us in protecting and maintaining our interests in any litigation or USPTO or other proceeding. We will reimburse you for your costs of taking any action that we ask you to take.

We will have the right to add, modify, discontinue and/or substitute modify or change the Proprietary Marks from time to time in our sole discretion upon written notice to you. Such right will include the right to use a trademark that is entirely different from "KidzArt" and/or "Club Scientific" and the right to require you to use one or more new or additional logos and marks. You agree, upon notice from us, to adopt and use each such trademark at your expense in accordance with the terms and conditions of this Agreement. You must discontinue use of all Proprietary Marks which we have notified you, in writing, have been modified or discontinued within 10 days of receiving written notification. If we require a change in signage, we will reimburse you for your reasonable direct expenses of changing the signs at the premises of the Franchised Business. However, we will not be obligated to reimburse you for any loss of revenue or expenses caused by any such modification or change.

We have the sole right to direct and control any administrative proceeding or litigation involving the KidzArt Marks or Club Scientific Marks, including any settlement thereof. We will defend you against any third-party claim, suit, or demand arising out of your use of the Proprietary Marks. If we, in our sole discretion, determine that you have used the Marks in accordance with this Agreement, we will bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used the Marks in accordance with this Agreement, you will bear the cost of such defense, including the cost of any judgment or settlement. In the event of any litigation relating to your use of the Marks, you must execute any and all documents and do such acts as may, in our opinion, be necessary to carry out such defense or prosecution including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in

a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Patents and Copyrights

We do not own any patents that are material to the KidzArt or Club Scientific system, nor do we have any pending patent applications that are material to the KidzArt or Club Scientific business.

We claim all rights and interests, including all copyrights, to the information contained in the manuals, our curricula, computer programs, advertising materials, our website and all our communications to you in writing or otherwise setting forth our standards, requirements, operating procedures or policies relating to the operation of a KidzArt or Club Scientific franchise, as well as any revisions and additions to these materials. We have not registered the copyrights in any of these materials. We also claim all rights and interests to all customer information collected in our databases.

Proprietary Information

Your entire knowledge of the operation of the KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise including the curricula and other specifications, standards and operating procedures of the franchised business, is derived from Information that we disclose to you. This information, including the information contained in the manuals and the information presented during training, is confidential material owned by us (the "Confidential information"). All methods and other techniques and know-how concerning the operation of the KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise which may be communicated to you or of which you may be apprised by virtue of your operation of your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise and any and all other information, knowledge, know-how, techniques and other data which we designate as confidential will be deemed by Confidential Information.

You must maintain the absolute confidentiality of this proprietary information during and after the term of the KidzArt or Club Scientific Franchise Agreement and you cannot disclose, sell or use any such information in any other business or in any manner not specifically authorized or approved in writing by us. You may use such information only in furtherance of the franchised business.

If you are a legal entity such as a corporation or limited liability company rather than an individual or general partnership, then each owner of your company must sign a guaranty and assumption of obligations which personally obligates each such person not to use or disclose any of our confidential information except as permitted and as required by the franchised business. We may also require the spouse of any signatory to sign as well, in our discretion.

Each manager of your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise and each person who receives training from us or otherwise has access to our confidential information who has not signed the guaranty described in the preceding paragraph must sign a confidentiality and non-competition agreement (the "Confidentiality Agreement") with you in the form attached as Schedule C to the KidzArt Franchise Agreement and Club Scientific Franchise Agreement. The Confidentiality Agreement contains similar nondisclosure obligations. Any breach of such undertaking by any such person during such period will be deemed a breach of the KidzArt Franchise Agreement and/or Club Scientific Franchise Agreement.

You must notify us promptly in writing if you learn about any unauthorized use of our copyrights or proprietary information. We are not obligated to take any action but we will respond to this information as we think appropriate.

You are *strictly prohibited* from using other company's intellectual property. When appropriate and at our own discretion we will request, in writing, permission to use other company's intellectual property. If written permission is granted, we will share said permission with our entire franchise system. If you are found to be using other company's intellectual property without written permission, you will *immediately* cease said usage. You will be solely liable to said company for any and all damages and violations. If we are found to be in violation because of your improper usage, all associated fines and related fees will be charged directly to you and you must reimburse us in full.

All improvements, modifications or additions to the KidzArt and/or Club Scientific system and curriculum that you develop will become our property. The KidzArt Franchise Agreement and the Club Scientific Franchise Agreement provides that if you, your employees, or principals develop any new concept, process or improvement in the operation or promotion of the KidzArt Franchised Business, Club Scientific Business or the Co-Branded Franchise, you will promptly notify us and provide us with all necessary related information, without compensation. Any new concept, process or improvement will become our sole property and we will be the sole owner of all patents, patent applications, trademarks, copyrights and other intellectual property rights related to these new concepts. You and your principals will assign to us any rights you may have or acquire in new concepts you or your employees develop, including the right to modify the concept, process or improvement, and otherwise will waive and/or release all rights of restraint and moral rights to any new concepts you or your employees develop.

You and your principals agree to assist us in obtaining and enforcing the intellectual property rights to any new concept, process or improvement in any and all countries and further agree to execute and provide us with all necessary documentation for obtaining and enforcing these rights. You and your principals will irrevocably designate and appoint us as your agent and attorney-in-fact to execute and file any necessary documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property rights related to any new concept, process or improvement. In the event that the provisions of the KidzArt Franchise Agreement or Club Scientific Franchise Agreement related to new concepts are found to be invalid or otherwise unenforceable, you and your principals will grant to us a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the concept, process or improvement to the extent such use or sublicense would, absent the franchise agreement, directly or indirectly

infringe on your rights to the new concept.

ITEM 15
OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE
BUSINESS

You or (if your company is a corporation or limited liability company) your Managing Owner must devote full time, attention and effort to the franchised business and provide direct, day-to- day supervision of the operation. You or the Managing Owner may not take on other business

responsibilities that would be inconsistent with the operational requirements of the franchised business or contrary to its best interest, and they may not have any interest in any competing business. You designate and we approve your Managing Owner.

All persons who subsequently serve as Managing Owner must meet the same standards and must attend and successfully complete our initial training program, which is described in Item 11 of this disclosure document.

If you are a legal entity such as a corporation or Limited Liability Company rather than an individual or general partnership, then each owner of your company must execute a personal guaranty assuming and agreeing to discharge all obligations of the franchisee under the KidzArt or Club Scientific Franchise Agreement. If you are an individual, then you must execute a personal guaranty assuming and agreeing to discharge all obligations of the franchisee under the KidzArt or Club Scientific Franchise Agreement. Any breach of this guaranty by any such person will be deemed a breach of the KidzArt or Club Scientific Franchise Agreement.

Each manager of your KidzArt Franchised Business, Club Scientific Franchised Business or Co-Branded Franchise and each person who receives training from us or otherwise has access to our confidential information who has not signed the guaranty described in the preceding paragraph must sign the Confidentiality Agreement with your company in the form attached as Schedule C to the KidzArt Franchise Agreement and Club Scientific Franchise Agreement. Any breach of such undertaking by any such person will be deemed a breach of this Agreement.

We do not impose any other restrictions on your managers.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer for sale to the public only those types of products, brands and services that we authorize or approve. You must limit your teaching to the curricula we provide. You must provide these items, products and services in accordance with our requirements. You are not permitted to modify or customize our curricula or other services that you offer to the public without our written approval. You may not combine our program with another program, rename it, and offer it to the public. You must not deviate from our standards and specifications without first obtaining our written consent. Upon notice from us given at any time, you must discontinue offering for sale any items, products and services we may disapprove or discontinue. We can, and expect to, modify our standards and specifications as we deem necessary.

We have the right to add, remove or change authorized items, products and services that you are required to offer. There are no limits on our right to do so except that we must act reasonably. There are no restrictions regarding customers you may service within your territory.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

These tables list certain important provisions of the KidzArt Franchise Agreement, the Club Scientific Franchise Agreement, the Co-Branded Franchise Addendum and related agreements. You should read these provisions in the agreements attached to this disclosure document.

THE KIDZART FRANCHISE RELATIONSHIP

<i>Provision</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Summary</i>
a. Length of the franchise term	Section 5.1(a)	Ten years.
b. Renewal or extension of the term	Section 5.1(b)	If you are in good standing, you may renew for one ten-year period.
c. Requirements for you to renew or extend	Section 5.1(b)	Notify us of your desire to renew 6-12 months before the end of the term; sign a new agreement (which may include materially different terms than your initial agreement); Demonstrate that you have satisfied all monetary obligation you to us, our affiliates or any suppliers and vendors of products and services used by your franchised business; you execute a general release in a form prescribed by us; you comply with our then current standards for new KidzArt franchisees; pay a renewal fee equal to \$1000 for a Teach Territory, \$2000 for a Teach Plus Territory, or \$2500 for a Co-Branded Territory; and you present evidence to us that you have the right to remain in possession of the franchised business's premises. We may also require you to sign a Renewal Addendum.
d. Termination by you	Sections 5.2(a) and (b)	You have no contractual right to terminate the Franchise Agreement. You may have the right to terminate the Franchise Agreement under state law.
e. Termination by us without cause	None	We do not have this right.
f. Termination by us with cause	Section 5.2(c)	We can terminate only if you default.
g. "Cause" defined — defaults that can be cured	Section 5.2(c)	Except as set forth in Section 5.2(a) or 5.2(b) of the KidzArt Franchise Agreement, you have 30 days to a default under the KidzArt Franchise Agreement.

<i>Provision</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Summary</i>
h. "Cause" defined — non-curable defaults	Section 5.2(a)	The KidzArt Franchise Agreement will terminate automatically without notice or an opportunity to cure if: (i) you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the KidzArt Franchised Business; (ii) proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for you or the KidzArt Franchised Business without your consent, and the appointment is not vacated within 60 days; (iii) you purport to sell, transfer or otherwise dispose of your interest in the KidzArt Franchise Business without our written approval
	Section 5.2(b)	We have the right to terminate the KidzArt Franchise Agreement with notice without providing you an opportunity to cure if: (i) you or any of your company's owners made any false representations to us in connection with your franchise application; (ii) you fail to successfully complete training; (iii) you fail to open the KidzArt Franchised Business within 10 months of signing the KidzArt Franchise Agreement; (iv) you are more than 10 days late in your payment of any amount due to us under the KidzArt Franchise Agreement or to any supplier and fail to make payment within 5 days after we notify you of the breach; (v) if you lease commercial space, you default under the lease for the Site; (vi) you or your company's principals disclose any confidential information in violation of Section 3.2 of the KidzArt Franchise Agreement; (vii) you or your company's owners make any unauthorized use of the KidzArt Marks; (viii) you fail to maintain insurance as required under the KidzArt Franchise Agreement; (ix) you fail to service any international, national or regional company for which we have an arrangement under which you are required to provide KidzArt services; (x) you knowingly maintain false books and records or submit reports to us which understate your Gross Revenue three or more times during the term of the KidzArt Franchise Agreement; (xi) you fail to comply with any law or regulation applicable to the KidzArt Franchised Business within 15 days after notice; (xii) you attempt to transfer the KidzArt Franchised Business without our approval; (xiii) in the event of your death or disability, the KidzArt Franchise Agreement is not assigned as required under Article IV of the KidzArt Franchise Agreement;

Provision	Section in KidzArt Franchise Agreement	Summary
		(xiv) you or your company's owners are convicted of, plead guilty or no contest to, a felony or any other crime or offense, or engage in dishonest, deceptive or unethical conduct that may, in our opinion, adversely affect the reputation of the KidzArt Franchised Business or the KidzArt System; (xv) you fail to operate the KidzArt Franchised Business for ten (10) consecutive days without our consent; (xvi) you fail to pay taxes; (xvii) you commit three or more defaults in any 12 month period; (xviii) your assets are blocked under any law or regulation relating to terrorists activities; (xix) you default under any financing agreement for the KidzArt Franchised Business; (xx) any other franchise agreement between you and us or any of our affiliates is terminated due to your breach.
i. Your obligations on termination /nonrenewal	Section 5.3	Upon termination or expiration of the Franchise Agreement, you must: (i) remit to us outstanding royalties, advertising payments and other amounts owed under the KidzArt Franchise Agreement; (ii) if applicable, pay the liquidated damages under Section 5.2(b); (iii) remit to us a complete list of customers; (iv) if we do not exercise our option to purchase your KidzArt Franchised Business, remove and deliver to us all printed materials containing the KidzArt Marks and remove all electronic copies of the same; (v) assign to us the dedicated telephone number; (vi) cease all use of the KidzArt Marks and System; (viii) cancel any fictitious name filing; (ix) comply with post term covenants of the KidzArt Franchise Agreement; (x) return the confidential Operations Manual and all Confidential Information in your possession; (xi) permit us to make a final inspection of your records; (xii) execute from time to time any necessary papers or documents to effectuate termination or nonrenewal.
j. Assignment of contract by us	Section 4.1	No restriction on our right to assign.
k. "Transfer" by you — defined	Section 4.2(b)	The term "Transfer" means your (or your company's owner's) voluntary, involuntary, direct or indirect assignment, sale, gift, pledge or other disposition of any legal or beneficial interest in: (i) the KidzArt Franchise Agreement, (ii) any material asset of the KidzArt Franchised Business; (iii) the lease or ownership of the premises of the KidzArt Franchised Business (unless we agree to a relocation or unless the transfer of ownership does not affect your leasehold rights and obligations), or (iv) your company, whether in the form of equity or a voting interest. "Transfer" also includes (i) the merger or consolidation of your company; (ii) the issuance of additional securities or other

<i>Provision</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Summary</i>
		ownership interests of your company, and (iii) the admission or departure of a partner or owner. It includes transfers resulting from proceedings under the U.S. Bankruptcy Code or any similar law, and transfers resulting from divorce.
l. Our approval of a transfer by you	Section 4.2(a)	You may not transfer the KidzArt Franchise Agreement without our prior written consent. We may withhold our approval to a transfer unless the conditions in m below have been met.
m. Conditions for our approval of the transfer	Section 4.2(d)	The transferee meets our criteria for new franchisees; you are in compliance with your Franchise Agreement and all related agreements; transfer fee is paid; transferee agrees to and executes a new Franchise Agreement; you acknowledge continuing confidentiality and non- compete requirements; the transferee obtains the permits and licenses required for the operation of the franchised business; the new manager is trained; we approve the terms of the transfer; you request that provide the prospective transferee with our current form of disclosure document; you notify us of the closing. We may also require you to sign Consent to Transfer Agreement. We may withhold or condition our consent to any transfer as we deem appropriate based on the circumstances of the transfer or otherwise.
n. Our right of first refusal to acquire your business	Section 4.3	You must first offer to sell to us on the same terms and conditions as those offered by a third party; provided that we may substitute cash for any form of payment proposed in the Third-Party Offer; and we will have a minimum of 60 days to after giving notice to you to prepare for closing. We will notify you, within thirty (30) days after receiving the offer, whether we wish to exercise our right to purchase your business.
o. Our option to purchase your business	Section 5.4	On termination or expiration and nonrenewal, we may purchase the assets, including inventory and equipment at their fair market value.

p. Your death or disability	Sections 4.2(f) and (g)	Upon your death or disability, or the death or disability of the owner of a controlling interest in your company, if the KidzArt Franchised Business is not actively managed by a Managing Owner who has attended and successfully completed training, you or your deceased or disabled owner's executor, administrator or other personal representative must, within 30 days of the date of death or disability, appoint a Managing Owner to operate the KidzArt Franchised Business. The appointed Managing Owner must complete training at your expense. We have the right to appoint a manager and charge
-----------------------------	-------------------------	---

<i>Provision</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Summary</i>
		you or your estate a reasonable management fee in the event we appoint a manager.
q. Non-competition covenants during the term of the franchise	Section 3.3(a)	You agree that during the term of the KidzArt Franchise Agreement and any renewal thereof, you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which we have a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any KidzArt Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any KidzArt Business within the six month period before such recruiting or hiring without the prior written permission of that person's employer The term "Competitive Business" means any business that offers art or drawing instruction or similar creative services or grants franchises or licenses to others to operate such a business (other than a KidzArt Business operated under a franchise agreement with us or our affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent (3%) of a class of ownership interests of the issuing company.
r. Non-competition covenants after the franchise is terminated or expires	Section 3.3(c)	Upon the expiration of this Agreement, your termination of this Agreement without cause, our termination of this Agreement in accordance with its terms and conditions, or your transfer in accordance with Article IV, you and your company's owners agree for a period of two years following such expiration, termination or transfer, that you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect ownership interest in a Competitive Business located or operating in the Territory or within 30 miles of the location of any KidzArt Business operating anywhere in the world at the time of such expiration, termination or transfer; (ii) perform services as a director, officer, manager, employee,

<i>Provision</i>	<i>Section in KidzArt Franchise Agreement</i>	<i>Summary</i>
		consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any KidzArt Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any KidzArt Business within the 12-month period before such recruiting or hiring without the prior written permission of that person's employer.
s. Modification of the franchise agreement	Section 8.8	The KidzArt Franchise Agreement may not be modified except by a written document signed by both parties.
t. Integration/merger clause	Section 8.8	Only the terms of the franchise agreement are binding (subject to state law). Any representations or promises made outside the disclosure document and franchise agreement may not be enforceable. Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibitions and amendments.
u. Dispute resolution by arbitration or mediation	Section 7.3	You must bring all disputes before our President and/or or Chief Executive Officer at our headquarters prior to bringing a claim before a third party. After exhausting this internal dispute resolution procedure, at our option, all claims or disputes between you and us must be submitted first to mediation in DeSoto County, Mississippi in accordance with the American Arbitration Association's Commercial Mediation Rules then in effect.
v. Choice of forum	Section 7.13	All claims not subject to mediation must be brought before a court of general jurisdiction in DeSoto County, Mississippi, or the United States District Court for the Northern District of Mississippi. You consent to the personal jurisdiction and venue of any court of general jurisdiction in DeSoto County, Mississippi, and the United States District Court for the Northern District of Mississippi. Please see the State Specific Addenda attached as Exhibit H to this Disclosure Document for further details.
w. Choice of law	Section 7.10	The laws of the State of Mississippi govern. (subject to state law).

THE CLUB SCIENTIFIC FRANCHISE RELATIONSHIP

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
a. Length of the franchise term	Section 5.1(a)	Ten years.
b. Renewal or extension of the term	Section 5.1(b)	If you are in good standing, you may renew for one ten-year period.
c. Requirements for you to renew or extend	Section 5.1(b)	Notify us of your desire to renew 6-12 months before the end of the term; sign a new agreement (which may include materially different terms than your initial agreement); Demonstrate that you have satisfied all monetary obligation you to us, our affiliates or any suppliers and vendors of products and services used by your franchised business; you execute a general release in a form prescribed by us; you comply with our then current standards for new Club Scientific franchisees; pay a renewal fee equal to \$1000 for a Teach Territory, \$2000 for a Teach Plus Territory, or \$2500 for a Co-Branded Territory; and you present evidence to us that you have the right to remain in possession of the franchised business's premises. We may also require you to sign a Renewal Addendum.
d. Termination by you	Sections 5.2(a) and (b)	You have no contractual right to terminate the Franchise Agreement. You may have the right to terminate the Franchise Agreement under state law.
e. Termination by us without cause	None	We do not have this right.
f. Termination by us with cause	Section 5.2(c)	We can terminate only if you default.
g. "Cause" defined — defaults that can be cured	Section 5.2(c)	Except as set forth in Section 5.2(a) or 5.2(b) of the Club Scientific Franchise Agreement, you have 30 days to a default under the Club Scientific Franchise Agreement.
h. "Cause" defined — non-curable defaults	Section 5.2(a)	The Club Scientific Franchise Agreement will terminate automatically without notice or an opportunity to cure if: (i) you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the Club Scientific Franchised Business; (ii) proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
	Section 5.2(b)	receiver is appointed for you or the Club Scientific Franchised Business without your consent, and the appointment is not vacated within 60 days; (iii) you purport to sell, transfer or otherwise dispose of your interest in the Club Scientific Franchised Business without our written approval We have the right to terminate the Club Scientific Franchise Agreement with notice without providing you an opportunity to cure if: (i) you or any of your company's owners made any false representations to us in connection with your franchise application; (ii) you fail to successfully complete training; (iii) you fail to open the Club Scientific Franchised Business within 12 months of signing the Club Scientific Franchise Agreement; (iv) you are more than 10 days late in your payment of any amount due to us under the Club Scientific Franchise Agreement or to any supplier and fail to make payment within 5 days after we notify you of the breach; (v) if you lease commercial space, you default under the lease for the Site; (vi) you or your company's principals disclose any confidential information in violation of Section 3.2 of the Club Scientific Franchise Agreement; (vii) you or your company's owners make any unauthorized use of the Club Scientific Marks; (viii) you fail to maintain insurance as required under the Club Scientific Franchise Agreement; (ix) you fail to service any international, national or regional company for which we have an arrangement under which you are required to provide Club Scientific Programs or services; (x) you knowingly maintain false books and records or submit reports to us which understate your Gross Revenue three or more times during the term of the Club Scientific Franchise Agreement; (xi) you fail to comply with any law or regulation applicable to the Club Scientific Franchised Business within 15 days after notice; (xii) you attempt to transfer the Club Scientific Franchised Business without our approval; (xiii) in the event of your death or disability, the Club Scientific Franchise Agreement is not assigned as required under Article IV of the Club Scientific Franchise Agreement; (xiv) you or your company's owners are convicted of, plead guilty or no contest to, a felony or any other crime or offense, or engage in dishonest, deceptive or unethical conduct that may, in our opinion, adversely affect the reputation of the Club Scientific Franchised Business or the Club Scientific System; (xv) you fail to operate the Club Scientific Franchised Business for 10 consecutive days without our consent; (xvi) you fail to pay taxes; (xvii) you commit three or more defaults in any 12 month period; (xviii) your assets are blocked under any law or regulation relating to terrorists activities; (xix) you default under any financing agreement for the Club Scientific

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
		Franchised Business; (xx) any other franchise agreement between you and us or any of our affiliates is terminated due to your breach.
i. Your obligations on termination /nonrenewal	Section 5.3	Upon termination or expiration of the Franchise Agreement, you must: (i) remit to us outstanding royalties, advertising payments and other amounts owed under the Club Scientific Franchise Agreement; (ii) if applicable, pay the liquidated damages under Section 5.2(b); (iii) remit to us a complete list of customers; (iv) if we do not exercise our option to purchase your Club Scientific Franchised Business, remove and deliver to us all printed materials containing the Club Scientific Marks and remove all electronic copies of the same; (v) assign to us the dedicated telephone number; (vi) cease all use of the Club Scientific Marks and System; (viii) cancel any fictitious name filing; (ix) comply with post term covenants of the Club Scientific Franchise Agreement; (x) return the confidential Operations Manual and all Confidential Information in your possession; (xi) permit us to make a final inspection of your records; (xii) execute from time to time any necessary papers or documents to effectuate termination or nonrenewal.
j. Assignment of contract by us	Section 4.1	No restriction on our right to assign.
k. "Transfer" by you — defined	Section 4.2(b)	The term "Transfer" means your (or your company's owner's) voluntary, involuntary, direct or indirect assignment, sale, gift, pledge or other disposition of any legal or beneficial interest in: (i) the Club Scientific Franchise Agreement, (ii) any material asset of the Club Scientific Franchised Business; (iii) the lease or ownership of the premises of the Club Scientific Franchised Business (unless we agree to a relocation or unless the transfer of ownership does not affect your leasehold rights and obligations), or (iv) your company, whether in the form of equity or a voting interest. "Transfer" also includes (i) the merger or consolidation of your company; (ii) the issuance of additional securities or other ownership interests of your company, and (iii) the admission or departure of a partner or owner. It includes transfers resulting from proceedings under the U.S. Bankruptcy Code or any similar law, and transfers resulting from divorce.
l. Our approval of a transfer by you	Section 4.2(a)	You may not transfer the Club Scientific Franchise Agreement without our prior written consent. We may withhold our approval to a transfer unless the conditions in "m" below have been met.

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
m. Conditions for our approval of the transfer	Section 4.2(d)	The transferee meets our criteria for new franchisees; you are in compliance with your Franchise Agreement and all related agreements; transfer fee is paid; transferee agrees to and executes a new Franchise Agreement; you acknowledge continuing confidentiality and non- compete requirements; the transferee obtains the permits and licenses required for the operation of the franchised business; the new manager is trained; we approve the terms of the transfer; you request that we provide the prospective transferee with our current form of disclosure document; you notify us of the closing. We may also require you to sign a Consent to Transfer Agreement. We may withhold or condition our consent to any transfer as we deem appropriate based on the circumstances of the transfer or otherwise.
n. Our right of first refusal to acquire your business	Section 4.3	You must first offer to sell to us on the same terms and conditions as those offered by a third party; provided that we may substitute cash for any form of payment proposed in the Third Party Offer; and we will have a minimum of 60 days to after giving notice to you to prepare for closing. We will notify you, within thirty (30) days after receiving the offer, whether we wish to exercise our right to purchase your business.
o. Our option to purchase your business	Section 5.4	On termination or expiration and nonrenewal, we may purchase the assets, including inventory and equipment at their fair market value.
p. Your death or disability	Sections 4.2(f) and (g)	Upon your death or disability, or the death or disability of the owner of a controlling interest in your company, if the Club Scientific Franchised Business is not actively managed by a Managing Owner who has attended and successfully completed training, you or your deceased or disabled owner's executor, administrator or other personal representative must, within 30 days of the date of death or disability, appoint a Managing Owner to operate the Club Scientific Franchised Business. The appointed Managing Owner must complete training at your expense. We have the right to appoint a manager and charge you or your estate a reasonable management fee in the event we appoint a manager.

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
q. Non-competition covenants during the term of the franchise	Section 3.3(a)	You agree that during the term of the Club Scientific Franchise Agreement and any renewal thereof, you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which we have a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any Club Scientific Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any Club Scientific Business within the six month period before such recruiting or hiring without the prior written permission of that person's employer The term "Competitive Business" means any business that offers educational science programs or similar science themed enrichment activities or services or grants franchises or licenses to others to operate such a business (other than a Club Scientific Business operated under a franchise agreement with us or our affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent (3%) of a class of ownership interests of the issuing company.

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
r. Non-competition covenants after the franchise is terminated or expires	Section 3.3(c)	Upon the expiration of this Agreement, your termination of this Agreement without cause, our termination of this Agreement in accordance with its terms and conditions, or your transfer in accordance with Article IV, you and your company's owners agree for a period of two years following such expiration, termination or transfer, that you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect ownership interest in a Competitive Business located or operating in the Territory or within 30 miles of the location of any Club Scientific Business operating anywhere in the world at the time of such expiration, termination or transfer; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any Club Scientific Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any Club Scientific Business within the 12-month period before such recruiting or hiring without the prior written permission of that person's employer.
s. Modification of the franchise agreement	Section 8.8	The Club Scientific Franchise Agreement may not be modified except by a written document signed by both parties.
t. Integration/merger clause	Section 8.8	Only the terms of the franchise agreement are binding (subject to state law). Any representations or promises made outside the disclosure document and franchise agreement may not be enforceable. Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibitions and amendments.
u. Dispute resolution by arbitration or mediation	Section 7.3	You must bring all disputes before our President and/or or Chief Executive Officer at our headquarters prior to bringing a claim before a third party. After exhausting this internal dispute resolution procedure, at our option, all claims or disputes between you and us must be submitted first to mediation in Desoto County, Mississippi in accordance with the American Arbitration Association's Commercial Mediation Rules then in effect.

<i>Provision</i>	<i>Section in Club Scientific Franchise Agreement</i>	<i>Summary</i>
v. Choice of forum	Section 7.13	All claims not subject to mediation must be brought before a court of general jurisdiction in Desoto County, Mississippi, or the United States District Court for the Northern District of Mississippi. You consent to the personal jurisdiction and venue of any court of general jurisdiction in Desoto County, Mississippi, and the United States District Court for the Northern District of Mississippi. Please see the State Specific Addenda attached as Exhibit H to this Disclosure Document for further details
w. Choice of law	Section 7.10	The laws of the State of Mississippi govern. (subject to state law)

ITEM 18 PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

KidzArt Background

This Item sets forth certain historical revenue information for 12 franchisee-owned KidzArt franchised businesses ("KidzArt Reporting Franchisees") for the 202~~32~~³¹ calendar year, January 1 to December 31 (the "Measurement Period"). An additional ~~two~~ franchisee-owned KidzArt franchised businesses ~~were~~^{es} operational during the Measurement Period, but are excluded from this item because they were not operational for the entire Measurement Period. The KidzArt Reporting Franchisees have operated for periods ranging from 2-1~~89~~⁸⁹ years. A KidzArt franchisee decides how much they want to work. They chose to work full or part-time.

1. Reporting franchisees operated for 10 of the 12 months, full or part-time during the Measurement Period.
2. We offer multiple art classes for ages 2-102. Reporting franchisees all offered more than one type of class. One reporting franchisee (the "Core Art Affiliate") operates a core art program (teaches art every day to many schools in the district.) This school district has thousands of students attend art each week. The district pays the franchisee monthly. This school district is the majority of the Core Art Affiliate's business. The Core Art Affiliate operated as an independent franchisee-owned KidzArt Franchised Businesses until 2021, when the owners of the Core Art Affiliate also acquired ownership of the Franchisor, at which time the Core Art Affiliate became an affiliate of the Franchisor.
3. Each class is part of a 4-6 week session. A school year is usually 36 weeks or 6, 6 week sessions. A franchisee may hold up to 36 weeks of afterschool classes if allowed.
4. Summer camps are popular. Each franchisee sets their camp price. Camps do not exceed 30 kids.
5. COVID-19 impacted operations by either closing or reducing in-school learning, depending on state and city restrictions. Two of the 11 reporting franchisees school systems remained opened, and our programs continued.
6. To offset the reduced class sizes and closings, we pivoted by developing online virtual programs at the onset of COVID-19. Franchisees provided classes either virtual and/or recorded for those areas where in-person instruction was prohibited. These offerings allowed unlimited participation and were not limited to school districts or territories. Nine of the 11 reporting franchisees offered online virtual programs.
7. Franchisees that maintained a studio prior to COVID-19 offered sessions to assist students during their virtual online regular schooling sessions. Students receive assistance with online instruction, help in maintaining internet connectivity, tutoring, and in-person KidzArt classes.

Part I: Annual Gross Revenue

The following Tables I(A) illustrates the Annual Gross Revenue¹ information for the KidzArt Reporting Franchisees during the Measurement Period.

Table I(A) - Annual Gross Revenue

Annual Gross Revenue	Excluding the Core Art Affiliate	Including the Core Art Affiliate
Number of KidzArt Reporting Franchisees	11	12
Average Annual Gross Revenue ²	\$132,295.73 <u>49,336.55</u>	\$194,549.42 <u>213,241.42</u>
Median Annual Gross Revenue ^{3,4}	\$75,178.01 <u>87,241.18</u>	\$88,174.64 <u>92,866.76</u>
High Annual Gross Revenue	\$467,177.03 <u>633,805.65</u>	\$879,340.00 <u>915,871.00</u>
Low Annual Gross Revenue	\$10,276.25 <u>4,290.00</u>	\$10,276.25 <u>4,290.00</u>

Notes to Table I(A):

1. Annual Gross Revenue is the total of all sales made in the operation of the franchised business, whether collected or not. Annual Gross Revenue does not include: (i) federal, state or municipal sales or use taxes collected from customers for payment to the appropriate taxing authorities; (ii) promotional or discount coupons to the extent that no revenue is realized; (iii) compensation for services or products provided to employees if the franchisee did not charge the employee, or for any portion not paid for by an employee; or (iv) adjustments and credits to the extent they were previously included in Gross Revenue on which a royalty fee was paid.

2. The Average Annual Gross Revenue is defined as the sum of the Annual Gross Revenues of the KidzArt Reporting Franchisees for each territory divided by the number of KidzArt Reporting Franchisees.

3. The Median Annual Gross Revenue means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. In other words, ~~45~~59% of the KidzArt Reporting Franchisees exceeded the median value and ~~55~~41% did not (for each territory size).

4. Of the eleven KidzArt Reporting Franchisees (excluding the Core Art Franchisee), ~~two~~four KidzArt Reporting Franchisees, or ~~18~~36%, exceeded the Average Annual Gross Revenue.

5. Of the twelve KidzArt Reporting Franchisees including the Core Art Franchisee, three KidzArt Reporting Franchisees, or 25% exceeded the Average Gross Revenue.

Part II: Average Students per Month and Price per Student per Class

The following Tables II(A) illustrate the Average Students per Month for ~~eleven~~twelve of the KidzArt Reporting Franchisees during the Measurement Period. The following Table II(B) illustrates the Average Price each Student pays per Class for all ~~eleven~~twelve KidzArt Reporting Franchisees during the Measurement Period.

Table II(A) - Average Students per Month

<i>Average Students per Month with or without franchisee operating a core art franchise</i>	Excluding the Core Art Affiliate	Core Art Affiliate	Including the Core Art Affiliate
Number of KidzArt Reporting Franchisees	11	1	12
Average Number of Average Students per Month ^{2,3}	2562 <u>72</u>	34,616 <u>39,885</u>	2,3098 <u>3,553</u>
Median Number of Average Students per Month ⁴	154 <u>4</u>	44,965 <u>5,540</u>	143
High Number of Average Students per Month	9921, <u>026</u>	34,616 <u>39,885</u>	34,617 <u>39,885</u>

Low Number of Average Students per Month ⁷	811	34,616 <u>39,885</u>	811
--	----------------	---------------------------------	----------------

Notes to Table II(A):

1. The Core Art Affiliate receives a substantial amount to provide art instruction for an entire local school district and, because of this services an average of ~~34,617~~9,886 students per month. While this is a substantially higher number of students than all other KidzArt Reporting Franchisees, this KidzArt Reporting Franchisee operates in a territory having 45,000 or more Qualifying Households and was able to secure a stream of revenue that we highly encourage all franchisees to pursue. See Part IV of this Item for more information about certain selected streams of revenue.

2. Average Students per Month is calculated by taking the total number of students to whom each of the Reporting Franchisees provided instruction during the Measurement Period and dividing that sum by the number of months each franchisee is in session, usually 10-12 months.

3. The Average Number of Average Students per Month is defined as the sum of the Average Students per Month of the KidzArt Reporting Franchisees, divided by the number of KidzArt Reporting Franchisees.

4. The Median Number of Average Students per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. In other words, 745% of the KidzArt Reporting Franchisees exceeded the median value stated above and 255% did not (for each column in the Table).

5. Of the eleven KidzArt Reporting Franchisees operating in a Territory (excluding the Core Art Affiliate), ~~three~~two Reporting Franchisees, or 2718%, exceeded the Average Number of Average Students per Month.

6. Of the eleven KidzArt Reporting Franchisees operating in a Territory (including the Core Art Affiliate), no Reporting Franchisees exceeded the Average Number of Average Students per Month.

7. Some franchisees take one to two months off during the summer to stay home with kids or take vacation.

Table II(B) - Average Price each Student pays per Class

<i>Average Price each Student pays per Class</i>	Excluding the Core Art Affiliate	Core Art Affiliate	Including the Core Art Affiliate
Number of KidzArt Reporting Franchisees	11	1	12
Average Amount of Average Price Students Pay per Class ^{1,2}	\$14.0 <u>3</u> <u>4</u>	\$1. <u>26</u> <u>96</u>	\$12.9 <u>46</u>
Median Amount of Average Price Students Pay per Class ³	\$14.0 <u>3</u> <u>3.39</u>	\$1. <u>73</u> <u>89</u>	\$12. <u>96</u> <u>89</u>

High Amount of Average Price Students Pay per Class	\$ 21.00 <u>2.71</u>	\$1. 26 <u>97</u>	\$ 21.00 <u>2.71</u>
Low Amount of Average Price Students Pay per Class ⁵	\$ 6.92 <u>3.67</u>	\$1. 26 <u>97</u>	\$ 2.6.92 <u>1.97</u>

Notes to Table II(B):

1. Average Price Students Pay per Class is calculated by taking the total revenue generated from providing instruction during the Measurement Period and dividing that sum by the number of students to whom each KidzArt Reporting Franchisee provided instruction during the Measurement Period.
2. The Average Amount of Average Price Students Pay per Class is defined as the sum of the Average Price Students pay per Class of the KidzArt Reporting Franchisees, divided by the number of KidzArt Reporting Franchisees for each territory size.
3. The Median Amount of Average Price Students Pay per Class means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the two middle numbers.
4. Of the eleven KidzArt Reporting Franchisees operating (excluding the Core Art Franchisee), ~~six~~four KidzArt Reporting Franchisees, or ~~55~~36%, exceeded the Average Amount of Average Price Students Pay per Class.
5. Of the twelve KidzArt Reporting Franchisees operating including the Core Art Franchisee, six KidzArt Reporting Franchisees, or ~~50~~5%, exceeded the Average Amount of Average Price Students Pay per Class.
6. The core Art program franchisee charges per student are much lower than normal due to the high volume of students receiving instruction and the reduced class time throughout the school year.

Part III: Average Classes and Locations per Month

The following Tables III(A) illustrates information about Average Classes per Month for eleven~~4~~KidzArt Reporting Franchisees during the Measurement Period. The following Tables III(B) illustrates the Average Locations per Month for all eleven KidzArt Reporting Franchisees during the Measurement Period.

Table III(A) - Average Classes per Month

Average Classes per Month	Excluding the Core Art Affiliate	Core Art Affiliate	Including the Core Art Affiliate
Number of KidzArt Reporting Franchisees	11	1	12
Average Number of Average Classes per Month ^{1,2}	23 <u>30</u>	1,53 <u>1,696</u>	1,498 <u>2</u>
Median Number of Average Classes per Month ³	44 <u>19</u>	1,89 <u>8955</u>	12.6 <u>322.00</u>
High Number of Average Classes per Month	83 <u>90</u>	1,53 <u>1,696</u>	1.53 <u>11.696</u>
Low Number of Average Classes per Month	6	1,53 <u>169</u> <u>6</u>	6

Notes to Table III(A):

1. Average Classes per Month is calculated by taking the total number of classes each of the KidzArt Reporting Franchisees taught during the Measurement Period and dividing that sum by the number of months each franchisee is in session, usually 10-12months.
2. The Average Number of Average Classes per Month is defined as the sum of the Average Classes per Month of the KidzArt Reporting Franchisees, divided by the number of KidzArt Reporting Franchisees
3. The Median Number of Average Classes per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
4. Of the eleven KidzArt Reporting Franchisees operating (excluding the Core Art Franchisee), ~~four~~three of the KidzArt Reporting Franchisees, or ~~36~~27%, exceeded the Average Number of Average Classes per Month.
5. Of the twelve KidzArt Reporting Franchisees operating including the Core Art Franchisee, ~~four~~none of the KidzArt Reporting Franchisees, or ~~40~~%, exceeded the Average Number of Average Classes per Month in Session.

Table III(B) - Average Number of Average Locations per Month

Average locations per month	Excluding the Core Art Affiliate	Core Art Affiliate	Including the Core Art Affiliate
------------------------------------	---	---------------------------	---

Number of KidzArt Reporting Franchisees	1 1	1	1 2
Average Number of			

Average Locations per Month ^{1,2}	7 <u>10</u>	23	9 <u>11</u>
Median Number of Average Locations per Month ³	7 <u>8</u>	23	7 <u>9</u>
High Number of Average Locations per Month	4 8 2 0	23	23
Low Number of Average Locations per Month	1	23	1

Notes to Table III(B):

1. Average Locations per Month is calculated by taking the total number of Locations each of the KidzArt Reporting Franchisees used to provide instruction to students during the Measurement Period and dividing that sum by the number of months each franchisee is in session usually (10-12).
2. The Average Number of Average Locations per Month is defined as the sum of the Average Locations per Month of the KidzArt Reporting, divided by the number of KidzArt Reporting Franchisees for each territory size.
3. The Median Number of Average Locations per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
4. Of the eleven KidzArt Reporting Franchisees operating (excluding the Core Art Franchisee), four KidzArt Reporting Franchisees, or 36%, exceeded the Average Number of Average Locations per Month.
5. Of the twelve KidzArt Reporting Franchisees operating including the Core Art Franchisee, five KidzArt Reporting Franchisees, or 41%, exceeded the Average Number of Average Locations per Month in Session.

Part IV: Selected Streams of Revenue

The following Tables IV(A) and IV(B) illustrate information about two selected streams of revenue for the KidzArt Reporting Franchisees during the Measurement Period. Two of these streams of revenue include revenue derived from: (i) from school districts with core art programs ("Core Art Revenue"); and (ii) instruction provided at camps ("Camp Revenue").

Table IV(A) – Core Art Program Revenue

KidzArt Reporting Franchisee	Revenue from Core Art Program
Core Art Affiliate	\$879,340.00 <u>915,871.00</u>

Notes to Table IV(A):

This Table shows the revenue received by one KidzArt Reporting Franchisee who was able to secure core art programs from school districts during the Measurement Period.

One KidzArt Reporting Franchisee receives a substantial amount to service an entire local school district (as referenced above in Note 1 to Table II(A)). This is higher than most Franchisees receive; however, this is a stream of revenue that we highly encourage all franchisees to pursue.

Table IV(B) – Average Camp Revenue

Average Camp Revenue	
Number of KidzArt Reporting Franchisees	12
Number of KidzArt Reporting Franchisees who held camps	98
Average Camp Revenue ¹	\$58213.36 <u>41,850.13</u>
Territory Size	
Median Camp Revenue ²	\$24,098.50 <u>7,145.60</u>
High Camp Revenue	\$242,805.23 <u>113,631.35</u>
Low Camp Revenue	\$2,985.00 <u>1,654.16</u>

Notes to Table IV(B):

1. This Table shows nine of the twelve KidzArt Reporting Franchisees who were able to derive revenue from providing instruction at camps during the Measurement Period. Each of the seven KidzArt Reporting Franchisees offered camps for a minimum of one month during the Measurement Period. Four of the reporting franchisees did not offer camps. These camps were divided by the number of KidzArt Reporting Franchisees that received Camp Revenue during the Measurement Period. The Core Art Affiliate did not offer camps.
2. The Median Camp Revenue means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
3. Of the ~~nine-eight~~ KidzArt Reporting Franchisees operating camps, ~~three~~two KidzArt Reporting Franchisees, or ~~38~~29%, exceeded the Average Camp Revenue.

Written substantiation for the financial performance representation will be made available to you upon reasonable request.

Some franchisees have earned this amount. Your individual results may differ. There is no assurance that you'll earn as much.

Club Scientific Background

~~As of December 31, 2020, we have one franchisee operating a Club Scientific franchise (the "Club Scientific Franchisee"). Prior to April 2020, the Club Scientific Franchisee operated as a KidzArt & Club Scientific co-branded franchised business. However, effective April 1, 2020, the Club Scientific Franchisee ceased operation of its KidzArt franchise following expiration of its KidzArt franchise~~

~~agreement. The table below in this item sets forth the Annual Gross Revenue and certain other information pertaining to the Club Scientific Franchisee's Club Scientific franchise operation for the Measurement Period (calendar year January 1, 2021 to December 31, 2021).~~

Annual Gross Revenue¹	\$35,813.22
Average Students Per Month²	56
Average Price Each Student Pays Per Class³	\$14
Average Classes Per Month⁴	21
Average Locations Per Month⁵	3

Notes to Table:

- ~~1. Annual Gross Revenue is the total of all sales made in the operation of the franchised business, whether collected or not. Annual Gross Revenue does not include: (i) federal, state or municipal sales or use taxes collected from customers for payment to the appropriate taxing authorities; (ii) promotional or discount coupons to the extent that no revenue is realized; (iii) compensation for services or products provided to employees if the franchisee did not charge the employee, or for any portion not paid for by an employee; or (iv) adjustments and credits to the extent they were previously included in Gross Revenue on which a royalty fee was paid.~~
- ~~2. Average Students Per Month is calculated by taking the total number of students to whom the Club Scientific Franchisee provided instruction during the Measurement Period and dividing that sum by the number of months the Club Scientific Franchisee was in session, namely 10 months.~~
- ~~3. Average Price Students Pay Per Class is calculated by taking the total revenue generated from providing instruction during the Measurement Period and dividing that sum by the number of students to whom the Club Scientific Franchisee provided instruction during the Measurement Period.~~
- ~~4. Average Classes Per Month is calculated by taking the total number of classes the Club Scientific Franchisee taught during the Measurement Period and dividing that sum by the number of months the Club Scientific Franchisee was in session, namely 10 months.~~
- ~~5. Average Locations Per Month is calculated by taking the total number of locations the Club Scientific Franchisee used to provide instruction to students during the Measurement Period and dividing that sum by the number of months the Club Scientific Franchisee was in session, namely 10 months.~~
- ~~6. The Club Scientific Franchisee operated full time for 10 months during the Measurement Period.~~
- ~~7. Club Scientific franchisees offer science classes for ages 4-14. The Club Scientific Franchisee offered camps & classes.~~
- ~~8. Afterschool classes and summer camps are parent paid programs offered by Club Scientific franchisees.~~
- ~~9. Each class is part of a 4-6 week session. A school year is usually 36 weeks or 6, 6 week sessions. A franchisee may hold up to 36 weeks of afterschool classes if allowed. Each session has different lessons. Students typical sign up for more than 1 session.~~
- ~~10. Full class attendance varies.~~
- ~~11. Summer camps are very popular and are offered by age group. Camps do repeat because the kids grow out of the age groups and on to the next level. A full week of day camp varies in costs by camp content. Computers and Robots are more expensive than chemistry experiments. You chose which camps you want to offer. We also open camp registration early to help generate income to help pay for some camp expenses.~~

As of December 31, 2022, there were zero Club Scientific franchises in this category. Four (4) Club Scientific Franchisee's that have reported in this category previously, have been moved to a section titled Co-Branded franchisees. These four (4) Club Scientific Franchisees have also purchased a KidzArt franchise. They are operating a KidzArt and Club Scientific

franchise placing them in the Co-Branded category. A franchisee is reported in only one category. The Club Scientific Reporting Franchisee listed, in this item 19, represents one of the four Co-Branded franchisees that has been moved to the Club Scientific category after electing to not renew their KidzArt franchise, no longer being Co-branded. The reporting franchisees offer a representation of their Club Scientific business. They show their results for 1-4 years. The Club Scientific Reporting Franchisees listed, in this Item 19, did not submitted their full requisite information This Item also sets forth certain written substantiation of their historical average monthly gross revenue in this item 19 achieved by the Club Scientific franchisees (the "Club Scientific Reporting Franchisees") achieved during the Measurement Period. A club Scientific franchisee decides how much they want to work and how big they want their business to grow. They chose to work full- or part-time. A franchisee is responsible for contacting and signing up schools that will hold classes. Then they market to area families to fill those classes. We provide training and loan you our "Best Practices" Operations manual with information you will use to build your business. Your effort will determine your business results.

1. Reporting franchisees operated for 10-12 months, full or part-time during the Measurement Period.
2. Club Scientific is a portable business that rents or uses school classrooms for after-school science classes and summer camps. Other buildings can be rented and used as well.
3. We offer science classes for ages 4-14. Reporting franchisees all offered camps & classes.
4. Afterschool classes and summer camps are parent paid programs offered by all franchisees.
5. Each class is part of a 4-6-week session. A school year is usually 36 weeks or 6, 6-week sessions. A franchisee may hold up to 36 weeks of afterschool classes if allowed. Each session has different lessons. Franchisees grow by adding locations, classes and then fill those classes. Students typically sign up for more than one session.
6. Full class attendance varies. The goal is to fill a class with students. Do not exceed state standards which are usually up to 10 for pre-school and under. Do not exceed the classroom size limit in the school. Most franchisees cap a class at 20 students per teacher for elementary. We suggest no more students than a teacher can handle.
7. Summer camps are very popular and are offered by the age group. When you first invest in camps the initial cost is high. After the first year, you only buy the consumables from then on, which is usually much less. Camps do repeat because the kids grow out of the age groups and on to the next level. A full week of day camp varies in costs by camp content. Computers and Robots are more expensive than chemistry experiments. You choose which camps you want to offer. We also open camp registration early to help generate income to help pay for some camp expenses. Camps have up to 20 kids.
8. Club Scientific does not encourage a store front. Some franchisees do rent office space if their business out grows their home office. Storage and training are the biggest reasons. If they have room in the office, they may offer birthday parties or classes. Do not rent more space to do this in. It usually does not pay to do so.

Under the Franchise Agreement, you will receive a territory with a population of approximately 15,000 qualifying households with a Teach Franchise or 30,000 qualifying households with a Teach Plus franchise. A qualified household (qhh) earns an income over \$75,000. We include in the sale of a Teach franchise 15,000 of these (qhh) and 30,000 of these (qhh) in a Teach Plus franchise. We do not count households that make under \$75,000 income as part of the (qhh) households you need. People with income under \$75,000 still pay for classes, but we do not count them as part of the qualified households for a Club Scientific territory. We know that people with higher incomes have more discretionary money and will spend it on their children and grandchildren to enrich their education and experiences. We then help you rank the schools in your territory. The higher-ranking schools are the schools most likely to hold the most parent paid classes. Parents want education enrichment. As discussed in Item 12, we offer you the right to purchase additional territory in excess of the 15,000 or the 30,000 qualifying households (qhh). The results of Reporting Franchisees disclosed in this Item 19 are franchisees with varying sizes of territory. Between 15,000 – 60,000 qhh.

We have not audited or independently verified the data submitted by the Club Scientific Reporting Franchisees and no assurance can be offered that the data does not contain inaccuracies that an audit might disclose

Written substantiation for the financial performance representation will be made available to you upon reasonable request.

Some franchisees have earned this amount. Your individual results may differ. There is no assurance that you'll earn as much.

KidzArt & Club Scientific Co-Branded Background

Franchisees that own both a KidzArt and Club Scientific franchise are reported in this section. This Item sets forth certain historical revenue information for two franchisee-owned KidzArt & Club Scientific Co-Branded Franchised Businesses (“KidzArt/Club Scientific Reporting Franchisees”) for the 2023~~2~~ calendar year, January 1 to December 31 (the “Measurement Period”). An additional franchisee-owned KidzArt & Club Scientific co-branded franchised business was not operational during the entire Measurement Period due to a transfer sale and is excluded from this item because reporting franchisees have operated for periods ranging from 1-8 years. A Co-Branded franchisee decides how much they want to work. They chose to work full or part-time. Reporting franchisees operated for at least 10 of the 12 months, full or part-time during the Measurement Period.

1. We offer multiple art & science classes for ages 2-102 for art and ages 4-14 for science. Reporting franchisees all offered more than one type of class.

2. Each class is part of a 4-6 week session. A school year is usually 36 weeks or 6, 6 week sessions. A franchisee may hold up to 36 weeks of afterschool classes if allowed
3. Full class attendance varies. Most franchisees cap a class between 15-20 students for elementary art and science.. Adult art classes are unlimited.
4. Summer camps are popular. Each franchisee sets their camp price. Camps do not exceed 30 kids.
5. Franchisees that maintained a studio prior to COVID-19 offered sessions to assist students during their virtual online regular schooling sessions. Students receive assistance with online instruction, help in maintaining internet connectivity, virtual online class instruction and tutoring.

Part I: Annual Gross Revenue

The following Tables I(A) illustrates the Annual Gross Revenue¹ information for the KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period.

Table I(A) - Annual Gross Revenue

Annual Gross Revenue	KidzArt Co-Branded Franchisee	Club Scientific Co-Branded Franchisee
Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	32	32
Average Annual Gross Revenue ²	\$135,806.2 4229,115.7 0	\$155,959.63 385,011.89
Median Annual Gross Revenue ³	\$193,156.1 7229,115.7 0	\$74,152.05 385,011.89
High Annual Gross Revenue	\$193,801.0 4236,612.0 7	\$334,696.97 597,407.8 2
Low Annual Gross Revenue	\$20,461.50 221,619.33	\$59,029.87 172,615.96

Notes to Table I(A):

1. Annual Gross Revenue is defined as the total of all sales made in the operation of the franchised business, whether collected or not. Annual Gross Revenue does not include: (i) federal, state or municipal sales or use taxes collected from customers for payment to the appropriate taxing authorities; (ii) promotional or discount coupons to the extent that no revenue is realized; (iii) compensation for services or products provided to employees if the franchisee did not charge the employee, or for any portion not paid for by an employee; or (iv) adjustments and credits to the extent they were previously included in Gross Revenue on which a royalty fee was paid.

2. The Average Annual Gross Revenue is defined as the sum of the Annual Gross Revenues of the KidzArt/Club Scientific Co-Branded Reporting Franchisees for each territory divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees.

3. The Median Annual Gross Revenue means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.

4. Of the ~~three~~two KidzArt/Club Scientific Co-Branded Reporting Franchisees, one KidzArt/Club Scientific Co-Branded Reporting Franchisees, or ~~33~~50% exceeded the Average Annual Gross Revenue.

Part II: Average Students per Month and Price per Student per Class

The following Tables II(A) illustrate the Average Students per Month for all three of the KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period. The following Table II(B) illustrates the Average Price each Student pays per Class for all three KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period.

Table II(A) - Average Students per Month

Average Students per Month of KidzArt/Club Scientific Co-Branded Franchisees	All Two<u>three</u> Co-Branded KidzArt Franchisees	All Two<u>three</u> Co-Branded Club scientific Franchisees
Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	3 <u>2</u>	3 <u>2</u>
Average Number of Average Students per Month ^{2,3}	100 <u>33</u>	130 <u>48</u>

Median Number of Average Students per Month ⁴	67 <u>16</u>	302 <u>4</u>
High Number of Average Students per Month	247 <u>18</u>	344 <u>33</u>
Low Number of Average Students per Month ⁵	45 <u>13</u>	271 <u>4</u>

Notes to Table II(A):

1. Average Students per Month is calculated by taking the total number of students to whom each of the Reporting Franchisees provided instruction during the Measurement Period and dividing that sum by twelve.
2. The Average Number of Average Students per Month is defined as the sum of the Average Students per Month of the KidzArt/Club Scientific Co-Branded Reporting Franchisees, divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees.
3. The Median Number of Average Students per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
4. Of the ~~threetwo~~ KidzArt/Club Scientific Co-Branded Reporting Franchisees operating in a Territory one KidzArt/Club Scientific Co-Branded Reporting Franchisee, or ~~33~~50%, exceeded the Average Number of Average Students per Month.
5. Some franchisees take one to two months off during the summer to stay home with kids or take vacation.

Table II(B) - Average Price each Student pays per Class

Average Price each Student pays per Class	KidzArt Co-Branded Franchisee	Club Scientific Co-Branded Franchisee
Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	32	32
Average Amount of Average Price Students Pay per Class ^{1,2}	\$15 .45 <u>18.</u> <u>51</u>	\$10 .64 <u>7.2</u> <u>2</u>

Median Amount of Average Price Students Pay per Class ³	\$15 .45 <u>18.</u> <u>51</u>	\$9. 331 <u>7.2</u> <u>2</u>
--	--	---

High Amount of Average Price Students Pay per Class	\$19.63 <u>18.66</u>	\$17.58 <u>22</u>
Low Amount of Average Price Students Pay per Class	\$12.86 <u>18.34</u>	\$5.00 <u>6.90</u>

Notes to Table II(B):

1. Average Price Students Pay per Class is calculated by taking the total revenue generated from providing instruction during the Measurement Period and dividing that sum by the number of students to whom each KidzArt/Club Scientific Co-Branded Reporting Franchisee provided instruction during the Measurement Period.
2. The Average Amount of Average Price Students Pay per Class is defined as the sum of the Average Price Students pay per Class of the KidzArt/Club Scientific Co-Branded Reporting Franchisees., divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees for each territory size.
3. The Median Amount of Average Price Students Pay per Class means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
4. Of the ~~two~~^{three} KidzArt Co-Branded Reporting Franchisees operating, one KidzArt Co-Branded Reporting Franchisees, or ~~33~~⁵⁰%, exceeded the Average Amount of Average Price Students Pay per Class.
5. Of the ~~two~~^{three} Club Scientific Co-Branded Reporting Franchisees one ~~1~~⁴ or ~~50~~³³% were equal to the Average Amount of Average Price Students Pay per Class.

Part III: Average Classes and Locations per Month

The following Tables III(A) illustrates information about Average Classes per Month for two~~2~~ KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period. The following Tables III(B) illustrates the Average Locations per Month for all two~~2~~ KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period

Table III(A) - Average Classes per Month

<i>Average Classes per Month of KidzArt/Club Scientific Co-Branded</i>	KidzArt Co-Branded Franchisee	Club Scientific Co-Branded Franchisee
---	--------------------------------------	--

Franchisees		
Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	3 <u>2</u>	2 <u>3</u>
Average Number of Average Classes per Month ^{1,2}	43 <u>11</u>	44 <u>16</u>
Median Number of Average Classes per Month ³	15 <u>4</u>	13 <u>24</u>
High Number of Average Classes per Month	17 <u>8</u>	24 <u>33</u>
Low Number of Average Classes per Month	41 <u>3</u>	6 <u>14</u>

Notes to Table III(A):

1. Average Classes per Month is calculated by taking the total number of classes each of the KidzArt/Club Scientific Co-Branded Reporting Franchisees taught during the Measurement Period and dividing that sum by twelve.
2. The Average Number of Average Classes per Month is defined as the sum of the Average Classes per Month of the KidzArt/Club Scientific Co-Branded Reporting Franchisees, divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees
3. The Median Number of Average Classes per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are two even numbers of data, the median is the average of the middle two numbers.
4. Of the ~~two~~three KidzArt/Club Scientific Co-Branded Reporting Franchisees operating, one KidzArt/Club Scientific Co-Branded Reporting Franchisees, or ~~33~~50%, exceeded the Average Number of Average Classes per Month.

Table III(B) - Average Number of Average Locations per Month

Average locations per month	KidzArt Co-Branded Franchisees	Club Scientific Co-Branded Franchisees
Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	3 <u>2</u>	3 <u>2</u>
Average Number of Average Locations per	5 <u>4</u>	5 <u>6</u>

Month ^{1,2}		
Median Number of Average Locations per Month ³	1	4 <u>6</u>
High Number of Average Locations per Month	1 <u>13</u>	1 <u>2</u> 4
Low Number of Average Locations per Month	1	1

Notes to Table III(B):

1. Average Locations per Month is calculated by taking the total number of Locations each of the KidzArt/Club Scientific Co-Branded Reporting Franchisees used to provide instruction to students during the Measurement Period and dividing that sum by twelve.
2. The Average Number of Average Locations per Month is defined as the sum of the Average Locations per Month of the KidzArt/Club Scientific Co-Branded Reporting, divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees for each territory size.
3. The Median Number of Average Locations per Month means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
4. Of the ~~three~~two KidzArt Co-Branded Reporting Franchisees operating, one KidzArt Co-Branded Reporting Franchisee, or ~~33~~50%, exceeded the Average Number of Average Locations per Month.
5. Of the ~~two~~three Club Scientific Co-Branded Reporting Franchisees operating, one Club Scientific Co-Branded Reporting Franchisee, or ~~33~~50%, exceeded the Average Number of Average Locations per Month.

Part IV: Selected Streams of Revenue

The following Table IV illustrates information about an additional stream of revenue for the KidzArt/Club Scientific Co-Branded Reporting Franchisees during the Measurement Period. One of the revenue streams includes revenue derived from: (i) instruction provided at camps ("Camp Revenue").

Table IV Average Camp Revenue

Average Camp Revenue	KidzArt Co-Branded Franchisees	Club Scientific Co-Branded Franchisees
-----------------------------	---------------------------------------	---

Number of KidzArt/Club Scientific Co-Branded Reporting Franchisees	2	2
Average Camp Revenue ¹	\$91,773.96 <u>103,925.68</u>	\$62,039.28 <u>182,266.62</u>
<i>Territory Size</i>		
Median Camp Revenue ²	\$91,773.96 <u>103,925.68</u>	\$62,207.44 <u>182,266.62</u>
High Camp Revenue	\$167,179.99 <u>185,188.61</u>	\$66,207.44 <u>247,611.96</u>
Low Camp Revenue	\$16,368 <u>22,662.75</u>	\$57,871.12 <u>116,921.27</u>

Notes to Table IV:

1. This Table shows two ~~of the three~~ KidzArt/Club Scientific Co-Branded Reporting Franchisees who were able to derive revenue from providing instruction at camps during the Measurement Period. Each of the two KidzArt/Club Scientific Co-Branded Reporting Franchisees offered camps for a minimum of six months during the Measurement Period. These camps were divided by the number of KidzArt/Club Scientific Co-Branded Reporting Franchisees that received Camp Revenue during the Measurement Period.
2. The Median Camp Revenue means the amount that falls in the middle when all other amounts disclosed are arranged highest to lowest. If there are an even number of data, the median is the average of the middle two numbers.
3. Of the two KidzArt/Club Scientific Co-Branded Reporting Franchisees operating, one KidzArt/Club Scientific Co-Branded Reporting Franchisees, or 50%, exceeded the Average Camp Revenue.

Some franchises have earned this amount. Your individual results may differ. There is no assurance that you'll earn as much.

Except as stated in the Item 19, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections or your future income, you should report it to the franchisor's management by contacting Robert Denton, Post Office Box ~~525~~81143, ~~Eaton Rapids~~Lansing, Michigan 48908-1143~~827~~, Ph. 517-784-5000, The Federal Trade Commission, and the appropriate state regulatory agencies

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
KidzArt Franchised Systemwide
Outlet Summary
202~~10~~ – 202~~32~~

Outlet Type	Year	Outlets at the Start of Year	Outlets at the End of Year	Net Change
Franchised				
	202 0 <u>1</u>	2 6 <u>4</u>	*1 6 <u>2</u> <u>4</u>	- 2 <u>8</u>
	202 4 <u>2</u>	24 1 <u>6</u>	*1 6 <u>4</u>	- 8 <u>2</u>
	202 2 <u>3</u>	*1 6 <u>4</u>	*1 4 <u>3</u>	- 2 <u>1</u>
Company Owned				
	202 0 <u>1</u>	0	0	0
	202 4 <u>2</u>	0	0* <u>1</u>	0* <u>1</u>
	202 2 <u>3</u>	0* <u>1</u>	*1	* 4 <u>0</u>
Total Outlets				
	202 10	2 6 <u>4</u>	24* <u>1</u> <u>6</u>	- 2 <u>8</u>
	202 2 <u>4</u>	24* <u>1</u> <u>6</u>	*1 4 <u>6</u>	- 2 <u>8</u>
	202 3 <u>2</u>	*1 4 <u>6</u>	*1 3 <u>4</u>	- 1 <u>2</u>

*One of the franchised locations is the Core Art Franchisee which, as mentioned in Item 19, is under common ownership with the Franchisor/an affiliate of the Franchisor.

Table No. 2
KidzArt
Transfers of Outlets from Franchisees to New Owners
(Other than Franchisor)
202~~10~~ – 202~~31~~

<i>State</i>	<i>Year</i>	<i>Number of Transfers</i>
California	202 10	
	202 21	0
	202 32	0
Colorado	202 10	0
	202 21	0 1
	202 32	4 0
Hawaii	202 10	0
	202 21	0 1
	202 32	4 0
Florida	202 10	0
	202 21	0
	202 32	0
Mississippi	202 10	0
	202 21	0
	202 32	0
North Carolina	202 10	0
	202 21	0
	202 32	0
Arizona	202 10	0
	202 21	0
	202 22	0

Total	202 10	0
	202 21	02
	202 32	20

Table No. 3
Status of KidzArt Franchised Outlets
20~~19~~~~21~~ – 202~~31~~

State	Year	Outlets at Start of Year	Outlets Open	Terminations	Non-Renewals	Re-acquired by Franchisor	Ceased Operations - Other Reasons	Outlets at the end of the Year
AL	202 10	1	0	0	1	0	0	0
	202 21	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
AZ	202 10	2	0	0	0	0	01	21
	202 21	12	0	0	0	0	10	1
	202 32	1	0	0	0	0	0	1
CA	202 10	1	0	0	0	0	01	10
	202 21	10	0	0	0	0	10	0
	202 32	0	0	0	0	0	0	0
CO	202 10	2	0	0	0	0	0	2
	202 21	2	0	0	0	0	0	2

	202 32	2	0	0	0	0	0	2
CT	202 10	0	0	0	0	0	0	0
	202 21	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	*0
FL	202 10	2	0	0	0	0	0	2
	202 21	2	0	0	0	0	0	2
	202 32	2	0	0	0	0	0	2
HI	202 10	1	0	0	0	0	0	1
	202 21	1	0	0	0	0	0 1	10
	202 32	10	0	0	0	0	10	0

State	Year	Outlets at Start of Year	Outlets Open	Terminations	Non-Renewals	Re-acquired by Franchisor	Ceased Operations - Other Reasons	Outlets at the end of the Year
IN	202 1 ₀	0	0	0	0	0	0	0
	202 2 ₁	0	0	0	0	0	0	0
	202 3 ₂	0	0	0	0	0	0	0
MD	202 1 ₀	1	0	0	0	0	0	1
	202 2 ₁	1	0	0	0	0	0	1
	202 3 ₂	1	0	0	0	0	0	1
MI	202 1 ₀	0	0	0	0	0	0	0
	202 2 ₁	0	0	0	0	0	0	0
	202 3 ₂	0	0	0	0	0	0	0
MN	202 1 ₀	1	0	0	0	0	0	1
	202 2 ₁	1	0	0	0	0	0	1
	202 3 ₂	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Open	Terminations	Non-Renewals	Re-acquired by Franchisor	Ceased Operations - Other Reasons	Outlets at the end of the Year
MS	2021 0 ¹	2	0	0	0	0	0	2
	2022 1 ¹	2	0	0	0	0	0	2
	2023 2 ²	2	0	0	0	0	0	2
IL	2021 0 ¹	1	0	0	0	0	0	1
	2022 1 ¹	1	0	0	0 ¹	0	0	1 ⁰
	2023 2 ²	1 ⁰	0	0	1 ⁰	0	0	0
NJ	2021 0 ¹	3	0	0	0 ¹	0	0	3 ²
	2022 1 ¹	3 ²	0	0	0	0	0	3 ²
	2023 2 ²	2	0	0	0 ¹	0	0	0 ¹
NY	2021 0 ¹	0	0	0	0	0	0	0
	2022 1 ¹	0	0	0	0	0	0	0
	2023 2 ²	0	0	0	0	0	0	0
NC	2021 0 ¹	3 ²	0	1 ⁰	0	0	0	2
	2022 1 ¹	2	0	0	0	0	0	2 ²
	2023 2 ²	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Open	Termina tions	Non- Renewals	Re- acquire d by Franchis or	Ceased Operations - Other Reasons	Outlets at the end of the Year
OH	202 1 <u>0</u>	1	0	0	0	0	0 <u>1</u>	1 <u>0</u>
	202 2 <u>1</u>	1 <u>0</u>	0	0	0	0	1 <u>0</u>	0
	202 3 <u>2</u>	0	0	0	0	0	0	0
RI	202 1 <u>0</u>	1	0	0	0	0	0	1
	202 2 <u>1</u>	1	0	0	0	0	0	1
	202 3 <u>2</u>	1	0	0	0	0	0	1
SC	202 1 <u>0</u>	1	0	0	0 <u>1</u>	0	0	1 <u>0</u>
	202 2 <u>1</u>	1 <u>0</u>	0	0	1 <u>0</u>	0	0	0
	202 3 <u>2</u>	0	0	0	1 <u>0</u>	0	0	0
TX	202 0 <u>1</u>	1	0	0	0	0	0 <u>1</u>	1 <u>0</u>
	202 2 <u>1</u>	1 <u>0</u>	0	0	0	0	0	1 <u>0</u>
	202 3 <u>2</u>	0	0	0	0	0	0	0
UT	202 1 <u>0</u>	*0	0	0	0	0	0	*0
	202 2 <u>1</u>	*0	0	0	0	0	0	*0
	202 3 <u>2</u>	0	0	0	0	0	0	0
VA	202 0 <u>1</u>	2	0	0	0 <u>2</u>	0	0	2 <u>0</u>
	202 2 <u>1</u>	2 <u>0</u>	0	0	0	0	0	0
	202 2 <u>3</u>	0	0	0	0	0	0	0
Totals	202 1 <u>0</u>	2 4 <u>6</u>	0	0 <u>1</u>	1 <u>4</u>	0	0 <u>4</u>	2 4 <u>16</u>

202 2 <u>1</u>	24 <u>16</u>	0	0	4 <u>0</u>	0	0 <u>2</u>	1 4 <u>6</u>
202 3 <u>2</u>	1 4 <u>6</u>	0	0	1	0	1 <u>0</u>	1 3 <u>4</u>

Table No. 4
Status of Company-Owned KidzArt Outlets
202~~10~~ - 202~~32~~

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
Mississippi	202 10	0	0	0	0	0	0
	202 24	0	0	0	0	0	0
	202 32	0	0	0	0	0	0
Total	202 10	0	0	0	0	0	0
	202 24	0	0	0	0	0	0
	202 32	0	0	0	0	0	0

Table No. 5
KidzArt Projected Openings as of 12/31/2023³⁴

State	Franchise Agreements Signed but Outlets Not Opened	Projected New Franchised Outlets in Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
Maine Florida	0	1	0
Tennessee	0	1	0
Texas	0	1	0
Total	0	3	0

Table No. 1
Club Scientific Systemwide
Outlet Summary
202~~10~~ – 202~~32~~

<i>Outlet Type</i>	<i>Year</i>	<i>Outlets at the Start of Year</i>	<i>Outlets at the End of Year</i>	<i>Net Change</i>
Franchised	202 10	0 <u>1</u>	1	4 <u>0</u>
	202 24	1	4 <u>0</u>	0 <u>-1</u>
	202 32	4 <u>0</u>	0 <u>1</u>	-1
Company Owned	202 10	0	0	0
	202 24	0	0	0
	202 32	0	0	0

Total Outlets	202 1 <u>0</u>	0 <u>1</u>	1	4 <u>0</u>
	202 2 <u>4</u>	1	4 <u>0</u>	0 <u>1</u>
	202 3 <u>2</u>	4 <u>0</u>	0 <u>1</u>	-1

Table No. 2
Club Scientific
Transfers of Outlets from Franchisees to New Owners
(Other than Franchisor)
202~~10~~ – 202~~32~~

<i>State</i>	<i>Year</i>	<i>Number of Transfers</i>
Total	202 10	0
	202 24	0
	202 32	0

Table No. 3
Status of Club Scientific Franchised Outlets
202~~10~~ – 202~~32~~

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
FL	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
GA	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
MD	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
MI	202 10	0	<u>0</u>	0	0	0	0	<u>0</u>
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
NC	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
NJ	202 10	0 <u>1</u>	4 <u>0</u>	0	0	0	0	1
	202 24	1	0	0	0 <u>1</u>	0	0	4 <u>0</u>
	202 32	4 <u>0</u>	0 <u>1</u>	0	0	0	4 <u>0</u>	0 <u>1</u>
NY	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
Totals	202 10	*0 <u>1</u>	4 <u>0</u>	0	0	0	0	1
	202 24	1	0	0	0 <u>1</u>	0	0	-1 <u>±</u>
	202 32	4 <u>0</u>	0 <u>1</u>	0	0	0	4 <u>0</u>	0 <u>1</u>

Table No. 4
Status of Company-Owned Club Scientific Outlets
202~~10~~ - 202~~32~~

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
M S	202 10	0	0	0	0	0	<u>0</u>
	202 24	0	0	0	0	0	0
	202 32	0	0	0	0	0	0
Total	202 10	0	0	0	0	0	0
	202 24	0	0	0	0	0	0
	202 22	0	0	0	0	0	0

Table No. 5
Club Scientific Projected Openings as of 12/31/202~~32~~

State	Franchise Agreements Signed but Outlets Not Opened	Projected New Franchised Outlets in Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
North Carolina Any States	0	0	0
Total	0	0	0

Table No. 1
System-wide Co-Branded Franchise Outlet Summary
202~~10~~ - 202~~32~~

<i>Outlet Type</i>	<i>Year</i>	<i>Outlets at the Start of Year</i>	<i>Outlets at the End of Year</i>	<i>Net Change</i>
Franchised	202 10	<u>43</u>	<u>43</u>	<u>0</u>
	202 24	<u>44</u> <u>3</u>	<u>34</u>	<u>14</u> <u>1</u>
	202 32	<u>34</u>	<u>3</u>	<u>0</u> <u>1</u>
Company Owned	202 10	0	0	0
	202 24	0	0	0
	202 32	0	0	0
Total Outlets	202 10	<u>43</u>	<u>43</u>	<u>0</u>
	202 24	<u>44</u> <u>3</u>	<u>34</u>	<u>-14</u> <u>1</u>
	202 32	<u>34</u> <u>4</u>	<u>3</u>	<u>0</u> <u>1</u>

*

Table No. 2
Co-Branded
Transfers of Outlets from Franchisees to New Owners
(Other than Franchisor)
202~~10~~ - 202~~32~~

<i>State</i>	<i>Year</i>	<i>Number of Transfers</i>
Total	202 1	<u>10</u>
	<u>0</u>	
	202 2	<u>40</u>
	<u>1</u>	
	202 3	<u>04</u>
	<u>2</u>	

Table No. 3
Status of Co-Branded Franchised Outlets
202~~10~~ - 202~~32~~

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
FL	202 10	1	0	0	0	0	0	1
	202 24	1	0	0	0	0	0	1
	202 32	1	0	0	0	0	0	1
IN	202 10	1	0	0	0	0	0	1
	202 24	1	0	0	0	0	0	1
	202 32	1	0	0	0	0	0	1
MD	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
HI	202 10	0	0	0	0	0	0	0
	202 24	0	10	0	0	0	0	10
	202 32	10	04	0	0	0	0	1
NC	202 10	0	0	0	0	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
NJ	202 10	04	0	0	04	0	0	0
	202 24	0	0	0	0	0	0	0
	202 32	0	0	0	0	0	0	0
NY	202 10	1	0	0	0	0	0	1
	202 24	1	0	0	0	0	0	1
	202 32	1	0	0	0	0	0	1
Totals								
	202 10	43	0	0	40	0	0	3
	202 24	3	01	0	40	0	0	34
	202 23	34	40	0	01	0	0	43

Table No. 4
Status of Company-Owned Co-Branded Outlets
202~~10~~ - 202~~32~~

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
Total							
	202 1 0	0	0	0	0	0	0
	202 2 4	0	0	0	0	0	0
	202 3 2	0	0	0	0	0	0

Table No. 5
Co-Branded Franchise Projected Openings as of 12/31/202~~32~~

State	Franchise Agreements Signed but Outlets Not Opened	Projected New Franchised Outlets in Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
Michigan	0	0	0
Texas	0	1	0
Total	0	1	0

Exhibit B1 lists the names of all current KidzArt, Club Scientific and Co-Branded franchisees and the addresses and telephone numbers of their outlets as of the issuance date of this disclosure document.

During the last three fiscal years, we have signed confidentiality clauses with some franchisees. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with KidzArt. You may wish to speak with current and former franchisees, although be aware that not all such franchisees will be able to communicate with you.

Exhibit C1 lists, to the extent known, the names, addresses, telephone numbers, e-mail address and Web address of each trademark-specific franchisee organization associated with the franchise system being offered which we have created, sponsored or endorsed.

Exhibit C2 lists the independent franchisee organizations that have asked to be included in this disclosure document.

ITEM 21

FINANCIAL STATEMENTS

Attached to this disclosure document as Exhibit D are our audited financial statements as of December 31, 202~~3~~⁴, 202~~2~~⁰, and 201~~1~~⁹. Our fiscal year end is December 31.

ITEM 22 CONTRACTS

Exhibit F contains copies of the following contracts:

KidzArt Franchise Agreement

- Schedule B Guaranty and Assumption of Obligations
- Schedule C Confidentiality and Noncompetition Agreement
- Schedule D Conditional Assignment of Franchisee's Telephone Numbers
- Schedule E Electronic Funds Withdrawal Authorization

Club Scientific Franchise Agreement

- Schedule B Guaranty and Assumption of Obligations
- Schedule C Confidentiality and Noncompetition Agreement
- Schedule D Conditional Assignment of Franchisee's Telephone Numbers
- Schedule E Electronic Funds Withdrawal Authorization

- Exhibit I-1. Renewal Addendum to KidzArt Franchise Agreement (with general release)
- Exhibit I-2. Renewal Addendum to Club Scientific Franchise Agreement (with general release)
- Exhibit J-1. KidzArt Sample Consent to Transfer Agreement (with general release)
- Exhibit J-2. Club Scientific Sample Consent to Transfer Agreement (with general release)

ITEM 23 RECEIPTS

A detachable form for your use to acknowledge your receipt of this disclosure document, including all exhibits, is attached as Exhibit K at the very end of this disclosure document. You must date and sign both copies of this receipt and deliver one to us. You should retain the other original signed receipt page for your records.

EXHIBIT A

**STATE ADMINISTRATORS
AND
AGENTS FOR SERVICE OF PROCESS**

<i>State</i>	<i>State Administrator</i>	<i>Agent for Service of Process</i>
California	California Department and Commissioner of Financial Protection and Innovation One Sansome Street, #600 San Francisco, CA 94104 415-972-8559 320 West 4th Street Suite 750 Los Angeles, CA 90013 213-576-7500 Toll Free 866- 275-2677 2101 Arena Boulevard Sacramento, CA 958351455 Frazee Road, Suite 315 San Diego, CA 92108	Commissioner of the Department of Business Oversight
Connecticut	Connecticut Department of Banking Securities and Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 860-240-8109	Banking Commissioner
Hawaii	Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, HI 96813 808-587-2617	Commissioner of Securities

<i>State</i>	<i>State Administrator</i>	<i>Agent for Service of Process</i>
Illinois	Illinois Attorney General Franchise Bureau 500 S. Second Street Springfield, IL 62706 217-782-4465	Attorney General
Indiana	Indiana Securities Division Secretary of State Indiana Gov't Center South, E-111 Indianapolis, IN 46204 317-232-6681	Secretary of State
Maryland	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 410-576-6360	Securities Commissioner
Michigan	Attorney General's Office Consumer Protection Division 525 W. Ottawa Street 670 Williams Building Lansing, MI 48909 517-373-7117	Attorney General
Minnesota	Minnesota Department of Commerce Market Assurance Division 85 7 th Place East, Suite 280 St. Paul, MN 55101-2198 651-296-6328	Commissioner of Commerce

New York	Office of the New York State Attorney General, Investor Protection Bureau, Franchise Section 120 Broadway, 23rd Floor New York, NY 10271-0332 212-416-8236 Phone 212-416-6042 (fax)	NYS Department of Law Investor Protection Bureau 28 Liberty Street, 21 Floor New York, NY 10005 (212)-416-8236
North Dakota	North Dakota Securities Department 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505-0510 701-328-4712	Securities Commissioner
Rhode Island	Division of Securities 1511 Pontiac Avenue John O. Pastore Complex, Bldg 69-1 Cranston, RI 02920 401-462-9527	Director, Department of Business Regulation
South Dakota	Department of Labor and Regulation Division of Securities State of South Dakota 124 South Euclid Suite 104 Pierre, South Dakota 57501 605-773-4823	Director of the Division of Securities
Virginia	State Corporation Commission, Division of Securities and Retail Franchising 1300 East Main Street, 9 th Floor, Richmond, VA 23219 804-371-9051	Clerk of the State Corporation Commission 1300 East Main Street 1 st Floor Richmond, VA 23219
Washington	Department of Financial Institutions Securities Division 150 Israel Road SW Tumwater, WA 98501 360-902-8760	Director of Financial Institutions
Wisconsin	Wisconsin Division of Securities Department of Financial Institutions P.O. Box 1768 Madison, WI 53701 608-266-8557	Administrator, Division of Securities, Department of Financial Institutions

EXHIBIT B¹

List of Franchisees as of December 31, 202³²

KidzArt Franchisees

Franchisee	Phone Numbers	Email	Billing Address	Territory
Alabama				
Arizona				
Kaitlyn Dusek	520-495-4952	kdusek@kidzart.com	10254 E. Canyon Meadow Dr. Tucson, AZ 85747	East Tuscon
California				

Colorado				
Natalie Martin	(720)763-8382	nmartin@kidzart.com	5163 Gould Circle Castle Rock, CO 80109	Castle Rock
Natalie Martin	(720)763-8382	nmartin@kidzart.com	5163 Gould Circle Castle Rock, CO 80109	Highlands Ranch & Parker
Florida				
Dawn and Jason Farmer	407-330-3435	dfarmer@kidzart.com jfarmer@kidzart.com	42357 Middlebrook Ln Orlando, FL 32812	Greater Orlando, Hunter's Creek, Waterford, Baldwin Park & Windermere
Daryl & Erica Johnson	561-267-4349	ejohnson@kidzart.com	10660 Forrest Hill Blvd Ste 150 West Palm Beach, FL 33407	West Palm Beach

Hawaii				
Illinois				

Maryland				
----------	--	--	--	--

Elizabeth Slacum Hodnett	410-363-6337	ehodnett@kidzart.com	3364 Burton Dr. Ellicot City, MD 21042	Central MD
--------------------------------	--------------	----------------------	--	------------

Franchisee	Phone Numbers	Email	Billing Address	Territory
Minnesota				
Marilyn Binkley & Lisa Van Wyk	763-494-6957	nwmpls@kidzart.com	13942 Jasmine Way Rogers, MN 5537411124 <u>Gettysburg Ave,</u> <u>Champlin, MN 55316</u>	Maple Grove, Brooklyn Park, New Hope, Plymouth & Champlin
Mississippi				
Randy & Alice Denton	901-634-3200	alice@kidzart.com randy@kidzart.com	11820 Norfolk Road Lake Cormorant, MS 38641	DeSoto County, plus Collierville & Germantown TN
Mary Ann Bearman	(601) 607-6019	mbearman@kidzart.com	415 Woodland Hills Court Madison MS 39110	Vicksburg, Clinton, Jackson & Hattiesburg
New Jersey				
Patricia Barber	(856) 912-9632	pbarber@kidzart.com	26 Euston Rd. Marlton NJ 08053	Marlton
Tresse DeLorenzo	732-872-2357	tdelorenzo@kidzart.com	250 Hillside Ave Atlantic Highlands, NJ 07716	North Monmouth County
North Carolina				
Karen & Derrick Tanzini	716-474-8337	ktanzini@kidzart.com	6300 Kit Creek Rd.NC 27560	Apex, Cary & Holly Springs
Chen Jiang	919-710-4403	cjiang@kidzart.com	4213 Stonewall Dr. Raleigh, NC 27604	North Raleigh

--	--	--	--	--

Franchisee	Phone Numbers	Email	Billing Address	Territory
Ohio				
Rhode Island				
Julie Lamin	401-921-3285	jlamain@kidzart.com	16 Apple Valley Pkwy, Greenville, RI 02828	Warwick
South Carolina				
Texas				
Virginia				

Club Scientific Franchisees

Franchisee	Telephone Number	Email	Billing Address	Territory
------------	------------------	-------	-----------------	-----------

New Jersey				
<u>Cathy Richers</u>	<u>518-479-9888</u>	<u>crichers@clubscientific.com</u>	<u>18 Patterson Dr., Glenmont, NY 12077</u>	<u>Albany & Schenectady Counties</u>

Co-Branded Franchisees

Franchisee	Telephone Number	Email	Billing Address	Territory
Florida				
Sarah Simpson & Jacob Stump	904-287-8603	ssimpson@clubscientific.com, jstump@clubscientific.com	13050 Gran Bay Pkwy #319 Jacksonville FL 32258	St Johns, St Augustine & Palm Valley
Indiana				
James Dolan	317-287-8603	jdolan@clubscientific.com, jdolan@kidzart.com	12175 Visionary Way, Ste. 200, Fishers, IN 46038	West Central IN

Hawaii

Asia DiAntonio & Daniel Stock	(808) 354-5905	adiantonio@kidzart.com adiantonio@clubscientific@kidzart.com dstock@clubscientific.com	93 N. Kainula Dr. Apt A Kailua, HI 96734	Windward
-------------------------------------	----------------	--	---	----------

New York

Cathy Richers	518-479-9888	crichers@clubscientific.com	PO Box 25 South Cairo, NY 12482	Albany & Schenectady Counties
------------------------------	-------------------------	--	--	--

North Carolina

--	--	--	--	--

F

EXHIBIT B2

FORMER KIDZART FRANCHISEES

No franchisee left the system during our most recently completed fiscal year end of December 31, 2023.

FORMER CLUB SCIENTIFIC FRANCHISEES

No franchisee left the system during our most recently completed fiscal year end of December 2023.~~The below franchisee left the system during our most recently completed fiscal year of December 31, 2022:~~

~~Nyree Shishmanian
26 Kayeton Rd.
Allendale, NJ 07041
Ph. (201) 739-2285~~

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

FORMER CO-BRANDED FRANCHISEES

~~No franchisee left the system during our most recently completed fiscal year end of December 31, 2022.~~The below franchisee left the system during our most recently completed fiscal year as of December 31, 2023:

Cathy Richers
18 Patterson Dr.,
Glenmont, NY 12077
Ph. (518)-479-9888

EXHIBIT C

Exhibit C-1: FRANCHISEE ORGANIZATIONS WE HAVE CREATED, SPONSORED OR ENDORSED

None as of the date of this disclosure document.

Exhibit C-2: INDEPENDENT FRANCHISEE ASSOCIATIONS

None as of the date of this disclosure document.

EXHIBIT D FINANCIALS

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Balance Sheets	2
Statements of Income	3
Statements of Members' Equity (Deficit).....	4
Statements of Cash Flows	5

EXHIBIT E

TABLE OF CONTENTS OF MANUALS

KidzArt Operations Manual

Table of Contents

CHAPTER ONE – OVERVIEW	1
CHAPTER TWO – GETTING STARTED	9
CHAPTER THREE – PERSONNEL	42
CHAPTER FOUR – FRANCHISE ADMINISTRATION	218
CHAPTER FIVE – THE KIDZART/ART INNOVATORS PROGRAM	235
CHAPTER SIX – SALES & MARKETING: PLANNING, BUDGETING, STRATEGIES & TIPS	325
CHAPTER SEVEN - LAUNCHING YOUR PLAN: WINNING LOCATIONS STRUCTURING PROGRAMS FILLING CLASSES GENERATING VARIED REVENUE STREAMS	372
CHAPTER EIGHT – DELIVERING EXCELLENT CUSTOMER SERVICE	482
 Total pages	 527

KidzArt Curricula Manual

Contents

	<u># of pages</u>	<u>Remarks</u>
Curricula Manual	227	Instruction, Techniques, Examples – Preschool, Elementary, Adult, Seniors

Club Scientific Operations Manual
--

CLUB SCIENTIFIC OPERATIONS MANUAL
Table of Contents

Chapter One - Overview	1
1.1 Welcome	1
Chapter Two - Getting Started	10
2.1 Getting Started	10
Chapter Three - Personnel	38
3.1 Personnel Hiring Overview	38
Chapter Four - Franchise Administration	92
Chapter Five - The Club Scientific Program	107
Chapter Six - Sales & Marketing: Planning, Budgeting, Strategies & Tips	117
Chapter Seven - Launching Your Plan: Winning Locations, Structuring Programs, Filling Classes, Generating Varied Revenue Streams	150
Chapter Eight - Delivering Excellent Customer Service	237
Chapter Nine - Online Registration	251
Chapter 10 - Summer Camp Overview	253
Chapter Eleven - Summer Camp Orientation and Training	286
Chapter Twelve - Inventory Control	306
Chapter Thirteen - Risk Management	312
Chapter Fourteen - Programs	329

EXHIBIT F1

KIDZART FRANCHISE AGREEMENT



KIDZART LLC

FRANCHISE AGREEMENT

FRANCHISEE:

LOCATION:

DATE OF AGREEMENT:

KIDZART LLC
KIDZART FRANCHISE AGREEMENT

TABLE OF CONTENTS

	<i>Page</i>
BACKGROUND	1
ARTICLE I – GRANT AND OPERATION OF THE FRANCHISE	2
Section 1.1 – Territory Rights	2
Section 1.2 – Site Development; Opening for Business	4
Section 1.3 – Supplies; Insurance	7
Section 1.4 – Curricula and Manuals; System Modifications	10
Section 1.5 – Personnel; Training and Support	11
Section 1.6 – Your Conduct of the Franchised Business	14
Section 1.7 - Advertising, Promotion and Marketing	16
Section 1.8 – Website and Portal.....	21
ARTICLE II – FEES; PAYMENTS; RECORDS; INSPECTIONS	22
Section 2.1 – Fees and Reports	22
Section 2.2 – <i>Records; Inspection</i>	27
ARTICLE III – PROPRIETARY RIGHTS; CONFIDENTIALITY; NONCOMPETITION	25
Section 3.1 – <i>Our Copyrights and Trademarks</i>	25
Section 3.2 – <i>Confidentiality of Our Information</i>	27
Section 3.3 – <i>Noncompetition</i>	28
ARTICLE IV - TRANSFER	30
Section 4.1 – <i>Transfer by Us</i>	30
Section 4.2 – <i>Transfer by You</i>	30

Section 4.3 – <i>Right of First Refusal</i>	33
ARTICLE V - TERM AND TERMINATION	34
Section 5.1 - <i>Term and Renewal</i>	34
Section 5.2 - <i>Termination</i>	34
Section 5.3 - <i>Consequences of Termination</i>	40
Section 5.4 – <i>Our Right to Purchase Upon Termination</i>	40
ARTICLE VI - REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION	41
Section 6.1 - <i>Representations and Warranties</i>	41
Section 6.2 - <i>Indemnification</i>	41
ARTICLE VII – DISPUTE RESOLUTION	43
Section 7.1 - <i>Choice of Law</i>	43
Section 7.2 - <i>Internal Dispute Resolution</i>	43
Section 7.3 - <i>Mediation</i>	44
Section 7.4 - <i>Selection of Venue</i>	44
Section 7.5 - <i>Third Party Beneficiaries</i>	45
Section 7.6 - <i>Prior Notice of Claims</i>	45
Section 7.7 - <i>No Right to Offset</i>	45
Section 7.8 - <i>Injunctive Relief</i>	45
Section 7.9 - <i>Limitation of Action</i>	45
Section 7.10 - <i>Waiver of Punitive Damages</i>	45
Section 7.11 JURY TRIAL WAIVER	46
ARTICLE VIII - MISCELLANEOUS	46
Section 8.1 – <i>Relationship of the Parties</i>	46
Section 8.2 – <i>Reasonable Business Judgment</i>	46
Section 8.3 - <i>Severability</i>	46
Section 8.4 – <i>No Waiver of Rights</i>	46

Section 8.5 – *Notices*..... 47

Section 8.6 – *Affiliates*47

Section 8.7 – *Attorneys’ Fees*..... 47

Section 8.8 – *Entire Agreement*..... 47

Schedule A – Franchisee Information

Schedule B – Guaranty and Assumption of Obligations

Schedule C – Confidentiality and Noncompetition Agreement

Schedule D – Conditional Assignment of Franchisee’s Telephone Numbers

Schedule E – Electronic Funds Withdrawal Authorization

KIDZART LLC

KIDZART® FRANCHISE AGREEMENT

THIS KIDZART FRANCHISE AGREEMENT (the “Agreement” or “Franchise Agreement”) is effective as of _____ between KIDZART LLC, a Nevada limited liability company (referred to in this Agreement as “we” or “us”), and _____, an if entity, indicate type and state of formation] (referred to in this Agreement as “you” or “your company”).

BACKGROUND

A. We and our principals and affiliates have expended a considerable amount of time, effort, and money to develop a system for the operation of unique home based businesses that provide art instruction programs (the “Programs”) to children and adults under the name “KidzArt” (the “KidzArt Businesses”).

B. We are engaged in the business of granting franchises to operate a KidzArt Business.

C. You desire to enter into an agreement with us to obtain the rights to operate a KidzArt Business using the system developed by us, the distinguishing characteristics of which include: (i) quality products and proprietary curricula and business format; (ii) uniform specifications for fixtures, equipment, supplies and signage; (iii) merchandising, marketing, and advertising systems; and (iv) other standards and procedures for operation and management of a KidzArt Business in the manner set forth in this Agreement and in the Manuals provided by us, as modified from time to time (the “System”).

D. We and our franchisees use various trade names, trademarks, and service marks including, without limitation, the trademark mark “KidzArt®”, “Art Innovators®”, “TeenzArt®”, “Palette UP! ®”, and “SeniorzArt®” in connection with the System (the “Marks”). The rights to all such Marks as are now, or shall hereafter be, designated as part of the System will be owned exclusively by us or our affiliates and will be used for the benefit of us, our affiliates and our franchisees to identify to the public the source of the products and services marketed thereunder.

E. You have applied to us for a franchise to operate a KidzArt Business and such application has been approved in reliance upon all of the representations made therein.

F. You hereby acknowledge that adherence to the terms of this Agreement and our standards and specifications are essential to the operation of your KidzArt Business and to the operations of the System.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, commitments and understandings contained herein, you and we hereby agree as follows:

ARTICLE I – GRANT AND OPERATION OF THE FRANCHISE

Section 1.1 – ***Territory Rights***

(a) ***Grant of Rights.*** We grant to you the right, and you undertake the obligation, for the term described in Article V, to operate a KidzArt Business in the geographic area described in Schedule “A” (the “Territory”) in accordance with the System Standards (as defined in Section 1.6(a) below) and the terms and conditions contained in this Agreement (such business being called the “Franchised Business”).

(b) ***Exclusivity.*** So long as you are not in default under this Agreement and you meet the minimum annual Gross Revenue requirements described in Section 1.1(c), we will not operate or grant others the right to operate a KidzArt Business within the Territory during the Term of this Agreement, except as set forth in Section 1.1(f) and 1.1(g). If you fail to satisfy the minimum annual Gross Revenue requirements described in Section 1.1(c), we may elect, at our discretion, upon notice to you, (i) to terminate your exclusive right so that we may operate or grant others the right to operate KidzArt Businesses within the Territory or (ii) to reduce the size of the Territory in such manner as we determine.

(c) ***Minimum Gross Revenue.*** In order for you to maintain your exclusivity as described in Section 1.1(b), we require that the annual Gross Revenue of the Franchised Business equal or exceed \$45,000 during each 12-month period during the term of this Agreement, with the first such 12-month period beginning the 13th month after you complete initial training and running through the 24th month after you complete initial training. Each subsequent 12-month period will run on a calendar year basis, with the first such subsequent 12-month period ending on December 31 of the year in which the first 12-month period specified above ends (that is, the calendar year in which the 24th month after you complete initial training falls). *[For example, if you complete initial training in June of a particular year, the first 12-month period of the License Term during which you must satisfy the minimum annual Gross Revenue requirements would begin in July of the following year and end in June of the year after that. The second 12-month period effectively begins in January of that same year and then ends on December 31. So, part of the second 12-month period will include a portion of the first 12-month period. All twelve 12month periods after that are calendar years beginning January 1.]* We may increase the \$45,000 minimum Gross Revenue number each calendar year during the term of this Agreement, beginning with the second 12-month period during which we calculate the Gross Revenue of the Franchised Business, based on increases in the Consumer Price Index (“CPI”) from the beginning of the first calendar year during which we began to calculate the Gross Revenue for purposes of determining your right to retain territory exclusivity. The annual adjustment of the minimum Gross Revenue number will be applied on January 1 of each calendar year based on CPI increases since the previous January 1. “CPI” means the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor, U.S. City Average, All Items, and Major Group Figures for all Urban Consumers (CPI-U 1982-84=100), or a successor index.

(d) ***Products and Services Offered.*** You must offer and sell in the Franchised Business all products and services we specify. You may not sell under the Marks or in the Franchised Business any products or services we do not specify or approve for use with the

System. We may specify a new required product or service upon at least 30 days' prior notice to you. Upon notice from us given at any time, you must discontinue offering for sale any products or services we may disapprove or discontinue. You may not use any curricula other than our proprietary and copyrighted curricula we specify or provide. All modifications or customizations of the services or curricula must be first approved by us and will become our sole property. You may not create side businesses selling curricula or any type of business or marketing assistance to other franchisees. You may not re-brand or repackage our proprietary system with any other system or brand in order to offer it in commerce.

(e) *No Marketing Outside the Territory.* You may not solicit clients or promote KidzArt Products or Services or Programs outside the Territory. You must reasonably restrict your advertising, promotion, and marketing activities to the markets in the Territory. If you receive a request to provide services at a location in another franchisee's territory, you must refer the request to the other franchisee in the manner we specify. If you receive a request to provide Programs or other services anywhere outside the Territory, but not within another franchisee's territory, you may not provide such services without our prior approval, which we may grant or deny as we deem best or on any conditions we deem appropriate.

(f) *Rights We Reserve.* We and our affiliates retain all rights not specifically granted to you under this Agreement. These rights include, without limitation, the right to: (i) own and operate KidzArt Businesses at any location(s) outside of your Territory under the Marks and System, or to license others the right to own and operate KidzArt Businesses at any location(s) outside of the Territory under the Marks and System; (ii) own and operate businesses under different marks at any location(s) inside or outside of your Territory, or license to others the right to own and operate businesses under different marks at any location(s) inside or outside of your Territory; (iii) use the Marks and System in connection with services and products, promotional and marketing efforts, or related items, or in alternative channels of distribution, including the sale of Programs and proprietary products and services through retail stores, wholesale outlets, and other retail outlets, via the Internet, and through mail order catalog, without regard to location; (iv) use the Marks and System, and license others to use the Marks and System, to engage in any other activities not expressly prohibited in this Agreement; and (v) acquire and operate, or be acquired by, any individual or entity, including, without limitation, an individual or entity operating one or more art education businesses, including, without limitation, businesses selling art education products or services under a trademark other than the Marks. In addition, we reserve the right to offer KidzArt Products and Services to regional and national accounts that may have locations in the Territory. If we negotiate an arrangement that would require your Franchised Business to provide KidzArt proprietary services and you do not begin providing the services at the time, in the manner, and under the terms we require, we may, at our option: (i) provide or allow others (including other KidzArt Businesses) to provide the services within the Territory; or (ii) terminate this Agreement.

(g) *Other Channels of Distribution.* You acknowledge and agree that certain of our or our affiliates' proprietary products and services, whether now existing or developed in the future, may be distributed in your Territory by us, our affiliates, or our franchisees, licensees, or designees, in such manner and through such channels of distribution as we, in our sole discretion, shall determine. Such alternative channels of distribution shall include but are not limited to: sale of Programs and other proprietary products and services through retail stores and/or wholesale outlets; other entities or organizations; and any marketing channel. We

also reserve the right to offer over the Internet or other electronic means Programs to children who are home schooled, physically or mentally unable to attend a Program in person or located in an area which would make the child's attendance impossible or impracticable. You understand that this Agreement grants you no rights to: (i) distribute such products or services as described in this Section 1.1(g); or (ii) share in any of the proceeds received by any such party therefrom.

(h) *Guaranty.* Our grant of this franchise is made in reliance on the personal attributes of your company's owners and managers named in Schedule "A". If your company is a legal entity such as a corporation or limited liability company rather than a sole proprietorship or general partnership, then our grant of this franchise is made on the condition that each person who now or later owns or acquires, either legally or beneficially, any equity or voting interest in your company (the "Guarantor" or "Guarantors") must execute and deliver to us a guaranty in a form attached as Schedule "B" (the "Guaranty"). We may require the spouse of any or all Guarantors to sign the Guaranty, and we may limit the liability of the spouse under the Guaranty, in our discretion. All Guarantors hereby personally and unconditionally guarantee without notice, demand or presentment, the payment of all of your monetary obligations under this Agreement and any other agreement between you and us and/or our affiliates, as if each were an original party to this or any other agreement in his or her individual capacity. All Guarantors further agree to be bound by the restrictions upon your activities upon transfer, termination or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in his or her individual capacity. Transfers of interest are restricted in accordance with Article IV of this Agreement. Upon our request at any time, you will furnish us with a list of all holders of legal and beneficial interests in your company, together with descriptions of the type of interests owned and percentage amounts, and the names, addresses and telephone numbers of the owners, certified as correct in the manner we specify. If any of your company's general partners, managers, officers or directors ceases to serve as such or if any new person becomes a general partner, manager, officer or director after the date of this Agreement, you will notify us of such change within ten days. Any breach of a Guaranty will be deemed to be a breach of this Agreement.

Section 1.2 – ***Site Development; Opening for Business***

(a) *The Site.* The "Site" is the location within the Territory from which you operate the Franchised Business. The Site may be your home office. If it is not your home office, your primary residence must be within the Territory or within 40 miles of the Territory's border. The location of an office Site, not in your home, must be approved by us and steps are shown in Schedule "A". You are not obligated to establish or maintain a commercial office as the Site. However, if you decide, in your discretion, to do so, you agree as follows:

(i) You will not lease or purchase a proposed site until we have approved the location in writing. In evaluating potential sites, you agree to consider any site selection criteria we may provide to you.

(ii) If we approve a location you propose, we will deliver our approval to you in writing. We will not unreasonably withhold our approval of any location that meets our standards.

(iii) You acknowledge that our approval of your location does not constitute a guarantee or warranty of any kind, express or implied, as to the suitability of the location for a Site or of the successful operation or profitability of a KidzArt Business at the Site.

(iv) If you do not own but you intend to lease or sublease the premises of the Site, you must submit your proposed lease to us for our prior written approval. You acknowledge that we have advised you to have an attorney review and evaluate the lease or sublease. If we do not have a copy of the signed lease or sublease, you must deliver such copy to us within fourteen days after it is signed by you and the lessor.

(v) Within 30 days after we approve a site, you must, at your expense, complete the acquisition or lease arrangements to acquire or lease the approved premises for the Site. You are solely responsible, at your own expense, for obtaining any necessary financing and all required building, utility, sign, business and other permits and licenses required to operate the Franchised Business, construct all required improvements to the Site and decorate the premises of the Franchised Business in compliance with plans and specifications we have approved. We may provide to you specifications for the design, appearance, signage and leasehold improvements of a typical KidzArt Site, but we are not required to do so. You must submit construction plans and specifications to us for approval before construction of improvements to the Site commences.

(vi) You may not use the Site for any purpose other than the operation of a KidzArt Business in compliance with the System and the Manuals (as defined in Section 1.4 of this Agreement). You agree to keep the Franchised Business at the Site open for business to the public at least during the hours we prescribe from time to time in the Manuals or otherwise approve, unless prohibited by applicable law or by your lease.

(vii) You agree to keep the Site and all fixtures, furnishings, signs, and equipment in the Site clean, safe and in good repair in accordance with the Manuals. You may not make any material alteration, addition, replacement, or improvement to the Site or any of its fixtures, furnishings, signs or equipment without our prior written consent.

(viii) You agree to remodel or refurbish the Site from time to time to our then current standards and specifications upon six months written notice from us. There is no limitation on the frequency of which you may be required to upgrade, remodel, or refurbish your Site.

You may not relocate the Franchised Business without our prior written approval, which we may withhold at our discretion. However, you may offer Programs at locations in the Territory other than the Site, such as schools, recreation centers, YMCAs and the like, without our prior approval. Programs may not be conducted at your Site if the Site is located at your home office.

(b) *Conditions to Opening.* You may not commence operation of the Franchised Business until:

(i) you have completed all class preparation items to our satisfaction;

(ii) you or your Managing Owner (as defined in Section 1.5(a)) have completed initial training to our satisfaction;

(iii) the initial franchise fee and all other amounts due to us and our affiliates have been paid in full; you are now ready to open and offer our programs.

We may also require

(iv) you to first furnish us with certificates of insurance and copies of all insurance policies or such other evidence of insurance coverage as we reasonably request;

(v) you satisfy us in all other respects that your Franchised Business is ready to open; and

(vi) you have received our approval of the opening in writing. We may grant or withhold such approval in our sole discretion.

Time of Opening. You must satisfy all of the conditions described above and be prepared to open for business within 30 days after you and/or your Managing Owner successfully complete initial training, unless otherwise approved by us in writing. Training must be scheduled within 3 months of executing this agreement, unless otherwise approved by us in writing. Such approvals are given in our sole discretion. The Franchised Business must commence operations, scheduling and hosting classes, within 6 months of signing this Agreement. Should you fail to commence operations, scheduling and hosting classes, within 6 months of signing this agreement, you will begin making monthly royalty payments of one-half the minimum royalty due. Likewise, you begin paying the required tech fee at the full amount due monthly. You will continue to make such payments until such time as you commence normal business operations. If you fail to commence operation of the business within the timeframe outlined above (and have not received an extension from us) or otherwise have not opened for business within 10 months of signing this Agreement, we will at such time start the process to terminate this Agreement pursuant to Section 5.2(b).

(c)

Section 1.3 – ***Supplies; Insurance***

(a) ***Supplies.*** You agree to purchase certain signs, furnishings, supplies, fixtures, computer hardware and software, and other equipment, inventory, services, and other products and services from us or from approved or designated third party suppliers as we shall specify, from time to time, in the Manuals and otherwise in writing. You shall adhere to the standards and specifications set forth in this Agreement and the Manuals and any revisions or amendments to the same. You shall use signs, furnishings, supplies, fixtures, equipment and inventory that comply with our then-current standards and specifications that are necessary to commence the operation of the Franchised Business; and other equipment, furnishings, fixtures and signage that we establish from time to time. We have the right to change our standards and specifications at our discretion. You acknowledge that you may incur an increased cost to comply with such changes at your expense. When you sign this Agreement, you will purchase an initial inventory of art supplies from us at a price of \$2,000, which you will pay to us along with your initial fee described in Section 2.1(a).

(b) *Suppliers.* Recognizing that preservation of the System depends upon product and service uniformity and the maintenance of our trade dress, we may require that you obtain equipment, supplies, art products and other products and services only from our designated or approved suppliers ("System Suppliers"). You hereby acknowledge that we, our affiliates and/or a third party may be one of several, or the only, approved supplier of any item, including art

products and art supplies, as well as other merchandise and equipment relating to the operation of the Franchised Business. We may negotiate purchase agreements with suppliers for the benefit of franchisees, but we are under no obligation to do so. You recognize that such equipment, supplies, art products and other products and services are essential to the operation of the Franchised Business and to the System generally. You further recognize that your failure to pay System Suppliers may interfere with such suppliers' willingness to supply the System, which may result in other System franchisees' inability to obtain product or ability to obtain product only on less favorable credit terms. Accordingly, you agree to pay System Suppliers as and when due.

(c) *Compensation from Suppliers.* We reserve the right to receive rebates, credits and other compensation from suppliers we designate or approve to provide goods or services to you based upon the purchases by you and other franchisees of goods and services from such suppliers. We may use such compensation for any purpose we deem appropriate, including to subsidize our operating costs.

(d) *Approval of Supplies and Suppliers.* If you propose to purchase any brand or model of equipment, supplies or other products or services that are not then designated or approved by us, or to purchase from any supplier that is not then designated or approved by us, you must first notify us and submit to us sufficient samples and other information we request to enable us to determine whether the proposed brand, model or supplier complies with our specifications and standards. We will use reasonable efforts to begin an investigation of the proposed supplier or product within 30 days of your request. We will notify you within 10 days after we complete our investigation whether we approve the proposed supplier or product. We reserve the right, at our option, to revoke our approval upon the supplier's failure to continue to meet any of our then-current criteria. We will not be required to approve any particular supplier nor to make available to any prospective supplier any of our standards, specifications or formulas. If we incur any costs in connection with testing a particular product or evaluating an unapproved supplier at your request, you must reimburse us for our reasonable testing costs, regardless of whether we subsequently approve the item or supplier.

(e) *Purchasing or Distribution Cooperatives.* We may establish national or regional purchasing or distribution programs for the purchase or distribution of certain goods, materials or supplies at reduced prices. You agree to participate in any purchasing or distribution cooperatives that we may establish for the region where your Franchised Business is located.

(f) *Video Equipment.* You agree to purchase and/or have access to a video camera with a tripod and a digital camera, both of which must meet our standards and specifications. A good photo quality image on a cell phone for video and a camera are acceptable.

(g) *Computer Hardware and Software.* You agree to install, maintain and use in the Franchised Business such computer hardware, software and point-of-sale and cash register systems as we specify from time to time. We have the right to require you to update or upgrade computer hardware components and/or software, as we deem necessary from time to time, with no limitations as to the number or cost of such updates or upgrades. We have the right to require you to enter into a separate maintenance agreement for any required computer hardware and/or software. We reserve the right to require you to install a "systems backup solution," which backs up critical data in your computer system using an off-premises storage

scheme. Notwithstanding the fact that you must buy, use and maintain the computer hardware and software under our standards and specifications, you are solely responsible for: (i) the acquisition, operation, maintenance and upgrading of the computer hardware and software; and (ii) any and all consequences that may arise if the computer hardware and software is not properly operated, maintained and upgraded. If we require you to use a new accounting program or system, you will have 12 months to fully integrate the new program or system into your operations. We may require you to pay a fee for any accounting program or system provided by us or our designated provider. If we develop or custom-design a software program for conducting accounting, inventory and point-of-sale functions and/or related activities ("Proprietary Software Program"), you agree to obtain the Proprietary Software Program, the computer hardware required to implement the Proprietary Software Program into your Franchised Business, and to comply with all specifications and standards prescribed by us regarding the Proprietary Software Program as provided from time to time in the Manuals, at your expense. Our computer software and hardware requirements, including all standards and specifications related to Proprietary Software Programs are our proprietary and Confidential Information. It is possible that we might not be able to alter the Proprietary Software Program and system to accommodate every franchisee of the System, and therefore, at such time that we require the implementation of such software, you will only utilize the program as prescribed by us. You acknowledge that we cannot estimate the future costs of the computer and software system, the cash register system, or additions or modifications to these systems, and that these costs may not be fully amortizable over the remaining term of this Agreement. We have the right to charge a reasonable systems fee for software or systems modifications and enhancements specifically made for us that are licensed to you and other maintenance and support services that we or our affiliate furnish to you.

(h) *Electronic Communications.* You must maintain a functioning, branded e-mail address; your personnel and you may not use any personal e-mail address for communications relating to the Franchised Business. We have the right to establish requirements that will permit us, as often as we deem appropriate, to access your computer system and to retrieve all information relating to the Franchised Business.

(i) *Telephone.* You agree to maintain adequate telephone service for the Franchised Business, including a dedicated telephone line with voicemail dedicated to the Franchised Business, and a high speed Internet connection. Upon the expiration, transfer or termination of this Agreement for any reason, you shall terminate your use of such telephone number and listing and assign same to us or our designee, and, at our option, will execute the Conditional Assignment of Telephone Numbers attached as Schedule "D" to this Agreement.

(j) *Insurance.* During the term of this Agreement and any renewal, you will obtain and maintain, at your own expense, such insurance as is described in the Manuals and such other insurance as may be required by law. You shall add us and any other parties we may designate to all insurance policies as additional insureds under the insurance policies, the cost of which will be paid by you. All insurance policies shall be issued by insurance companies with a rating of A-VI or better as reported in the most recent edition of A.M. Best's Insurance Reports. Our acceptance of an insurance carrier does not constitute our representation or guarantee that the insurance carrier will be capable of meeting claims during the term of the insurance policy. All insurance policies will contain a waiver of subrogation in favor of us and any other party we designate. The insurance must be primary coverage without right of

contribution from any other insurance coverage we maintain. You must provide us with copies of any insurance claims or insurance cancellations within 24 hours. You have a 24 hour opportunity to cure any lapses in insurance coverage. The policy will provide that it may not be modified or canceled unless we are given at least 30 days' prior written notice by the insurance carrier. You will provide us with a certificate of such insurance issued by your insurance carrier before or on the date you commence operation of the Franchised Business and subsequently, before the renewal of such policy. We may, from time to time and in our sole discretion, increase or otherwise modify the minimum insurance requirements upon 30 days prior written notice to you, and you shall comply with any such modification within the time specified in said notice. If you fail to obtain or maintain the required insurance in accordance with this section, we have the right to obtain such insurance and keep same in force and effect and you shall pay us, on demand, the premium cost thereof and administrative costs of 18% in connection with our obtaining the insurance.

Section 1.4 – ***Curricula and Manuals; System Modifications***

(a) *Curricula and Manuals.* We will loan to you during the term of this Agreement copies of such confidential KidzArt curricula (the “Curricula”) as we deem appropriate, and one numbered copy of the operations manual and one copy of the curriculum manual (collectively, the “Manuals”) that we generally furnish to franchisees from time to time for use in operating a KidzArt Business. We will provide the Curricula and Manuals in such media as we select, whether hard copy, audiotapes, videotapes, compact discs, through the Web or otherwise. The Curricula and Manuals and the bulletins and other written materials we provide to you contain mandatory and suggested class curricula, specifications, standards, operating procedures, policies, methods and rules (“System Standards”) that we prescribe from time to time for the operation of a KidzArt Business and information relating to your other obligations under this Agreement. The Curricula and Manuals are and will remain at all times our sole property. You may not at any time copy, duplicate, record or otherwise reproduce any part of the Curricula or Manuals except as we may specifically authorize. The Manuals and Curricula shall remain Confidential Information (as defined in Section 3.2 of this Agreement) and our exclusive property. You shall not disclose, duplicate or make any unauthorized use of any portion of the Curricula or the Manuals. You further agree to keep your copies of the Curricula and Manual current at all times with all updates and modifications we furnish to you, and to store each copy of the Curricula and Manuals received by you in a secure location at the premises of the Franchised Business. If we post some or all of the Manuals or Curricula on the System Website or KidzArt intranet, you agree to monitor and access the System Website or KidzArt intranet for any updates to the Curricula or Manuals. In the event of a dispute relating to its contents, the master copies of the Curricula and Manuals we maintain at our principal office will control. If a copy of the Curricula or Manuals in your possession or under your control, or any portion of such Curricula or Manuals, is lost, stolen, destroyed or significantly damaged, you agree to report such loss, theft, destruction or damage immediately to us. Partial loss, destruction or damage to the Curricula or Manuals is considered to be complete loss, destruction or damage. We may charge you our actual cost for replacement of a lost, destroyed or damaged Curricula or Manuals. If we provide you with access to the Curricula and Manuals through the Portal (described in Section 1.8(d)), we may suspend your access to the Portal during any period in which you are in default under the Franchise Agreement.

(b) *System Modifications by Us.* We may modify or change the System Standards from time to time, and upon notice to you, we may make additions to, deletions from or revisions in the Manuals to reflect such modifications or changes. We will research and possibly develop from time to time new services and methods. Modifications or changes may also include the addition or discontinuation of products and services that you are required to sell at the Franchised Business, periodic upgrading of art supplies or equipment at your cost and, at our request at any renewal of this Agreement, adding and altering equipment for required services or products that we require you to market. You acknowledge that we may require you to invest additional capital in the Franchised Business ("Capital Modifications"). No modification or change that we make will alter your fundamental status and rights under this Agreement. We will not obligate you to make any Capital Modification that you cannot reasonably amortize during the remaining term of this Agreement and with respect to leasehold improvements over the remaining term of your lease unless we agree to extend the term of this Agreement or unless such investment is necessary in order to comply with applicable laws. You agree to adopt or comply with each new or changed procedure, policy, method and requirement as promptly as practicable after notice from us, and in any event within the time period we reasonably require.

(c) *System Modifications by You.* You agree not to implement any modification or change in the System Standards or in the Franchised Business without our prior written approval, which we may withhold in our discretion. Except as specified or approved by us in writing, you may not make any changes to the Programs offered at the Franchised Business. If you, your employees, or principals develop any new concept, process or improvement in the operation or promotion of the Franchised Business, including improvements to Curricula, equipment, supplies, service or merchandise, or any software used in connection with the Franchised Business, you shall promptly notify us and provide us with all necessary related information, without compensation. Any such concept, process or improvement shall become our sole property and we shall be the sole owner of all patents, patent applications, trademarks, copyrights and other intellectual property rights related thereto. You and your principals hereby assign to us any rights such persons may have or acquire therein, including the right to modify such concept, process or improvement, and otherwise waive and/or release all rights of restraint and moral rights therein and thereto. You and your company's owners agree to assist us in obtaining and enforcing the intellectual property rights to any such concept, process or improvement in any and all countries and further agree to execute and provide us with all necessary documentations for obtaining and enforcing such rights. You and your company's owners hereby irrevocably designate and appoint us as your agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property rights related to any such concept, process or improvement. In the event that the foregoing provisions of this Section 1.4(c) are found to be invalid or otherwise unenforceable, you and your principals hereby grant to us a worldwide, perpetual, non-exclusive, fully paid license to use and sublicense the use of the concept, process or improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe your rights therein.

Section 1.5 – ***Personnel; Training and Support***

(a) *Managing Owner.* If your company is a legal entity such as a corporation or limited liability company rather than a sole proprietorship or general partnership, then you agree

to appoint and maintain throughout the term of this Agreement a shareholder or member to serve as your “Managing Owner,” responsible for overseeing and supervising the operation of the Franchised Business. We must approve the Managing Owner. You or the Managing Owner must always manage and directly supervise the Franchised Business. You or the Managing Owner will actively devote full time, attention and effort to the Franchised Business. You or the Managing Owner will ensure at all times the proper levels of customer service in accordance with the Curricula, the Manuals and this Agreement. You may not change the Managing Owner without our prior written approval, which we may condition on, among other things, that person attending and satisfactorily completing our franchisee training program at your expense.

(b) *Initial Training.* Before you begin operating the Franchised Business, we will train two people (typically you or your Managing Owner and a second person) in the operation of a KidzArt Business, and we will certify the trainees you designate as certified instructors (each, a “Certified Instructor”). We do not charge for the initial training of two people. At your request and if space is available, we will train additional personnel of your company at our then-current fee. As of the date of this Agreement our fee for the initial training of additional people is \$3,000 per person. You must pay the compensation and travel and living expenses of all of your personnel who attend our initial training, regardless of whether we charge you a fee for such training. The training program consists of approximately four to five days of training at our headquarters office. No additional training is required except as stated in the FDD.

(c) *Certified Instructors.* You are permitted to train one additional employee as a Certified Instructor. For the training of any additional certified instructors, all Certified Instructors must be trained and certified by one of our Certified Trainers or by us until you or a Certified Instructor becomes a Certified Trainer. You must pay the then-current fee for the training of each certified instructor. As of the date of this Agreement, the fee is \$400 per person for a one-day certified instructor training program at your office. You must pay the compensation and travel and living expenses of the Certified Trainer who comes to your office, unless you or your designees become a Certified Trainer. You typically pay by the hour your personnel who attend the Certified Instructor training. With our prior written approval, which we may grant in our discretion, we may qualify you or one of your instructors to provide Certified Instructor training for your own employees. In order for us to certify a Certified Trainer, who may be you or another Certified Instructor employed by you, you must send us a video recording of the Certified Instructor teaching a full class in a live classroom. We will evaluate the video and decide whether the instructor meets our standards for a Certified Trainer.

(d) *Follow-Up Coaching.* Within four months after you complete initial training, you must send us for our evaluation a one-hour video of you or your designated Certified Instructor teaching a KidzArt class together with a self-evaluation form. If we do not believe that the class is being conducted properly, we may coach you or require you to return to our principal training location at your expense for one to two days of additional training. For purposes of quality control, we will require you to send us, each year during the term of this Agreement on the anniversary date hereof, a new and current one-hour video of you or your designated Certified Trainer teaching a KidzArt class. You must submit each video in a format we designate. We reserve the right to charge our then-current annual review fee for each video we review.

(e) *Conferences.* We may hold conferences from time to time to discuss ongoing changes in the industry, sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs, merchandising procedures,

and curriculum development. You or your Managing Owner must attend these conferences, but we will not require you to attend more than one conference each year. There is a conference fee to offset cost of conferences, and you must pay this fee whether or not you attend the conference (even though you are obligated to attend). You also will be responsible for your travel and living expenses. These conferences will be held at our then-current corporate headquarters or at an alternate location we choose. We also may require you to be available for business coaching sessions. If you request or require assistance, guidance, or training beyond that which we typically make available to franchisees, we may require you to pay our then applicable charge for such assistance plus our related costs and expenses.

(f) *Replacement Managers.* If the Managing Owner ceases active management or employment at the Franchised Business, then we must train, at your own expense, a qualified replacement Managing Owner (who must be reasonably acceptable to us) not more than thirty (30) days after the end of the former person's full-time employment or management responsibilities at the Franchised Business. Pending the appointment and training of a Managing Owner or if, in our judgment, the Franchised Business is not being managed properly, we have the right, but not the obligation, to appoint a manager for the Franchised Business and require you to pay in the manner described in Section 4.2(g).

(g) *Ongoing Support.* We will provide support and guidance from time to time, either in person, by telephone, by e-mail, video, webinar or in writing, regarding the operation of the Franchised Business. We may provide operational reviews and advise you from time to time regarding the operation of the Franchised Business based on reports you submit to us and inspections we make, to ensure compliance with the System Standards and to recommend improvements. At your request, and if we agree, we will furnish additional on-site guidance and assistance and, in such case, we may require you to pay our then-current additional assistance fee and expenses. Your failure to implement any corrective action we require will constitute a material breach of this Agreement and may result in termination pursuant to Section 5.2.

(h) *Undertakings by Your Personnel.* You agree to take appropriate steps to advise all of your employees and contractors of your obligations under this Agreement and to ensure compliance by all of your employees and contractors. Each manager of your Franchised Business, each Certified Instructor and each person who receives training from us or otherwise has access to Confidential Information (as defined in Section 3.2(a)) who has not signed the Guaranty described in Section 1.1(h) must sign a written agreement with your company substantially in the form of Schedule C to this Agreement before performing any work for the Franchised Business or otherwise having access to the Confidential Information. You will ensure that each such person complies with the terms of such undertaking during the period that he or she is employed by you. Any breach of such undertaking by any such person will be deemed a breach of this Agreement.

(i) Any required standards exist to protect our interests in the System and the Trademarks and not for the purpose of establishing any control or duty to take control over those matters that are reserved to you. The required standards generally will be set forth in the Operations manual or other written materials. The Operations manual also will include guidelines or recommendations in addition to required standards. In some instances, the required standards will include recommendations or guidelines to meet the

required standards. You may follow the recommendations or guidelines or some other suitable alternative, provided you meet and comply with the required standards. In other instances, no suitable alternative may exist. In order to protect our interests in the System and Trademarks, we reserve the right to determine if you are meeting a required standard and whether an alternative is suitable to any recommendations or guidelines.

No employee of yours will be deemed to be an employee of ours for any purpose, and nothing in any aspect of the System or Trademarks in any way shifts any employee or employment-related responsibility from you to us. You alone are responsible for hiring, firing, training, setting hours for and supervising all employees.

It is the intention of the parties to this Agreement that we shall not be deemed a joint employer with you for any reason. If we incur any cost, loss or damage as a result of any actions or omissions of you or your employees, including any that relate to any party making a finding of any joint employee status, you will fully indemnify us for any such loss.

Section 1.6 – ***Your Conduct of the Franchised Business***

(a) ***System Standards.*** You agree to operate the Franchised Business in strict accordance with all System Standards in effect, as may be modified from time to time. You understand and acknowledge that every detail of the Franchised Business is important to you, to us and to other KidzArt Businesses in order to develop and maintain high operating standards, to increase the demand for the services and products sold by all franchisees, and to protect the System's reputation and goodwill. You agree to limit your teaching to the Curricula we provide. You may not discontinue classes or otherwise stop teaching classes for a period longer than 10 consecutive business days without our express written approval;

(b) ***Customer Service.*** You will provide prompt, courteous and efficient service to all customers and treat all customers fairly, honestly and with respect. You will give prompt attention to all complaints from dissatisfied customers, if any. You will provide customer service training to your employees and independent contractors.

(c) ***Child Protection.*** At least one KidzArt Certified Instructor must be present when children are present. No class may be left unattended or unsupervised. It is your responsibility to perform a background check on any and all employees and independent contractors that will be working with children and to perform new background checks annually. You must perform background checks on each Certified Instructor that works with children, and you must provide us with the results of such background checks within ten days after their completion. In addition, you must provide us with copies of the executed Confidentiality and Non-Competition Agreement and Application for each Certified Instructor.

(d) ***Maintaining Goodwill.*** You will do nothing that, in our reasonable opinion, tends to discredit the Marks or the System or to bring either into disrepute, or that might diminish or affect adversely our reputation or goodwill.

(e) *Compliance with Laws.* You will comply with all applicable laws, rules and regulations in the operation of the Franchised Business and pay all taxes when due. You must obtain and maintain in good standing all applicable federal, state and local permits and licenses necessary to operate the Franchised Business in accordance with all applicable state laws and regulations. You agree to take all necessary and appropriate measures avoid any negative rating at any time from any governmental agency or authority. You must promptly correct any conditions or practices disapproved by any such agency or authority, except that, with our prior approval, you may contest the action you believe in good faith to be arbitrary, capricious or unfair.

(f) *Entity Requirements.* If your company is a corporation or limited liability company, it must be newly organized and its charter, certificate of incorporation or operating agreement must at all times provide that its activities are confined solely to operating the Franchised Business. All certificates representing stock or other ownership interests in your company must contain a legend stating that transfer of such stock or ownership interest is limited by the provisions of this Agreement. Upon our request, you will deliver to us copies of all organizational documents of your company, including articles of incorporation, by-laws, shareholders' agreements, limited liability company articles and operating agreements, and any certificates we may request certifying any resolution of directors. If your company is a partnership, its activities must also be confined solely to operating the Franchised Business, and you agree, upon our request, to deliver to us a copy of your partnership agreement.

(g) *Franchisee Advisory Council.* We reserve the right to create a "Franchisee Advisory Council" for the purpose of fostering communication among and between franchisees and us, and to advise us in establishing, modifying or discussing various policies applicable to KidzArt franchisees. If and when the Franchisee Advisory Council is created, you may be required to participate in such of its meetings and programs as we designate. The Franchisee Advisory Council may advise and make recommendations, but will not act as a policy-making board and will have no authority whatsoever. We will determine or approve the rules under which the Franchisee Advisory Council functions. We may change the rules at any time and we may dissolve any Franchisee Advisory Council at any time. We may require you to pay dues to the Franchisee Advisory Council and you will pay all costs and expenses incurred by you in connection with participation in the Franchisee Advisory Council, including the costs of transportation, lodging and meals.

(h) *Customer Evaluations.* We reserve the right to institute programs for auditing customer satisfaction and other quality control measures, and to require you to pay the cost of such programs. You agree to present to your customers such evaluation forms as we periodically prescribe and to participate and request your customers to participate in any surveys performed by us or on our behalf. We may contact your customers periodically to perform evaluations of the service provided by the Franchised Business, the KidzArt programs, or for any other purposes that will promote KidzArt or that we deem necessary in our sole discretion. You shall make changes to your operations based upon any customer evaluations conducted by us.

(i) *Inspections.* During the term of this Agreement, we or our designated representatives will also have the right, at any time during your regular business hours, without

prior notice to you, to enter upon the premises of the Franchised Business (even if it is home-based) to inspect the premises; observe, photograph and videotape the operations of the Franchised Business for such periods as we deem necessary; remove samples of any products, materials or supplies for testing and analysis; and interview your personnel and customers. Any inspection we conduct will not unreasonably interfere with the operation of your Franchised Business. You agree to cooperate fully with us and our representatives during all inspections, observations, photographing, videotaping, product removal and interviews; and to take all steps reasonably necessary to correct any deficiencies in your compliance with System Standards or this Agreement within the time we specify. If we determine that you have failed to comply with this Agreement, you must reimburse us our actual out-of-pocket costs for our inspection. You also must reimburse our (or our designated third party's) actual out-of-pocket costs if you fail to perform any of your obligations under this Agreement and we (or our designated third party, which may be another KidzArt franchisee) perform those obligations for you in order to protect the KIDZART brand.

(j) *Maximum Prices.* We reserve the right to require you to comply with reasonable restrictions on maximum prices of specific goods or services offered and sold by the Franchised Business as required in the Manuals or as we otherwise reasonably direct in writing from time to time.

(k) *Payments to Suppliers.* You agree to pay all of your suppliers and your landlord promptly in accordance with their payment terms and to comply in all other respect with your contractual obligations to third parties.

(l) *Contact Information.* You agree to keep us informed of your home and business addresses and telephone numbers during the term of this Agreement and for a period of one year after the expiration or termination of this Agreement.

Section 1.7 - **Advertising, Promotion and Marketing**

(a) *Business Development.* You agree to use all reasonable efforts to develop the Franchised Business. You are responsible at your expense for providing local advertising, marketing, promotional and public relations programs and activities for the Franchised Business. You will use your best efforts to market and promote the required products and services.

(b) *Local Advertising Materials.* All materials you use in local advertising, marketing, promotional and public relations programs and activities must conform to such standards and requirements as we may specify from time to time. All such materials must be clear, factual and not misleading. All advertising shall prominently display the Marks and shall comply with any standards for use of the Marks we establish as set forth in the Manuals or otherwise in writing. You agree to submit to us, before you use them, samples of all materials you intend to use that we have not prepared or previously approved. We will endeavor to deliver to you our written approval or disapproval within 10 business days after our receipt of such materials, but we will not be liable for any delay. If we have not notified you of disapproval within ten business days after your submission for approval, the materials will be considered approved. We may withdraw our approval at any time. If we withdraw our approval, you will immediately cease the use, distribution and dissemination of such material within time frames prescribed by us, at your sole cost and expense. Any advertising, marketing or sales concepts, programs or materials

proposed or developed by you for the Franchised Business and approved by us may be used by us and by our affiliates and other franchisees without any compensation to you. You agree to use all point of sale materials that we may supply to you from time to time, in the manner prescribed by us. If we authorize you to produce your own sales materials, you may not sell such material to other franchisees, although we may, in our discretion, authorize you to make such material available free of charge. We may offer to sell to you multiple copies of advertising materials produced by the Advertising Fund described below.

(c) *Market Research.* You are responsible for keeping up-to-date on competitors' pricing in sales and service and changing and revising pricing and specials.

(d) *National and Regional Advertising.* We or our designee will exclusively maintain and administer any national and regional advertising, public relations and marketing programs and market research, including without limitation the System Website and all programs financed by the Advertising Fund, as described below. We have the right to form, change or dissolve advertising councils in accordance with Section 1.6(n).

(e) *Advertising Fund.* We have established a public relations and advertising fund (the "Advertising Fund"), subsidized by fees paid by KidzArt franchisees, for such advertising, promotion, marketing and public relations programs and materials as we deem necessary or appropriate. You agree to contribute to the Advertising Fund the greater of (i) 1% of the monthly Gross Revenue (as defined in Section 2.1(d)) of the Franchised Business; or (ii) \$25 per month, payable at the same time and in the same manner as the Royalty Fee.

(f) *Use of the Advertising Fund.* The Advertising Fund will be used to enhance the recognition of the Marks and the patronage of KidzArt Businesses nationally or regionally. We or our designee will have sole discretion over all matters relating to the Advertising Fund, including without limitation the creative concepts, materials and endorsements used, and the geographic, market and media placement and allocation. The Advertising Fund may be used to pay all costs of preparing and producing video, audio and written advertising materials; administering national and regional advertising programs, and engaging advertising, promotion and marketing agencies to assist us; website development and maintenance; intranet or extranet development, implementation and maintenance; toll-free telephone costs; and supporting public relations, market research and other advertising, promotion and marketing activities. While we do not anticipate that any part of the Advertising Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Advertising Fund for public relations or recognition of the "KidzArt" brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." We may periodically assist franchises to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the Advertising Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below System established minimum standards for such Surveys. The Advertising Fund will not be used to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as we may incur in activities related to the administration of the Advertising Fund and its programs, including, without limitation, conducting market research, preparing advertising, promotion and marketing materials and collecting and accounting for Advertising

Fees (described in Section 2.1(e)). The source of the advertising may be our in-house advertising department or an outside advertising agency. If we or our affiliates provide in-house advertising department services, we or our affiliates may be compensated from the Advertising Fund provided that any compensation is reasonable. In addition, we may choose, at our discretion, to advance or loan money to the Advertising Fund on the terms and conditions we deem appropriate. In the event that we advance monies to the Advertising Fund, we will determine, in our sole discretion, the manner and timing for the repayment to us, of some, or all, of the funds we advance.

(g) *Collection of Advertising Fees.* We have the right, but no obligation, to use collection agents and institute legal proceedings to collect Advertising Fees at the Advertising Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Advertising Fund. Except as expressly provided in this section, we assume no direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Advertising Fund.

(h) *Accounting for the Advertising Fund.* We will separately account for the Advertising Fund monies, but we may commingle such monies with our other monies or maintain the Advertising Fund monies in one or more separate accounts, in our discretion. We may spend, on behalf of the Advertising Fund, in any fiscal year, an amount greater or less than the aggregate contribution of all KidzArt Businesses to the Advertising Fund in that year, and the Advertising Fund may borrow from us or others at reasonable interest rates to cover deficits or invest any surplus for future use. All interest earned on monies contributed to the Advertising Fund will be used to pay advertising costs before other assets of the Advertising Fund are expended. We will prepare annually, or cause to be prepared, a report or reports of the operations of the Advertising Fund. We will furnish such report or reports to you upon your written request. The Advertising Fund is not required to be independently audited.

(i) *Advertising Fund Entity.* We have the right, but not the obligation, to establish a separate entity to operate the Advertising Fund at any time. Any such entity will have all of the rights and duties with respect to the Advertising Fund that we have under this section. The Advertising Fund will not be deemed a trust, and we will have no fiduciary obligation to you in connection with the collection or administration of the Advertising Fund.

(j) *Distribution of Advertising Expenditures.* Although we will endeavor to use the Advertising Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all KidzArt Businesses, we undertake no obligation to ensure that expenditures by the Advertising Fund will benefit all KidzArt Businesses equally nor in proportion to contributions. You acknowledge that not all System franchisees will benefit directly or on a pro rata basis from such expenditures.

(k) *Termination of Advertising Fund.* We reserve the right to defer or reduce Advertising Fees and, upon 30 days' prior notice to you, to reduce or suspend contributions to and operations of the Advertising Fund for one or more periods of any length and to terminate (and, if terminated, to reinstate) the Advertising Fund (and, if suspended, deferred or reduced, to reinstate such contributions). If the Advertising Fund is terminated, all unspent monies, if any, on the date of termination will be distributed to KidzArt Businesses in proportion to their respective contributions to the Advertising Fund during the preceding twelve month period.

(l) *Cooperative Advertising.* We will have the right, in our discretion, to designate any geographical area for purposes of establishing a regional advertising and promotional cooperative (“Cooperative”), and to determine whether a Cooperative is applicable to the Franchised Business. If a Cooperative is established applicable to the Franchised Business, you must participate in the Cooperative. The following provisions will apply to each Cooperative:

- i. Each Cooperative will be organized and governed in a form and manner, and will commence operation on a date, approved in advance by us;
- ii. Each Cooperative will be organized for the exclusive purpose of administering regional advertising programs and developing, subject to our approval, standardized advertising materials for use by the members in local advertising;
- iii. No promotional or advertising plans or materials may be used by a Cooperative or furnished to its members without our prior approval. All such plans and materials must be submitted to us in accordance with Section 1.7(b);
- iv. Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative; and
- v. Each member franchisee must submit to the Cooperative, no later than the 10th of each month, for the preceding month, its respective contribution as provided in this Agreement together with such other statements or reports as we may require or as may be required by the Cooperative with our approval.

We may grant to you an exemption from participating in a Cooperative at its sole discretion, upon your written request stating reasons supporting such exemption. Our decision concerning such request for exemption will be final.

(m) *Internet Advertising.* You may not advertise or promote the Franchised Business over the Internet without our prior written approval, which we may withhold in our discretion, and except as provided below. You may not develop, maintain or authorize any website that mentions or describes the Franchised Business or displays any of the Marks; nor may you own an Internet domain name or use a meta tag or title tag that includes any of the Marks or variations of any of the Marks. You may promote the business through social media and similar means provided that such promotion is consistent with the Manual including all guidelines we issue from time to time. You agree to check for social media postings of your employees from time to time to be sure that any comments they write are permitted and are consistent with our policies.

Section 1.8 – ***Website and Portal***

(a) *System Website.* We will maintain one or more websites to advertise, market and promote KidzArt Businesses, the products and services offered by such businesses and the KidzArt franchise opportunity (the “System Website”). We own all intellectual property and other rights in the System Website, your web page (described below) and all information it contains. You acknowledge that we have final approval rights over all information on the System Website, including your web page. You agree not to register any Internet domain name in any class or category that contains words used in or similar to any brand name owned by us or our affiliates or any abbreviation, acronym, phonetic variation or visual variation of those words. We have the sole right, but not the obligation, to develop and implement website optimization programs, including obtaining paid listings, inserting meta tags into its website(s), and engaging in search engine optimization initiatives. We may use National Advertising Fund contributions to fund such initiatives. We may implement and periodically modify System Standards relating to the System Website. We may at any time and in our sole discretion discontinue using the System Website, including your web page. If we discontinue using the System Website, we may at any time and in our sole discretion resume using it.

(b) *Your Web Page.* We will provide you with a web page on the System Website, you agree to pay the reasonable costs of designing, constructing, hosting and maintaining such web page in accordance with Section 2.1(f). You agree to give us the information and materials we request to enable us to develop, update and modify your web page. By providing such information and materials to us, you will be representing and warranting to us that, to the best of your knowledge, all information and materials you provide will be accurate and not misleading and will not infringe any third party's rights. You agree to indemnify, defend and hold us, our affiliates and our directors, officers, employees, agents and assigns harmless against any liabilities incurred due to inaccuracies in the information you provide to us or any resulting infringement. At your request, we will update the information on your web page or add information that we approve. You must notify us whenever any information on your web page changes or is not accurate. You must pay our then current fee for each additional update or addition that you request. If you are in default of any obligation under this Agreement or the System Standards, then we may, in addition to our other remedies, temporarily remove your web page from the System Website until you fully cure the default. We will permanently remove your web page from the System Website upon the expiration or termination of this Agreement. Except as approved in advance in writing by us, you must not establish or maintain a separate website, splash page, profile or other presence on the Internet, or otherwise advertise on the Internet or any other public computer network in connection with the Franchised Business, including any profile on Facebook, Instagram, Twitter, LinkedIn, TikTok, YouTube or any other social media and/or networking site.

(c) *Registration and Class Management.* We may provide you with an online customer registration and class management service. During any period in which we do provide such service, you agree to pay the reasonable costs in accordance with Section 2.1(f).

(d) *Promotion of the System Website.* All advertising, marketing and promotional materials that you develop for the Franchised Business must contain notices of the System Website's domain name in the manner we designate.

(e) *Franchisee Extranet or Portal.* In addition to the System Website, we may establish an extranet or portal or both (the “Portal”) for all KidzArt franchisees that will be subject to the following terms and conditions:

(i) You and other KidzArt franchisees will be able to access the Portal only by means of user names and passwords and that will not be available to the general public.

(ii) We may use the Portal to provide support for franchisees and to allow for electronic franchise discussion groups. We may also use the Portal to post the online material constituting the Manuals described in Section 1.4(a).

(iii) We may also use the Portal to give you access to a customized software system for customer relations management, customer scheduling, billing, reporting and related operational functions, which we may revise and develop during the term of this Agreement (the “Portal Services”).

(iv) We grant to you the nonexclusive right to access the Portal and to use the Portal Services in accordance with the System Standards (as defined in Section 1.4(a)) and the terms and conditions contained in this Agreement. You agree to use the Portal Services in the manner described in the System Standards.

(v) We reserve the right to deny you access to the franchisee Portal or the Portal Services or both, in whole or in part, in the event that you materially breach this Agreement.

(vi) You agree both during and after the term of this Agreement not to disclose your Portal user name or password to any person or entity who is not under your direct supervision and who does not have a need to know such password. You agree to inform all persons under your supervision who may have access to such password of this obligation of confidentiality. You further agree to notify us when a staff member with access to the Portal ceases to be employed by you, and you agree to include in such notice the current address and email of each such staff member so that we can send such staff member a reminder of his or her obligation of confidentiality.

ARTICLE II – FEES; PAYMENTS; RECORDS; INSPECTIONS

Section 2.1 – *Fees and Reports*

(a) *Initial Fees.* Unless otherwise indicated in Schedule A, you will pay us an initial fee of \$14,900 for a KidzArt Teach Franchise or unless otherwise indicated in Schedule A, you will pay us an initial fee of \$19,900 for a KidzArt Teach Plus Franchise. You will pay this amount in full when you sign this Agreement. The initial fee is not refundable under any circumstances and deemed fully earned upon the execution of this Agreement, in consideration of administrative and other expenses we incur in granting the franchise and for our lost or deferred opportunity to franchise others. If you wish to increase the size of the Territory and we agree to do so, we will charge you our then-current fee for the additional portion of the Territory. Our current fee is \$0.40 for each additional qualifying household (meeting certain minimum

household income thresholds) added to the Territory. Our willingness to increase the size of the Territory will depend on how well you operate your Franchised Business in the Territory after completing training, where other franchisees operate, and what is in the best interest of our company and the network of KidzArt Businesses. We have no obligation to allow you to increase the size of the Territory.

(b) *Initial Inventory and Marketing Materials.* You must pay us \$2,000 when you sign the Franchise Agreement for an initial inventory of art supplies and \$800 either to us or to our designated vendor for marketing materials needed to begin operating your Franchised Business. You will receive your art supplies at initial training or by mail. We will send the marketing supplies to you by mail or other means. These fees are fully earned upon payment and are not refundable. Prior to opening, you must place advertisements for the Franchised Business.

Royalties. You agree to pay us royalties ("Royalties") equal to 8% of the Gross Revenue (as defined below) of the Franchised Business each month. The minimum monthly Royalty payment for a KidzArt Teach Franchise is \$250 during each month. If you expand your territory to 30,000 (qhh) or more than you fall under the KidzArt Teach Plus royalty requirement which is \$300 each month for the first year of the term and \$400 each month for the remainder of the term of this Agreement.

The KidzArt Teach Plus minimum monthly royalty is \$300 during each month of the first year of the franchise term and \$400 during each month of the remaining years of the franchise term.

(a) *Definition of Gross Revenue.* As used in this Agreement, the term "Gross Revenue" or "Gross Revenue of the Franchised Business" means the total of all sales made in the operation of the Franchised Business, whether collected or not, with the following clarifications and exceptions:

(i) By way of example, to the extent you conduct classes at locations (such as recreation centers, YMCAs, park districts and the like) that deduct a portion of the amounts paid by participants in your classes in order to be compensated for your use of such locations to conduct classes, Gross Revenue on which the Royalty Fee is due will be the total amounts paid (*i.e.*, the retail sales price) by participants in your classes before any deduction by such locations.

(ii) Gross Revenue does not include: (A) federal, state or municipal sales or use taxes collected from customers for payment to the appropriate taxing authorities; (B) promotional or discount coupons to the extent that no revenue is realized; or (C) compensation for services or products provided to your employees if you did not charge the employee, or for any portion not paid for by an employee.

(iii) Payment for goods and services you sell in the Franchised Business will be deemed received by you at the time the services or products from which the revenue

was derived are delivered or rendered or at the time the relevant sale takes place, whichever occurs first, regardless of when or whether you actually receive payment for such services or products. Gross Revenue consisting of property or services will be valued at the retail prices of such property or services.

(b) *Advertising Fee.* You agree to pay us an advertising fee each month (the “Advertising Fee”) equal to one percent (1%) of the Gross Revenue of the Franchised Business for each month, but not less than \$25 per month. The Advertising Fee finances the Advertising Fund described in Section 1.7(e).

(c) *Technology Fees.* You agree to pay us or our authorized suppliers the following technology fees for each of the following services for so long as we provide or manage such service; we reserve the right to increase the fees described in this Section 2.1(f):

(i) \$750 for setup of a customized website, payable after initial training but before your franchise opens;

(ii) \$650 for setup of an online customer registration and class management program, payable after initial training but before your franchise opens;

(iii) Our or our designated vendor’s then current monthly fees for web hosting service and support called a Technology Fee of \$45 per month and the online customer registration and class management, currently 1% of Gross Revenues per month plus credit card processing fees.

We may increase or modify these fees from time to time to reflect increases in our costs or increases in the Metropolitan Area Consumer Price Index for All Urban Consumers from the date of this Agreement, as published by the U.S. Department of Labor, or a successor index.

(d) *Payment.* Monthly fees are due in arrears on the first day of each calendar month. The Royalty Fee, Advertising Fee are based on Gross Revenue during the preceding calendar month. Monthly fees will be considered late if not received by us by the tenth day of the month. Time is of the essence with respect to all payments you are to make to us.

(e) *Reports.* You will submit a completed electronic Royalty Reporting Form to us at the time each Royalty Fee is due, setting forth your true and correct Gross Revenue for the just completed month in such detail and in such manner as we require from time to time. You will use our Royalty Reporting Form, which we may change from time to time. If you operate in a retail location (rather than from your home office), you must also send us with your Royalty Reporting Form copies of cash register receipts and your latest monthly bank statement. In addition to the royalty reporting form, you must include the corresponding profit and loss statement.

Electronic Payments. We require that you pay all sums owed to us or to any of our affiliates under this Agreement electronically through one or more depository transfer accounts (an “EFT Account”) or using such methods as we may designate in the Manuals or otherwise in writing. Before opening the Franchised Business, you shall provide us with your bank’s name, address and account number, a voided check from such bank account, and sign and give to us and your bank, all documents, including Schedule “E” to this Agreement, necessary to effectuate the EFT

Program and our ability to withdraw funds from such bank account via electronic funds transfer. You shall immediately notify us of any change in your banking relationship, including changes in account numbers. At our request, you agree to execute such other documents as we determine are necessary for us to process electronic funds transfers from your designated bank account for payments due under this Agreement. We reserve the right to require you to pay any fees due under this Agreement by such other means as we may specify from time to time. If the Royalty Reporting Form has not been received within the time period required by this Agreement, then we may process an EFT for the subject week based on the most recent Royalty Reporting Form you provided us. If a Royalty Reporting Form for the subject week is subsequently received and reflects:

(i) that the actual amount of the fee due was more than the amount of the EFT, then we shall be entitled to withdraw additional funds through EFT from your designated bank account for the difference; or(ii) hat the actual amount of the fee due was less than the amount of the EFT, then we shall credit the excess amount to the payment of your future obligations.

You will bear all costs to establish and maintain the required electronic payment system, and all bank service charges. You will comply with our procedures for electronic payment, which we may modify from time to time, including the maintenance of such minimum bank account balance as we specify from time to time.

(f) *Interest on Late Payments.* Any payment that is not made by the date it is due will be subject to interest at the rate of one and one-half (1.5 %) percent per month or the highest rate allowed by law, whichever is less. If no due date is stated, interest begins to run ten days after billing. Your failure to pay all amounts when due constitutes grounds for termination of this Agreement, as provided, in Section 5.2(b). Interest will accrue whether or not we exercise our right to terminate. You acknowledge that this subsection does not constitute our agreement to accept any payments after they are due or our commitment to extend credit to you or otherwise finance your operation of the Franchised Business.

(g) *Late Fees.* You agree to pay us a late fee equal to the greater of 15% of the amount due or \$50 for each required payment that is late. The late fee is not interest or a penalty but compensates us for increased administrative and management costs due to your late payment. You also must pay us \$100 for each dishonored or NSF check and for each attempted debit from the EFT Account that is not honored due to insufficient funds or other actions you have taken to impede the automatic debiting process. Each failure to pay Royalty Fees, Advertising Fees and other amounts payable to us when due is a material breach of this Agreement.

(h) *Failure to Report.* If you fail to report the Gross Revenue of the Franchised Business for any month, we may debit the EFT Account for 120% of the last Royalty Fee and Advertising Fee that we debited (together with the late fee noted above). If the amounts we debit from the EFT Account are less than the amounts you actually owe us (once we have determined the actual Gross Revenue), we will debit the EFT Account for the balance on the day we specify. If the amounts we debit from the EFT Account are greater than the amounts you actually owe us, we will credit the excess against the amounts due during the following month.

(i) *No Setoff.* Your obligations to make payments in accordance with this Agreement and any other agreement with us or any of our affiliates with respect to the Franchised Business are not subject to any abatement, reduction, setoff, defense or

counterclaim due or alleged to be due for any past, present or future claim that you have or may have against us or any of our affiliates.

(j) *Application of Payments.* All payments you make to us will be applied in such order as we may designate from time to time, regardless of any designation you may make with respect to the application of such payments, even if you specifically make payment conditional on our acceptance of your designated application or instructions.

(k) *Taxes.* In the event that we are required to collect and pay any sales or use tax from you for payment to any tax authority based on your purchase of the franchise or any items relating to the franchise or the operation of the Franchised Business, or based on any continuing payments you make to us under this Agreement, you will pay such taxes together with your continuing payments to us.

(l) *Financials and Tax Returns.* Within 60 days after the end of each fiscal year during the term of this Agreement, you will provide to us, in a form and manner that we approve, a profit and loss statement for such fiscal year and a balance sheet as of the end of such fiscal year. In addition, you will submit to us, within 120 days after the end of each calendar year during the term of this Agreement, copies of all federal and state tax returns of the Franchised Business. Failure to provide these documents will result in a non-refundable charge of \$500.00. If you filed an application with the IRS for an automatic extension of time to file, either IRS Form 7004 or IRS Form 4868 is required for proof of extension within 120 days after the end of the calendar year and the \$500 penalty will be imposed if financials and tax returns are not submitted within 15-days after the expiration date.

Section 2.2 – ***Records; Inspection***

(a) *Records.* You agree to maintain at the Franchised Business full, complete and accurate records and reports of the Franchised Business. You will maintain full and complete customer lists (including the name, address, telephone number and email address of each customer). You will submit to us such customer lists at least twice per year, or whenever we request. You will also maintain bookkeeping, accounting and records retention systems conforming to the requirements that we prescribe from time to time, and records relating to Franchised Business operations, employee turnover and such other records that we prescribe from time to time. You agree to maintain and to furnish to us upon request complete copies of all income, sales, value added, use and service tax returns, and employee withholding, worker's compensation and similar reports filed by you reflecting activities of the Franchised Business. You agree to preserve all records described in this section for a period of at least six years after their creation, or such longer period as may be required by law, during both the term and each renewal term of this Agreement and following the expiration or termination of this Agreement.

(b) *Access to Systems.* We may collect electronically the reports referred to in Section 2.1(h) and the records referred to in Section 2.2(a).

(c) *Right to Inspect.* During the term of this Agreement, we or our designated representatives will also have the right, at any time during your regular business hours, without prior notice to you, to enter upon the premises of the Franchised Business to inspect the books and records of the Franchised Business, including tax returns, and to take excerpts. You agree to

cooperate fully with us and our representatives during all such inspections.

(d) *Right to Audit.* We have the right at any time during your business hours, without prior notice to you, to audit the records of the Franchised Business, or to cause such records to be audited.

(e) *Discrepancies.* If any inspection or audit demonstrates an understatement of Gross Revenue, you will pay the deficiency to us upon demand, plus interest.

(f) *Cost.* All inspections and audits will be at our expense; but if an inspection or audit is made necessary by your failure to furnish, or your delay in furnishing, reports, supporting records, other information or financial statements we require, or if an understatement of Gross Revenue for the period of any audit or inspection is determined by any such audit or inspection to be equal to or greater than two percent (2%), you agree, within 15 days after our request, to reimburse us for the cost of such inspection or audit, including, without limitation, legal and accounting fees, and the travel expenses, including lodging, meals and per diem charges of the inspecting or auditing personnel. These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

(g) *Survival of Inspection and Audit Rights.* Our rights to inspect the books and records of the Franchised Business and to take excerpts, and to audit the Franchised Business, will continue for a period of six months following the expiration or termination of this Agreement; provided, however, that we may only inspect such books and records or perform any such audit following the expiration or termination of this Agreement upon at least 24 hours' prior notice to you.

(h) *Disclosure of Your Financial Information.* We have the right to disclose data we receive from you regarding the Franchised Business without identifying you. If we are required by law to disclose any data we receive from you regarding the Franchised Business and such disclosure will identify you, we will notify you of the disclosure to be made and, if you request, endeavor to obtain legally binding assurance that those who receive such disclosure are bound by an obligation of confidentiality.

ARTICLE III - PROPRIETARY RIGHTS; CONFIDENTIALITY; NONCOMPETITION

Section 3.1 – *Our Copyrights and Trademarks*

(a) *Our Copyrights.* We are the sole owner of all copyrights in the Curricula, the Manuals and all advertising and promotional material created by or for us. You may not copy any such materials, nor create derivative works of any such materials, except as specifically authorized or permitted by us.

(b) *Our Trademarks.* Your right to use the Marks is derived solely from this Agreement and is limited to your operation of the Franchised Business pursuant to and in compliance with this Agreement and all System Standards we prescribe from time to time. Your unauthorized use of the Marks will be a breach of this Agreement and an infringement of our rights in and to the Marks. You acknowledge and agree that your use of the Marks and any goodwill established by such use will be exclusively for our benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate the Franchised Business in compliance with this Agreement). Upon the expiration or

termination of this Agreement, no monetary amount shall be assigned as attributable to any goodwill associated with your use of the System, the Marks, or any Confidential Information. You will not contest or assist others in contesting our right to use the Marks.

(c) *Proper Use of the Marks.* You may not use the Marks except as authorized under this Agreement. You understand that any use of the Marks other than as expressly authorized by this Agreement, without our prior written consent, may constitute infringement and that your right to use the Marks does not extend beyond the expiration or termination of this Agreement. You agree to use the Marks as the sole identification of the Franchised Business, except that you agree to identify yourself as the independent owner of the Franchised Business in the manner we prescribe. You may not use any Mark or any word similar to any of the Marks as part of any corporate or legal business name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to you under this Agreement), or in any modified form, nor may you use any Mark in connection with the performance or sale of any unauthorized products or services or in any other manner we have not expressly authorized in writing. You may not use any Mark as part of a domain name or electronic address of a website. You agree to display the Marks prominently in the manner we prescribe at the Franchised Business, on materials that we designate and on business forms and advertising materials. You agree to give such notices of trademark and service mark registrations and our ownership of the Marks as we specify from time to time and to obtain any fictitious or assumed business name registrations required under applicable law.

(d) *Modifying the Marks.* We will have the right to add, modify, discontinue and/or substitute modify or change the Marks from time to time in our sole discretion upon written notice to you specifically referring to this Agreement and describing such modification or change. Such right will include the right to use a trademark that is entirely different from “KidzArt” and the right to require you to use one or more new or additional logos and marks. You agree, upon notice from us, to regard each such modified, changed, new or additional trademark as being within the definition of “Marks” under this Agreement, and to adopt and use each such trademark at your expense in accordance with the terms and conditions of this Agreement. You must discontinue use of all Marks which we have notified you, in writing, have been modified or discontinued within 10 days of receiving written notification. If we require a change in signage, we will reimburse you for your reasonable direct expenses of changing the signs at the premises of the Franchised Business. However, we will not be obligated to reimburse you for any loss of revenue or expenses caused by any such modification or change.

(e) *Infringement.* You agree to notify us of any apparent infringement of any Mark or of any of our copyrights, by any third party, as soon as such apparent infringement comes to your attention, and to notify us immediately of any challenge to your use of any Mark and of any claim by any person of any rights in any Mark, and you agree not to communicate with any person other than us, our attorneys and your attorneys in connection with any such infringement, challenge or claim. We have sole discretion to take such action as we deem appropriate with respect to such apparent infringement, challenge or claim and the right to control exclusively any litigation, U.S. Patent and Trademark Office proceeding or any other administrative proceeding arising out of any such infringement, challenge or claim or otherwise relating to any Mark or our copyrights. You agree not to initiate any such action or proceeding, but to cooperate with us in any such action or proceeding and sign any and all instruments and documents, render such assistance and do such acts and things as may be necessary or

advisable, in the opinion of our attorneys, to protect and maintain our interests in any litigation or any proceeding at the Patent and Trademark Office, or otherwise to protect and maintain our interests in the Marks or copyrights. In the event any sum is recovered based on our claim of infringement, we will have the exclusive right to such recovery.

(f) *Litigation Relating to the Marks.* You acknowledge that we have the sole right to direct and control any administrative proceeding or litigation involving the Marks, including any settlement thereof. We shall defend you against any third-party claim, suit, or demand arising out of Franchisee's use of the Proprietary Marks. If we, in our sole discretion, determine that you have used the Marks in accordance with this Agreement, we shall bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used the Marks in accordance with this Agreement, you shall bear the cost of such defense, including the cost of any judgment or settlement. In the event of any litigation relating to your use of the Marks, you shall execute any and all documents and do such acts as may, in our opinion, be necessary to carry out such defense or prosecution including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

Section 3.2 – ***Confidentiality of Our Information***

(a) *Confidential Information.* We possess and will continue to develop and acquire certain confidential information relating to the development and operation of KidzArt Businesses ("Confidential Information"). Confidential Information includes, without limitation:

- (i) the contents of the Manuals;
- (ii) the substance, design, organization, and presentation of all Programs, curricula and class material we provide to you, including both written and video materials;
- (iii) methods and other techniques and know-how concerning the of operation of the Franchised Business which may be communicated to you or of which you may be apprised by virtue of your operation of the Franchised Business;
- (iv) the content of our training and assistance;
- (v) sales and marketing techniques;
- (vi) customer lists (including the name, address, telephone number and email address of each customer);
- (vii) planned advertising and marketing programs;
- (viii) current, past and planned research, development and test programs for products, services and operations;

(ix) specifications for and suppliers of certain products, signs, materials and supplies;

(x) the operating results and financial performance of KidzArt Businesses other than the Franchised Business;

(xi) user names and passwords allowing access to protected areas on our website or computer network;

(xii) all improvements and modifications to the franchise system developed by you or your personnel; and

(xiii) any and all information, knowledge, know-how, techniques, and other data which we designate as confidential will be deemed Confidential Information for purposes of this Agreement.

You acknowledge and agree that you will not acquire any interest in any Confidential Information other than the right to use Confidential Information disclosed to you in operating the Franchised Business during the term of this Agreement.

(b) *Nondisclosure and Non-Use.* At all times both during the term and after the expiration or termination of this Agreement, (i) you will keep all Confidential Information in the strictest confidence and you will not disclose any Confidential Information to any person other than your employees, agents or representatives who have a legitimate need to know such information and who are informed of this obligation of confidentiality and have signed either a Guaranty in the form of Schedule “B” or a written agreement with your company substantially in the form of Schedule “C”, and (ii) you will not use any Confidential Information except for the purpose of fulfilling your obligations under this Agreement. Upon our request, you will promptly return to us all Confidential Information and all copies in your possession or under your control, and you will destroy all copies on your computers, disks and other digital storage devices.

(c) *Isolated Disclosures.* Notwithstanding the foregoing, we will not deem you to be in default of this Agreement as a result of isolated incidents of disclosure of Confidential Information by an employee other than an owner, provided that you have taken reasonable steps to prevent such disclosure, including but not limited to the steps a reasonable and prudent owner of confidential and proprietary information would take to prevent disclosure of such information by his employees, and further provided that you pursue all reasonable legal and equitable remedies against such employee for such disclosure of such Confidential information.

(d) *Disclosures Required by Law.* In the event that you become legally compelled to disclose any Confidential Information, you will (i) promptly notify us that such information is required to be disclosed, (ii) use your best efforts to obtain legally binding assurance that all those who receive disclosure of such information are bound by an obligation of confidentiality, and (iii) disclose only that portion of the Confidential Information that your legal counsel advises is legally required to be disclosed.

Section 3.3 – ***Noncompetition***

(a) *Noncompetition During the Term.* You agree that during the term of this Agreement and any renewal of this Agreement, you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which we have a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any KidzArt Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any KidzArt Business within the six month period before such recruiting or hiring without the prior written permission of that person's employer.

(b) *Definition of Competitive Business.* As used in this Agreement, the term "Competitive Business" means any business that offers, in whole or in part, art or drawing instruction or similar creative services or grants franchises or licenses to others to operate such a business (other than a KidzArt Business operated under a franchise agreement with us or our affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent (3%) of a class of ownership interests of the issuing company.

(c) *Noncompetition After Termination.* Upon the expiration of this Agreement, your termination of this Agreement without cause, our termination of this Agreement in accordance with its terms and conditions, or your transfer in accordance with Article IV, you and your company's owners agree for a period of two years following such expiration, termination or transfer, that you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect ownership interest in a Competitive Business located or operating in the Territory or within 30 miles of the location of any KidzArt Business operating anywhere in the world at the time of such expiration, termination or transfer; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any KidzArt Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any KidzArt Business within the 12-month period before such recruiting or hiring without the prior written permission of that person's employer.

(d) *Intent and Enforcement.* It is the parties' intent that the provisions of this Section 3.3 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 3.3 by you, your company's owners, or any member your or your company's owners' immediate family, we shall be entitled to an injunction restraining such person from any such actual or threatened breach. You agree that in the event of the actual or threatened breach of this Section 3.3, our harm will be irreparable and that we have no adequate remedy at law to prevent such harm. You acknowledge and agree on your own behalf and on behalf of the persons who are liable under this Section 3.3 that each has

previously worked or been gainfully employed in other careers and that the provisions of this Section 3.3 in no way prevent any such person from earning a living. You further acknowledge and agree that the time limitation of this Section 3.3 shall be tolled during any default under this Section.

ARTICLE IV - TRANSFER

Section 4.1 – *Transfer by Us*

We may sell, assign or transfer our rights and obligations under this Agreement to any party, without the approval of or prior notice to you, provided that the buyer, assignee or transferee agrees in writing to assume all of our obligations under this Agreement. We will not be liable for obligations of the transferee arising after the date of transfer.

Section 4.2 – *Transfer by You*

(a) *No Transfer Without Our Approval.* This Agreement is personal to you. We have granted the franchise to you in reliance upon our perceptions of your (or your company's owner's) individual or collective character, skill, aptitude, business ability and financial capacity. Accordingly, you may make no Transfer (as defined below) without our prior written approval. Any purported Transfer without such approval will be a breach of this Agreement and will entitle us to terminate this Agreement as provided below.

(b) *Definition of Transfer.* As used in this Agreement, the term "Transfer" means your (or your company's owner's) voluntary, involuntary, direct or indirect assignment, sale, gift, pledge or other disposition of any legal or beneficial interest in: (i) this Agreement, (ii) any material asset of the Franchised Business; (iii) the lease or ownership of the premises of the Franchised Business (unless we agree to a relocation or unless the transfer of ownership does not affect your leasehold rights and obligations), or (iv) your company, whether in the form of equity or a voting interest. "Transfer" also includes (i) the merger or consolidation of your company; (ii) the issuance of additional securities or other ownership interests of your company, and (iii) the admission or departure of a partner or owner. It includes transfers resulting from proceedings under the U.S. Bankruptcy Code or any similar law, and transfers resulting from divorce.

(c) *Notice of Transfer.* You agree to notify us of any planned Transfer, and to provide us with any information we may reasonably request in order to permit us to evaluate the planned Transfer. If we do not exercise our right of first refusal under Section 4.3, we agree not to unreasonably withhold our approval of a Transfer. If we approve the Transfer, then you will be free, for ninety (90) days following such approval, to effect the Transfer to the person or persons approved by us. Our consent to a Transfer does not constitute a representation as to the fairness of the terms of any contract between you or your company's owners and the transferee, a guaranty of the successful operation of the Franchised Business by the transferee or a waiver of any claims we may have against you or your company's owners or of our right to demand the transferee's compliance with any of the terms or conditions of this Agreement.

(d) *Conditions to Transfer.* The following conditions will apply with respect to any Transfer except as described in Section 4.2(e):

(i) The proposed transferee or its managing owner, must pay for and attend a Discovery Day, which may be conducted online or at a location that we designate, and demonstrate to our satisfaction that he or she meets our standards for new franchisees, including being of good character with sufficient business experience, aptitude, and financial resources to operate the Franchised Business.

(ii) Neither the proposed transferee nor any of its management or owners is a Competitive Business or performs services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business.

(iii) You will cure any default under this Agreement or any other agreement between you and us, our affiliates, our designated/approved suppliers and vendors, within the period permitted for cure and have substantially complied with such agreements during their respective terms.

(iv) You will pay all fees and any other amounts then owed to us, our affiliates and our designated/approved suppliers and vendors.

(v) You or the transferee will pay us a nonrefundable transfer fee equal to 7% of the then-current initial franchisee fee. If you request to have us assist you in selling your franchise, we may charge you additional fees to cover our advertising costs, salesperson fees, and any other costs that we incur in assisting with the sale of your franchise.

(vi) We may require that the transferee, at the time of closing, enter into our then current form of franchise agreement as amended to shorten the initial term to conform to the remaining term of this Agreement and to remove the requirement to pay the initial fee, and each guarantor under the new franchise agreement will have signed our then current form of guaranty.

(vii) You and we will execute a written agreement, in a form satisfactory to us, terminating this Agreement and acknowledging your obligations following the Transfer. We may require that the termination agreement include a general release of any claims against us and our affiliates.

(viii) The transferee or its designated personnel will have completed such training as we may require, to our satisfaction. The cost of training, for the transferee plus one additional attendee, will be \$4,000. Each additional attendee will cost \$1,000. This amount is due prior to training and payable to us. This amount does not include transportation, hotel, or food expense which will be your expense. The cost of training is non-refundable.

(ix) The transferee must obtain, within the time limits set by us, and maintain thereafter, all permits and licenses required for the operation of the Franchised Business.

(x) We will have approved the material terms and conditions of such transfer and determined that the price and terms of payment will not adversely affect the transferee's operation of the Franchised Business.

(xi) You must request that we provide the prospective transferee with our current form of disclosure document.

(xii) Our approval of the transfer shall not constitute a waiver of any claims we may have against the transferring party.

(xiii) If you or your owners finance any part of the sale price of the transferred interest, you or your owners will have agreed that all of the transferee's obligations pursuant to any promissory notes, agreements or security interests are subordinate to the transferee's obligation to pay Royalties, Advertising Fees and other amounts due to us.

(xiv) After our authorization of the Transfer and your compliance with all of the requirements listed above, you will give us not less than five business days' written notice of the date, time and place of the closing of such Transfer, and you will give us an opportunity to have a representative present.

(xv) We shall have the right to disclose to any prospective transferee such revenue reports and other financial information concerning you and the Franchised Business as you has supplied us hereunder, and you agree to make no false or misleading statements in connection with the transfer of this Agreement or the Franchised Business.

(xvi) If the transaction is brokered by a third-party or by one of our authorized sales representatives, you or the proposed transferee will be responsible for paying broker fees at the same commission rate that we pay such broker or salesrepresentatives.

(xvii) In any event, we may withhold or condition our consent to any transfer as we deem appropriate based on the circumstances of the transfer or otherwise.

(e) *Exceptions.* Upon prior notice to us and the signing by the relevant parties of assignment documents acceptable to us, you may transfer this Agreement to an entity that conducts no business other than the Franchised Business in which you maintain management control and of which you own and control 100% of the equity and voting power, provided that all assets of the Franchised Business are owned, and the entire Franchised Business is conducted by, a single entity. The requirements of Section 4.2(d) will not apply to any such transfer. You will remain personally liable under this Agreement after such Transfer by signing a Guaranty as described in Section 1.1(h).

(f) *Transfer Upon Death or Disability.* You or your executor or other personal representative must promptly notify us in the event of your death or disability or, if your company is an entity, the death or disability of the owner of a 10% or greater interest in your company. Any transfer upon death or disability will be subject to the same terms and conditions as those that apply to other transfers, as described in Sections 4.2(a) through (d); provided, however, that you or your executor or other personal representative will have a period of 120 days in which to effect a transfer acceptable to us. As used in this Agreement, the term "disability"

means a mental, emotional or physical injury, illness, incapacity, disability or impairment that is reasonably expected to prevent or actually does prevent a person from performing the obligations set forth in this Agreement for at least 60 days. A person's disability for purposes of this section will be determined by a licensed practicing physician selected by us upon examination of such person or, if such person refuses to be examined, then such person will automatically be deemed disabled for purposes of this section as of the date of refusal. We will pay the cost of the examination.

(g) *Operation of the Franchised Business Upon Death or Disability.* If upon your death or disability or, if your company is an entity, the death or disability of the owner of a controlling interest in your company, the Franchised Business is not being actively managed by a Managing Owner who has attended and successfully completed such training as we may require, you or such deceased or disabled owner's executor, administrator, conservator, guardian or other personal representative must within a reasonable time, not to exceed 30 days from the date of death or disability, appoint a Managing Owner to operate the Franchised Business. Such Managing Owner will be required to complete our training at your expense. Pending the appointment and training of a Managing Owner or if, in our judgment, the Franchised Business is not being managed properly, we have the right, but not the obligation, to appoint a manager for the Franchised Business. All funds from the operation of the Franchised Business during the management by our appointed manager will be kept in a separate account, and all expenses of the Franchised Business, including compensation, other costs and travel and living expenses of our manager, will be charged to this account. We also have the right to charge a reasonable management fee (in addition to the Royalties and Advertising Fees payable under this Agreement) during the period that our appointed manager manages the Franchised Business. Operation of the Franchised Business during any such period will be on your behalf. We will not be liable for any debts, losses or obligations incurred by the Franchised Business or to any of your suppliers for any products, materials, supplies or services the Franchised Business purchases during any period it is managed by our appointed manager.

Section 4.3 – ***Right of First Refusal***

(a) *Notice of Third Party Offer.* If you or any of your company's owners at any time desire to sell, assign or transfer for consideration an interest in this Agreement and the Franchised Business or an ownership interest in your company to anyone other than as described in Section 4.3(d), you will obtain and immediately submit to us a true and complete copy of a bona fide written offer from the third party that desires to acquire such interest (the "Third Party Offer"). The Third Party Offer must include names of the owners or partners of the offeror company and, in the case of a publicly-held entity, copies of the most current quarterly report and Form 10K. The Third Party Offer must contain details of the payment terms of the proposed sale and the source and terms of any financing of the proposed purchase price and may not include or be contingent upon the purchase of assets other than those related to the Franchised Business.

(b) *Exercise of Our Right of First Refusal.* We will have the right, exercisable by notice delivered to you or your company's selling owner or owners within thirty (30) days after the date of our receipt of a copy of the Third Party Offer and all other information we request, to purchase such interest for the price and on the terms and conditions contained in the Third Party Offer, provided that (i) we may substitute cash for any form of payment proposed in such

offer; and (ii) we will have at least sixty days after giving notice of our election to prepare for closing. If we exercise our right of first refusal, you and your selling owners agree that, for a period of two years commencing on the date of the closing, you and we will execute a written agreement, in a form satisfactory to us, acknowledging the seller's continuing obligations. We may require the seller to sign a general release of any claims against us and our affiliates.

(c) *Consequence of Non-exercise of Our Right of First Refusal.* If we do not exercise our right of first refusal, you or your owners may complete the sale to such purchaser pursuant to and on the exact terms of such offer, subject to our approval of the transfer as provided in Section 4.2; but if the sale to such purchaser is not completed within 120 days after delivery of the Third Party Offer to us, or if there is a material change in the terms of the sale (which you agree promptly to communicate to us), we will have an additional right of first refusal during the thirty day period following either the expiration of such 120-day period or the notice to us of the material changes in the terms of the sale, either on the terms originally offered or the modified terms, at our option.

(d) *Exceptions.* Our right of first refusal will not apply to transfers among the current owners of your company or their immediate family members, or to transfers (whether in a single transaction or a series of transactions) of less than a 10% interest in your company.

ARTICLE V - TERM AND TERMINATION

Section 5.1 - *Term and Renewal*

(a) *Term.* This Agreement will be effective as of the date set forth in the opening paragraph of this Agreement and, unless sooner terminated as provided in Section 5.2, will continue in effect for a term of 10 years.

(b) *Renewal.* You will have the right to acquire a successor franchise for a term often (10) years, provided that:

(i) you will have given us notice of your desire to renew not less than 6 months nor more than 12 months before the end of the then-current term;

(ii) you and your affiliated companies must not be in default under this Agreement or any other agreement with us or any of our affiliates at the time you give your renewal notice, or if you are in default, you have cured such default in the manner described below;

(iii) you have satisfied all monetary obligations you owe us, our affiliates, our major suppliers and vendors;

(iv) you comply with our then-current financial qualifications and training requirements for new KidzArt franchisees;

(v) you must not have received more than two notices of default during the 24 month period before you notify us of your desire to renew, whether or not such defaults have been cured;

(vi) you present evidence to us that you have the right to remain in possession of the premises of the Franchised Business for the duration of the renewal term, or you obtain our approval of a new location for the Franchised Business for the duration of the renewal term;

(vii) you comply with our then-current standards in effect for new KidzArt franchisees and, at your cost and expense, you make such capital expenditures as we may reasonably require to modernize your services and your equipment to reflect the then-current standards of a KidzArt Business;

(viii) if we require, you execute a general release, in a form prescribed by us, of any and all claims against us and our affiliates and their respective officers, directors, agents and employees; and

(ix) you execute our then-current standard form of franchise agreement for a 10 year term, which agreement will supersede this Agreement in all respects; provided, however, that you will not be required to pay the initial franchise fee stated in the renewal agreement, but you will pay us a renewal fee in an amount equal to 5% of the then-current initial franchise fee for the type and size of Territory under your agreement. You understand that the renewal agreement may contain materially different terms than this Agreement, including, but not limited to, increased royalty and advertising fees.

If you or any of your affiliated companies is in default under this Agreement or any other agreement with us or any of our affiliates at the time you give your renewal notice, we will give you notice, not more than 30 days after receipt by us of notice of your desire to renew, of such default, and we will give you 30 days to cure. In the event that you fail to cure in that period, or in the event that any other condition set forth in this section is not satisfied, your right to renew will terminate.

(c) *Hold Over.* If you do not sign a new franchise agreement before the term expires and you continue to accept the benefits of this Agreement after this Agreement expires, then at our option, we may treat this Agreement either as: (i) expired as of the date of expiration, with you then being deemed to be operating without a franchise in violation of our rights; or (ii) continued on a month-to-month basis (the "Interim Period") until either (A) both you and we sign a new franchise agreement or (B) either you or we give at least 30 days' prior written notice to the other party of your or our intention to terminate the Interim Period, in which case the Interim Period will terminate on the date specified in the notice. All of your obligations will remain in full force and effect during the Interim Period as if this Agreement had not expired. Your obligations following the expiration or termination of this Agreement will remain in effect regardless of any extension of this Agreement into an Interim Period.

Section 5.2 - **Termination**

(a) **Automatic Termination.** This Agreement shall automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

(i) If you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or you consent to or acquiesce in the appointment of a trustee or receiver for all or any part of your business or assets, or if your company is dissolved.

(ii) If proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within sixty (60) days, or a trustee or receiver is appointed for you or the Franchised Business without your consent, and the appointment is not vacated within 60 days.

(iii) You purport to sell, transfer or otherwise dispose of your interest in this Agreement, any interest in the Franchised Business, or your company, whether in the form of equity or a voting interest in violation of Section 4.2 hereof.

(b) *Termination by Us Upon Notice.* We may terminate this Agreement upon written notice to you with immediate effect if:

(i) you or any of your company's owners have made any material misrepresentation or omission in connection with your application for and purchase of the Franchised Business;

(ii) you or your Managing Owner/and a second person fail to complete the initial training to our satisfaction in accordance with Section 1.5(b);

(iii) you fail to commence operation of the Franchised Business within the time required by Section 1.2(c);

(iv) you are more than ten days late in your payment of any amount due to us under this Agreement or to any of the suppliers of the Franchised Business and you fail to make such payment within five days after we will have notified you that such payment is past due;

(v) you or any of your affiliates default under the lease for the premises of the Franchised Business and have not cured such default within the time required under the lease; or you lose possession of the premises of the Franchised Business and have not relocated to another site approved by us;

(vi) you or any of your company's owners use or disclose any Confidential Information in violation of the requirements of Section 3.2;

(vii) you or any of your company's owners make any unauthorized use of the Marks or challenge or seek to challenge the validity of any of the Marks;

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

(ix) you fail to provide, at the time, in the manner, and under the terms we require, the services of the Franchised Business at a location in the Territory for any international, national or regional company with whom we have negotiated an arrangement under which you are required to provide such KidzArt services;

(x) you knowingly maintain false books or records or submit report to us that understates the Gross Revenue of the Franchised Business three or more times during the term of this Agreement or by more than 5% on any one occasion;

(xi) you fail for a period of 15 days after notification by appropriate authority to comply with any other law or regulation applicable to the operation of the Franchised Business;

(xii) you or any of your company's owners effect or attempt to effect a Transfer without our approval and contrary to the provisions of Article IV;

(xiii) in the event of your death or disability or the death or disability of the owner of a controlling interest in your company, this Agreement or such owner's interest in your company is not assigned as required by Article IV;

(xiv) you or any of your company's owners are or have been convicted of, or plead or have pleaded guilty or no contest to, a felony or any other crime or offense, or engage in any dishonest, deceptive or unethical conduct that may, in our opinion, adversely affect the reputation of the Franchised Business, other KidzArt Businesses or the goodwill associated with the Marks;

(xv) you fail to operate the Franchised Business for ten (10) consecutive business days without our consent;

(xvi) you fail to pay when due any federal or state income, service, sales, withholding or other taxes due in connection with the operation of the Franchised Business, unless you are contesting your liability for such taxes in good faith or have received an extension from the applicable government agency of the time within which to make such payments;

(xvii) you commit three or more defaults under this Agreement in any period of 12 consecutive months, whether or not each such default has been cured after notice was delivered to you;

(xviii) your assets, property or interests or those of any of your owners are blocked under any law, rule or regulation relating to terrorist activities;

(xix) you or any of your affiliates default under any financing agreement or arrangement with any party advancing funds to you in connection with the operation of the Franchised Business or the operation of any other business under a franchise agreement now or hereafter in effect between us and you or any of your affiliates; or

(xx) any other franchise agreement now or hereafter in effect between us and you or any of your affiliates is terminated due to a breach by you or any of your affiliates or any other event similar to those described above.

(c) *Termination After 30 Day Cure Period.* Except as set forth in Section 5.2(a) or 5.2(b), you will have 30 days after receipt of written notice from us of a material default in which to remedy the default and provide evidence of that remedy to us. If any such default is not cured within that time, this Agreement will terminate without further notice to you effective immediately upon expiration of that time unless we notify you otherwise in writing.

(d) *Relationship Laws.* Notwithstanding the provisions described in this Section 5.2, if any valid, applicable law or regulation limits our right to terminate this Agreement or requires different or longer notice periods than those set forth herein, this Section 5.2 is deemed amended to conform to the minimum notice periods or restrictions upon termination required by such rules and regulations. We will not however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the termination of this Agreement.

(e) *Liquidated Damages.* You acknowledge and agree that in the event you abandon your Franchised Business, we will incur damages, the actual amount of which would be speculative and difficult to calculate. As such, you agree to pay us, within 30 days after the effective date of such abandonment, in addition to royalties and all other amounts then owed to us under this Agreement, the agreed upon liquidated damages amount, which shall be calculated by determining the average monthly royalty owed to us in the immediately preceding 12 full calendar months (the "Average Royalty"), and multiplying the Average Royalty by 24 months (the "Liquidated Damages Amount"). You acknowledge that the Liquidated Damages Amount set forth herein is a fair and reasonable estimate of the foreseeable damages that we are likely to incur in light of our loss of royalties. The Liquidated Damages Amount provision only covers our damages from the loss of cash flow from the Royalty Fees. It does not cover any other damages, including damages to our Marks, Confidential Information, reputation with the public and landlords and damages arising from a violation of any provision of this Agreement other than the Royalty Fee section. You and each of your owners agree that the Liquidated Damages Amount provision does not give us an adequate remedy at law for any default under, or for the enforcement of, any provision of this Agreement other than the Royalty Fee section.

Section 5.3 - ***Consequences of Termination***

(a) *Your Obligations Upon Termination.* Upon the expiration of this Agreement or its termination for any reason:

(i) all rights and licenses granted to you under this Agreement will immediately terminate;

(ii) you will remit to us, within 15 days of such expiration or termination, such Royalties, Advertising Fees, amounts owed for purchases from us, interest due and all other amounts owed to us that are then unpaid, and you will submit to us any reports and other information you may be required to submit to us;

(iii) if applicable, you will promptly pay us the liquidated damages described in Section 5.2(b);

(iv) you will remit to us, within 15 days of such expiration or termination, a complete list of all customers, current as of the effective date of termination or expiration, including the name, address, telephone number and email address of each customer;

(v) if we do not exercise our option to purchase the Franchised Business in accordance with Section 5.4, you will promptly remove from the premises of the Franchised Business and deliver to us or otherwise dispose of as we may instruct, all printed materials containing any of the Marks and you will remove all copies from your computers and other electronic storage media, and you will allow us, without liability to you or to third parties, to remove all such items from the Franchised Business;

(vi) you will assign to us or our designee all of your right, title and interest in and to your telephone numbers, websites, domain names and meta tags associated with the Mark (the "Listings") and you will notify the telephone company and all listing agencies of the termination or expiration of your right to use any of the Listings, and you will authorize the transfer of the Listings to us or our designee pursuant to the Conditional Assignment of Telephone Numbers attached hereto as Schedule "D" or, if we direct, disconnect the numbers;

(vii) you will cease to use the Marks and the System in any way, cease referring to or identifying yourself as a KidzArt franchisee and remove all such identifying materials from the premises of the Franchised Business unless we instruct you otherwise;

(viii) you will take such action as may be required to cancel all fictitious or assumed name or equivalent registrations or domain name registrations relating to your use of any Marks;

(ix) you will promptly return to us or deliver to us or otherwise dispose of as we may instruct, the Manuals, and all amendments, revisions and copies of the Manuals (including copies stored electronically), as well as all other Confidential Information and all copies of such information in your possession or under your control, and you will remove and destroy all copies from your computers and other electronic storage media;

(x) you will permit us to make final inspection of your financial records, books, and other accounting records within 6 months of the effective date of termination, expiration, or transfer;

(xi) you will execute from time to time any necessary papers, documents, and assurances to effectuate the intent of this Article 5.

(b) *Damages, Costs, and Expenses.* In the event this Agreement is terminated as a result of your default, you shall promptly pay to us all damages, costs and expenses, including reasonable attorneys' fees, incurred by us as a result of the default, which obligation shall give

rise to and remain, until paid in full, a lien in favor of us against any and all of your personal property, furnishings, equipment, signs, fixtures and inventory related to the operation of the Franchised Business.

Section 5.4 – ***Our Right to Purchase Upon Termination***

(a) ***Exercise of Option.*** Upon the expiration or termination of this Agreement, we have the option, exercisable by giving written notice to you within 60 days from the date of such termination or expiration, to purchase the assets of the Franchised Business from you, including the leasehold rights to the premises of the Franchised Business (subject to any rights of approval retained by the landlord). The date on which we notify you whether or not we are exercising our option is referred to in this Agreement as the “Notification Date”. We have the unrestricted right to assign this option to purchase the Franchised Business. We will be entitled to all customary warranties and representations in connection with our purchase, including, without limitation, representations and warranties as to ownership and condition of and title to assets; liens and encumbrances on assets; validity of contracts and agreements; and liabilities affecting the assets, contingent or otherwise.

(b) ***Leasehold Rights.*** If we exercise the option described in Section 5.4(a), you agree at our election, (i) to assign your leasehold interest in the commercial premises of the Franchised Business to us or (ii) if you are unable to assign your leasehold interest, to enter into a sublease at a fair market rental for the remainder of the lease term on the same terms (including renewal option) as the prime lease; or (iii) if you own the premises, to lease the premises to us at a reasonable commercial rent and according to terms comparable with rental terms for similar leased property in the marketplace where the Site is located.

(c) ***Purchase Price.*** If we exercise the option described in Section 5.4(a), the purchase price for the assets of the Franchised Business will be the fair market value of the Franchised Business, determined in a manner consistent with reasonable depreciation of the leasehold improvements, equipment, fixtures, furnishings, signs, materials and supplies. The fair market value of the Franchised Business will include the goodwill you have developed in the market that is independent of the goodwill of the Marks and the System. The length of the remaining term of the lease or sublease of the premises of the Franchised Business, if any, and the age and condition of the improvements, equipment, fixtures, furnishings, décor and signs will also be considered in determining the fair market value. We may exclude from the assets purchased cash or its equivalent and any leasehold improvements, equipment, fixtures, furnishings, signs, materials and supplies that are not necessary or appropriate to the operation of the Franchised Business or that we have not approved as meeting our standards, and the purchase price will reflect such exclusions.

(d) ***Appraisal.*** If we and you are unable to agree on the fair market value of the assets to be purchased or the fair rental value of the premises of the Franchised Business, such fair market value or fair rental value will be determined by one independent appraiser agreed to by you and us. If we fail to agree on an appraiser within fifteen days after we exercise the option described in Section 5.4(a), then each party will name its own reputable appraiser within seven days thereafter, and the average of their determinations will be binding. If one appraiser is chosen, then the parties will share the cost of the appraiser equally. If two appraisers are

used, each party will pay its own appraisal fees. You and we will instruct the appraiser or appraisers to complete their appraisal within 30 days after their appointment.

(e) *Closing.* The closing of the purchase described in this section will take place not later than 90 days after the determination of the purchase price. We will pay the purchase price at the closing, but we have the right to set off against the purchase price any and all amounts you or your company's owners owe to us. At the closing, you agree to deliver instruments transferring to us (i) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances, with all sales and other transfer taxes paid by you; (ii) all licenses and permits of the Franchised Business that are assignable; and (iii) a leasehold interest in (or unencumbered title to) the premises of the Franchised Business and the improvements to such premises. If you cannot deliver clear title to all of the purchased assets, or if there are other unresolved issues, the parties will endeavor to close the sale with the purchase price held in escrow pending resolution of such issues.

ARTICLE VI - REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

Section 6.1 - *Representations and Warranties*

(a) *Your Representations.* You represent and warrant as follows:

(I) YOU UNDERSTAND THAT SOME FRANCHISEES ARE MORE OR LESS SUCCESSFUL THAN OTHER FRANCHISEES.

(II) YOU HAVE CONDUCTED AN INDEPENDENT INVESTIGATION OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT, AND YOU RECOGNIZE THAT, LIKE ANY OTHER BUSINESS, AN INVESTMENT IN A KIDZART FRANCHISE INVOLVES BUSINESS RISKS AND THAT YOUR ABILITIES AND EFFORTS ARE VITAL TO THE SUCCESS OF THE VENTURE.

(IV) YOU HAVE READ AND UNDERSTOOD THIS AGREEMENT AND HAVE HAD AMPLE OPPORTUNITY TO CONSULT WITH AN ATTORNEY AND OTHER ADVISORS OF YOUR OWN CHOOSING ABOUT THE POTENTIAL BENEFITS AND RISKS OF ENTERING INTO THIS AGREEMENT. YOU ACKNOWLEDGE THAT WE HAVE ADVISED YOU TO HAVE THIS AGREEMENT REVIEWED AND EXPLAINED TO YOU BY AN ATTORNEY.

(V) ALL STATEMENTS YOU HAVE MADE AND ALL MATERIALS YOU HAVE SUBMITTED TO US IN CONNECTION WITH YOUR APPLICATION FOR AND PURCHASE OF THE FRANCHISE ARE ACCURATE AND COMPLETE AND, IN THAT CONNECTION, YOU HAVE MADE NO MISREPRESENTATIONS TO US OR OMITTED DISCLOSING ANY MATERIAL INFORMATION TO US.

(VI) YOU ARE UNDER NO OBLIGATION OR RESTRICTION, NOR WILL YOU ASSUME ANY OBLIGATION OR RESTRICTION, THAT WOULD IN ANY WAY INTERFERE OR BE INCONSISTENT WITH, OR PRESENT A CONFLICT OF INTEREST CONCERNING, THE SERVICES THAT ARE THE SUBJECT OF THIS AGREEMENT OR THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT.

(VII) SCHEDULE "A" COMPLETELY AND ACCURATELY DESCRIBES ALL OF YOUR COMPANY'S OWNERS, DIRECTORS, OFFICERS, MEMBERS, PARTNERS AND MANAGERS AND THEIR OWNERSHIP INTERESTS AND MANAGEMENT POSITIONS IN YOUR COMPANY.

(b) *Your Representations as an Entity.* If your company is a corporation, limited partnership or limited liability company, you further represent and warrant as follows:

(i) Your entity is duly organized or formed and in good standing under the laws of the state of its formation.

(ii) Your entity has the power and authority to enter into this Agreement and to perform its obligations under this Agreement, that all of the partners of the partnership, members of the company or all of the shareholders of the corporation, as applicable, have read and approved this Agreement, including any restrictions which this Agreement places upon rights to transfer their interest in the partnership, company or corporation.

(iii) Your entity's organizational documents, operating agreement or shareholders agreement will recite that the issuance and transfer of your company's ownership interests are restricted by the terms of this Agreement, and all certificates and other documents representing your company's ownership interests will bear a legend referring to the restrictions of this Agreement.

Section 6.2 - ***Indemnification***

(a) *Your Indemnity.* You and your company's owners agree to indemnify, defend and hold us, our affiliates and their respective shareholders, directors, officers, employees, agents,

successors and assignees (“Indemnitees”) harmless against and to reimburse them for all claims, obligations, liabilities and damages (“Claims”), including any and all taxes, directly or indirectly arising out of, in whole or in part: (a) the operation of your Franchised Business, the sale of any products and services, and your advertising; (b) the use of the Marks, Curricula, Manuals and any other proprietary materials; (c) the transfer of any interest in this Agreement or the Franchised Business in any manner not in accordance with this Agreement; (d) the infringement, alleged infringement, or any other violation or alleged violation by you or any of your principals of any patent, mark or copyright or other proprietary right owned or controlled by third parties; or (e) libel, slander or any other form of defamation of us, the System or any franchisee operating under the System, by you or by any of your company’s owners. For purposes of this indemnification, “Claims” shall include all obligations, actual, consequential, punitive and other damages, and costs reasonably incurred in the defense of any action, including attorneys’, attorney assistants’ and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether or not such claims exceed the amount of insurance coverage available to us through your insurance. We shall have the right to defend any such Claim against us in such manner as we deem appropriate or desirable in our sole discretion. Such an undertaking by us shall, in no manner or form, diminish your and each of your company’s owners obligations to indemnify the Indemnities and to hold them harmless. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

(b) *Our Indemnity.* We will defend and indemnify and hold you and your affiliates, and the members, managers, stockholders, directors, officers, employees and agents of your company and its affiliates, harmless from and against all costs, expenses, liabilities and losses, including reasonable attorneys’ fees and disbursements, directly or indirectly relating to advertising or promotion carried out by us or by agencies or media engaged by us relating to the KIDZART brand, provided that you have timely notified us of each such claim or proceeding, have given us sole control of the defense and settlement, and have otherwise complied with this Agreement.

(c) *Notice of Claim; Survival.* Each party will give the other notice of any claim that may require indemnification promptly after such party learns of such claim. The rights and obligations of the parties under this Section 6.2 will survive the expiration or termination of this Agreement.

ARTICLE VII – DISPUTE RESOLUTION

Section 7.1 - **Choice of Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Mississippi (without reference to its conflict of laws principals).

Section 7.2 - **Internal Dispute Resolution.** You must first bring any claim or dispute between you and us to our President and/or Chief Executive Officer at our headquarters, after providing notice as set forth in Section 8.6 below. You must exhaust this internal dispute resolution procedure before you may bring your dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

Section 7.3 - **Mediation**. At our option, all claims or disputes between you and us or our affiliates arising out of, or in any way relating to, this Agreement or any other agreement by and between you and us or our affiliates, or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure set forth in Section 7.2 above, must be submitted first to mediation in Desoto County, Mississippi, under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against us or our affiliates with respect to any such claim or dispute, you must submit a notice to us, which specifies, in detail, the precise nature and grounds of such claim or dispute. We will have a period of 30 days following receipt of such notice within which to notify you as to whether we or our affiliates elect to exercise our option to submit such claim or dispute to mediation. You may not commence any action against us or our affiliates with respect to any such claim or dispute in any court unless we fail to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by us. Our rights to mediation, as set forth herein, may be specifically enforced by us. Each party shall bear its own cost of mediation and you and we shall share mediation costs equally. This agreement to mediate shall survive any termination or expiration of this Agreement.

(a) The parties shall not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 7.3 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

- (i) Any federally protected intellectual property rights in the Marks, the System, trade secrets, or Confidential Information;
- (ii) Any of the restrictive covenants contained in this Agreement;
- (iii) Any claims arising out of or related to fraud or misrepresentation by you, or your insolvency; or
- (iv) Any claims to collect past due amounts owed to us or our affiliates.

Section 7.4 - **Selection of Venue**. Nothing contained in this Agreement shall prevent us from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect our interests. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in Desoto County, Mississippi, and the jurisdiction and venue of the United States District Court for the Northern District of Mississippi. You acknowledge that this Agreement has been entered into in the State of Mississippi, and that you are to receive valuable and continuing services emanating from our headquarters in Lake Cormorant, Mississippi, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, you hereby irrevocably consent to the exclusive personal jurisdiction of the state and federal courts of the State of Mississippi set forth above. The parties agree that all proceedings, whether litigation or mediation, will be conducted on an individual, not a class-wide basis, and that any proceeding between you and your principals and

guarantors and us or our affiliates or employees may not be consolidated with any other proceeding between us and any other person or entity.

Section 7.5 - *Third Party Beneficiaries*. Our officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in this Section 7, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by us.

Section 7.6 - *Prior Notice of Claims*. As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, you must notify us within thirty (30) days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

Section 7.7 - *No Right to Offset*. You shall not withhold all or any part of any payment to us or any of our affiliates on the grounds of our alleged nonperformance or as an offset against any amount we or any of our affiliates allegedly may owe you under this Agreement or any related agreements.

Section 7.8 - *Injunctive Relief*. Nothing in this Agreement shall prevent us from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause us loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, your only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, you expressly waive all claims for damages you incurred as a result of the wrongful issuance.

Section 7.9 - *Limitation of Action*. You further agree that no cause of action arising out of or under this Agreement may be maintained by you against us unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one (1) year after you become aware of facts or circumstances reasonably indicating that you may have a claim against us hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off.

(a) you hereby waive the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by us, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

Section 7.10 - *Waiver of Punitive Damages*. You hereby waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against us arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, that your recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or

unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

Section 7.11 JURY TRIAL WAIVER. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR YOUR PURCHASE FROM US OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES.

Article VIII - MISCELLANEOUS

Section 8.1 – *Relationship of the Parties.* You are an independent contractor and not an agent of ours. You will have no power or authority to make any commitment or enter into any contract or agreement obligating or purporting to obligate us, and you will not hold yourself out as having such power or authority. Nothing in this Agreement creates a fiduciary relationship between the parties. You agree to conspicuously identify yourself in all dealings with customers, suppliers, public officials, your employees and others as the owner of an independent business under a franchise we have granted and to place such notices of independent ownership on such forms, business cards, stationery, advertising and other materials as we require from time to time. We will not be obligated for any damages to any person or property directly or indirectly arising out of the operation of the Franchised Business.

Section 8.2 – *Reasonable Business Judgment.* You acknowledge that the long-term interests of the network of KidzArt Businesses, and our company and its owners, taken together, require that we have the latitude to make business decisions with respect to the System and the System Standards. The ultimate responsibility to make decisions with respect to the System and the System Standards is vested in us because we, you and all KidzArt franchisees have a collective interest in working within a franchise system that can quickly adjust to changing business conditions, including changes in the competitive environment, new laws and regulations, and emerging business opportunities. We have this right even if, at times, a particular decision adversely affects you. We will not be required to consider your particular economic or other circumstances or to disregard our own economic or other business interest when making decisions under this Agreement.

Section 8.3 - *Severability.* If any restrictive covenant in this Agreement is held to be invalid or unenforceable because its duration is too long or its scope is too broad, you and we agree that the court making such determination will have the power to reduce the duration or scope in such a manner that the remaining revised covenant will be valid and enforceable. Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, such prohibition or invalidity will not invalidate the remainder of such provision or the other provisions of this Agreement.

Section 8.4 – *No Waiver of Rights.* No delay or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy. No waiver will be binding unless

contained in a writing signed by the party waiving its rights. Any waiver is limited to the specific situation in which it is given and no waiver of any breach or default under this Agreement will be construed as a waiver of any earlier or succeeding breach or default.

Section 8.5 – **Notices.** All notices, requests, consents and other communications required or permitted by this Agreement will be in writing and will be delivered by eSignature document signing software, hand, overnight delivery service, or registered or certified first class mail, to the following address, or such other address as either party, by like notice, designates with respect to its own address:

If to us: KidzArt LLC
P. O. Box 81143
Lansing-525Eaton Rapids,
MI 48908-1143827
Attn: President

If to you: The address indicated in Schedule A

Any such notice, request, consent or other communication will be deemed given and be effective upon receipt at such address.

Section 8.6 – **Affiliates.** As used in this Agreement, the term “affiliate” of party means a company directly or indirectly controlling, controlled by or under common control with such party. “Control” of another company, as used in this Agreement, will mean the ownership of or the power to vote, directly or indirectly through majority-owned companies, fifty-one percent or more of the voting stock or voting rights of such other company.

Section 8.7 – **Attorneys’ Fees.** If you are in breach or default of any monetary or nonmonetary material obligation under this Agreement or any related agreement between you and us and/or our affiliates, and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of this Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

Section 8.8 – **Entire Agreement**

. This Agreement and all ancillary agreements executed simultaneously with this Agreement, constitute the entire understanding of the parties and supersede any and all prior oral or written agreements between you and us on the matters contained in this Agreement; but nothing in this or any related agreement is intended to disclaim the representations we made in the franchise disclosure document. This agreement may not be modified except by a written document signed by both parties.

IN WITNESS WHEREOF, the parties have signed this Agreement on the dates set forth below, with effect as of the date first above written.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

SCHEDULE A

FRANCHISEE INFORMATION

Referred to in Sections 1.1(a) and (h), 1.2(a), 2.1(a), 6.1(a)(viii) and 8.6

1. Approved location: _____

2. Territory: _____
3. 10% discount for qualified veterans. ____ Yes or ____ No (Check one.)
4. Address for notices (if different than 1): _____

5. Ownership and management of the franchisee. The Franchisee is *[check one]*
____ an Individual
____ a Corporation State of Incorporation: _____
____ a Limited Liability Company State of Formation: _____
____ a Partnership
____ Other Explain: _____

The following persons are the Owners and Managers of the Franchisee:

<i>Name & Address</i>	<i>Office (or LLC manager)</i>	<i>Director, Partner or LLC member</i>	<i>Percentage Ownership</i>
_____	_____	_____	

_____	_____	_____	_____

_____	_____	_____	

	Not Required	Provided to Us	To Be Provided to Us Within 30 Days
Certificate and Articles of Incorporation	☐	☐	☐
Certificate and Agreement of Partnership	☐	☐	☐
Certificate and Articles of Organization	☐	☐	☐
By-Laws	☐	☐	☐
Partnership Agreement	☐	☐	☐
Resolution Authorizing Franchise Agreement	☐	☐	☐
Other	☐	☐	☐

Conditions:

Documents:

**Franchisee to reflect its agreement by
initialing each applicable box**

	Yes	No
The legal entity's activities must be confined exclusively to operating the franchised Office.	☐	☐
_____ (or another person with our written consent) must act as the legal entity's Managing Owner.	☐	☐
Each owner must sign the Guaranty and Assumption of Obligations.	☐	☐
The legal entity must maintain stop transfer instructions on its records against transfer of any stock certificate or certificate of ownership contrary to the terms of Section 19 of the Franchise Agreement.	☐	☐
Each stock certificate or certificate of ownership must include the statement we require regarding transfer restrictions.	☐	☐
The legal entity must maintain a current list of all owners and give us the list on request	☐	☐

SCHEDULE B

SEE SECTION 1.1(H) OF THE FRANCHISE AGREEMENT

KIDZART LLC

Guaranty and Assumption of Obligations

In order to induce KIDZART LLC, a Nevada limited liability company (the "Franchisor") to enter into a KidzArt Franchise Agreement dated as of _____ (the "Franchise Agreement") with _____, _____ (the "Franchisee") for a KidzArt franchise located in _____ each of the undersigned persons (the "Guarantors"), jointly, individually and severally, hereby agrees as follows

1. Assumption of Obligations/Guaranty of Payment

(a) *Personal Guaranty.* Each Guarantor personally and unconditionally agrees to be firmly bound by all of the terms, provisions and conditions of the Franchise Agreement, and any other agreement between Franchisee and Franchisor and/or its affiliates, and guarantees to the Franchisor and the Franchisor's successors and assigns the due, punctual and complete payment of all amounts that the Franchisee is obligated to pay to the Franchisor under the Franchise Agreement and under any modification of, amendment to or renewal of the Franchise Agreement.

(b) *Waiver of Defenses.* Each Guarantor waives to the fullest extent permitted by law (a) any defense based upon any (i) legal disability or lack of authority of the Franchisee, (ii) legal or equitable discharge or limitation of the liability of the Franchisee, whether consensual or arising by operation of law, (iii) bankruptcy, insolvency, reorganization or other similar proceeding affecting a Guarantor or the Franchisee, or (iv) invalidity, irregularity or unenforceability of any or all of the provisions of this Guaranty or the Franchise Agreement; (b) presentment, demand, protest or notice of any other kind; (c) notice of acceptance of this Guaranty; (d) other defenses available to a Guarantor under applicable law; or (e) any requirement of diligence on the part of the Franchisor or any right a Guarantor may have to require the Franchisor to proceed first against the Franchisee.

(c) *Guaranty of Payment.* This is a guaranty of payment and not of collection. The Franchisor may require payment from each Guarantor of any obligation of the Franchisee under the Franchise Agreement and may sue each Guarantor for damages without first seeking or taking any action against the Franchisee.

(d) *No Modification or Release.* The liability of each Guarantor is unaffected by (a) any modification, amendment, termination or variation in or addition to the Franchise Agreement; (b) any extension of time for performance or any waiver of performance or any delay of the Franchisor in enforcing any right, remedy, power or privilege that the Franchisor

may have against the Franchisee or any other person; (c) the release of the Franchisee, in whole or in part, from performance or observance of any of the agreements, covenants, terms or conditions contained in the Franchise Agreement, whether made with or without notice to Guarantor; or (d) any other guaranty now or hereafter executed by anyone else in connection with the transactions contemplated by the Franchise Agreement.

2. Proprietary Rights; Confidentiality; Noncompetition

(a) *Improvements.* Each Guarantor agrees that if a Guarantor makes an improvement to the Franchisor's business system or method, such improvement will be the property of the Franchisor pursuant to the terms of Section 1.4(c) of the Franchise Agreement and the Guarantor will promptly disclose such improvement to the Franchisee or to the Franchisor with reference to this undertaking. The Guarantor hereby assigns all rights in such improvements to the Franchisor and agrees to sign any documents that the Franchisor may reasonably request from time to time to evidence such assignment.

(b) *Copyrights and Trademarks.* Each Guarantor acknowledges that the Franchisor's copyrights and trademarks may only be used by the Franchisee in accordance with Section 3.1 of the Franchise Agreement. Each Guarantor personally agrees to comply with all of the Franchisee's obligations under Section 3.1 and not to use any of the Franchisor's copyrights or trademarks except on behalf of the Franchisee in furtherance of the Franchisee's business, and each Guarantor agrees that any such use will be in compliance the Franchisee's obligations under the Franchise Agreement as if the Guarantor were the Franchisee under the Franchise Agreement.

(c) *Confidentiality.* Each Guarantor acknowledges the Franchisee's obligations of confidentiality under Section 3.2 of the Franchise Agreement. Each Guarantor personally agrees to comply with all of the Franchisee's obligations under Section 3.2 and not to disclose or use any Confidential Information (as defined in Section 3.2(a) of the Franchise Agreement except on behalf of the Franchisee in furtherance of the Franchisee's business in compliance the Franchisee's obligations under the Franchise Agreement, and only to the extent that the Franchisee is permitted under the Franchise Agreement to disclose and use Confidential Information. Upon the request of the Franchisor, the Guarantor will promptly return to the Franchisor all Confidential Information and all copies in the Guarantor's possession or under the Guarantor's control, and the Guarantor will destroy all copies on the Guarantor's computers, and all digital storage devices.

(d) *Noncompetition.* Each Guarantor acknowledges the Franchisee's obligations under Section 3.3 of the Franchise Agreement not to compete with the Franchisor. Each Guarantor personally agrees to comply with and be bound by all of the Franchisee's obligations under Section 3.3 to the same extent that the Franchisee is bound by the obligations of Section 3.3, both during and after the term of the Franchise Agreement.

3. Dispute Resolution

(a) *Choice of Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Mississippi (without reference to its conflict of laws principals).

(b) *Internal Dispute Resolution.* Each Guarantor must first bring any claim or dispute between such Guarantor and Franchisor to Franchisor's President and/or Chief Executive Officer at Franchisor's headquarters, after providing notice as set forth in Section 8.6 of the Franchise Agreement. Each Guarantor must exhaust this internal dispute resolution procedure before bringing such dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Guaranty.

(c) *Mediation.* At Franchisor's option, all claims or disputes between each Guarantor and Franchisor or Franchisor's affiliates arising out of, or in any way relating to, this Guaranty or any other agreement by and between a Guarantor and Franchisor or its affiliates, or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure sent forth in Section 3(b) above, must be submitted first to mediation in Desoto County, Mississippi, under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, a Guarantor must submit a notice to Franchisor, which specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of 30 days following receipt of such notice within which to notify Guarantor as to whether Franchisor or its affiliates elect to exercise our option to submit such claim or dispute to mediation. Guarantor may not commence any action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor's rights to mediation, as set forth herein, may be specifically enforced by Franchisor. Each party shall bear its own cost of mediation and Franchisor and Guarantors shall share mediation costs equally. This agreement to mediate shall survive any termination or expiration of this Guaranty.

(i) The parties shall not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 7.3 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

(a) Any federally protected intellectual property rights in the Marks, the System, trade secrets, or Confidential Information;

(b) Any of the restrictive covenants contained in this Guaranty;

(c) Any claims arising out of or related to fraud or misrepresentation by you, or your insolvency; or

(d) Any claims to collect past due amounts owed to us or our affiliates.

(d) *Selection of Venue.* Nothing contained in this Guaranty shall prevent Franchisor from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect its interests. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in Desoto County, Mississippi, and the jurisdiction and venue of the United States District Court for the Northern District of Mississippi. Each Guarantor acknowledges that this Agreement has been entered into in the State of Mississippi, and that they are to receive valuable and continuing services emanating from Franchisor's headquarters in Lake Cormorant, Mississippi, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, each Guarantor hereby irrevocably consents to the personal jurisdiction of the state and federal courts of the State of Mississippi set forth above. The parties agree that all proceedings, whether litigation or mediation, will be conducted on an individual, not a class-wide basis, and that any proceeding between a Guarantor and Franchisor or its affiliates or employees may not be consolidated with any other proceeding between Franchisor and any other person or entity.

(e) *Third Party Beneficiaries.* Franchisor's officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Guaranty, including the mediation provision set forth in this Section 3, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by Franchisor.

(f) *Prior Notice of Claims.* As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, the Guarantor must notify Franchisor within thirty (30) days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

(g) *No Right to Offset.* Guarantor shall not withhold all or any part of any payment to Franchisor or any of its affiliates on the grounds of Franchisor's alleged nonperformance or as an offset against any amount Franchisor or any of its affiliates allegedly may owe Guarantor under this Agreement or any related agreements.

(h) *Injunctive Relief.* Nothing in this Agreement shall prevent Franchisor from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause Franchisor loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, Guarantor's only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, each Guarantor expressly waives all claims for damages he/she incurred as a result of the wrongful issuance.

(i) *Limitation of Action.* Each Guarantor further agrees that no cause of action arising out of or under this Guaranty may be maintained by Guarantor against Franchisor unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which

such action is based on the expiration of one (1) year after the Guarantor becomes aware of facts or circumstances reasonably indicating that the Guarantor may have a claim against Franchisor hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off.

(a) each Guarantor hereby waives the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by Franchisor, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

(j) *Waiver of Punitive Damages.* Each Guarantor hereby waives to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against Franchisor arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, that the Guarantor's recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

(k) *Attorneys' Fees.* If Guarantor is in breach or default of material obligation under this Guaranty or any related agreement between Guarantor and Franchisor and/or its affiliates, and Franchisor engages an attorney to enforce its rights (whether or not formal judicial proceedings are initiated), Guarantor must pay all reasonable attorneys' fees, court costs and litigation expenses Franchisor incurs. If a Guarantor institutes any legal action to interpret or enforce the terms of this Guaranty, and Guarantor's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover its reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

(I) JURY TRIAL WAIVER. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS GUARANTY.

4. Miscellaneous

(a) *Transfer by the Franchisor.* If the Franchisor transfers its rights and obligations under the Franchise Agreement pursuant to Section 4.1 of the Franchise Agreement, this Guaranty will be deemed to be transferred automatically to the transferee who, upon such transfer, will have all of the rights granted to the Franchisor under this Guaranty vis-a-vis the Guarantors, and the obligations of the Guarantors will then accrue to the benefit of the transferee.

(b) *Notices.* All notices and other communications required or permitted by this Agreement will be in writing and will be delivered by hand, fax, overnight delivery service, or registered or certified first class mail, to the then-current address of the Guarantor known by the sender. Any such notice or other communication will be deemed given and be effective upon receipt at such address.

(c) *Defined Terms.* Terms defined in the Franchise Agreement and not defined in this Guaranty shall have the meaning defined in the Franchise Agreement.

(d) *Waiver.* No delay, omission or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy.

(e) *Amendments.* This Guaranty of Obligations may not be modified or amended except in writing signed by the Franchisor and the Guarantor to be bound by such modification or amendment. No waiver or discharge will be valid unless in writing and approved by the Franchisor.

IN WITNESS WHEREOF, each Guarantor has signed this Guaranty as of the date of the Franchise Agreement.

Signature	Print Name
-----------	------------

Signature	Print Name
-----------	------------

Signature	Print Name
-----------	------------

Acknowledged and agreed:

KIDZART LLC

By _____

Title _____

Date _____

STATE OF _____)

COUNTY OF

ss.:

On the ____ day of _____, before me personally came _____ and _____, to me known to be the individuals described in and who executed the foregoing guaranty, and they acknowledged that they executed the same.

Public Notary

STATE OF

)

)

ss.:

COUNTY OF

)

On the ____ day of _____, before me personally came _____ and _____, to me known to be the individuals described in and who executed the foregoing guaranty, and they acknowledged that they executed the same.

Public Notary

STATE OF

)

)

ss.:

COUNTY OF

)

On the ____ day of _____, before me personally came _____ and _____, to me known to be the individuals described in and who executed the foregoing guaranty, and they acknowledged that they executed the same.

Public Notary

SCHEDULE C

SEE SECTION 1.5(H) OF THE FRANCHISE AGREEMENT

KIDZART LLC

CONFIDENTIALITY AND NONCOMPETITION AGREEMENT

Recipient

Date

Recipient's Position with Franchisee

Franchisee

1. **Purpose of this Agreement.** The franchisee named above (the "Franchisee") has entered into a Franchise Agreement with KIDZART LLC, a Nevada limited liability company (the "Franchisor"). The recipient named above (the "Recipient") holds the position indicated above with the Franchisee. In such position, the Recipient will or may have access to certain confidential information of the Franchisor. In order to induce the Franchisor to enter into the Franchise Agreement, the Franchisee agreed to obtain from each of its managers and others who may have access to any confidential information of the Franchisor an agreement not to disclose to any third party any such information and to comply with the non-compete requirements set forth below.

2. **Confidentiality.**

(a) *Confidential Information.* As used in this Agreement, the term "Confidential Information" means the Franchisor's know-how, technical knowledge, methods of operation, business and marketing plans and all other information that the Recipient may receive from the Franchisee or the Franchisor or its affiliate or any of their employees, agents or representatives, prior to or on or after the date of this Agreement, that is not generally available to the public and that has commercial value to the Franchisor, or that is personally identifiable information of customers. "Confidential Information" includes, without limitation: the content of all Manuals used or approved for use in the operation of the franchised business; the content of all training provided by the Franchisor; the substance, design, organization, and presentation of all curricula provided by the Franchisor; sales and marketing techniques; advertising and marketing programs and plans; current, past and planned research, development and test programs for products, services and operations; specifications for and suppliers of certain equipment, fixtures, furnishings, signs, materials and supplies; the operating results and financial performance of KidzArt Businesses other than the Franchisee's business; and all improvements, amendments and modifications to the KidzArt franchise system developed by the Recipient. The Recipient acknowledges that all Confidential Information is confidential and proprietary information of the Franchisor.

(b) *Nondisclosure.* At all times both during and after the term of the Franchise Agreement, the Recipient will keep all Confidential Information in the strictest confidence and will not disclose any Confidential Information to any person other than Franchisee's employees,

agents or representatives who have signed confidentiality agreements with or undertakings to the Franchisor substantially in the form of this undertaking and who have a legitimate need to know such information, except for any disclosure required by law, in which event Recipient will give notice to the Franchisor of the disclosure to be made.

(c) Non-Use. At all times both during and after the term of the Franchise Agreement, Recipient will not use any Confidential Information except for the purpose of fulfilling Recipient's legitimate obligations relating to the Franchisor's business.

(d) Exceptions. The obligations of confidentiality and non-use described above will not apply to information that, (i) can be clearly shown by the Recipient to have been known to Recipient on a non-confidential basis prior to its disclosure to the Recipient by the Franchisee or the Franchisor; (ii) is now, or hereafter becomes, information generally available to the public not due to any act or failure to act by the Recipient; or (iii) can be clearly shown by the Recipient to have been received by Recipient on a non-confidential basis from a third party that is not prohibited from disclosing such information by a legal, contractual or fiduciary obligation.

(e) Disclosures Required by Law. In the event that the Recipient becomes legally compelled to disclose any Confidential Information, the Recipient will (i) promptly notify the Franchisor that such information is required to be disclosed, (ii) use his or her best efforts to obtain legally binding assurance that all those who receive disclosure of such information are bound by an obligation of confidentiality, and (iii) disclose only that portion of the Confidential Information that legal counsel of the Recipient or the Franchisee advises is legally required to be disclosed.

(f) Return of Information. Upon the request of the Franchisor or the Franchisee, the Recipient will promptly return to the Franchisor or the Franchisee, as the case may be, all Confidential Information and all copies in the Recipient's possession or under the Recipient's control, and the Recipient will destroy all copies on the Recipient's computers, disks and other digital storage devices.

3. Further Undertakings.

(a) *Improvements.* Recipient agrees that if Recipient makes an improvement to the Franchisor's business system or method, such improvement will be the property of the Franchisor and the Recipient will promptly disclose such improvement to the Franchisee or to the Franchisor with reference to this undertaking. The Recipient hereby assigns all rights in such improvements to the Franchisor and agrees to sign any documents that the Franchisor may reasonably request from time to time to evidence such assignment.

(b) *Noncompetition During Employment.* The Recipient agrees that during the Recipient's employment by the Franchisee, the Recipient will not, directly or indirectly (such as through a member of the Recipient's immediate family), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which the Franchisor has a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, or extend credit to a Competitive Business ; (iii) divert or attempt to divert any business or customer of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is an employee of the Franchisor or of any KidzArt franchisee or who has been such within the six month period before such recruiting or hiring, without the prior written permission of that person's employer.

(c) *Definition of Competitive Business.* As used in this Agreement, the term "Competitive Business" means any business that offers art or drawing instruction or similar creative services or grants franchises or licenses to others to operate such a business (other than a KidzArt Business operated under a franchise agreement with the Franchisor or its affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent of a class of ownership interests of the issuing company.

(d) *Noncompetition After Employment Ends.* In the event that the Recipient ceases to be employed or by or to perform services for the Franchisee, the Recipient will not, directly or indirectly (such as through a member of the Recipient's immediate family), for a period of two years thereafter, have a direct or indirect ownership interest in, or perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for, or lend money to, or extend credit to a Competitive Business located or operating in the Territory or within 30 miles of the Site of any KidzArt Business anywhere in the world at the time that such employment ends, and the Recipient will continue for such two-year period to comply with the obligations described in Sections 3(b) (iii) and (iv).

4. Miscellaneous.

(a) *Franchisor Third-Party Beneficiary.* The Recipient and the Franchisee acknowledge and intend that the covenants contained in this Agreement will directly benefit the Franchisor, who will be a third-party beneficiary, entitled to enforce the provisions of this Agreement in the Franchisor's own name without the Franchisee as a party in any action filed for such purpose, and will further be entitled to all remedies provided in Section 4(b).

(b) *Remedies.* Recipient acknowledges that if Recipient fails to comply strictly with any of the above undertakings, the Franchisor will suffer irreparable harm and will have a cause of action for damages or injunctive relief or both against Recipient in a court of competent jurisdiction. If Recipient is in breach or default of material obligation under this Agreement or any related agreement between Recipient and Franchisor and/or its affiliates, and Franchisor engages an attorney to enforce its rights (whether or not formal judicial proceedings are initiated), Recipient must pay all reasonable attorneys' fees, court costs and litigation expenses Franchisor incurs. If Recipient institutes any legal action to interpret or enforce the terms of this Agreement, and Recipient's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover its reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

(c) *Notices.* All notices and other communications required or permitted by this Agreement will be in writing and will be delivered by hand, fax, overnight delivery service, or registered or certified first class mail, to the then-current address of the recipient known by the sender. Any such notice or other communication will be deemed given and be effective upon receipt at such address.

(d) *Entire Agreement.* This Agreement constitutes the entire understanding between the parties, superseding all prior agreements, arrangements and understandings between the parties relating to its subject matter.

(e) *Waiver.* No delay, omission or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy.

Recipient

Print Name

[Franchisee]

By _____

Title _____

Date _____

KidzArt LLC

By _____

Title _____

Date _____

SCHEDULE D

CONDITIONAL ASSIGNMENT OF FRANCHISEE'S TELEPHONE NUMBERS

1. _____, doing business at _____ ("Assignor"), in exchange for valuable consideration provided by KIDZART, LLC ("Assignee"), receipt of which is hereby acknowledged hereby conditionally assigns to Assignee all telephone numbers and listings utilized by Assignor in the operation of its KidzArt franchise at Assignor's above-referenced address. Those numbers are as follows: _____.

2. The conditional agreement will become effective automatically upon termination of Assignor's franchise. Upon the occurrence of that condition, Assignor must do all things required by the telephone company to assure the effectiveness of the assignment of telephone numbers as if the Assignee had been originally issued such telephones, telephone numbers, telephone listings and the usage thereof.

3. Assignor agrees to pay the telephone company on or before the effective date of assignment all amounts owed for the use of the telephone number(s) including, without limitation, Yellow Pages advertising. Assignor further agrees to indemnify Assignee for any sums Assignee must pay the telephone company to effectuate this agreement and agrees to fully cooperate with the telephone company and Assignee in effectuating this assignment.

ASSIGNOR:

By _____
Title _____
Date _____

ASSIGNEE:

KIDZART LLC

By _____
Title _____
Date _____

SCHEDULE E

ELECTRONIC FUNDS WITHDRAWAL AUTHORIZATION

Bank Name : _____

ABA# : _____

Acct. No. : _____

Acct. Name : _____

Effective as of the date of the signature below, [Franchisee Name] hereby authorizes KidzArt, LLC ("Company") or its designee to withdraw funds from the above-referenced bank account, electronically or otherwise, to make the following payments to Company under the Franchise Agreement for the franchise located at _____ : (1) all Royalty Fees; (2) all contributions to the Advertising Fund; and (3) all other amounts due under the Franchise Agreement or any other agreement between Company and _____ or as directed by Company in its Operations Manuals or otherwise in writing. Such withdrawals shall occur on a weekly basis, or on such other schedule as Company shall specify in writing. Company is also authorized to deposit funds into the above-referenced account, electronically or otherwise. This authorization shall remain in full force and effect until terminated in writing by Company. [Franchisee Name] shall provide Company, in conjunction with this authorization, a voided check from the above referenced account.

AGREED:

ATTEST:

FRANCHISEE

By: _____

Print Name: _____

Its: _____

EXHIBIT F2

CLUB SCIENTIFIC FRANCHISE AGREEMENT



KIDZART LLC

CLUB SCIENTIFIC FRANCHISE AGREEMENT

FRANCHISEE: _____

LOCATION: _____

DATE OF AGREEMENT: _____

KIDZART LLC
CLUB SCIENTIFIC FRANCHISE AGREEMENT

TABLE OF CONTENTS

	Page
ARTICLE I – GRANT AND OPERATION OF THE FRANCHISE	2
Section 1.1 – Territory Rights	2
Section 1.2 – Site Development; Opening for Business	4
Section 1.3 – Supplies; Insurance	6
Section 1.4 – Curricula and Manuals; System Modifications.....	9
Section 1.5 – Personnel; Training and Support	11
Section 1.6 – Your Conduct of the Franchised Business	13
Section 1.7 - Advertising, Promotion and Marketing	15
Section 1.8 – Website and Portal.....	18
ARTICLE II – FEES; PAYMENTS; RECORDS; INSPECTIONS	20
Section 2.1 – Fees and Reports	20
Section 2.2 – Records; Inspection	24
ARTICLE III - PROPRIETARY RIGHTS; CONFIDENTIALITY; NONCOMPETITION	25
Section 3.1 – Our Copyrights and Trademarks	25
Section 3.2 – Confidentiality of Our Information	27
Section 3.3 – <i>Noncompetition</i>	29
ARTICLE IV - TRANSFER	30
Section 4.1 – Transfer by Us.....	30
Section 4.2 – Transfer by You.....	30
Section 4.3 – Right of First Refusal.....	33

ARTICLE V - TERM AND TERMINATION	34
Section 5.1 - Term and Renewal	34
Section 5.2 - <i>Termination</i>	36
Section 5.3 - Consequences of Termination	39
Section 5.4 – Our Right to Purchase Upon Termination	40
ARTICLE VI - REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION	41
Section 6.1 - Representations and Warranties	41
Section 6.2 - Indemnification	43
ARTICLE VII – DISPUTE RESOLUTION	44
Section 7.1 - Choice of Law	44
Section 7.2 - Internal Dispute Resolution	44
Section 7.3 - Mediation	44
Section 7.4 - Selection of Venue	45
Section 7.5 - Third Party Beneficiaries	45
Section 7.6 - Prior Notice of Claims	45
Section 7.7 - No Right to Offset	45
Section 7.8 - Injunctive Relief	45
Section 7.9 - Limitation of Action	46
Section 7.10 - Waiver of Punitive Damages	46
Section 7.11 - Jury Trial Waiver	46
ARTICLE VIII - MISCELLANEOUS	46
Section 8.1 – Relationship of the Parties	46
Section 8.2 – Reasonable Business Judgment	47
Section 8.3 - Severability	47

Section 8.4 – No Waiver of Rights	47
Section 8.5– Notices	47
Section 8.6 – Affiliates.....	47
Section 8.7 – Attorneys’ Fees.....	48
Section 8.8 – Entire Agreement.....	48
Schedule A – Franchisee Information	
Schedule B – Guaranty and Assumption of Obligations	
Schedule C – Confidentiality and Noncompetition Agreement	
Schedule D – Conditional Assignment of Franchisee’s Telephone Numbers	
Schedule E – Electronic Funds Withdrawal Authorization	

KIDZART LLC

CLUB SCIENTIFIC® FRANCHISE AGREEMENT

THIS CLUB SCIENTIFIC FRANCHISE AGREEMENT (the “Agreement” or “Franchise Agreement”) is effective as of _____ between KIDZART LLC, a Nevada limited liability company (referred to in this Agreement as “we” or “us”), and _____, an *[if entity, indicate type and state of formation]* (referred to in this Agreement as “you” or “your company”).

BACKGROUND

A. We and our principals and affiliates have expended a considerable amount of time, effort, and money to develop a system for the operation of unique home-based businesses that provide educational and technology enrichment programs (the “Programs”) for children ages 4 to 14 under the name “Club Scientific” (the “Club Scientific Businesses”). The Programs are offered through summer camp programs, after school programs, birthday parties and other group events.

B. We are engaged in the business of granting franchises to operate a Club Scientific Business.

C. You desire to enter into an agreement with us to obtain the rights to operate a Club Scientific Business using the system developed by us and our affiliate, the distinguishing characteristics of which include: (i) quality products and proprietary curricula and business format; (ii) uniform specifications for fixtures, equipment, supplies and signage; (iii) merchandising, marketing, and advertising systems; and (iv) other standards and procedures for operation and management of a Club Scientific Business in the manner set forth in this Agreement and in the Manuals provided by us, as modified from time to time (the “System”).

D. We and our franchisees use various trade names, trademarks, and service marks including, without limitation, the mark “Club Scientific®” in connection with the System (the “Marks”). The rights to all such Marks as are now, or shall hereafter be, designated as part of the System will be owned exclusively by us or our affiliates and will be used for the benefit of us, our affiliates and our franchisees to identify to the public the source of the products and services marketed thereunder.

E. You have applied to us for a franchise to operate a Club Scientific Business and such application has been approved in reliance upon all of the representations made therein.

F. You hereby acknowledge that adherence to the terms of this Agreement and our standards and specifications are essential to the operation of your Club Scientific Business and to the operations of the System.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, commitments and understandings contained herein, you and we hereby agree as follows:

ARTICLE I – GRANT AND OPERATION OF THE FRANCHISE

Section 1.1 – *Territory Rights*

(a) *Grant of Rights.* We grant to you the right, and you undertake the obligation, for the term described in Article V, to operate a Club Scientific Business in the geographic area described in Schedule “A” (the “Territory”) in accordance with the System Standards (as defined in Section 1.6(a) below) and the terms and conditions contained in this Agreement (such business being called the “Franchised Business”).

(b) *Exclusivity.* So long as you are not in default under this Agreement and you meet the minimum annual Gross Revenue requirements described in Section 1.1(c), we will not operate or grant others the right to operate a Club Scientific Business within the Territory during the Term of this Agreement, except as set forth in Section 1.1(f) and 1.1(g). If you fail to satisfy the minimum annual Gross Revenue requirements described in Section 1.1(c), we may elect, at our discretion, upon notice to you, (i) to terminate your exclusive right so that we may operate or grant others the right to operate Club Scientific Businesses within the Territory or (ii) to reduce the size of the Territory in such manner as we determine.

(c) *Minimum Gross Revenue.* In order for you to maintain your exclusivity as described in Section 1.1(b), we require that the annual Gross Revenue of the Franchised Business equal or exceed \$45,000 during each 12-month period during the term of this Agreement, with the first such 12-month period beginning the 13th month after you complete initial training and running through the 24th month after you complete initial training. Each subsequent 12-month period will run on a calendar year basis, with the first such subsequent 12-month period ending on December 31 of the year in which the first 12-month period specified above ends (that is, the calendar year in which the 24th month after you complete initial training falls). *[For example, if you complete initial training in June of a particular year, the first 12-month period of the License Term during which you must satisfy the minimum annual Gross Revenue requirements would begin in July of the following year and end in June of the year after that. The second 12-month period effectively begins in January of that same year and then ends on December 31. So, part of the second 12-month period will include a portion of the first 12-month period. All twelve 12-month periods after that are calendar years beginning January 1.]* We may increase the \$45,000 minimum Gross Revenue number each calendar year during the term of this Agreement, beginning with the second 12-month period during which we calculate the Gross Revenue of the Franchised Business, based on increases in the Consumer Price Index (“CPI”) from the beginning of the first calendar year during which we began to calculate the Gross Revenue for purposes of determining your right to retain territory exclusivity. The annual adjustment of the minimum Gross Revenue number will be applied on January 1 of each calendar year based on CPI increases since the previous January 1. “CPI” means the Consumer Price Index published by the Bureau of Labor Statistics of the United

States Department of Labor, U.S. City Average, All Items, and Major Group Figures for all Urban Consumers (CPI-U 1982-84=100), or a successor index.

(d) *Products and Services Offered.* You must offer and sell in the Franchised Business all products and services we specify. You may not sell under the Marks or in the Franchised Business any products or services we do not specify or approve for use with the System. We may specify a new required product or service upon at least 30 days' prior notice to you. Upon notice from us given at any time, you must discontinue offering for sale any products or services we may disapprove or discontinue. You may not use any curricula other than our proprietary and copyrighted curricula we specify or provide. All modifications or customizations of the services or curricula must be first approved by us and will become our sole property. You may not create side businesses selling curricula or any type of business or marketing assistance to other franchisees. You may not re-brand or repackage our proprietary system with any other system or brand in order to offer it in commerce.

(e) *No Marketing Outside the Territory.* You may not solicit clients or promote Club Scientific Products and Services or Programs outside the Territory. You must reasonably restrict your advertising, promotion, and marketing activities to the markets in the Territory. If you receive a request to provide Club Scientific Products and Services or Programs at a location in another franchisee's territory, you must refer the request to the other franchisee in the manner we specify. If you receive a request to provide Club Scientific Products and Services or Programs anywhere outside the Territory, but not within another franchisee's territory, you may not provide such services without our prior approval, which we may grant or deny as we deem best or on any conditions we deem appropriate.

(f) *Rights We Reserve.* We and our affiliates retain all rights not specifically granted to you under this Agreement. These rights include, without limitation, the right to: (i) own and operate Club Scientific Businesses at any location(s) outside of your Territory under the Marks and System, or to license others the right to own and operate Club Scientific Businesses at any location(s) outside of the Territory under the Marks and System; (ii) own and operate businesses under different marks at any location(s) inside or outside of your Territory, or license to others the right to own and operate businesses under different marks at any location(s) inside or outside of your Territory; (iii) use the Marks and System in connection with services and products, Programs, promotional and marketing efforts, or related items, or in alternative channels of distribution, including the sale of proprietary products and services through retail stores, wholesale outlets, and other retail outlets, and through mail order catalog, without regard to location; (iv) use the Marks and System, and license others to use the Marks and System, to engage in any other activities not expressly prohibited in this Agreement; (v) offer Programs pursuant to government sponsored programs (as, for example, No Child Left Behind), if, in our opinion, you will not be capable of handling such program; and (vi) acquire and operate, or be acquired by, any individual or entity, including, without limitation, an individual or entity operating one or more scientific education businesses, including, without limitation, businesses selling science based education products or services under a trademark other than the Marks. In addition, we reserve the right to offer Club Scientific Products and Services to regional and national accounts that may have locations in the Territory. If we negotiate an arrangement that

would require your Franchised Business to provide Club Scientific proprietary services and you do not begin providing the services at the time, in the manner, and under the terms we require, we may, at our option: (i) provide or allow others (including other Club Scientific Businesses) to provide the services within the Territory; or (ii) terminate this Agreement.

(g) *Other Channels of Distribution.* You acknowledge and agree that certain of our or our affiliates' proprietary products and services, whether now existing or developed in the future, may be distributed in your Territory by us, our affiliates, or our franchisees, licensees, or designees, in such manner and through such channels of distribution as we, in our sole discretion, shall determine. Such alternative channels of distribution shall include but are not limited to: sale of proprietary products and services through retail stores and/or wholesale outlets; other entities or organizations ; and any marketing channel.. We also reserve the right to offer over the Internet or other electronic means Programs to children who are home schooled, physically or mentally unable to attend a Program in person or located in an area which would make the child's attendance impossible or impracticable. You understand that this Agreement grants you no rights to: (i) distribute such products or services as described in this Section 1.1(g); or (ii) share in any of the proceeds received by any such party therefrom.

(h) *Guaranty.* Our grant of this franchise is made in reliance on the personal attributes of your company's owners and managers named in Schedule "A". If your company is a legal entity such as a corporation or limited liability company rather than a sole proprietorship or general partnership, then our grant of this franchise is made on the condition that each person who now or later owns or acquires, either legally or beneficially, any equity or voting interest in your company (the "Guarantor" or "Guarantors") must execute and deliver to us a guaranty in a form attached as Schedule "B" (the "Guaranty"). We may require the spouse of any or all Guarantors to sign the Guaranty, and we may limit the liability of the spouse under the Guaranty, in our discretion. All Guarantors hereby personally and unconditionally guarantee without notice, demand or presentment, the payment of all of your monetary obligations under this Agreement and any other agreement between you and us and/or our affiliates, as if each were an original party to this or any other agreement in his or her individual capacity. All Guarantors further agree to be bound by the restrictions upon your activities upon transfer, termination or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in his or her individual capacity. Transfers of interest are restricted in accordance with Article IV of this Agreement. Upon our request at any time, you will furnish us with a list of all holders of legal and beneficial interests in your company, together with descriptions of the type of interests owned and percentage amounts, and the names, addresses and telephone numbers of the owners, certified as correct in the manner we specify. If any of your company's general partners, managers, officers or directors ceases to serve as such or if any new person becomes a general partner, manager, officer or director after the date of this Agreement, you will notify us of such change within 10 days. Any breach of a Guaranty will be deemed to be a breach of this Agreement.

Section 1.2 – *Site Development; Opening for Business*

(a) *The Site.* The “Site” is the location within the Territory from which you operate the Franchised Business. The Site may be your home office. If it is not your home office, the Site must be within the Territory or within 40 miles of the Territory’s border. The location of the Site must be approved by us and is shown in Schedule “A”. You are not obligated to establish or maintain a commercial office as the Site. However, if you decide, in your discretion, to do so, you agree as follows:

(i) You will not lease or purchase a proposed site until we have approved the location in writing. In evaluating potential sites, you agree to consider any site selection criteria we may provide to you.

(ii) If we approve a location you propose, we will deliver our approval to you in writing. We will not unreasonably withhold our approval of any location that meets our standards.

(iii) You acknowledge that our approval of your location does not constitute a guarantee or warranty of any kind, express or implied, as to the suitability of the location for a Site or of the successful operation or profitability of a Club Scientific Business at the Site.

(iv) If you do not own but you intend to lease or sublease the premises of the Site, you must submit your proposed lease to us for our prior written approval. You acknowledge that we have advised you to have an attorney review and evaluate the lease or sublease. If we do not have a copy of the signed lease or sublease, you must deliver such copy to us within fourteen days after it is signed by you and the lessor.

(v) Within 30 days after we approve a site, you must, at your expense, complete the acquisition or lease arrangements to acquire or lease the approved premises for the Site. You are solely responsible, at your own expense, for obtaining any necessary financing and all required building, utility, sign, business and other permits and licenses required to operate the Franchised Business, construct all required improvements to the Site and decorate the premises of the Franchised Business in compliance with plans and specifications we have approved. We may provide to you specifications for the design, appearance, signage and leasehold improvements of a typical Club Scientific Site, but we are not required to do so. You must submit construction plans and specifications to us for approval before construction of improvements to the Site commences.

(vi) You may not use the Site for any purpose other than the operation of a Club Scientific Business in compliance with the System and the Manuals (as defined in Section 1.4 of this Agreement). You agree to keep the Franchised Business at the Site open for business to the public at least during the hours we prescribe from time to time in the Manuals or otherwise approve, unless prohibited by applicable law or by your lease.

(vii) You agree to keep the Site and all fixtures, furnishings, signs, and equipment in the Site clean, safe and in good repair in accordance with the Manuals. You may not make any material alteration, addition, replacement, or improvement to the Site or any of its fixtures, furnishings, signs or equipment without our prior written consent.

(viii) You agree to remodel or refurbish the Site from time to time to our then current standards and specifications upon six months written notice from us. There is no limitation on the frequency of which you may be required to upgrade, remodel, or refurbish your Site.

You may not relocate the Franchised Business without our prior written approval, which we may withhold at our discretion. You will offer Programs at various locations in the Territory other than the Site, such as public and private schools, recreation centers, churches and other religious affiliated institutions and community centers, YMCAs and the like (the "Program Facilities"). We will furnish to you guidelines and criteria for Program Facilities from which Programs will be offered. Programs may not be conducted at your Site if the Site is located at your home office.

(b) *Conditions to Opening.* You may not commence operation of the Franchised Business until:

(i) you have completed all class preparation items to our satisfaction;

(ii) you or your Managing Owner (as defined in Section 1.5(a)) have completed initial training to our satisfaction;

(iii) the initial franchise fee and all other amounts due to us and our affiliates have been paid in full; you are now ready to open and offer our programs.

We may also require

(iv) you to first furnish us with certificates of insurance and copies of all insurance policies or such other evidence of insurance coverage as we reasonably request;

(iii) you satisfy us in all other respects that your Franchised Business is ready to open; and

(iv) you have received our approval of the opening in writing. We may grant or withhold such approval in our sole discretion.

Time of Opening. You must satisfy all of the conditions described above and be prepared to open for business within 30 days after you and/or your Managing Owner successfully complete initial training, unless otherwise approved by us in writing. Training must be scheduled within 3 months of executing this agreement, unless otherwise approved by us in writing. Such approvals are given in our sole discretion. The Franchised Business must commence operations, scheduling and hosting classes, within 6 months of signing this Agreement. Should you fail to commence

operations, scheduling and hosting classes, within 6 months of signing this agreement, you will begin making monthly royalty payments of one-half the minimum royalty due. Likewise, you begin paying the required tech fee at the full amount due monthly. You will continue to make such payments until such time as you commence normal business operations. If you fail to commence operation of the business within the timeframe outlined above (and have not received an extension from us) or otherwise have not opened for business within 10 months of signing this Agreement, we will at such time start the process to terminate this Agreement pursuant to Section 5.2(b).

Section 1.3 – ***Supplies; Insurance***

(a) ***Supplies.*** You agree to purchase certain signs, furnishings, supplies, fixtures, computer hardware and software, and other equipment, inventory, services, and other products and services from us or from approved or designated third party suppliers as we shall specify, from time to time, in the Manuals and otherwise in writing. You shall adhere to the standards and specifications set forth in this Agreement and the Manuals and any revisions or amendments to the same. You shall use signs, furnishings, supplies, fixtures, equipment and inventory that comply with our then-current standards and specifications that are necessary to commence the operation of the Franchised Business; and other equipment, furnishings, fixtures and signage that we establish from time to time. We have the right to change our standards and specifications at our discretion. You acknowledge that you may incur an increased cost to comply with such changes at your expense. When you sign this Agreement, you must purchase from us an initial inventory of science materials, which ranges between \$1,500 and \$2,000 depending on the time of year you are commencing operations.

(b) ***Suppliers.*** Recognizing that preservation of the System depends upon product and service uniformity and the maintenance of our trade dress, we may require that you obtain equipment, supplies, lab materials and other products and services only from our designated or approved suppliers (“System Suppliers”). You hereby acknowledge that we, our affiliates and/or a third party may be one of several, or the only, approved supplier of any item, including lab materials, as well as other merchandise and equipment relating to the operation of the Franchised Business. We may negotiate purchase agreements with suppliers for the benefit of franchisees, but we are under no obligation to do so. You recognize that such equipment, supplies, lab materials and other products and services are essential to the operation of the Franchised Business and to the System generally. You further recognize that your failure to pay System Suppliers may interfere with such suppliers’ willingness to supply the System, which may result in other System franchisees’ inability to obtain product or ability to obtain product only on less favorable credit terms. Accordingly, you agree to pay System Suppliers as and when due.

(c) ***Compensation from Suppliers.*** We reserve the right to receive rebates, credits and other compensation from suppliers we designate or approve to provide goods or services to you based upon the purchases by you and other franchisees of goods and services from such suppliers. We may use such compensation for any purpose we deem appropriate, including to subsidize our operating costs.

(d) ***Approval of Supplies and Suppliers.*** If you propose to purchase any brand or model of equipment, supplies or other products or services that are not then designated or approved by

us, or to purchase from any supplier that is not then designated or approved by us,

you must first notify us and submit to us sufficient samples and other information we request to enable us to determine whether the proposed brand, model or supplier complies with our specifications and standards. We will use reasonable efforts to begin an investigation of the proposed supplier or product within 30 days of your request. We will notify you within 10 days after we complete our investigation whether we approve the proposed supplier or product. We reserve the right, at our option, to revoke our approval upon the supplier's failure to continue to meet any of our then-current criteria. We will not be required to approve any particular supplier nor to make available to any prospective supplier any of our standards, specifications or formulas. If we incur any costs in connection with testing a particular product or evaluating an unapproved supplier at your request, you must reimburse us for our reasonable testing costs, regardless of whether we subsequently approve the item or supplier.

(e) *Purchasing or Distribution Cooperatives.* We may establish national or regional purchasing or distribution programs for the purchase or distribution of certain goods, materials or supplies at reduced prices. You agree to participate in any purchasing or distribution cooperatives that we may establish for the region where your Franchised Business is located.

(f) *Video Equipment.* You agree to purchase and/or have access to a video camera with a tripod and a digital camera, both of which must meet our standards and specifications. A good quality image on a cell phone for video and camera are acceptable.

(g) *Computer Hardware and Software.* You agree to install, maintain and use in the Franchised Business such computer hardware, software and point-of-sale and cash register systems as we specify from time to time. We have the right to require you to update or upgrade computer hardware components and/or software, as we deem necessary from time to time, with no limitations as to the number or cost of such updates or upgrades. We have the right to require you to enter into a separate maintenance agreement for any required computer hardware and/or software. We reserve the right to require you to install a "systems backup solution," which backs up critical data in your computer system using an off-premises storage scheme. Notwithstanding the fact that you must buy, use and maintain the computer hardware and software under our standards and specifications, you are solely responsible for: (i) the acquisition, operation, maintenance and upgrading of the computer hardware and software; and (ii) any and all consequences that may arise if the computer hardware and software is not properly operated, maintained and upgraded. If we require you to use a new accounting program or system, you will have 12 months to fully integrate the new program or system into your operations. We may require you to pay a fee for any accounting program or system provided by us or our designated provider. If we develop or custom-design a software program for conducting accounting, inventory and point-of-sale functions and/or related activities ("Proprietary Software Program"), you agree to obtain the Proprietary Software Program, the computer hardware required to implement the Proprietary Software Program into your Franchised Business, and to comply with all specifications and standards prescribed by us regarding the Proprietary Software Program as provided from time to time in the Manuals, at your expense. Our computer software and hardware requirements, including all standards and specifications related to Proprietary Software Programs are our proprietary and Confidential Information. It is possible that we might not be able to alter the Proprietary Software Program

and system to accommodate every franchisee of the System, and therefore, at such time that we require the implementation of such software, you will only utilize the program as prescribed by us. You acknowledge that we cannot estimate the future costs of the computer and software system, the cash register system, or additions or modifications to these systems, and that these costs may not be fully amortizable over the remaining term of this Agreement. We have the right to charge a reasonable systems fee for software or systems modifications and enhancements specifically made for us that are licensed to you and other maintenance and support services that we or our affiliate furnish to you.

(h) *Electronic Communications.* We have the right to establish requirements that will permit us, as often as we deem appropriate, to access your computer system and to retrieve all information relating to the Franchised Business. You must maintain a functioning, branded email address; your personnel and you may not use any personal e-mail address for communications relating to the Franchised Business.

(i) *Telephone.* You agree to maintain adequate telephone service for the Franchised Business, including a dedicated telephone line with voicemail dedicated to the Franchised Business, and a high speed Internet connection. Upon the expiration, transfer or termination of this Agreement for any reason, you shall terminate your use of such telephone number and listing and assign same to us or our designee, and, at our option, will execute the Conditional Assignment of Telephone Numbers attached as Schedule "D" to this Agreement.

(j) *Insurance.* During the term of this Agreement and any renewal, you will obtain and maintain, at your own expense, such insurance as is described in the Manuals and such other insurance as may be required by law. You shall add us and any other parties we may designate to all insurance policies as additional insureds under the insurance policies, the cost of which will be paid by you. All insurance policies shall be issued by insurance companies with a rating of A-VI or better as reported in the most recent edition of A.M. Best's Insurance Reports. Our acceptance of an insurance carrier does not constitute our representation or guarantee that the insurance carrier will be capable of meeting claims during the term of the insurance policy. All insurance policies will contain a waiver of subrogation in favor of us and any other party we designate. The insurance must be primary coverage without right of contribution from any other insurance coverage we maintain. You must provide us with copies of any insurance claims or insurance cancellations within 24 hours. You have a 24-hour opportunity to cure any lapses in insurance coverage. The policy will provide that it may not be modified or canceled unless we are given at least 30 days' prior written notice by the insurance carrier. You will provide us with a certificate of such insurance issued by your insurance carrier before or on the date you commence operation of the Franchised Business and subsequently, before the renewal of such policy. We may, from time to time and in our sole discretion, increase or otherwise modify the minimum insurance requirements upon 30 days prior written notice to you, and you shall comply with any such modification within the time specified in said notice. If you fail to obtain or maintain the required insurance in accordance with this section, we have the right to obtain such insurance and keep same in force and effect and you shall pay us, on demand, the premium cost thereof and administrative costs of 18% in connection with our obtaining the insurance.

Section 1.4 – ***Curricula and Manuals; System Modifications***

(a) ***Curricula and Manuals.*** We will loan to you during the term of this Agreement copies of such confidential Club Scientific curricula, including lesson plans and science experiments (the “Curricula”) as we deem appropriate, and one numbered copy of the operations manual and one copy of the curriculum manual (collectively, the “Manuals”) that we generally furnish to franchisees from time to time for use in operating a Club Scientific Business. We will provide the Curricula and Manuals in such media as we select, whether hard copy, audiotapes, videotapes, compact discs, through the Web, intranet or otherwise. The Curricula and Manuals and the bulletins and other written materials we provide to you contain mandatory and suggested class curricula, specifications, standards, operating procedures, policies, methods and rules (“System Standards”) that we prescribe from time to time for the operation of a Club Scientific Business and information relating to your other obligations under this Agreement. The Curricula and Manuals are and will remain at all times our sole property. You may not at any time copy, duplicate, record or otherwise reproduce any part of the Curricula or Manuals except as we may specifically authorize. The Manuals and Curricula shall remain Confidential Information (as defined in Section 3.2 of this Agreement) and our exclusive property. You shall not disclose, duplicate or make any unauthorized use of any portion of the Curricula or the Manuals. You further agree to keep your copies of the Curricula and Manual current at all times with all updates and modifications we furnish to you, and to store each copy of the Curricula and Manuals received by you in a secure location at the premises of the Franchised Business. If we post some or all of the Manuals or Curricula on the System Website or Club Scientific intranet, you agree to monitor and access the System Website or Club Scientific intranet for any updates to the Curricula or Manuals. In the event of a dispute relating to its contents, the master copies of the Curricula and Manuals we maintain at our principal office will control. If a copy of the Curricula or Manuals in your possession or under your control, or any portion of such Curricula or Manuals, is lost, stolen, destroyed or significantly damaged, you agree to report such loss, theft, destruction or damage immediately to us. Partial loss, destruction or damage to the Curricula or Manuals is considered to be complete loss, destruction or damage. We may charge you our actual cost for replacement of a lost, destroyed or damaged Curricula or Manuals. If we provide you with access to the Curricula and Manuals through the Portal (described in Section 1.8(d)), we may suspend your access to the Portal during any period in which you are in default under the Franchise Agreement.

(b) ***System Modifications by Us.*** We may modify or change the System Standards from time to time, and upon notice to you, we may make additions to, deletions from or revisions in the Manuals to reflect such modifications or changes. We will research and possibly develop from time to time new services and methods. Modifications or changes may also include the addition or discontinuation of products and services that you are required to sell at the Franchised Business, periodic upgrading of lab materials or equipment at your cost and, at our request at any renewal of this Agreement, adding and altering equipment for required services or products that we require you to market. You acknowledge that we may require you to invest additional capital in the Franchised Business (“Capital Modifications”). No modification or change that we make will alter your fundamental status and rights under this Agreement. We

will not obligate you to make any Capital Modification that you cannot reasonably amortize during the remaining term of this Agreement and with respect to leasehold improvements over the remaining term of your lease, unless we agree to extend the term of this Agreement or unless such investment is necessary in order to comply with applicable laws. You agree to adopt or comply with each new or changed procedure, policy, method and requirement as promptly as practicable after notice from us, and in any event within the time period we reasonably require.

(c) *System Modifications by You.* You agree not to implement any modification or change in the System Standards or in the Franchised Business without our prior written approval, which we may withhold in our discretion. Except as specified or approved by us in writing, you may not make any changes to the classes offered at the Franchised Business. If you, your employees, or principals develop any new concept, process or improvement in the operation or promotion of the Franchised Business, including improvements to Curricula, equipment, supplies, service or merchandise, or any software used in connection with the Franchised Business, you shall promptly notify us and provide us with all necessary related information, without compensation. Any such concept, process or improvement shall become our sole property and we shall be the sole owner of all patents, patent applications, trademarks, copyrights and other intellectual property rights related thereto. You and your principals hereby assign to us any rights such persons may have or acquire therein, including the right to modify such concept, process or improvement, and otherwise waive and/or release all rights of restraint and moral rights therein and thereto. You and your company's owners agree to assist us in obtaining and enforcing the intellectual property rights to any such concept, process or improvement in any and all countries and further agree to execute and provide us with all necessary documentations for obtaining and enforcing such rights. You and your company's owners hereby irrevocably designate and appoint us as your agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property rights related to any such concept, process or improvement. In the event that the foregoing provisions of this Section 1.4(c) are found to be invalid or otherwise unenforceable, you and your principals hereby grant to us a worldwide, perpetual, non-exclusive, fully paid license to use and sublicense the use of the concept, process or improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe your rights therein.

Section 1.5 – ***Personnel; Training and Support***

(a) *Managing Owner.* If your company is a legal entity such as a corporation or limited liability company rather than a sole proprietorship or general partnership, then you agree to appoint and maintain throughout the term of this Agreement a shareholder or member to serve as your "Managing Owner," responsible for overseeing and supervising the operation of the Franchised Business. We must approve the Managing Owner. You or the Managing Owner must always manage and directly supervise the Franchised Business. You or the Managing Owner will actively devote full time, attention and effort to the Franchised Business. You or the Managing Owner will ensure at all times the proper levels of customer service in accordance with the Curricula, the Manuals and this Agreement. You may not change the Managing Owner

without our prior written approval, which we may condition on, among other things, that person attending and satisfactorily completing our franchisee training program at your expense.

(b) *Initial Training.* Before you begin operating the Franchised Business, we will train two people (typically you or your Managing Owner and a second person) in the operation of a Club Scientific Business and we will certify you or another person you designate as a certified instructor. We do not charge for the initial training of two people. At your request and if space is available, we will train additional personnel of your company at our then-current fee. As of the date of this Agreement our fee for the initial training of additional people is \$3,000 per person. You must pay the compensation and travel and living expenses of all of your personnel who attend our initial training, regardless of whether we charge you a fee for such training. The training program consists of approximately four to five days of training at our headquarters office.

(c) *Certified Instructors and Camp Counselors.* After becoming a Certified Instructor, you are permitted to train one additional employee as a Certified Instructor and/or Camp Counselor. For the training of any additional certified instructors, all Certified Instructors must be trained and certified by one of our Certified Trainers or by us until you or a Certified Instructor becomes a Certified Trainer. You must arrange for the training of your certified instructors after you or the Managing Owner returns from the initial training program. You must pay us the then current fee for the training of each certified instructor. As of the date of this Agreement, the fee is \$450 per person for a one-day certified instructor training program at your office. You must pay the compensation and travel and living expenses of the Certified Trainer who comes to your office. You typically pay by the hour your personnel who attend the certified instructor training. With our prior written approval, which we may grant in our discretion, we may qualify you or one of your instructors to provide Certified Instructor training for your own employees. In order for us to certify a Certified Trainer, who maybe you or another Certified Instructor employed by you, you must send us a video recording of the Certified Instructor teaching a full class in a live classroom. We will evaluate the video and decide whether the instructor meets our standards for a Certified Trainer.

(d) *Follow-Up Coaching.* Within four months after you complete initial training, you must send us for our evaluation a one-hour video of you or your designated certified instructor teaching a Club Scientific Program together with a self-evaluation form. If we do not believe that the Program is being conducted properly, we may coach you or require you to return to our principal training location at your expense for one to two days of additional training. For purposes of quality control, we will require you to send us, each year during the term of this Agreement on the anniversary date hereof, a new and current one-hour video of you or your designated certified instructor teaching a Club Scientific Program. You must submit each video in a format we designate.

(e) *Conferences.* We may hold conferences from time to time to discuss ongoing changes in the industry, sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs, merchandising procedures, and curriculum development. You or your Managing Owner must attend these conferences, but we will not require you to attend more than one conference each year. There is a conference

fee to offset cost of conferences, and you must pay this fee whether or not you attend the conference (even though you are obligated to attend). You also will be responsible for your travel and living expenses. These conferences will be held at our then-current corporate headquarters or at an alternate location we choose. We also may require you to be available for business coaching sessions. If you request or require assistance, guidance, or training beyond that which we typically make available to franchisees, we may require you to pay our then applicable charge for such assistance plus our related costs and expenses.

(f) *Replacement Managers.* If the Managing Owner ceases active management or employment at the Franchised Business, then we must train, at your own expense, a qualified replacement Managing Owner (who must be reasonably acceptable to us) not more than thirty (30) days after the end of the former person's full-time employment or management responsibilities at the Franchised Business. Pending the appointment and training of a Managing Owner or if, in our judgment, the Franchised Business is not being managed properly, we have the right, but not the obligation, to appoint a manager for the Franchised Business and require you to pay in the manner described in Section 4.2(g).

(g) *Ongoing Support.* We may provide support and guidance from time to time, either in person, by telephone, by e-mail, video, webinar or in writing, regarding the operation of the Franchised Business. We may provide operational reviews and advise you from time to time regarding the operation of the Franchised Business based on reports you submit to us and inspections we make, to ensure compliance with the System Standards and to recommend improvements. At your request, and if we agree, we will furnish additional on-site guidance and assistance and, in such case, we may require you to pay our then-current fees and expenses. Your failure to implement any corrective action we require will constitute a material breach of this Agreement and may result in termination pursuant to Section 5.2.

(h) *Undertakings by Your Personnel.* You agree to take appropriate steps to advise all of your employees and contractors of your obligations under this Agreement and to ensure compliance by all of your employees and contractors. Each manager of your Franchised Business, each certified instructor and each person who receives training from us or otherwise has access to Confidential Information (as defined in Section 3.2(a)) who has not signed the Guaranty described in Section 1.1(h) must sign a written agreement with your company substantially in the form of Schedule C to this Agreement before performing any work for the Franchised Business or otherwise having access to the Confidential Information. You will ensure that each such person complies with the terms of such undertaking during the period that he or she is employed by you. Any breach of such undertaking by any such person will be deemed a breach of this Agreement.

(i) Any required standards exist to protect our interests in the System and the Trademarks and not for the purpose of establishing any control or duty to take control over those matters that are reserved to you. The required standards generally will be set forth in the Operations manual or other written materials. The Operations manual also will include guidelines or recommendations in addition to required standards. In some instances, the required standards will include recommendations or guidelines to meet the required standards. You may follow the recommendations or guidelines or some other suitable alternative, provided you meet and comply with the required standards. In other instances, no suitable alternative may exist. In order to protect our interests in the System and Trademarks, we reserve the right to determine if

you are meeting a required standard and whether an alternative is suitable to any recommendations or guidelines.

No employee of yours will be deemed to be an employee of ours for any purpose, and nothing in any aspect of the System or Trademarks in any way shifts any employee or employment-related responsibility from you to us. You alone are responsible for hiring, firing, training, setting hours for and supervising all employees.

It is the intention of the parties to this Agreement that we shall not be deemed a joint employer with you for any reason. If we incur any cost, loss or damage as a result of any actions or omissions of you or your employees, including any that relate to any party making a finding of any joint employee status, you will fully indemnify us for any such loss.

Section 1.6 – ***Your Conduct of the Franchised Business***

(a) *System Standards.* You agree to operate the Franchised Business in strict accordance with all System Standards in effect, as may be modified from time to time. You understand and acknowledge that every detail of the Franchised Business is important to you, to us and to other Club Scientific Businesses in order to develop and maintain high operating standards, to increase the demand for the services and products sold by all franchisees, and to protect the System's reputation and goodwill. You agree to limit your teaching to the Curricula we provide. You may not discontinue Programs and classes or otherwise stop teaching or offering Programs and classes for a period longer than 10 consecutive business days without our express written approval;

(b) *Customer Service.* You will provide prompt, courteous and efficient service to all customers and treat all customers fairly, honestly and with respect. You will give prompt attention to all complaints from dissatisfied customers, if any. You will provide customer service training to your employees and independent contractors.

(c) *Child Protection.* At least one Club Scientific Certified Instructor must be present when children are present. No class may be left unattended or unsupervised. It is your responsibility to perform a background check on any and all employees and independent contractors that will be working with children and to perform new background checks annually. You must perform background checks on each certified instructor that works with children, and you must provide us with the results of such background checks within ten days after their completion. In addition, you must provide us with copies of the executed Confidentiality and Non-Competition Agreement and Application for each certified instructor.

(d) *Maintaining Goodwill.* You will do nothing that, in our reasonable opinion, tends to discredit the Marks or the System or to bring either into disrepute, or that might diminish or affect adversely our reputation or goodwill.

(e) *Compliance with Laws.* You will comply with all applicable laws, rules and regulations in the operation of the Franchised Business and pay all taxes when due. You must obtain and maintain in good standing all applicable federal, state and local permits and licenses necessary to operate the Franchised Business in accordance with all applicable state laws and regulations. You agree to take all necessary and appropriate measures avoid any negative rating at any time from any governmental agency or authority. You must promptly correct any conditions or practices disapproved by any such agency or authority, except that, with our prior approval, you may contest the action you believe in good faith to be arbitrary, capricious or unfair.

(f) *Entity Requirements.* If your company is a corporation or limited liability company, it must be newly organized and its charter, certificate of incorporation or operating agreement must at all times provide that its activities are confined solely to operating the Franchised Business. All certificates representing stock or other ownership interests in your company must contain a legend stating that transfer of such stock or ownership interest is limited by the provisions of this Agreement. Upon our request, you will deliver to us copies of all organizational documents of your company, including articles of incorporation, by-laws, shareholders' agreements, limited liability company articles and operating agreements, and any certificates we may request certifying any resolution of directors. If your company is a partnership, its activities must also be confined solely to operating the Franchised Business, and you agree, upon our request, to deliver to us a copy of your partnership agreement.

(g) *Franchisee Advisory Council.* We reserve the right to create a "Franchisee Advisory Council" for the purpose of fostering communication among and between franchisees and us, and to advise us in establishing, modifying or discussing various policies applicable to Club Scientific franchisees. If and when the Franchisee Advisory Council is created, you may be required to participate in such of its meetings and programs as we designate. The Franchisee Advisory Council may advise and make recommendations but will not act as a policy-making board and will have no authority whatsoever. We will determine or approve the rules under which the Franchisee Advisory Council functions. We may change the rules at any time and we may dissolve any Franchisee Advisory Council at any time. We may require you to pay dues to the Franchisee Advisory Council and you will pay all costs and expenses incurred by you in connection with participation in the Franchisee Advisory Council, including the costs of transportation, lodging and meals.

(h) *Customer Evaluations.* We reserve the right to institute programs for auditing customer satisfaction and other quality control measures, and to require you to pay the cost of such programs. You agree to present to your customers such evaluation forms as we periodically prescribe and to participate and request your customers to participate in any surveys performed by us or on our behalf. We may contact your customers periodically to perform evaluations of the service provided by the Franchised Business, the Programs, or for any other purposes that will promote the System or that we deem necessary in our sole discretion. You shall make changes to your operations based upon any customer evaluations conducted by us.

(i) *Inspections.* During the term of this Agreement, we or our designated representatives will also have the right, at any time during your regular business hours, without prior notice to you, to enter upon the premises of the Franchised Business (even if it is home-based) to inspect the premises; observe, photograph and videotape the operations of the Franchised Business for such periods as we deem necessary; remove samples of any products, materials or supplies for testing and analysis; and interview your personnel and customers. Any inspection we conduct will not unreasonably interfere with the operation of your Franchised Business. You agree to cooperate fully with us and our representatives during all inspections, observations, photographing, videotaping, product removal and interviews; and to take all steps reasonably necessary to correct any deficiencies in your compliance with System Standards or this Agreement within the time we specify. If we determine that you have failed to comply with this Agreement, you must reimburse us our actual out-of-pocket costs for our inspection. You also must reimburse our (or our designated third party's) actual out-of-pocket costs if you fail to perform any of your obligations under this Agreement and we (or our designated third party, which may be another Club Scientific franchisee) perform those obligations for you in order to protect the Club Scientific brand.

(j) *Maximum Prices.* We reserve the right to require you to comply with reasonable restrictions on maximum prices of specific goods or services offered and sold by the Franchised Business as required in the Manuals or as we otherwise reasonably direct in writing from time to time.

(k) *Payments to Suppliers.* You agree to pay all of your suppliers and your landlord promptly in accordance with their payment terms and to comply in all other respect with your contractual obligations to third parties.

(l) *Contact Information.* You agree to keep us informed of your home and business addresses and telephone numbers during the term of this Agreement and for a period of one year after the expiration or termination of this Agreement.

Section 1.7 - Advertising, Promotion and Marketing

(a) *Business Development.* You agree to use all reasonable efforts to develop the Franchised Business. You are responsible at your expense for providing local advertising, marketing, promotional and public relations programs and activities for the Franchised Business. You will use your best efforts to market and promote the required products and services.

(b) *Local Advertising Materials.* All materials you use in local advertising, marketing, promotional and public relations programs and activities must conform to such standards and requirements as we may specify from time to time. All such materials must be clear, factual and not misleading. All advertising shall prominently display the Marks and shall comply with any standards for use of the Marks we establish as set forth in the Manuals or otherwise in writing. You agree to submit to us, before you use them, samples of all materials you intend to use that we have not prepared or previously approved. We will endeavor to deliver to you our written approval or disapproval within 10 business days after our receipt of such materials, but we will

not be liable for any delay. If we have not notified you of disapproval within ten business days after your submission for approval, the materials will be considered approved. We may withdraw our approval at any time. If we withdraw our approval, you will immediately cease the use, distribution and dissemination of such material within time frames prescribed by us, at your sole cost and expense. Any advertising, marketing or sales concepts, programs or materials proposed or developed by you for the Franchised Business and approved by us may be used by us and by our affiliates and other franchisees without any compensation to you. You agree to use all point of sale materials that we may supply to you from time to time, in the manner prescribed by us. If we authorize you to produce your own sales materials, you may not sell such material to other franchisees, although we may, in our discretion, authorize you to make such material available free of charge. We may offer to sell to you multiple copies of advertising materials produced by the Advertising Fund described below.

(c) *Market Research.* You are responsible for keeping up-to-date on competitors' pricing in sales and service and changing and revising pricing and specials.

(d) *National and Regional Advertising.* We or our designee will exclusively maintain and administer any national and regional advertising, public relations and marketing programs and market research, including without limitation the System Website and all programs financed by the Advertising Fund, as described below. We have the right to form, change or dissolve advertising councils in accordance with Section 1.6(n).

(e) *Advertising Fund.* We have established a public relations and advertising fund (the "Advertising Fund"), subsidized by fees paid by Club Scientific franchisees, for such advertising, promotion, marketing and public relations programs and materials as we deem necessary or appropriate. You agree to contribute to the Advertising Fund the greater of (i) 1% of the monthly Gross Revenue (as defined in Section 2.1(d)) of the Franchised Business; or (ii) \$25 per month, payable at the same time and in the same manner as the Royalty Fee.

(f) *Use of the Advertising Fund.* The Advertising Fund will be used to enhance the recognition of the Marks and the patronage of Club Scientific Businesses nationally or regionally. We or our designee will have sole discretion over all matters relating to the Advertising Fund, including without limitation the creative concepts, materials and endorsements used, and the geographic, market and media placement and allocation. The Advertising Fund may be used to pay all costs of preparing and producing video, audio and written advertising materials; administering national and regional advertising programs, and engaging advertising, promotion and marketing agencies to assist us; website development and maintenance; intranet or extranet development, implementation and maintenance; toll-free telephone costs; and supporting public relations, market research and other advertising, promotion and marketing activities. While we do not anticipate that any part of the Advertising Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Advertising Fund for public relations or recognition of the "Club Scientific" brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." We may periodically assist franchises to maintain high quality

standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the Advertising Fund. The cost of these programs may be charged directly to you if your results from a Survey fall below System established minimum standards for such Surveys. The Advertising Fund will not be used to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as we may incur in activities related to the administration of the Advertising Fund and its programs, including, without limitation, conducting market research, preparing advertising, promotion and marketing materials and collecting and accounting for Advertising Fees (described in Section 2.1(e)). The source of the advertising may be our in-house advertising department or an outside advertising agency. If we or our affiliates provide in-house advertising department services, we or our affiliates may be compensated from the Advertising Fund provided that any compensation is reasonable. In addition, we may choose, at our discretion, to advance or loan money to the Advertising Fund on the terms and conditions we deem appropriate. In the event that we advance monies to the Advertising Fund, we will determine, in our sole discretion, the manner and timing for the repayment to us, of some, or all, of the funds we advance.

(g) *Collection of Advertising Fees.* We have the right, but no obligation, to use collection agents and institute legal proceedings to collect Advertising Fees at the Advertising Fund's expense. We also may forgive, waive, settle, and compromise all claims by or against the Advertising Fund. Except as expressly provided in this section, we assume no direct or indirect liability or obligation to you for collecting amounts due to, maintaining, directing, or administering the Advertising Fund.

(h) *Accounting for the Advertising Fund.* We will separately account for the Advertising Fund monies, but we may commingle such monies with our other monies or maintain the Advertising Fund monies in one or more separate accounts, in our discretion. We may spend, on behalf of the Advertising Fund, in any fiscal year, an amount greater or less than the aggregate contribution of all Club Scientific Businesses to the Advertising Fund in that year, and the Advertising Fund may borrow from us or others at reasonable interest rates to cover deficits or invest any surplus for future use. All interest earned on monies contributed to the Advertising Fund will be used to pay advertising costs before other assets of the Advertising Fund are expended. We will prepare annually, or cause to be prepared, a report or reports of the operations of the Advertising Fund. We will furnish such report or reports to you upon your written request. The Advertising Fund is not required to be independently audited.

(i) *Advertising Fund Entity.* We have the right, but not the obligation, to establish a separate entity to operate the Advertising Fund at any time. Any such entity will have all of the rights and duties with respect to the Advertising Fund that we have under this section. The Advertising Fund will not be deemed a trust, and we will have no fiduciary obligation to you in connection with the collection or administration of the Advertising Fund.

(j) *Distribution of Advertising Expenditures.* Although we will endeavor to use the Advertising Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all Club Scientific Businesses, we undertake no obligation to ensure

that expenditures by the Advertising Fund will benefit all Club Scientific Businesses equally nor in proportion to contributions. You acknowledge that not all System franchisees will benefit directly or on a pro rata basis from such expenditures.

(k) *Termination of Advertising Fund.* We reserve the right to defer or reduce Advertising Fees and, upon 30 days' prior notice to you, to reduce or suspend contributions to and operations of the Advertising Fund for one or more periods of any length and to terminate (and, if terminated, to reinstate) the Advertising Fund (and, if suspended, deferred or reduced, to reinstate such contributions). If the Advertising Fund is terminated, all unspent monies, if any, on the date of termination will be distributed to Club Scientific Businesses in proportion to their respective contributions to the Advertising Fund during the preceding 12 month period.

(l) *Cooperative Advertising.* We will have the right, in our discretion, to designate any geographical area for purposes of establishing a regional advertising and promotional cooperative ("Cooperative"), and to determine whether a Cooperative is applicable to the Franchised Business. If a Cooperative is established applicable to the Franchised Business, you must participate in the Cooperative. The following provisions will apply to each Cooperative:

- i. Each Cooperative will be organized and governed in a form and manner, and will commence operation on a date, approved in advance by us;
- ii. Each Cooperative will be organized for the exclusive purpose of administering regional advertising programs and developing, subject to our approval, standardized advertising materials for use by the members in local advertising;
- iii. No promotional or advertising plans or materials may be used by a Cooperative or furnished to its members without our prior approval. All such plans and materials must be submitted to us in accordance with Section 1.7(b);
- iv. Cooperative activities will be determined by a majority vote of the member franchisees in the Cooperative; and
- v. Each member franchisee must submit to the Cooperative, no later than the 10th of each month, for the preceding month, its respective contribution as provided in this Agreement together with such other statements or reports as we may require or as may be required by the Cooperative with our approval.

We may grant to you an exemption from participating in a Cooperative at its sole discretion, upon your written request stating reasons supporting such exemption. Our decision concerning such request for exemption will be final.

(m) *Internet Advertising.* You may not advertise or promote the Franchised Business over the Internet without our prior written approval, which we may withhold in our discretion, and except as provided below. You may not develop, maintain or authorize any website that mentions or describes the Franchised Business or displays any of the Marks; nor may you own an Internet domain name or use a meta tag or title tag that includes any of the Marks or variations of any of the Marks. You may promote the business through social media and similar means provided that such promotion is consistent with the Manual including all guidelines we issue from time to time. You agree to check for social media postings of your employees from time to time to be sure that any comments they write are permitted and are consistent with our policies.

Section 1.8 – ***Website and Portal***

(a) ***System Website.*** We will maintain one or more websites to advertise, market and promote Club Scientific Businesses, the products and services offered by such businesses and the Club Scientific franchise opportunity (the “System Website”). We own all intellectual property and other rights in the System Website, your web page (described below) and all information it contains. You acknowledge that we have final approval rights over all information on the System Website, including your web page. You agree not to register any Internet domain name in any class or category that contains words used in or similar to any brand name owned by us or our affiliates or any abbreviation, acronym, phonetic variation or visual variation of those words. We have the sole right, but not the obligation, to develop and implement website optimization programs, including obtaining paid listings, inserting meta tags into its website(s), and engaging in search engine optimization initiatives. We may use National Advertising Fund contributions to fund such initiatives. We may implement and periodically modify System Standards relating to the System Website. We may at any time and in our sole discretion discontinue using the System Website, including your web page. If we discontinue using the System Website, we may at any time and in our sole discretion resume using it.

(b) ***Your Web Page.*** We will provide you with a web page on the System Website, you agree to pay the reasonable costs of designing, constructing, hosting and maintaining such web page in accordance with Section 2.1(f). You agree to give us the information and materials we request to enable us to develop, update and modify your web page. By providing such information and materials to us, you will be representing and warranting to us that, to the best of your knowledge, all information and materials you provide will be accurate and not misleading and will not infringe any third party’s rights. You agree to indemnify, defend and hold us, our affiliates and our directors, officers, employees, agents and assigns harmless against any liabilities incurred due to inaccuracies in the information you provide to us or any resulting infringement. At your request, we will update the information on your web page or add information that we approve. You must notify us whenever any information on your web page changes or is not accurate. You must pay our then current fee for each additional update or addition that you request. If you are in default of any obligation under this Agreement or the System Standards, then we may, in addition to our other remedies, temporarily remove your web page from the System Website until you fully cure the default. We will permanently remove your web page from the System Website upon the expiration or termination of this Agreement. Except as approved in advance in writing by us, you must not establish or maintain a separate website, splash page, profile or other presence on the Internet, or otherwise advertise on the Internet or any other public computer network in connection with the Franchised Business, including any profile on Facebook, MySpace, Twitter, LinkedIn, Plaxo, YouTube or any other social media and/or networking site.

(c) ***Registration and Class Management.*** We may provide you with an online customer registration and class management service. During any period in which we do provide such service, you agree to pay the reasonable costs in accordance with Section 2.1(f).

(d) *Promotion of the System Website.* All advertising, marketing and promotional materials that you develop for the Franchised Business must contain notices of the System Website's domain name in the manner we designate.

(e) *Franchisee Intranet or Portal.* In addition to the System Website, we may establish an intranet or portal or both (the "Portal") for all Club Scientific franchisees that will be subject to the following terms and conditions:

(i) You and other Club Scientific franchisees will be able to access the Portal only by means of user names and passwords and that will not be available to the general public.

(ii) We may use the Portal to provide support for franchisees and to allow for electronic franchise discussion groups. We may also use the Portal to post the online material constituting the Manuals described in Section 1.4(a).

(iii) We may also use the Portal to give you access to a customized software system for customer relations management, customer scheduling, billing, reporting and related operational functions, which we may revise and develop during the term of this Agreement (the "Portal Services").

(iv) We grant to you the nonexclusive right to access the Portal and to use the Portal Services in accordance with the System Standards (as defined in Section 1.4(a)) and the terms and conditions contained in this Agreement. You agree to use the Portal Services in the manner described in the System Standards.

(v) We reserve the right to deny you access to the franchisee Portal or the Portal Services or both, in whole or in part, in the event that you materially breach this Agreement.

(vi) You agree both during and after the term of this Agreement not to disclose your Portal user name or password to any person or entity who is not under your direct supervision and who does not have a need to know such password. You agree to inform all persons under your supervision who may have access to such password of this obligation of confidentiality. You further agree to notify us when a staff member with access to the Portal ceases to be employed by you, and you agree to include in such notice the current address and email of each such staff member so that we can send such staff member a reminder of his or her obligation of confidentiality.

ARTICLE II – FEES; PAYMENTS; RECORDS; INSPECTIONS

Section 2.1 – Fees and Reports

(a) *Initial Fees.* Unless otherwise indicated in Schedule A, you will pay us an initial fee of \$14,900 (the "Initial Fee") for a Club Scientific Teach Franchise or \$19,900 (the "initial Fee") for a Club Scientific Teach Plus Franchise. You will pay this amount in full when you sign

this Agreement. The Initial Fee is not refundable under any circumstances and deemed fully earned upon the execution of this Agreement, in consideration of administrative and other expenses we incur in granting the franchise and for our lost or deferred opportunity to franchise others. If you wish to increase the size of the Territory and we agree to do so, we will charge you our then-current fee for the additional portion of the Territory. Our current fee is \$0.40 for each additional qualifying household (meeting certain minimum household income thresholds) added to the Territory. Our willingness to increase the size of the Territory will depend on how well you operate your Franchised Business in the Territory after completing training, where other franchisees operate, and what is in the best interest of our company and the network of Club Scientific Businesses. We have no obligation to allow you to increase the size of the Territory.

(b) *Initial Inventory and Marketing Materials.* When you sign this Agreement, you must purchase from us an initial inventory of science materials, which ranges between \$2,000 and \$2,500 depending on the time of year you are commencing operations. You must pay \$800 (if you will not offer day camps) or \$3,000 (if you will offer day camps) either to us or to our designated vendor for marketing materials (the “Initial Marketing Materials Fee”) needed to begin operating your Franchised Business. You must also purchase an initial equipment package for \$625 (the “Initial Equipment Package Fee”), which is payable to us or to our designated vendor. We will mail you the initial lab materials or provide these materials at initial training. We will send the initial marketing materials to you by mail or other means. These fees are fully earned upon payment and are not refundable. Prior to opening, you must place advertisements for the Franchised Business.

Royalties. You agree to pay us royalties (“Royalties”) equal to 8% of the Gross Revenue (as defined below) of the Franchised Business each month. The minimum monthly Royalty payment for a Club Scientific Teach Franchise is \$250 during each month. If you expand your territory to 30,000 QHH or more than you fall under the Club Scientific Teach Plus royalty requirement which is \$300 each month for the first year of the term and \$400 each month for the remainder of the term of this Agreement.

The KidzArt Teach Plus minimum monthly royalty is \$300 during each month of the first year of the franchise term and \$400 during each month of the remaining years of the franchise term.

(a) The Club Scientific Teach minimum monthly royalty is \$250 each month. If you expand your territory to 30,000 QHH or more than you fall under the Club Scientific Teach Plus royalty requirements.

(b) *Definition of Gross Revenue.* As used in this Agreement, the term “Gross Revenue” or “Gross Revenue of the Franchised Business” means the total of all sales made in the operation of the Franchised Business, whether collected or not, with the following clarifications and exceptions:

(i) By way of example, Programs and classes conducted from Program Facilities (such as recreation centers, YMCAs, park districts and the like) that deduct a

portion of the amounts paid by participants in your classes in order to be compensated for your use of such locations to conduct classes, Gross Revenue on which the Royalty Fee is due will be the total amounts paid (*i.e.*, the retail sales price) by participants in your Programs before any deduction by such locations.

(ii) Gross Revenue does not include: (A) federal, state or municipal sales or use taxes collected from customers for payment to the appropriate taxing authorities; (B) promotional or discount coupons to the extent that no revenue is realized; or (C) compensation for services or products provided to your employees if you did not charge the employee, or for any portion not paid for by an employee.

(iii) Payment for goods and services you sell in the Franchised Business will be deemed received by you at the time the services or products from which the revenue was derived are delivered or rendered or at the time the relevant sale takes place, whichever occurs first, regardless of when or whether you actually receive payment for such services or products. Gross Revenue consisting of property or services will be valued at the retail prices of such property or services.

(c) *Advertising Fee.* You agree to pay us an advertising fee each month (the “Advertising Fee”) equal to one percent (1%) of the Gross Revenue of the Franchised Business for each month, but not less than \$25 per month. The Advertising Fee finances the Advertising Fund described in Section 1.7(e).

(d) *Technology Fees.* You agree to pay us or our authorized suppliers the following technology fees for each of the following services for so long as we provide or manage such service; we reserve the right to increase the fees described in this Section 2.1(f):

(i) \$750 for setup of a customized website, payable after initial training but before your franchise opens;

(ii) \$650 for setup of an online customer registration and class management program, payable after initial training but before your franchise opens;

(iii) Our or our designated vendor’s then current monthly fees for web hosting service and support called a Technology Fee of \$45 per month and the online customer registration and class management, currently 1% of Gross Revenues per month plus credit card processing fees.

We may increase or modify these fees from time to time to reflect increases in our costs or increases in the Metropolitan Area Consumer Price Index for All Urban Consumers from the date of this Agreement, as published by the U.S. Department of Labor, or a successor index.

(e) *Payment.* The Royalty Fee, Advertising Fee and technology fees described in Section 2.1(f) are based on Gross Revenue during the preceding calendar month and are payable in arrears on the first day of each calendar month or as otherwise designated by us. The monthly web hosting fee is due and payable on the first day of each calendar Monthly fees. Fees dues under this Agreement will be considered late if not received by us by the 10th day of the month. Time is of the essence with respect to all payments you are to make to us.

(f) *Reports.* You will submit a completed electronic Royalty Reporting Form to us at the time each Royalty Fee is due, setting forth your true and correct Gross Revenue for the just completed month in such detail and in such manner as we require from time to time. You will use our Royalty Reporting Form, which we may change from time to time. If you operate in a retail location (rather than from your home office), you must also send us with your Royalty Reporting Form copies of cash register receipts and your latest monthly bankstatement.

(g) *Electronic Payments.* We require that you pay all sums owed to us or to any of our affiliates under this Agreement electronically through one or more depository transfer accounts (an "EFT Account") or using such methods as we may designate in the Manuals or otherwise in writing. Before opening the Franchised Business, you shall provide us with your bank's name, address and account number, a voided check from such bank account, and sign and give to us and your bank, all documents, including Schedule "E" to this Agreement, necessary to effectuate the EFT Program and our ability to withdraw funds from such bank account via electronic funds transfer. You shall immediately notify us of any change in your banking relationship, including changes in account numbers. At our request, you agree to execute such other documents as we determine are necessary for us to process electronic funds transfers from your designated bank account for payments due under this Agreement. We reserve the right to require you to pay any fees due under this Agreement by such other means as we may specify from time to time. If the Royalty Reporting Form has not been received within the time period required by this Agreement, then we may process an EFT for the subject week based on the most recent Royalty Reporting Form you provided us. If a Royalty Reporting Form for the subject week is subsequently received and reflects (i) that the actual amount of the fee due was more than the amount of the EFT, then we shall be entitled to withdraw additional funds through EFT from your designated bank account for the difference; or

(ii) that the actual amount of the fee due was less than the amount of the EFT, then we shall credit the excess amount to the payment of your future obligations. You will bear all costs to establish and maintain the required electronic payment system, and all bank service charges. You will comply with our procedures for electronic payment, which we may modify from time to time, including the maintenance of such minimum bank account balance as we specify from time to time.

(h) *Interest on Late Payments.* Any payment that is not made by the date it is due will be subject to interest at the rate of one and one-half (1.5%) percent per month or the highest rate allowed by law, whichever is less. If no due date is stated, interest begins to run ten days after billing. Your failure to pay all amounts when due constitutes grounds for termination of this Agreement, as provided, in Section 5.2(b). Interest will accrue whether or not we exercise our

right to terminate. You acknowledge that this subsection does not constitute our agreement to accept any payments after they are due or our commitment to extend credit to you or otherwise finance your operation of the Franchised Business.

(i) *Late Fees.* You agree to pay us a late fee equal to the greater of 15% of the amount due or \$50 for each required payment that is late. The late fee is not interest or a penalty but compensates us for increased administrative and management costs due to your late payment. You also must pay us \$100 for each dishonored or NSF check and for each attempted debit from the EFT Account that is not honored due to insufficient funds or other actions you have taken to impede the automatic debiting process. Each failure to pay Royalty Fees, Advertising Fees and other amounts payable to us when due is a material breach of this Agreement.

(j) *Failure to Report.* If you fail to report the Gross Revenue of the Franchised Business for any month, we may debit the EFT Account for 120% of the last Royalty Fee and Advertising Fee that we debited (together with the late fee noted above). If the amounts we debit from the EFT Account are less than the amounts you actually owe us (once we have determined the actual Gross Revenue), we will debit the EFT Account for the balance on the day we specify. If the amounts we debit from the EFT Account are greater than the amounts you actually owe us, we will credit the excess against the amounts due during the following month.

(k) *No Setoff.* Your obligations to make payments in accordance with this Agreement and any other agreement with us or any of our affiliates with respect to the Franchised Business are not subject to any abatement, reduction, setoff, defense or counterclaim due or alleged to be due for any past, present or future claim that you have or may have against us or any of our affiliates.

(l) *Application of Payments.* All payments you make to us will be applied in such order as we may designate from time to time, regardless of any designation you may make with respect to the application of such payments, even if you specifically make payment conditional on our acceptance of your designated application or instructions.

(m) *Taxes.* In the event that we are required to collect and pay any sales or use tax from you for payment to any tax authority based on your purchase of the franchise or any items relating to the franchise or the operation of the Franchised Business, or based on any continuing payments you make to us under this Agreement, you will pay such taxes together with your continuing payments to us.

(n) *(n)Financials and Tax Returns.* Within 60 days after the end of each fiscal year during the term of this Agreement, you will provide to us, in a form and manner that we approve, a profit and loss statement for such fiscal year and a balance sheet as of the end of such fiscal year. In addition, you will submit to us, within 120 days after the end of each calendar year during the term of this Agreement, copies of all federal and state tax returns of the Franchised Business. Failure to provide these documents will result in a non-refundable charge of \$500.00. If you filed an application with the IRS for an automatic extension of time to file, either IRS Form 7004 or IRS Form 4868 is required for proof of extension within 120 days after the end of the calendar

year and the \$500 penalty will be imposed if financials and tax returns are not submitted within 15-days after the expiration date.

Section 2.2 – ***Records; Inspection***

(a) ***Records.*** You agree to maintain at the Franchised Business full, complete and accurate records and reports of the Franchised Business. You will maintain full and complete customer lists (including the name, address, telephone number and email address of each customer). You will submit to us such customer lists at least twice per year, or whenever we request. You will also maintain bookkeeping, accounting and records retention systems conforming to the requirements that we prescribe from time to time, and records relating to Franchised Business operations, employee turnover and such other records that we prescribe from time to time. You agree to maintain and to furnish to us upon request complete copies of all income, sales, value added, use and service tax returns, and employee withholding, worker's compensation and similar reports filed by you reflecting activities of the Franchised Business. You agree to preserve all records described in this section for a period of at least six years after their creation, or such longer period as may be required by law, during both the term and each renewal term of this Agreement and following the expiration or termination of this Agreement.

(b) ***Access to Systems.*** We may collect electronically the reports referred to in Section 2.1(h) and the records referred to in Section 2.2(a).

(c) ***Right to Inspect.*** During the term of this Agreement, we or our designated representatives will also have the right, at any time during your regular business hours, without prior notice to you, to enter upon the premises of the Franchised Business to inspect the books and records of the Franchised Business, including tax returns, and to take excerpts. You agree to cooperate fully with us and our representatives during all such inspections.

(d) ***Right to Audit.*** We have the right at any time during your business hours, without prior notice to you, to audit the records of the Franchised Business, or to cause such records to be audited.

(e) ***Discrepancies.*** If any inspection or audit demonstrates an understatement of Gross Revenue, you will pay the deficiency to us upon demand, plus interest.

(f) ***Cost.*** All inspections and audits will be at our expense; but if an inspection or audit is made necessary by your failure to furnish, or your delay in furnishing, reports, supporting records, other information or financial statements we require, or if an understatement of Gross Revenue for the period of any audit or inspection is determined by any such audit or inspection to be equal to or greater than two percent (2%), you agree, within 15 days after our request, to reimburse us for the cost of such inspection or audit, including, without limitation, legal and accounting fees, and the travel expenses, including lodging, meals and per diem charges of the inspecting or auditing personnel. These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

(g) ***Survival of Inspection and Audit Rights.*** Our rights to inspect the books and records of the Franchised Business and to take excerpts, and to audit the Franchised Business,

will continue for a period of six months following the expiration or termination of this Agreement; provided, however, that we may only inspect such books and records or perform any such audit following the expiration or termination of this Agreement upon at least 24 hours' prior notice to you.

(h) *Disclosure of Your Financial Information.* We have the right to disclose data we receive from you regarding the Franchised Business without identifying you. If we are required by law to disclose any data we receive from you regarding the Franchised Business and such disclosure will identify you, we will notify you of the disclosure to be made and, if you request, endeavor to obtain legally binding assurance that those who receive such disclosure are bound by an obligation of confidentiality.

ARTICLE III - PROPRIETARY RIGHTS; CONFIDENTIALITY; NONCOMPETITION

Section 3.1 – *Our Copyrights and Trademarks*

(a) *Our Copyrights.* We are the sole owner of all copyrights in the Curricula, the Manuals and all advertising and promotional material created by or for us. You may not copy any such materials, nor create derivative works of any such materials, except as specifically authorized or permitted by us.

(b) *Our Trademarks.* Your right to use the Marks is derived solely from this Agreement and is limited to your operation of the Franchised Business pursuant to and in compliance with this Agreement and all System Standards we prescribe from time to time. Your unauthorized use of the Marks will be a breach of this Agreement and an infringement of our rights in and to the Marks. You acknowledge and agree that your use of the Marks and any goodwill established by such use will be exclusively for our benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate the Franchised Business in compliance with this Agreement). Upon the expiration or termination of this Agreement, no monetary amount shall be assigned as attributable to any goodwill associated with your use of the System, the Marks, or any Confidential Information. You will not contest or assist others in contesting our right to use the Marks.

(c) *Proper Use of the Marks.* You may not use the Marks except as authorized under this Agreement. You understand that any use of the Marks other than as expressly authorized by this Agreement, without our prior written consent, may constitute infringement and that your right to use the Marks does not extend beyond the expiration or termination of this Agreement. You agree to use the Marks as the sole identification of the Franchised Business, except that you agree to identify yourself as the independent owner of the Franchised Business in the manner we prescribe. You may not use any Mark or any word similar to any of the Marks as part of any corporate or legal business name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to you under this Agreement), or in any modified form, nor may you use any Mark in connection with the performance or sale of any unauthorized products or services or in any other manner we have not expressly authorized in writing. You may not use any Mark as part of a domain name or electronic address of a website.

You agree to display the Marks prominently in the manner we prescribe at the Franchised Business, on materials that we designate and on business forms and advertising materials. You agree to give such notices of trademark and service mark registrations and our ownership of the Marks as we specify from time to time and to obtain any fictitious or assumed business name registrations required under applicable law.

(d) *Modifying the Marks.* We will have the right to add, modify, discontinue and/or substitute modify or change the Marks from time to time in our sole discretion upon written notice to you specifically referring to this Agreement and describing such modification or change. Such right will include the right to use a trademark that is entirely different from “Club Scientific” and the right to require you to use one or more new or additional logos and marks. You agree, upon notice from us, to regard each such modified, changed, new or additional trademark as being within the definition of “Marks” under this Agreement, and to adopt and use each such trademark at your expense in accordance with the terms and conditions of this Agreement. You must discontinue use of all Marks which we have notified you, in writing, have been modified or discontinued within 10 days of receiving written notification. If we require a change in signage, we will reimburse you for your reasonable direct expenses of changing the signs at the premises of the Franchised Business. However, we will not be obligated to reimburse you for any loss of revenue or expenses caused by any such modification or change.

(e) *Infringement.* You agree to notify us of any apparent infringement of any Mark or of any of our copyrights, by any third party, as soon as such apparent infringement comes to your attention, and to notify us immediately of any challenge to your use of any Mark and of any claim by any person of any rights in any Mark, and you agree not to communicate with any person other than us, our attorneys and your attorneys in connection with any such infringement, challenge or claim. We have sole discretion to take such action as we deem appropriate with respect to such apparent infringement, challenge or claim and the right to control exclusively any litigation, U.S. Patent and Trademark Office proceeding or any other administrative proceeding arising out of any such infringement, challenge or claim or otherwise relating to any Mark or our copyrights. You agree not to initiate any such action or proceeding, but to cooperate with us in any such action or proceeding and sign any and all instruments and documents, render such assistance and do such acts and things as may be necessary or advisable, in the opinion of our attorneys, to protect and maintain our interests in any litigation or any proceeding at the Patent and Trademark Office, or otherwise to protect and maintain our interests in the Marks or copyrights. In the event any sum is recovered based on our claim of infringement, we will have the exclusive right to such recovery.

(f) *Litigation Relating to the Marks.* You acknowledge that we have the sole right to direct and control any administrative proceeding or litigation involving the Marks, including any settlement thereof. We shall defend you against any third-party claim, suit, or demand arising out of Franchisee’s use of the Proprietary Marks. If we, in our sole discretion, determine that you have used the Marks in accordance with this Agreement, we shall bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used the Marks in accordance with this Agreement, you shall bear the cost of such defense, including the cost of any judgment or settlement. In the event of any

litigation relating to your use of the Marks, you shall execute any and all documents and do such acts as may, in our opinion, be necessary to carry out such defense or prosecution including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

Section 3.2 – ***Confidentiality of Our Information***

(a) ***Confidential Information.*** We possess and will continue to develop and acquire certain confidential information relating to the development and operation of Club Scientific Businesses (“Confidential Information”). Confidential Information includes, without limitation:

- (i) the contents of the Manuals;
- (ii) the substance, design, organization, and presentation of all Curricula and Program and class material we provide to you, including both written and video materials;
- (iii) methods and other techniques and know-how concerning the of operation of the Franchised Business which may be communicated to you or of which you may be apprised by virtue of your operation of the Franchised Business;
- (iv) the content of our training and assistance;
- (v) sales and marketing techniques;
- (vi) customer lists (including the name, address, telephone number and email address of each customer);
- (vii) planned advertising and marketing programs;
- (viii) current, past and planned research, development and test programs for products, services and operations;
- (ix) specifications for and suppliers of certain products, signs, materials and supplies;
- (x) the operating results and financial performance of Club Scientific Businesses other than the Franchised Business;
- (xi) user names and passwords allowing access to protected areas on our website or computer network;

(xii) all improvements and modifications to the franchise system developed by you or your personnel; and

(xiii) any and all information, knowledge, know-how, techniques, and other data which we designate as confidential will be deemed Confidential Information for purposes of this Agreement.

You acknowledge and agree that you will not acquire any interest in any Confidential Information other than the right to use Confidential Information disclosed to you in operating the Franchised Business during the term of this Agreement.

(b) *Nondisclosure and Non-Use.* At all times both during the term and after the expiration or termination of this Agreement, (i) you will keep all Confidential Information in the strictest confidence and you will not disclose any Confidential Information to any person other than your employees, agents or representatives who have a legitimate need to know such information and who are informed of this obligation of confidentiality and have signed either a Guaranty in the form of Schedule “B” or a written agreement with your company substantially in the form of Schedule “C”, and (ii) you will not use any Confidential Information except for the purpose of fulfilling your obligations under this Agreement. Upon our request, you will promptly return to us all Confidential Information and all copies in your possession or under your control, and you will destroy all copies on your computers, disks and other digital storage devices.

(c) *Isolated Disclosures.* Notwithstanding the foregoing, we will not deem you to be in default of this Agreement as a result of isolated incidents of disclosure of Confidential Information by an employee other than an owner, provided that you have taken reasonable steps to prevent such disclosure, including but not limited to the steps a reasonable and prudent owner of confidential and proprietary information would take to prevent disclosure of such information by his employees, and further provided that you pursue all reasonable legal and equitable remedies against such employee for such disclosure of such Confidential information.

(d) *Disclosures Required by Law.* In the event that you become legally compelled to disclose any Confidential Information, you will (i) promptly notify us that such information is required to be disclosed, (ii) use your best efforts to obtain legally binding assurance that all those who receive disclosure of such information are bound by an obligation of confidentiality, and (iii) disclose only that portion of the Confidential Information that your legal counsel advises is legally required to be disclosed.

Section 3.3 – ***Noncompetition***

(a) *Noncompetition During the Term.* You agree that during the term of this Agreement and any renewal of this Agreement, you will not, directly or indirectly (through one of your company’s affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which we have a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or

attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any Club Scientific Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any Club Scientific Business within the six month period before such recruiting or hiring without the prior written permission of that person's employer.

(b) *Definition of Competitive Business.* As used in this Agreement, the term "Competitive Business" means any business that offers, in whole or in part, educational science programs or similar science-themed enrichment activities or services or grants franchises or licenses to others to operate such a business (other than a Club Scientific Business operated under a franchise agreement with us or our affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent (3%) of a class of ownership interests of the issuing company.

(c) *Noncompetition After Termination.* Upon the expiration of this Agreement, your termination of this Agreement without cause, our termination of this Agreement in accordance with its terms and conditions, or your transfer in accordance with Article IV, you and your company's owners agree for a period of two years following such expiration, termination or transfer, that you will not, directly or indirectly (through one of your company's affiliates or owners or a member of the immediate family of any owner), either (i) have a direct or indirect ownership interest in a Competitive Business located or operating in the Territory or within 30 miles of the location of any Club Scientific Business operating anywhere in the world at the time of such expiration, termination or transfer; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, extend credit to any Competitive Business; (iii) divert or attempt to divert any business or customer or student of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is our employee or the employee of any Club Scientific Business (whether company or affiliate-owned or franchised) or who has been our employee or the employee of any Club Scientific Business within the 12-month period before such recruiting or hiring without the prior written permission of that person's employer.

(d) *Intent and Enforcement.* It is the parties' intent that the provisions of this Section 3.3 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 3.3 by you, your company's owners, or any member your or your company's owners' immediate family, we shall be entitled to an injunction restraining such person from any such actual or threatened breach. You agree that in the event of the actual or threatened breach of this Section 3.3, our harm will be irreparable and that we have no adequate remedy at law to prevent such harm. You acknowledge and agree on your own behalf and on behalf of the persons who are liable under this Section 3.3 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 3.3 in no way prevent any such person from earning a living. You further acknowledge and agree that the time limitation of this Section 3.3 shall be tolled during any default under this Section.

ARTICLE IV - TRANSFER

Section 4.1 – *Transfer by Us*

We may sell, assign or transfer our rights and obligations under this Agreement to any party, without the approval of or prior notice to you, provided that the buyer, assignee or transferee agrees in writing to assume all of our obligations under this Agreement. We will not be liable for obligations of the transferee arising after the date of transfer.

Section 4.2 – *Transfer by You*

(a) *No Transfer Without Our Approval.* This Agreement is personal to you. We have granted the franchise to you in reliance upon our perceptions of your (or your company's owner's) individual or collective character, skill, aptitude, business ability and financial capacity. Accordingly, you may make no Transfer (as defined below) without our prior written approval. Any purported Transfer without such approval will be a breach of this Agreement and will entitle us to terminate this Agreement as provided below.

(b) *Definition of Transfer.* As used in this Agreement, the term "Transfer" means your (or your company's owner's) voluntary, involuntary, direct or indirect assignment, sale, gift, pledge or other disposition of any legal or beneficial interest in: (i) this Agreement, (ii) any material asset of the Franchised Business; (iii) the lease or ownership of the premises of the Franchised Business (unless we agree to a relocation or unless the transfer of ownership does not affect your leasehold rights and obligations), or (iv) your company, whether in the form of equity or a voting interest. "Transfer" also includes (i) the merger or consolidation of your company; (ii) the issuance of additional securities or other ownership interests of your company, and (iii) the admission or departure of a partner or owner. It includes transfers resulting from proceedings under the U.S. Bankruptcy Code or any similar law, and transfers resulting from divorce.

(c) *Notice of Transfer.* You agree to notify us of any planned Transfer, and to provide us with any information we may reasonably request in order to permit us to evaluate the planned Transfer. If we do not exercise our right of first refusal under Section 4.3, we agree not to unreasonably withhold our approval of a Transfer. If we approve the Transfer, then you will be free, for ninety (90) days following such approval, to effect the Transfer to the person or persons approved by us. Our consent to a Transfer does not constitute a representation as to the fairness of the terms of any contract between you or your company's owners and the transferee, a guaranty of the successful operation of the Franchised Business by the transferee or a waiver of any claims we may have against you or your company's owners or of our right to demand the transferee's compliance with any of the terms or conditions of this Agreement.

(d) *Conditions to Transfer.* The following conditions will apply with respect to any Transfer except as described in Section 4.2(e):

(i) The proposed transferee or its managing owner, must pay for and attend a Discovery Day, which may be conducted online or at a location that we designate, and demonstrate to our satisfaction that he or she meets our standards for new franchisees, including being of good character with sufficient business experience, aptitude, and financial resources to operate the Franchised Business.

(ii) Neither the proposed transferee nor any of its management or owners is a Competitive Business or performs services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business.

(iii) You will cure any default under this Agreement or any other agreement between you and us, our affiliates, our designated/approved suppliers and vendors, within the period permitted for cure and have substantially complied with such agreements during their respective terms.

(iv) You will pay all fees and any other amounts then owed to us, our affiliates and our designated/approved suppliers and vendors.

(v) You or the transferee will pay us a nonrefundable transfer fee equal to 5% of the then-current initial franchisee fee. If you request to have us assist you in selling your franchise, we may charge you additional fees to cover our advertising costs, salesperson fees, and any other costs that we incur in assisting with the sale of your franchise.

(vi) We may require that the transferee, at the time of closing, enter into our then current form of franchise agreement as amended to shorten the initial term to conform to the remaining term of this Agreement and to remove the requirement to pay the initial fee, and each guarantor under the new franchise agreement will have signed our then current form of guaranty.

(vii) You and we will execute a written agreement, in a form satisfactory to us, terminating this Agreement and acknowledging your obligations following the Transfer. We may require that the termination agreement include a general release of any claims against us and our affiliates.

(viii) The transferee or its designated personnel will have completed such training as we may require, to our satisfaction.

(ix) The transferee must obtain, within the time limits set by us, and maintain thereafter, all permits and licenses required for the operation of the Franchised Business.

(x) We will have approved the material terms and conditions of such transfer and determined that the price and terms of payment will not adversely affect the transferee's operation of the Franchised Business.

(xi) You must request that we provide the prospective transferee with our current form of disclosure document.

(xii) Our approval of the transfer shall not constitute a waiver of any claims we may have against the transferring party.

(xiii) If you or your owners finance any part of the sale price of the transferred interest, you or your owners will have agreed that all of the transferee's obligations pursuant to any promissory notes, agreements or security interests are subordinate to the transferee's obligation to pay Royalties, Advertising Fees and other amounts due to us.

(xiv) After our authorization of the Transfer and your compliance with all of the requirements listed above, you will give us not less than five business days' written notice of the date, time and place of the closing of such Transfer, and you will give us an opportunity to have a representative present.

(xv) We shall have the right to disclose to any prospective transferee such revenue reports and other financial information concerning you and the Franchised Business as you has supplied us hereunder, and you agree to make no false or misleading statements in connection with the transfer of this Agreement or the Franchised Business.

(xvi) If the transaction is brokered by a third-party or by one of our authorized sales representatives, you or the proposed transferee will be responsible for paying broker fees at the same commission rate that we pay such broker or sales representatives.

(xvii) In any event, we may withhold or condition our consent to any transfer as we deem appropriate based on the circumstances of the transfer or otherwise.

(e) *Exceptions.* Upon prior notice to us and the signing by the relevant parties of assignment documents acceptable to us, you may transfer this Agreement to an entity that conducts no business other than the Franchised Business in which you maintain management control and of which you own and control 100% of the equity and voting power, provided that all assets of the Franchised Business are owned, and the entire Franchised Business is conducted by, a single entity. The requirements of Section 4.2(d) will not apply to any such transfer. You will remain personally liable under this Agreement after such Transfer by signing a Guaranty as described in Section 1.1(h).

(f) *Transfer Upon Death or Disability.* You or your executor or other personal representative must promptly notify us in the event of your death or disability or, if your company is an entity, the death or disability of the owner of a 10% or greater interest in your company. Any transfer upon death or disability will be subject to the same terms and conditions as those

that apply to other transfers, as described in Sections 4.2(a) through (d); provided, however, that you or your executor or other personal representative will have a period of 120 days in which to effect a transfer acceptable to us. As used in this Agreement, the term “disability” means a mental, emotional or physical injury, illness, incapacity, disability or impairment that is reasonably expected to prevent or actually does prevent a person from performing the obligations set forth in this Agreement for at least 60 days. A person’s disability for purposes of this section will be determined by a licensed practicing physician selected by us upon examination of such person or, if such person refuses to be examined, then such person will automatically be deemed disabled for purposes of this section as of the date of refusal. We will pay the cost of the examination.

(g) *Operation of the Franchised Business Upon Death or Disability.* If upon your death or disability or, if your company is an entity, the death or disability of the owner of a controlling interest in your company, the Franchised Business is not being actively managed by a Managing Owner who has attended and successfully completed such training as we may require, you or such deceased or disabled owner’s executor, administrator, conservator, guardian or other personal representative must within a reasonable time, not to exceed 30 days from the date of death or disability, appoint a Managing Owner to operate the Franchised Business. Such Managing Owner will be required to complete our training at your expense. Pending the appointment and training of a Managing Owner or if, in our judgment, the Franchised Business is not being managed properly, we have the right, but not the obligation, to appoint a manager for the Franchised Business. All funds from the operation of the Franchised Business during the management by our appointed manager will be kept in a separate account, and all expenses of the Franchised Business, including compensation, other costs and travel and living expenses of our manager, will be charged to this account. We also have the right to charge a reasonable management fee (in addition to the Royalties and Advertising Fees payable under this Agreement) during the period that our appointed manager manages the Franchised Business. Operation of the Franchised Business during any such period will be on your behalf. We will not be liable for any debts, losses or obligations incurred by the Franchised Business or to any of your suppliers for any products, materials, supplies or services the Franchised Business purchases during any period it is managed by our appointed manager.

Section 4.3 – *Right of First Refusal*

(a) *Notice of Third Party Offer.* If you or any of your company’s owners at any time desire to sell, assign or transfer for consideration an interest in this Agreement and the Franchised Business or an ownership interest in your company to anyone other than as described in Section 4.3(d), you will obtain and immediately submit to us a true and complete copy of a bona fide written offer from the third party that desires to acquire such interest (the “Third Party Offer”). The Third Party Offer must include names of the owners or partners of the offeror company and, in the case of a publicly-held entity, copies of the most current quarterly report and Form 10K. The Third Party Offer must contain details of the payment terms of the proposed sale and the source and terms of any financing of the proposed purchase price, and may not include or be contingent upon the purchase of assets other than those related to the Franchised Business.

(b) *Exercise of Our Right of First Refusal.* We will have the right, exercisable by notice delivered to you or your company's selling owner or owners within thirty (30) days after the date of our receipt of a copy of the Third Party Offer and all other information we request, to purchase such interest for the price and on the terms and conditions contained in the Third Party Offer, provided that (i) we may substitute cash for any form of payment proposed in such offer; and (ii) we will have at least sixty days after giving notice of our election to prepare for closing. If we exercise our right of first refusal, you and your selling owners agree that, for a period of two years commencing on the date of the closing, you and we will execute a written agreement, in a form satisfactory to us, acknowledging the seller's continuing obligations. We may require the seller to sign a general release of any claims against us and our affiliates.

(c) *Consequence of Non-exercise of Our Right of First Refusal.* If we do not exercise our right of first refusal, you or your owners may complete the sale to such purchaser pursuant to and on the exact terms of such offer, subject to our approval of the transfer as provided in Section 4.2; but if the sale to such purchaser is not completed within 120 days after delivery of the Third Party Offer to us, or if there is a material change in the terms of the sale (which you agree promptly to communicate to us), we will have an additional right of first refusal during the thirty day period following either the expiration of such 120-day period or the notice to us of the material changes in the terms of the sale, either on the terms originally offered or the modified terms, at our option.

(d) *Exceptions.* Our right of first refusal will not apply to transfers among the current owners of your company or their immediate family members, or to transfers (whether in a single transaction or a series of transactions) of less than a 10% interest in your company.

ARTICLE V - TERM AND TERMINATION

Section 5.1 - *Term and Renewal*

(a) *Term.* This Agreement will be effective as of the date set forth in the opening paragraph of this Agreement and, unless sooner terminated as provided in Section 5.2, will continue in effect for a term of 10 years.

(b) *Renewal.* You will have the right to acquire a successor franchise for a term often (10) years, provided that:

(i) you will have given us notice of your desire to renew not less than 6 months nor more than 12 months before the end of the then-current term;

(ii) you and your affiliated companies must not be in default under this Agreement or any other agreement with us or any of our affiliates at the time you give your renewal notice, or if you are in default, you have cured such default in the manner described below;

(iii) you have satisfied all monetary obligations you owe us, our affiliates, our major suppliers and vendors;

(iv) you comply with our then-current financial qualifications and training requirements for new Club Scientific franchisees;

(v) you must not have received more than two notices of default during the 24 month period before you notify us of your desire to renew, whether or not such defaults have been cured;

(vi) you present evidence to us that you have the right to remain in possession of the premises of the Franchised Business for the duration of the renewal term, or you obtain our approval of a new location for the Franchised Business for the duration of the renewal term;

(vii) you comply with our then-current standards in effect for new Club Scientific franchisees and, at your cost and expense, you make such capital expenditures as we may reasonably require to modernize your services and your equipment to reflect the then-current standards of a Club Scientific Business;

(viii) if we require, you execute a general release, in a form prescribed by us, of any and all claims against us and our affiliates and their respective officers, directors, agents and employees; and

(ix) you execute our then-current standard form of franchise agreement for a 10 year term, which agreement will supersede this Agreement in all respects; provided, however, that you will not be required to pay the initial franchise fee stated in the renewal agreement, but you will pay us a renewal fee in an amount equal to 5% of the then-current initial franchise fee for the type and size of Territory under your agreement. You understand that the renewal agreement may contain materially different terms than this Agreement, including, but not limited to, increased royalty and advertising fees.

If you or any of your affiliated companies is in default under this Agreement or any other agreement with us or any of our affiliates at the time you give your renewal notice, we will give you notice, not more than 30 days after receipt by us of notice of your desire to renew, of such default, and we will give you 30 days to cure. In the event that you fail to cure in that period, or in the event that any other condition set forth in this section is not satisfied, your right to renew will terminate.

(c) *Hold Over.* If you do not sign a new franchise agreement before the term expires and you continue to accept the benefits of this Agreement after this Agreement expires, then at our option, we may treat this Agreement either as: (i) expired as of the date of expiration, with you then being deemed to be operating without a franchise in violation of our rights; or (ii) continued on a month-to-month basis (the "Interim Period") until either (A) both you and we sign a new franchise agreement or (B) either you or we give at least 30 days' prior written notice to the

other party of your or our intention to terminate the Interim Period, in which case the Interim Period will terminate on the date specified in the notice. All of your obligations will remain in full force and effect during the Interim Period as if this Agreement had not expired. Your obligations following the expiration or termination of this Agreement will remain in effect regardless of any extension of this Agreement into an Interim Period.

Section 5.2 - ***Termination***

(a) Automatic Termination. This Agreement shall automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

(i) If you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or you consent to or acquiesce in the appointment of a trustee or receiver for all or any part of your business or assets, or if your company is dissolved.

(ii) If proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within sixty (60) days, or a trustee or receiver is appointed for you or the Franchised Business without your consent, and the appointment is not vacated within 60 days.

(iii) You purport to sell, transfer or otherwise dispose of your interest in this Agreement, any interest in the Franchised Business, or your company, whether in the form of equity or a voting interest in violation of Section 4.2 hereof.

(b) *Termination by Us Upon Notice.* We may terminate this Agreement upon written notice to you with immediate effect if:

(i) you or any of your company's owners have made any material misrepresentation or omission in connection with your application for and purchase of the Franchised Business;

(ii) you or your Managing Owner fail to complete the initial training to our satisfaction in accordance with Section 1.5(b);

(iii) you fail to commence operation of the Franchised Business within the time required by Section 1.2(c);

(iv) you are more than ten days late in your payment of any amount due to us under this Agreement or to any of the suppliers of the Franchised Business and you fail to make such payment within five days after we will have notified you that such payment is past due;

(v) you or any of your affiliates default under the lease for the premises of the Franchised Business and have not cured such default within the time required under the lease; or you lose possession of the premises of the Franchised Business and have not relocated to another site approved by us;

(vi) you or any of your company's owners use or disclose any Confidential Information in violation of the requirements of Section 3.2;

(vii) you or any of your company's owners make any unauthorized use of the Marks or challenge or seek to challenge the validity of any of the Marks;

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

(ix) you fail to provide, at the time, in the manner, and under the terms we require, the services of the Franchised Business at a location in the Territory for any international, national or regional company with whom we have negotiated an arrangement under which you are required to provide such Club Scientific services;

(x) you knowingly maintain false books or records or submit report to us that understates the Gross Revenue of the Franchised Business three or more times during the term of this Agreement or by more than 5% on any one occasion;

(xi) you fail for a period of 15 days after notification by appropriate authority to comply with any other law or regulation applicable to the operation of the Franchised Business;

(xii) you or any of your company's owners effect or attempt to effect a Transfer without our approval and contrary to the provisions of Article IV;

(xiii) in the event of your death or disability or the death or disability of the owner of a controlling interest in your company, this Agreement or such owner's interest in your company is not assigned as required by Article IV;

(xiv) you or any of your company's owners are or have been convicted of, or plead or have pleaded guilty or no contest to, a felony or any other crime or offense, or engage in any dishonest, deceptive or unethical conduct that may, in our opinion, adversely affect the reputation of the Franchised Business, other Club Scientific Businesses or the goodwill associated with the Marks;

(xv) you fail to operate the Franchised Business for 10 consecutive business days without our consent;

(xvi) you fail to pay when due any federal or state income, service, sales, withholding or other taxes due in connection with the operation of the Franchised

Business, unless you are contesting your liability for such taxes in good faith or have received an extension from the applicable government agency of the time within which to make such payments;

(xvii) you commit three or more defaults under this Agreement in any period of 12 consecutive months, whether or not each such default has been cured after notice was delivered to you;

(xviii) your assets, property or interests or those of any of your owners are blocked under any law, rule or regulation relating to terrorist activities;

(xix) you or any of your affiliates default under any financing agreement or arrangement with any party advancing funds to you in connection with the operation of the Franchised Business or the operation of any other business under a franchise agreement now or hereafter in effect between us and you or any of your affiliates; or

(xx) any other franchise agreement now or hereafter in effect between us and you or any of your affiliates is terminated due to a breach by you or any of your affiliates or any other event similar to those described above.

(c) *Termination After 30 Day Cure Period.* Except as set forth in Section 5.2(a) or 5.2(b), you will have 30 days after receipt of written notice from us of a material default in which to remedy the default and provide evidence of that remedy to us. If any such default is not cured within that time, this Agreement will terminate without further notice to you effective immediately upon expiration of that time unless we notify you otherwise in writing.

(d) *Relationship Laws.* Notwithstanding the provisions described in this Section 5.2, if any valid, applicable law or regulation limits our right to terminate this Agreement or requires different or longer notice periods than those set forth herein, this Section 5.2 is deemed amended to conform to the minimum notice periods or restrictions upon termination required by such rules and regulations. We will not however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the termination of this Agreement.

(e) *Liquidated Damages.* You acknowledge and agree that in the event you abandon your Franchised Business, we will incur damages, the actual amount of which would be speculative and difficult to calculate. As such, you agree to pay us, within 30 days after the effective date of such abandonment, in addition to royalties and all other amounts then owed to us under this Agreement, the agreed upon liquidated damages amount, which shall be calculated by determining the average monthly royalty owed to us in the immediately preceding 12 full calendar months (the "Average Royalty"), and multiplying the Average Royalty by 24 months (the "Liquidated Damages Amount"). You acknowledge that the Liquidated Damages Amount set forth herein is a fair and reasonable estimate of the foreseeable damages that we are likely to incur in light of our loss of royalties. The Liquidated Damages Amount provision only covers our damages from the loss of cash flow from the Royalty Fees. It does not cover

any other damages, including damages to our Marks, Confidential Information, reputation with the public and landlords and damages arising from a violation of any provision of this Agreement other than the Royalty Fee section. You and each of your owners agree that the Liquidated Damages Amount provision does not give us an adequate remedy at law for any default under, or for the enforcement of, any provision of this Agreement other than the Royalty Fee section.

Section 5.3 - **Consequences of Termination**

(a) *Your Obligations Upon Termination.* Upon the expiration of this Agreement or its termination for any reason:

(i) all rights and licenses granted to you under this Agreement will immediately terminate;

(ii) you will remit to us, within 15 days of such expiration or termination, such Royalties, Advertising Fees, amounts owed for purchases from us, interest due and all other amounts owed to us that are then unpaid, and you will submit to us any reports and other information you may be required to submit to us;

(iii) if applicable, you will promptly pay us the liquidated damages described in Section 5.2(b);

(iv) you will remit to us, within 15 days of such expiration or termination, a complete list of all customers, current as of the effective date of termination or expiration, including the name, address, telephone number and email address of each customer;

(v) if we do not exercise our option to purchase the Franchised Business in accordance with Section 5.4, you will promptly remove from the premises of the Franchised Business and deliver to us or otherwise dispose of as we may instruct, all printed materials containing any of the Marks and you will remove all copies from your computers and other electronic storage media, and you will allow us, without liability to you or to third parties, to remove all such items from the Franchised Business;

(vi) you will assign to us or our designee all of your right, title and interest in and to your telephone numbers, websites, domain names and meta tags associated with the Mark (the "Listings") and you will notify the telephone company and all listing agencies of the termination or expiration of your right to use any of the Listings, and you will authorize the transfer of the Listings to us or our designee pursuant to the Conditional Assignment of Telephone Numbers attached hereto as Schedule "D" or, if we direct, disconnect the numbers;

(vii) you will cease to use the Marks and the System in any way, cease referring to or identifying yourself as a Club Scientific franchisee and remove all such

identifying materials from the premises of the Franchised Business unless we instruct you otherwise;

(viii) you will take such action as may be required to cancel all fictitious or assumed name or equivalent registrations or domain name registrations relating to your use of any Marks;

(ix) you will promptly return to us or deliver to us or otherwise dispose of as we may instruct, the Manuals, and all amendments, revisions and copies of the Manuals (including copies stored electronically), as well as all other Confidential Information and all copies of such information in your possession or under your control, and you will remove and destroy all copies from your computers and other electronic storage media;

(x) you will permit us to make final inspection of your financial records, books, and other accounting records within 6 months of the effective date of termination, expiration, or transfer;

(xi) you will execute from time to time any necessary papers, documents, and assurances to effectuate the intent of this Article 5.

(b) *Damages, Costs, and Expenses.* In the event this Agreement is terminated as a result of your default, you shall promptly pay to us all damages, costs and expenses, including reasonable attorneys' fees, incurred by us as a result of the default, which obligation shall give rise to and remain, until paid in full, a lien in favor of us against any and all of your personal property, furnishings, equipment, signs, fixtures and inventory related to the operation of the Franchised Business.

Section 5.4 – ***Our Right to Purchase Upon Termination***

(a) *Exercise of Option.* Upon the expiration or termination of this Agreement, we have the option, exercisable by giving written notice to you within 60 days from the date of such termination or expiration, to purchase the assets of the Franchised Business from you, including the leasehold rights to the premises of the Franchised Business (subject to any rights of approval retained by the landlord). The date on which we notify you whether or not we are exercising our option is referred to in this Agreement as the “Notification Date”. We have the unrestricted right to assign this option to purchase the Franchised Business. We will be entitled to all customary warranties and representations in connection with our purchase, including, without limitation, representations and warranties as to ownership and condition of and title to assets; liens and encumbrances on assets; validity of contracts and agreements; and liabilities affecting the assets, contingent or otherwise.

(b) *Leasehold Rights.* If we exercise the option described in Section 5.4(a), you agree at our election, (i) to assign your leasehold interest in the commercial premises of the Franchised Business to us or (ii) if you are unable to assign your leasehold interest, to enter into a sublease at a fair market rental for the remainder of the lease term on the same terms

(including renewal option) as the prime lease; or (iii) if you own the premises, to lease the premises to us at a reasonable commercial rent and according to terms comparable with rental terms for similar leased property in the marketplace where the Site is located.

(c) *Purchase Price.* If we exercise the option described in Section 5.4(a), the purchase price for the assets of the Franchised Business will be the fair market value of the Franchised Business, determined in a manner consistent with reasonable depreciation of the leasehold improvements, equipment, fixtures, furnishings, signs, materials and supplies. The fair market value of the Franchised Business will include the goodwill you have developed in the market that is independent of the goodwill of the Marks and the System. The length of the remaining term of the lease or sublease of the premises of the Franchised Business, if any, and the age and condition of the improvements, equipment, fixtures, furnishings, décor and signs will also be considered in determining the fair market value. We may exclude from the assets purchased cash or its equivalent and any leasehold improvements, equipment, fixtures, furnishings, signs, materials and supplies that are not necessary or appropriate to the operation of the Franchised Business or that we have not approved as meeting our standards, and the purchase price will reflect such exclusions.

(d) *Appraisal.* If we and you are unable to agree on the fair market value of the assets to be purchased or the fair rental value of the premises of the Franchised Business, such fair market value or fair rental value will be determined by one independent appraiser agreed to by you and us. If we fail to agree on an appraiser within fifteen days after we exercise the option described in Section 5.4(a), then each party will name its own reputable appraiser within seven days thereafter, and the average of their determinations will be binding. If one appraiser is chosen, then the parties will share the cost of the appraiser equally. If two appraisers are used, each party will pay its own appraisal fees. You and we will instruct the appraiser or appraisers to complete their appraisal within 30 days after their appointment.

(e) *Closing.* The closing of the purchase described in this section will take place not later than 90 days after the determination of the purchase price. We will pay the purchase price at the closing, but we have the right to set off against the purchase price any and all amounts you or your company's owners owe to us. At the closing, you agree to deliver instruments transferring to us (i) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances, with all sales and other transfer taxes paid by you; (ii) all licenses and permits of the Franchised Business that are assignable; and (iii) a leasehold interest in (or unencumbered title to) the premises of the Franchised Business and the improvements to such premises. If you cannot deliver clear title to all of the purchased assets, or if there are other unresolved issues, the parties will endeavor to close the sale with the purchase price held in escrow pending resolution of such issues.

ARTICLE VI - REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

Section 6.1 - *Representations and Warranties*

(a) *Your Representations.* You represent and warrant as follows:

(I) YOU UNDERSTAND THAT SOME FRANCHISEES ARE MORE OR LESS SUCCESSFUL THAN OTHER FRANCHISEES.

(II) YOU HAVE CONDUCTED AN INDEPENDENT INVESTIGATION OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT, AND YOU RECOGNIZE THAT, LIKE ANY OTHER BUSINESS, AN INVESTMENT IN A CLUB SCIENTIFIC FRANCHISE INVOLVES BUSINESS RISKS AND THAT YOUR ABILITIES AND EFFORTS ARE VITAL TO THE SUCCESS OF THE VENTURE.

(III) YOU HAVE READ AND UNDERSTOOD THIS AGREEMENT AND HAVE HAD AMPLE OPPORTUNITY TO CONSULT WITH AN ATTORNEY AND OTHER ADVISORS OF YOUR OWN CHOOSING ABOUT THE POTENTIAL BENEFITS AND RISKS OF ENTERING INTO THIS AGREEMENT. YOU ACKNOWLEDGE THAT WE HAVE ADVISED YOU TO HAVE THIS AGREEMENT REVIEWED AND EXPLAINED TO YOU BY AN ATTORNEY.

(IV) ALL STATEMENTS YOU HAVE MADE AND ALL MATERIALS YOU HAVE SUBMITTED TO US IN CONNECTION WITH YOUR APPLICATION FOR AND PURCHASE OF THE FRANCHISE ARE ACCURATE AND COMPLETE AND, IN THAT CONNECTION, YOU HAVE MADE NO MISREPRESENTATIONS TO US OR OMITTED DISCLOSING ANY MATERIAL INFORMATION TO US.

(V) YOU ARE UNDER NO OBLIGATION OR RESTRICTION, NOR WILL YOU ASSUME ANY OBLIGATION OR RESTRICTION, THAT WOULD IN ANY WAY INTERFERE OR BE INCONSISTENT WITH, OR PRESENT A CONFLICT OF INTEREST CONCERNING, THE SERVICES THAT ARE THE SUBJECT OF THIS

AGREEMENT OR THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT.

(VI) SCHEDULE "A" COMPLETELY AND ACCURATELY DESCRIBES ALL OF YOUR COMPANY'S OWNERS, DIRECTORS, OFFICERS, MEMBERS, PARTNERS AND MANAGERS AND THEIR OWNERSHIP INTERESTS AND MANAGEMENT POSITIONS IN YOUR COMPANY.

(b) *Your Representations as an Entity.* If your company is a corporation, limited partnership or limited liability company, you further represent and warrant as follows:

(i) Your entity is duly organized or formed and in good standing under the laws of the state of its formation.

(ii) Your entity has the power and authority to enter into this Agreement and to perform its obligations under this Agreement, that all of the partners of the partnership, members of the company or all of the shareholders of the corporation, as applicable, have read and approved this Agreement, including any restrictions which this Agreement places upon rights to transfer their interest in the partnership, company or corporation.

(iii) Your entity's organizational documents, operating agreement or shareholders agreement will recite that the issuance and transfer of your company's ownership interests are restricted by the terms of this Agreement, and all certificates and other documents representing your company's ownership interests will bear a legend referring to the restrictions of this Agreement.

Section 6.2 - ***Indemnification***

(a) *Your Indemnity.* You and your company's owners agree to indemnify, defend and hold us, our affiliates and their respective shareholders, directors, officers, employees, agents, successors and assignees ("Indemnitees") harmless against and to reimburse them for all claims, obligations, liabilities and damages ("Claims"), including any and all taxes, directly or indirectly arising out of, in whole or in part: (a) the operation of your Franchised Business, the sale of any products and services, and your advertising; (b) the use of the Marks, Curricula, Manuals and any other proprietary materials; (c) the transfer of any interest in this Agreement or the Franchised Business in any manner not in accordance with this Agreement; (d) the infringement, alleged infringement, or any other violation or alleged violation by you or any of your principals of any patent, mark or copyright or other proprietary right owned or controlled by third parties; or (e) libel, slander or any other form of defamation of us, the System or any franchisee operating under the System, by you or by any of your company's owners. For purposes of this indemnification, "Claims" shall include all obligations, actual, consequential, punitive and other damages, and costs reasonably incurred in the defense of any action, including attorneys', attorney assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether or

not such claims exceed the amount of insurance coverage available to us through your insurance. We shall have the right to defend any such Claim against us in such manner as we deem appropriate or desirable in our sole discretion. Such an undertaking by us shall, in no manner or form, diminish your and each of your company's owners obligations to indemnify the Indemnities and to hold them harmless. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

(b) *Our Indemnity.* We will defend and indemnify and hold you and your affiliates, and the members, managers, stockholders, directors, officers, employees and agents of your company and its affiliates, harmless from and against all costs, expenses, liabilities and losses, including reasonable attorneys' fees and disbursements, directly or indirectly relating to advertising or promotion carried out by us or by agencies or media engaged by us relating to the CLUB SCIENTIFIC brand, provided that you have timely notified us of each such claim or proceeding, have given us sole control of the defense and settlement, and have otherwise complied with this Agreement.

(c) *Notice of Claim; Survival.* Each party will give the other notice of any claim that may require indemnification promptly after such party learns of such claim. The rights and obligations of the parties under this Section 6.2 will survive the expiration or termination of this Agreement.

ARTICLE VII – DISPUTE RESOLUTION

Section 7.1 - **Choice of Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Mississippi (without reference to its conflict of laws principals).

Section 7.2 - **Internal Dispute Resolution.** You must first bring any claim or dispute between you and us to our President and/or Chief Executive Officer at our headquarters, after providing notice as set forth in Section 8.6 below. You must exhaust this internal dispute resolution procedure before you may bring your dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

Section 7.3 - **Mediation.** At our option, all claims or disputes between you and us or our affiliates arising out of, or in any way relating to, this Agreement or any other agreement by and between you and us or our affiliates, or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure sent forth in Section 7.2 above, must be submitted first to mediation in Desoto County, Mississippi, under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against us or our affiliates with respect to any such claim or dispute, you must submit a notice to us, which specifies, in detail, the precise nature and grounds of such claim or dispute. We will have a period of 30 days following receipt of such notice within which to notify you as to whether we or our affiliates elect to exercise our option to submit such claim or dispute to mediation. You may not commence any action against us or our affiliates with respect to any

such claim or dispute in any court unless we fail to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by us. Our rights to mediation, as set forth herein, may be specifically enforced by us. Each party shall bear its own cost of mediation and you and we shall share mediation costs equally. This agreement to mediate shall survive any termination or expiration of this Agreement.

(a) The parties shall not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 7.3 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

- (i) Any federally protected intellectual property rights in the Marks, the System, trade secrets, or Confidential Information;
- (ii) Any of the restrictive covenants contained in this Agreement;
- (iii) Any claims arising out of or related to fraud or misrepresentation by you, or your insolvency; or
- (iv) Any claims to collect past due amounts owed to us or our affiliates.

Section 7.4 - Selection of Venue. Nothing contained in this Agreement shall prevent us from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect our interests. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in Desoto County, Mississippi, and the jurisdiction and venue of the United States District Court for the Northern District of Mississippi. You acknowledge that this Agreement has been entered into in the State of Mississippi, and that you are to receive valuable and continuing services emanating from our headquarters in Lake Cormorant, Mississippi, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, you hereby irrevocably consent to the personal jurisdiction of the state and federal courts of the State of Mississippi set forth above. The parties agree that all proceedings, whether litigation or mediation, will be conducted on an individual, not a class-wide basis, and that any proceeding between you and your principals and guarantors and us or our affiliates or employees may not be consolidated with any other proceeding between us and any other person or entity.

Section 7.5 - Third Party Beneficiaries. Our officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in this Section 7, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by us.

Section 7.6 - Prior Notice of Claims. As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, you must notify us within thirty (30) days

after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

Section 7.7 - **No Right to Offset.** You shall not withhold all or any part of any payment to us or any of our affiliates on the grounds of our alleged nonperformance or as an offset against any amount we or any of our affiliates allegedly may owe you under this Agreement or any related agreements.

Section 7.8 - **Injunctive Relief.** Nothing in this Agreement shall prevent us from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause us loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, your only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, you expressly waive all claims for damages you incurred as a result of the wrongful issuance.

Section 7.9 - **Limitation of Action.** You further agree that no cause of action arising out of or under this Agreement may be maintained by you against us unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one (1) year after you become aware of facts or circumstances reasonably indicating that you may have a claim against us hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off.

(a) you hereby waive the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by us, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

Section 7.10 - **Waiver of Punitive Damages.** You hereby waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against us arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, that your recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

SECTION 7.11 JURY TRIAL WAIVER. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF

EITHER PARTY, AND/OR YOUR PURCHASE FROM US OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES.

Article VIII - MISCELLANEOUS

Section 8.1 – ***Relationship of the Parties***. You are an independent contractor and not an agent of ours. You will have no power or authority to make any commitment or enter into any contract or agreement obligating or purporting to obligate us, and you will not hold yourself out as having such power or authority. Nothing in this Agreement creates a fiduciary relationship between the parties.

You agree to conspicuously identify yourself in all dealings with customers, suppliers, public officials, your employees and others as the owner of an independent business under a franchise we have granted and to place such notices of independent ownership on such forms, business cards, stationery, advertising and other materials as we require from time to time. We will not be obligated for any damages to any person or property directly or indirectly arising out of the operation of the Franchised Business. Section 8.2 – ***Reasonable Business Judgment***. You acknowledge that the long-term interests of the network of Club Scientific Businesses, and our company and its owners, taken together, require that we have the latitude to make business decisions with respect to the System and the System Standards. The ultimate responsibility to make decisions with respect to the System and the System Standards is vested in us because we, you and all Club Scientific franchisees have a collective interest in working within a franchise system that can quickly adjust to changing business conditions, including changes in the competitive environment, new laws and regulations, and emerging business opportunities. We have this right even if, at times, a particular decision adversely affects you. We will not be required to consider your particular economic or other circumstances or to disregard our own economic or other business interest when making decisions under this Agreement.

Section 8.3 - ***Severability***. If any restrictive covenant in this Agreement is held to be invalid or unenforceable because its duration is too long or its scope is too broad, you and we agree that the court making such determination will have the power to reduce the duration or scope in such a manner that the remaining revised covenant will be valid and enforceable. Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, such prohibition or invalidity will not invalidate the remainder of such provision or the other provisions of this Agreement.

Section 8.4 – ***No Waiver of Rights***. No delay or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy. No waiver will be binding unless contained in a writing signed by the party waiving its rights. Any waiver is limited to the specific situation in which it is given and no waiver of any breach or default under this Agreement will be construed as a waiver of any earlier or succeeding breach or default.

Section 8.5 – ***Notices***. All notices, requests, consents and other communications required or permitted by this Agreement will be in writing and will be delivered by eSignature signing software

| or by hand, overnight delivery

service, or registered or certified first class mail, to the following address, or such other address as either party, by like notice, designates with respect to its own address:

If to us: KidzArt LLC
P.O. Box ~~525-81143~~~~Eaton-~~
~~Rapids~~~~Lansing~~, MI 48~~908-~~
~~1143827~~
Attn: President

If to you: The address indicated in Schedule A

Any such notice, request, consent or other communication will be deemed given and be effective upon receipt at such address.

Section 8.6 – **Affiliates**. As used in this Agreement, the term “affiliate” of party means a company directly or indirectly controlling, controlled by or under common control with such party. “Control” of another company, as used in this Agreement, will mean the ownership of or the power to vote, directly or indirectly through majority-owned companies, fifty-one percent or more of the voting stock or voting rights of such other company.

Section 8.7 – **Attorneys’ Fees**. If you are in breach or default of any monetary or nonmonetary material obligation under this Agreement or any related agreement between you and us and/or our affiliates, and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys’ fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of this Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys’ fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

Section 8.8 – **Entire Agreement**. This Agreement and all ancillary agreements executed simultaneously with this Agreement, constitute the entire understanding of the parties and supersede any and all prior oral or written agreements between you and us on the matters contained in this Agreement; but nothing in this or any related agreement is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you. This agreement may not be modified except by a written document signed by both parties.

IN WITNESS WHEREOF, the parties have signed this Agreement on the dates set forth below, with effect as of the date first above written.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Date _____

Title

Date

SCHEDULE A

FRANCHISEE INFORMATION

Referred to in Sections 1.1(a) and (h), 1.2(a), 2.1(a), 6.1(a)(viii) and 8.6

1. Approved location: _____

2. Territory: _____

3. 10% discount for qualified veterans. ____ Yes ____ No (Check one.)

4. Address for notices (if different than 1): _____

5. Ownership and management of the franchisee. The Franchisee is [*check one*]

_____ an Individual

_____ a Corporation

_____ a Limited Liability Company

_____ a Partnership

_____ Other

State of Incorporation: _____

State of Formation: _____

Explain: _____

The following persons are the owners and managers of the Franchisee:

<i>Name & Address</i>	<i>Office (or LLC Manager)</i>	<i>Director, Partner or LLC Member</i>	<i>Percentage Ownership</i>
---------------------------	------------------------------------	--	---------------------------------

_____	_____	_____	_____
-------	-------	-------	-------

_____	_____	_____	_____
-------	-------	-------	-------

Franchisee to reflect its agreement by initialing each applicable box

	Not Required	Provided to Us	To Be Provided to Us Within 30 Days
Certificate and Articles of Incorporation	☐	☐	☐
Certificate and Agreement of Partnership	☐	☐	☐
Certificate and Articles of Organization	☐	☐	☐
By-Laws	☐	☐	☐
Partnership Agreement	☐	☐	☐
Resolution Authorizing Franchise Agreement	☐	☐	☐
Other	☐	☐	☐

Conditions:

Documents:

	Yes	No
The legal entity's activities must be confined exclusively to operating the franchised Office.	☐	☐
_____ (or another person with our written consent) must act as the legal entity's Managing Owner.	☐	☐
Each owner must sign the Guaranty and Assumption of Obligations.	☐	☐
The legal entity must maintain stop transfer instructions on its records against transfer of any stock certificate or certificate of ownership contrary to the terms of Section 19 of the Franchise Agreement.	☐	☐
Each stock certificate or certificate of ownership must include the statement we require regarding transfer restrictions.	☐	☐
The legal entity must maintain a current list of all owners and give us the list on request.	☐	☐

SCHEDULE B

SEE SECTION 1.1(H) OF THE FRANCHISE AGREEMENT

KIDZART LLC

Guaranty and Assumption of Obligations

In order to induce KIDZART LLC, a Nevada limited liability company (the "Franchisor") to enter into a Club Scientific Franchise Agreement dated as of _____ (the "Franchise Agreement") with _____ (the "Franchisee") for a Club Scientific franchise located in _____ each of the undersigned persons (the "Guarantors"), jointly, individually and severally, hereby agrees as follows

1. Assumption of Obligations/Guaranty of Payment

(a) *Personal Guaranty.* Each Guarantor personally and unconditionally agrees to be firmly bound by all of the terms, provisions and conditions of the Franchise Agreement, and any other agreement between Franchisee and Franchisor and/or its affiliates, and guarantees to the Franchisor and the Franchisor's successors and assigns the due, punctual and complete payment of all amounts that the Franchisee is obligated to pay to the Franchisor under the Franchise Agreement and under any modification of, amendment to or renewal of the Franchise Agreement.

(b) *Waiver of Defenses.* Each Guarantor waives to the fullest extent permitted by law (a) any defense based upon any (i) legal disability or lack of authority of the Franchisee, (ii) legal or equitable discharge or limitation of the liability of the Franchisee, whether consensual or arising by operation of law, (iii) bankruptcy, insolvency, reorganization or other similar proceeding affecting a Guarantor or the Franchisee, or (iv) invalidity, irregularity or unenforceability of any or all of the provisions of this Guaranty or the Franchise Agreement; (b) presentment, demand, protest or notice of any other kind; (c) notice of acceptance of this Guaranty; (d) other defenses available to a Guarantor under applicable law; or (e) any requirement of diligence on the part of the Franchisor or any right a Guarantor may have to require the Franchisor to proceed first against the Franchisee.

(c) *Guaranty of Payment.* This is a guaranty of payment and not of collection. The Franchisor may require payment from each Guarantor of any obligation of the Franchisee under the Franchise Agreement and may sue each Guarantor for damages without first seeking or taking any action against the Franchisee.

(d) *No Modification or Release.* The liability of each Guarantor is unaffected by (a) any modification, amendment, termination or variation in or addition to the Franchise

Agreement; (b) any extension of time for performance or any waiver of performance or any

delay of the Franchisor in enforcing any right, remedy, power or privilege that the Franchisor may have against the Franchisee or any other person; (c) the release of the Franchisee, in whole or in part, from performance or observance of any of the agreements, covenants, terms or conditions contained in the Franchise Agreement, whether made with or without notice to Guarantor; or (d) any other guaranty now or hereafter executed by anyone else in connection with the transactions contemplated by the Franchise Agreement.

2. Proprietary Rights; Confidentiality; Noncompetition

(a) *Improvements.* Each Guarantor agrees that if a Guarantor makes an improvement to the Franchisor's business system or method, such improvement will be the property of the Franchisor pursuant to the terms of Section 1.4(c) of the Franchise Agreement and the Guarantor will promptly disclose such improvement to the Franchisee or to the Franchisor with reference to this undertaking. The Guarantor hereby assigns all rights in such improvements to the Franchisor and agrees to sign any documents that the Franchisor may reasonably request from time to time to evidence such assignment.

(b) *Copyrights and Trademarks.* Each Guarantor acknowledges that the Franchisor's copyrights and trademarks may only be used by the Franchisee in accordance with Section 3.1 of the Franchise Agreement. Each Guarantor personally agrees to comply with all of the Franchisee's obligations under Section 3.1 and not to use any of the Franchisor's copyrights or trademarks except on behalf of the Franchisee in furtherance of the Franchisee's business, and each Guarantor agrees that any such use will be in compliance the Franchisee's obligations under the Franchise Agreement as if the Guarantor were the Franchisee under the Franchise Agreement.

(c) *Confidentiality.* Each Guarantor acknowledges the Franchisee's obligations of confidentiality under Section 3.2 of the Franchise Agreement. Each Guarantor personally agrees to comply with all of the Franchisee's obligations under Section 3.2 and not to disclose or use any Confidential Information (as defined in Section 3.2(a) of the Franchise Agreement except on behalf of the Franchisee in furtherance of the Franchisee's business in compliance the Franchisee's obligations under the Franchise Agreement, and only to the extent that the Franchisee is permitted under the Franchise Agreement to disclose and use Confidential Information. Upon the request of the Franchisor, the Guarantor will promptly return to the Franchisor all Confidential Information and all copies in the Guarantor's possession or under the Guarantor's control, and the Guarantor will destroy all copies on the Guarantor's computers, disks and other digital storage devices.

(d) *Noncompetition.* Each Guarantor acknowledges the Franchisee's obligations under Section 3.3 of the Franchise Agreement not to compete with the Franchisor. Each Guarantor personally agrees to comply with and be bound by all of the Franchisee's obligations under Section 3.3 to the same extent that the Franchisee is bound by the obligations of Section 3.3, both during and after the term of the Franchise Agreement.

(e)

3. Dispute Resolution

ii

(a) *Choice of Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Mississippi (without reference to its conflict of laws principals).

(b) *Internal Dispute Resolution.* Each Guarantor must first bring any claim or dispute between such Guarantor and Franchisor to Franchisor's President and/or Chief Executive Officer at Franchisor's headquarters, after providing notice as set forth in Section 8.6 of the Franchise Agreement. Each Guarantor must exhaust this internal dispute resolution procedure before bringing such dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Guaranty.

(c) *Mediation.* At Franchisor's option, all claims or disputes between each Guarantor and Franchisor or Franchisor's affiliates arising out of, or in any way relating to, this Guaranty or any other agreement by and between a Guarantor and Franchisor or its affiliates, or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure sent forth in Section 3(b) above, must be submitted first to mediation in Desoto County, Mississippi, under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, a Guarantor must submit a notice to Franchisor, which specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of 30 days following receipt of such notice within which to notify Guarantor as to whether Franchisor or its affiliates elect to exercise our option to submit such claim or dispute to mediation. Guarantor may not commence any action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor's rights to mediation, as set forth herein, may be specifically enforced by Franchisor. Each party shall bear its own cost of mediation and Franchisor and Guarantors shall share mediation costs equally. This agreement to mediate shall survive any termination or expiration of this Guaranty.

(i) The parties shall not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 7.3 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating):

(a) Any federally protected intellectual property rights in the Marks, the System, trade secrets, or Confidential Information;

(b) Any of the restrictive covenants contained in this Guaranty;

(c) Any claims arising out of or related to fraud or

misrepresentation by you, or your insolvency; or

(d) Any claims to collect past due amounts owed to us or our affiliates.

(d) *Selection of Venue.* Nothing contained in this Guaranty shall prevent Franchisor from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect its interests. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in DeSoto County, Mississippi, and the jurisdiction and venue of the United States District Court for the Northern District of Mississippi. Each Guarantor acknowledges that this Agreement has been entered into in the State of Mississippi, and that they are to receive valuable and continuing services emanating from Franchisor's headquarters in Lake Cormorant, Mississippi, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, each Guarantor hereby irrevocably consents to the personal jurisdiction of the state and federal courts of the State of Mississippi set forth above. The parties agree that all proceedings, whether litigation or mediation, will be conducted on an individual, not a class-wide basis, and that any proceeding between a Guarantor and Franchisor or its affiliates or employees may not be consolidated with any other proceeding between Franchisor and any other person or entity.

(e) *Third Party Beneficiaries.* Franchisor's officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Guaranty, including the mediation provision set forth in this Section 3, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by Franchisor.

(f) *Prior Notice of Claims.* As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, the Guarantor must notify Franchisor within thirty (30) days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

(g) *No Right to Offset.* Guarantor shall not withhold all or any part of any payment to Franchisor or any of its affiliates on the grounds of Franchisor's alleged nonperformance or as an offset against any amount Franchisor or any of its affiliates allegedly may owe Guarantor under this Agreement or any related agreements.

(h) *Injunctive Relief.* Nothing in this Agreement shall prevent Franchisor from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause Franchisor loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, Guarantor's only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, each Guarantor expressly waives all claims for damages he/she incurred as a result of the wrongful issuance.

(i) *Limitation of Action.* Each Guarantor further agrees that no cause of action arising out of or under this Guaranty may be maintained by Guarantor against Franchisor unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one (1) year after the Guarantor becomes aware of facts or circumstances reasonably indicating that the Guarantor may have a claim against Franchisor hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off.

(a) each Guarantor hereby waives the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by Franchisor, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

(j) *Waiver of Punitive Damages.* Each Guarantor hereby waives to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against Franchisor arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, that the Guarantor's recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

(k) *Attorneys' Fees.* If Guarantor is in breach or default of material obligation under this Guaranty or any related agreement between Guarantor and Franchisor and/or its affiliates, and Franchisor engages an attorney to enforce its rights (whether or not formal judicial proceedings are initiated), Guarantor must pay all reasonable attorneys' fees, court costs and litigation expenses Franchisor incurs. If a Guarantor institutes any legal action to interpret or enforce the terms of this Guaranty, and Guarantor's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover its reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

(I) JURY TRIAL WAIVER. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS GUARANTY.

4. Miscellaneous

(a) *Transfer by the Franchisor.* If the Franchisor transfers its rights and obligations under the Franchise Agreement pursuant to Section 4.1 of the Franchise Agreement, this

Guaranty will be deemed to be transferred automatically to the transferee who, upon such transfer, will have all of the rights granted to the Franchisor under this Guaranty vis-a-vis the Guarantors, and the obligations of the Guarantors will then accrue to the benefit of the transferee.

(b) *Notices.* All notices and other communications required or permitted by this Agreement will be in writing and will be delivered by hand, fax, overnight delivery service, or registered or certified first class mail, to the then-current address of the Guarantor known by the sender. Any such notice or other communication will be deemed given and be effective upon receipt at such address.

(c) *Defined Terms.* Terms defined in the Franchise Agreement and not defined in this Guaranty shall have the meaning defined in the Franchise Agreement.

(d) *Waiver.* No delay, omission or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy.

(e) *Amendments.* This Guaranty of Obligations may not be modified or amended except in writing signed by the Franchisor and the Guarantor to be bound by such modification or amendment. No waiver or discharge will be valid unless in writing and approved by the Franchisor.

IN WITNESS WHEREOF, each Guarantor has signed this Guaranty as of the date of the Franchise Agreement.

Signature

Print Name

Signature

Print Name

Signature

Print Name

Acknowledged and agreed:

KIDZART LLC

By _____

Title _____

Date _____

STATE OF

ss.:

COUNTY OF

On the ____ day of _____, before me personally came
_____, and _____, to me known to be
the individuals described in and who executed the foregoing guaranty, and they acknowledged that
they executed the same.

Public Notary

STATE OF

)

ss.:

COUNTY OF

)

)

On the ____ day of _____, before me personally came
_____, and _____, to me known to be
the individuals described in and who executed the foregoing guaranty, and they acknowledged that
they executed the same.

Public Notary

STATE OF

)

ss.:

COUNTY OF

)

)

On the ____ day of _____, before me personally came
_____ and _____, to me known to
be the individuals described in and who executed the foregoing guaranty, and they acknowledged
that they executed the same.

Public Notary

SCHEDULE C

SEE SECTION 1.5(H) OF THE FRANCHISE AGREEMENT

KIDZART LLC

CONFIDENTIALITY AND NONCOMPETITION AGREEMENT

Recipient

Date

Recipient's Position with Franchisee

Franchisee

1. ***Purpose of this Agreement.*** The franchisee named above (the "Franchisee") has entered into a Franchise Agreement with KIDZART LLC, a Nevada limited liability company (the "Franchisor"). The recipient named above (the "Recipient") holds the position indicated above with the Franchisee. In such position, the Recipient will or may have access to certain confidential information of the Franchisor. In order to induce the Franchisor to enter into the Franchise Agreement, the Franchisee agreed to obtain from each of its managers and others who may have access to any confidential information of the Franchisor an agreement not to disclose to any third party any such information and to comply with the non-compete requirements set forth below.

2. ***Confidentiality.***

(a) ***Confidential Information.*** As used in this Agreement, the term "Confidential Information" means the Franchisor's know-how, technical knowledge, methods of operation, business and marketing plans and all other information that the Recipient may receive from the Franchisee or the Franchisor or its affiliate or any of their employees, agents or representatives, prior to or on or after the date of this Agreement, that is not generally available to the public and that has commercial value to the Franchisor, or that is personally identifiable information of customers. "Confidential Information" includes, without limitation: the content of all Manuals used or approved for use in the operation of the franchised business; the content of all training provided by the Franchisor; the substance, design, organization, and presentation of all curricula provided by the Franchisor; sales and marketing techniques; advertising and marketing programs and plans; current, past and planned research, development and test programs for products, services and operations; specifications for and suppliers of certain equipment, fixtures, furnishings, signs, materials and supplies; the operating results and financial performance of Club Scientific Businesses other than the Franchisee's business; and all improvements, amendments and modifications to the Club Scientific franchise system developed by the Recipient. The Recipient acknowledges that all Confidential Information is confidential and proprietary information of the Franchisor.

(b) ***Nondisclosure.*** At all times both during and after the term of the Franchise Agreement, the Recipient will keep all Confidential Information in the strictest confidence and will not disclose any Confidential Information to any person other than Franchisee's employees, agents or representatives who have signed confidentiality agreements with or undertakings to the Franchisor substantially in the form of this undertaking and who have a legitimate need to know such information, except for any disclosure required by law, in which event Recipient will give notice to the Franchisor of the disclosure to be made.

(c) *Non-Use.* At all times both during and after the term of the Franchise Agreement, Recipient will not use any Confidential Information except for the purpose of fulfilling Recipient's legitimate obligations relating to the Franchisor's business.

(d) *Exceptions.* The obligations of confidentiality and non-use described above will not apply to information that, (i) can be clearly shown by the Recipient to have been known to Recipient on a non-confidential basis prior to its disclosure to the Recipient by the Franchisee or the Franchisor; (ii) is now, or hereafter becomes, information generally available to the public not due to any act or failure to act by the Recipient; or (iii) can be clearly shown by the Recipient to have been received by Recipient on a non-confidential basis from a third party that is not prohibited from disclosing such information by a legal, contractual or fiduciary obligation.

(e) *Disclosures Required by Law.* In the event that the Recipient becomes legally compelled to disclose any Confidential Information, the Recipient will (i) promptly notify the Franchisor that such information is required to be disclosed, (ii) use his or her best efforts to obtain legally binding assurance that all those who receive disclosure of such information are bound by an obligation of confidentiality, and (iii) disclose only that portion of the Confidential Information that legal counsel of the Recipient or the Franchisee advises is legally required to be disclosed.

(f) *Return of Information.* Upon the request of the Franchisor or the Franchisee, the Recipient will promptly return to the Franchisor or the Franchisee, as the case may be, all Confidential Information and all copies in the Recipient's possession or under the Recipient's control, and the Recipient will destroy all copies on the Recipient's computers, disks and other digital storage devices.

3. Further Undertakings.

(a) *Improvements.* Recipient agrees that if Recipient makes an improvement to the Franchisor's business system or method, such improvement will be the property of the Franchisor and the Recipient will promptly disclose such improvement to the Franchisee or to the Franchisor with reference to this undertaking. The Recipient hereby assigns all rights in such improvements to the Franchisor and agrees to sign any documents that the Franchisor may reasonably request from time to time to evidence such assignment.

(b) *Noncompetition During Employment.* The Recipient agrees that during the Recipient's employment by the Franchisee, the Recipient will not, directly or indirectly (such as through a member of the Recipient's immediate family), either (i) have a direct or indirect interest in a Competitive Business located or operating anywhere in the U.S. or in any other country in which the Franchisor has a licensee; (ii) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for any such Competitive Business or lend money to, or extend credit to a Competitive Business ; (iii) divert or attempt to divert any business or customer of the Franchised Business to any competitor in any manner; or (iv) recruit or hire any person who is an employee of the Franchisor or of any Club Scientific franchisee or who has been such within the six month period before such recruiting or hiring, without the prior written permission of that person's employer.

(c) *Definition of Competitive Business.* As used in this Agreement, the term "Competitive Business" means any business that offers educational science programs or similar science themed enrichment activities or services or grants franchises or licenses to others to

operate such a business (other than a Club Scientific Business operated under a franchise agreement with us or our affiliate). The restrictions of this section will not apply to the ownership of publicly traded securities that constitute less than three percent (3%) of a class of ownership interests of the issuing company.

(d) *(d) Noncompetition After Employment Ends.* In the event that the Recipient ceases to be employed or by or to perform services for the Franchisee, the Recipient will not, directly or indirectly (such as through a member of the Recipient's immediate family), for a period of two years thereafter, have a direct or indirect ownership interest in, or perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for, or lend money to, or extend credit to a Competitive Business located or operating in the Territory or within 30 miles of the Site of any Club Scientific Business anywhere in the world at the time that such employment ends, and the Recipient will continue for such two-year period to comply with the obligations described in Sections 3(b) (iii) and (iv).

4. Miscellaneous.

(a) *Franchisor Third-Party Beneficiary.* The Recipient and the Franchisee acknowledge and intend that the covenants contained in this Agreement will directly benefit the Franchisor, who will be a third-party beneficiary, entitled to enforce the provisions of this Agreement in the Franchisor's own name without the Franchisee as a party in any action filed for such purpose, and will further be entitled to all remedies provided in Section 4(b).

(b) *Remedies.* Recipient acknowledges that if Recipient fails to comply strictly with any of the above undertakings, the Franchisor will suffer irreparable harm and will have a cause of action for damages or injunctive relief or both against Recipient in a court of competent jurisdiction. If Recipient is in breach or default of material obligation under this Agreement or any related agreement between Recipient and Franchisor and/or its affiliates, and Franchisor engages an attorney to enforce its rights (whether or not formal judicial proceedings are initiated), Recipient must pay all reasonable attorneys' fees, court costs and litigation expenses Franchisor incurs. If Recipient institutes any legal action to interpret or enforce the terms of this Agreement, and Recipient's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover its reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

(c) *Notices.* All notices and other communications required or permitted by this Agreement will be in writing and will be delivered by hand, fax, overnight delivery service, or registered or certified first class mail, to the then-current address of the recipient known by the sender. Any such notice or other communication will be deemed given and be effective upon receipt at such address.

(d) *Entire Agreement.* This Agreement constitutes the entire understanding between the parties, superseding all prior agreements, arrangements and understandings between the parties relating to its subject matter.

(e) *Waiver.* No delay, omission or failure to exercise any right or remedy provided for in this Agreement will be deemed to be a waiver of such right or remedy or acquiescence in the event giving rise to such right or remedy.

Recipient

Print Name

[Franchisee]

By _____

Title _____

Date _____

KIDZART LLC

By _____

Title _____

Date _____

SCHEDULE D

CONDITIONAL ASSIGNMENT OF FRANCHISEE'S TELEPHONE NUMBERS

1. _____, doing business at _____ ("Assignor"), in exchange for valuable consideration provided by KIDZART, LLC ("Assignee"), receipt of which is hereby acknowledged hereby conditionally assigns to Assignee all telephone numbers and listings utilized by Assignor in the operation of its Club Scientific franchise at Assignor's above-referenced address. Those numbers are as follows:

2. The conditional agreement will become effective automatically upon termination of Assignor's franchise. Upon the occurrence of that condition, Assignor must do all things required by the telephone company to assure the effectiveness of the assignment of telephone numbers as if the Assignee had been originally issued such telephones, telephone numbers, telephone listings and the usage thereof.

3. Assignor agrees to pay the telephone company on or before the effective date of assignment all amounts owed for the use of the telephone number(s) including, without limitation, Yellow Pages advertising. Assignor further agrees to indemnify Assignee for any sums Assignee must pay the telephone company to effectuate this agreement and agrees to fully cooperate with the telephone company and Assignee in effectuating this assignment.

ASSIGNOR:

By: _____
Date: _____
Name: _____
Title: _____

ASSIGNEE:

KIDZART, LLC

By: _____
Date: _____
Name: _____
Title: _____

SCHEDULE E

ELECTRONIC FUNDS WITHDRAWAL AUTHORIZATION

Bank Name : _____

ABA# : _____

Acct. No. : _____

Acct. Name : _____

Effective as of the date of the signature below, _____ [Franchisee Name] hereby authorizes KidzArt, LLC ("Company") or its designee to withdraw funds from the above-referenced bank account, electronically or otherwise, to make the following payments to Company under the Franchise Agreement for the franchise located at _____ : (1) all Royalty Fees; (2) all contributions to the Advertising Fund; and (3) all other amounts due under the Franchise Agreement or any other agreement between Company and _____ or as directed by Company in its Operations Manuals or otherwise in writing. Such withdrawals shall occur on a weekly basis, or on such other schedule as Company shall specify in writing. Company is also authorized to deposit funds into the above-referenced account, electronically or otherwise. This authorization shall remain in full force and effect until terminated in writing by Company. [Franchisee Name] shall provide Company, in conjunction with this authorization, a voided check from the above referenced account.

AGREED:

ATTEST:

FRANCHISEE

By: _____

Print Name: _____

Its: _____

EXHIBIT F3

CO-BRANDING FRANCHISE ADDENDUM

FIRST ADDENDUM TO THE KIDZART FRANCHISE AGREEMENT AND CLUB SCIENTIFIC FRANCHISE AGREEMENT

This first addendum (the "Addendum") to the KidzArt Franchise Agreement and the Club Scientific Franchise Agreement is made and entered into this ____ day of ____, 20____ by and among KIDZART LLC ("KidzArt"), a Nevada limited liability company, with an address at P.O. Box ~~81143525~~, ~~LansingEaton-Rapids~~, Michigan 48~~908-~~
~~1143827~~ and _____, a _____ with an address at _____ ("Franchisee").

BACKGROUND

A. KidzArt offers franchises for the establishment, development, and operation of businesses offering art instruction products and services under the mark "KIDZART®" and system (the "KidzArt Business").

B. KidzArt also offers franchises for the establishment, development, and operation of businesses offering science based educational and technology enrichment programs for children under the mark "CLUB SCIENTIFIC®" and system (the "Club Scientific Business").

C. On _____, KidzArt and Franchisee entered into a franchise agreement (the "KidzArt Franchise Agreement") pursuant to which Franchisee was granted the right and undertook the obligation to open and operate a KidzArt Business within the following territory (the "Territory").

D. On _____, KidzArt and Franchisee entered into a franchise agreement (the "Club Scientific Franchise Agreement") pursuant to which Franchisee was granted the right and undertook the obligation to open and operate a Club Scientific Franchised Business within the Territory.

E. Franchisee wishes to operate a combined KidzArt/Club Scientific business (the "Co-Branded Franchised Business") within the Territory.

F. The parties wish to amend the KidzArt Franchise Agreement and the Club Scientific Franchise Agreement (collectively the "Agreements") pursuant to the terms and conditions of this Addendum.

AGREEMENT

NOW THEREFORE, in consideration of the mutual agreements, covenants and promises contained in this Addendum and for mutual consideration, the receipt and

sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Royalties and Advertising Fund Contributions. Franchisee will pay royalties and advertising fund contributions on the sale of services and products of each brand at the rates and as otherwise provided for in the KidzArt Franchise Agreement and Club Scientific Franchise Agreement.

2. Section 1.1(c) – Minimum Gross Revenues. Section 1.1(c) shall be amended to provide that Franchisee's minimum Gross Revenue Requirement during each 12 month period during the term of the Agreements shall equal and or exceed \$45,000 of the combined Gross Revenues of the Co-Branded Franchise Business.

3. Section 1.2(a)(vi) – The Site. Section 1.2(a) shall be amended to provide that Franchisee shall operate the Co-Branded Franchised Business from the Site. Franchisee may not use the Site for any purpose other than the operation of a Co-Branded Franchised.

4. Section 1.3(i) – Telephone. Section 1.3(i) shall be amended to provide that Franchisee shall only be required to maintain one dedicated telephone line for the Co-Branded Franchised Business.

5. Section 1.5(a) – Managing Owner. Section 1.5(a) shall be amended to provide that the Co-Branded Franchised Business may be operated by the same Managing Owner.

6. Section 1.6(f) – Entity Requirements. Section 1.6(f) shall be amended to provide that a single entity, whether a corporation, limited liability company or partnership, formed by Franchisee may operate the Co-Branded Franchised Business.

7. Section 2.1(a) – Initial Fees. Section 2.1(a) shall be amended to provide that there shall be a single non-refundable initial franchise fee of \$_____ due and owing by Franchisee in connection with both of the _____ Territory Agreements. The fee to add an additional qualifying household to the Co-Branded Franchise Business's Territory shall be \$.80 per qualified household.

8. Section 5.2(b) – Termination by Us Upon Notice. The parties acknowledge and agree that a default which remains uncured after written notice and the expiration of any applicable cure period under the KidzArt Franchise Agreement shall constitute a default under the Club Scientific Franchise Agreement, and a default which remains uncured after written notice and the expiration of any applicable cure period under the Club Scientific Franchise Agreement shall constitute a default under the KidzArt Franchise Agreement. Franchisee's failure to cure a default under either the KidzArt Franchise Agreement or the Club Scientific Franchise Agreement shall give KidzArt the right to terminate both the KidzArt Franchise Agreement and the Club Scientific Franchise Agreement.

9. Section 3.3(b) – Definition of Competitive Business. The definition of “Competitive Business” contained in Section 3.3(b) shall be supplemented to also include any business offering in whole or in part art or drawing instruction programs and educational science programs and similar science themed enrichment activities.

10. Entire Agreement. The KidzArt Franchise Agreement, the Club Scientific Franchise Agreement and this Addendum constitute the entire, full, and complete agreement concerning the Store and supersede any and all prior agreements. In the event of a conflict between the terms of the KidzArt Franchise Agreement or the Club Scientific Franchise Agreement and the terms of this Addendum, the terms of this Addendum shall control. Except as amended hereby, all the other terms and conditions of the KidzArt Franchise Agreement and the Club Scientific Franchise Agreement are ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have duly executed and delivered this Addendum the date and year first written above.

KIDZART, LLC

By: _____

Title: _____

FRANCHISEE:

By: _____

Title: _____

EXHIBIT G

FRANCHISEE CERTIFICATION

The date of my first face-to-face meeting with a KidzArt LLC Franchise Representative, Franchise Broker or any other person (if applicable) to discuss the possible purchase of a Franchise was _____, 20____. Franchisee's Initials _____

The date on which I received a Franchise Disclosure Document was _____, 20____. Franchisee's Initials _____

The date when I received a fully completed copy (other than signatures) of the KidzArt Franchise Agreement, Club Scientific Franchise Agreement and/or Co-Branding Franchise Addendum I later signed was _____, 20____. Franchisee's Initials _____

The earliest date on which I signed the KidzArt Franchise Agreement, Club Scientific Franchise Agreement or Co-Branding Franchise Addendum and/or any other binding document (not including the Receipt page) was _____, 20____. Franchisee's Initials _____

The earliest date on which I delivered cash, check or other consideration to the Franchise Marketing Representative, Franchise Broker, KidzArt LLC ("Franchisor") or any other person or company was _____, 20____. Franchisee's Initials _____

I hereby understand that there will be no refunds for initial fees paid or royalties and other fees paid unless otherwise expressly stated. Franchisee's Initials _____

The prospective Franchisee understands and agrees to all of the foregoing and certifies that all of the above statements are true, correct and complete.

FRANCHISEE

Dated: _____

EXHIBIT H
STATE ADDENDA

CALIFORNIA ADDENDUM

OUR WEBSITES HAVE NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF Financial Protection and Innovation. KIDZART'S WEBSITE: <http://www.kidzart.com/franchise>. CLUB SCIENTIFIC'S WEBSITE <http://clubscientific.com/pdf/FranchiseGuide.pdf> ANY COMPLAINTS CONCERNING THE CONTENT OF THESE WEBSITES MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF Financial Protection and Innovation AT WWW.DFPI.CA.GOV.

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

The franchise agreements contain provisions shortening the statute of limitations to bring claims and requiring you to waive your right to punitive or exemplary damages against the franchisor, limiting your recovery to actual damages for any claims related to your franchise. Under California Corporations Code section 31512, these provisions are not enforceable in California for any claims you may have under the California Franchise Investment Law."

The franchise agreement requires application of the laws of Mississippi. This provision may not be enforceable under California law.

The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.

and

No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. Any statements or representations signed by a franchisee purporting to understand any fact or its legal effect shall be deemed made only based upon the franchisee's understanding of the law and facts as of the time of the franchisee's investment decision. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

Item 3 – LITIGATION

Neither we nor any person or franchise broker in Item 2 of the Franchise Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in that association or exchange.

Item 5 – INITIAL FRANCHISE FEE

ITEM 6 – OTHER FEES

Item 6 of the Franchise Disclosure Document is hereby revised to note that the highest interest rate allowed in California is 10%.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

You must sign a general release if you renew or transfer your franchise. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).

According to Item 17r, the Franchise Agreement requires you not to compete with us for a period of two years after the agreement is terminated or expires. This provision may not be enforceable under California law.

According to Item 17u, the Franchise Agreement provides that, except for certain claims, all disputes must be arbitrated in Lake Cormorant, Mississippi. The franchise agreement requires binding arbitration. The arbitrator may apportion the costs of arbitration between the parties in such manner as the arbitrator deems reasonable, taking into account the circumstances of the case, the conduct of the parties during the proceeding, and the result of the arbitration. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

Section 5.2(c)(xx) of the Franchise Agreement allows us to terminate if you become insolvent or if a petition in bankruptcy is filed by you or filed against and consented to by you or not dismissed within 30 days. This provision may not be enforceable under federal bankruptcy law. (11 U.S.C.A. § 101 et seq.)

The franchise agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable

Item 19 – Financial Performance Representations

“The earnings claims figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. California Corporations Code Section 31512, Section 310.114.1 (c) (6), You should conduct an independent investigation of the costs and expenses you will incur in operating your (franchises business). Franchisees or former franchisees, listed in the offering circular, may be one source of this information.

California Corporations Code Section 31123, A franchisor shall promptly notify the commissioner in writing, by an application to amend the registration, of any material change in the information contained in the application as originally submitted, amended or renewed. The commissioner may by rule further define what shall be considered a material change for such purposes, and the circumstances under which a revised offering prospectus must accompany such application. -

The pages that follows will constitute an addition to the KidzArt Franchise Agreement and Club Scientific Franchise Agreement for California.

CALIFORNIA ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. The initial fee described in Section 2.1(a) of the Franchise Agreement will be due and payable when you complete initial training. At that time you are able to open for business.
2. You agree not to use the KIDZART trademark or any variation of the KIDZART trademark in any of the following counties in California: San Luis Obispo, Kern, San Bernardino, Santa Barbara, Ventura, Los Angeles, Orange, Riverside, San Diego and Imperial. If the Territory under the Franchise Agreement includes any part of these counties, you will use our trademark ART INNOVATORS as the principal trademark of the Franchised Business.
3. Nothing in the Franchise Agreement shall be construed as to require the Franchisee to waive any of the protections of the California Franchise Relations Act (Cal. Bus. & Prof. Code § 20000 et seq) (as amended from time to time, the “Act”). To the extent of any conflict between the terms of the Franchise Agreement and the provisions of the Act, the provisions of the Act shall control. Without limiting the generality of the foregoing:
 - (a) The provisions of the Act concerning termination and nonrenewal of the Franchise Agreement, and transfer of the Franchised Business, shall control over any inconsistent terms set forth in the Franchise Agreement.
 - (b) If a prospective franchisee seeking to buy the Franchised Business makes a written request for an application for approval of the transfer, the Franchisor shall provide such application within 15 calendar days of the request. If the Franchisor’s then-existing standards for approval of an application are not reasonably available to the prospective franchisee, the Franchisor shall communicate the standards to the prospective franchisee within 15 calendar days of receiving a written request for such standards. The franchisor will notify the prospective franchisee of the approval or disapproval of their application within 60 days after receiving the information and documentation required by the Act.
 - (c) Upon the termination or nonrenewal of the franchise, the Franchisor may only offset the amount owed to the Franchisee with amounts owed by the Franchisee if the Franchisee agrees to the amount owed or the Franchisor has a judgment for that amount.
 - (d) The Franchisor may not modify the Franchise Agreement or require a general release in exchange for assistance related to a declared state or federal emergency.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

CALIFORNIA ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the "Franchise Agreement").

1. The initial fee described in Section 2.1 of the Franchise Agreement will be due and payable when you complete initial training. At that time you are able to open for business.
2. Nothing in the Franchise Agreement shall be construed as to require the Franchisee to waive any of the protections of the California Franchise Relations Act (Cal. Bus. & Prof. Code § 20000 et seq) (as amended from time to time, the "Act"). To the extent of any conflict between the terms of the Franchise Agreement and the provisions of the Act, the provisions of the Act shall control. Without limiting the generality of the foregoing:

(a) The provisions of the Act concerning termination and nonrenewal of the Franchise Agreement, and transfer of the Franchised Business, shall control over any inconsistent terms set forth in the Franchise Agreement.

(b) If a prospective franchisee seeking to buy the Franchised Business makes a written request for an application for approval of the transfer, the Franchisor shall provide such application within 15 calendar days of the request. If the Franchisor's then-existing standards for approval of an application are not reasonably available to the prospective franchisee, the Franchisor shall communicate the standards to the prospective franchisee within 15 calendar days of receiving a written request for such standards. The franchisor will notify the prospective franchisee of the approval or disapproval of their application within 60 days after receiving the information and documentation required by the Act.

(c) Upon the termination or nonrenewal of the franchise, the Franchisor may only offset the amount owed to the Franchisee with amounts owed by the Franchisee if the Franchisee agrees to the amount owed or the Franchisor has a judgment for that amount.

(d) The Franchisor may not modify the Franchise Agreement or require a general release in exchange for assistance related to a declared state or federal emergency.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Date _____

Title _____

Date _____

ILLINOIS ADDENDUM

Item 5 – INITIAL FRANCHISE FEE

Payment of Initial Franchise/Development Fees will be deferred until Franchisor has met its initial obligations to franchisee, and franchisee has commenced doing business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to Franchisor's financial condition.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

Item 17 shall be supplemented to include the following disclosure:

The conditions under which your franchise can be terminated and your rights upon nonrenewal may be affected by Illinois law, 815 ILCS 705/19 and 705/20.

The KidzArt and Club Scientific Franchise Agreements provide that the law of a forum outside of Illinois applies. However, the foregoing choice of law clause should not be considered a waiver of any right conferred upon you by the provisions of the Illinois Franchise Disclosure Act of 1987 and the Rules and Regulations under the Act with respect to the offer and sale of a franchise and the franchise relationship. Where required under Illinois law, the laws of the State of Illinois will govern.

Any provision which designates jurisdiction or venue or requires Franchisee to agree to jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois, except mediation may take place outside the State of Illinois.

Section 41 of the Illinois Franchise Disclosure Act states that "any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void." To the extent that any provision in the KidzArt or Club Scientific Franchise Agreement is inconsistent with Illinois law, Illinois law will control.

"NATIONAL/INTERNATIONAL/REGIONAL ACCOUNTS" EXIST IN THIS FRANCHISE SYSTEM. THE FRANCHISOR HAS THE EXCLUSIVE RIGHT TO RENEGOTIATE AND ENTER INTO AGREEMENTS TO PROVIDE SERVICES TO NATIONAL/INTERNATIONAL/REGIONAL ACCOUNT CUSTOMERS. YOU MAY BE OFFERED THE OPPORTUNITY TO SERVICE AN ACCOUNT OF THIS TYPE. IF YOU DECLINE TO DO SO, YOUR FRANCHISE MAY BE TERMINATED, OR THE FRANCHISOR, AN AFFILIATE OR ANOTHER FRANCHISEE MAY PROVIDE THE SERVICE WITH NO COMPENSATION TO YOU (EVEN IF THE SERVICE IS PROVIDED WITHIN YOUR EXCLUSIVE TERRITORY),

ILLINOIS ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. Payment of Initial Franchise/Development Fees will be deferred until Franchisor has met its initial obligations to franchisee, and franchisee has commenced doing business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to Franchisor’s financial condition.

2. In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

3. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

4. Illinois law shall govern the Franchise Agreement(s)..

The parties have signed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

“NATIONAL/INTERNATIONAL/REGIONAL ACCOUNTS” EXIST IN THIS FRANCHISE SYSTEM. THE FRANCHISOR HAS THE EXCLUSIVE RIGHT TO RENEGOTIATE AND ENTER INTO AGREEMENTS TO PROVIDE SERVICES TO NATIONAL/INTERNATIONAL/REGIONAL ACCOUNT CUSTOMERS. YOU MAY BE OFFERED THE OPPORTUNITY T SERVICE AN ACCOUNT OF THIS TYPE. IF YOU DECLINE TO DO SO, YOUR FRANCHISE MAY BE TERMINATED, OR THE FRANCHISOR, AN AFFILIATE OR ANOTHER FRANCHISEE MAY PROVIDE THE SERVICE WITH NO COMPENSATION TO YOU (EVEN IF THE SERVICES IS PROVIDED WITHIN YOUR EXCLUSIVE TERRITORY).

ILLINOIS ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. Payment of Initial Franchise/Development Fees will be deferred until Franchisor has met its initial obligations to franchisee, and franchisee has commenced doing business. This financial assurance requirement was imposed by the Office of the Illinois Attorney General due to Franchisor’s financial condition.

2. In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

3. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois..

4. Illinois law shall govern the Franchise Agreement(s).

The parties have signed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

“NATIONAL/INTERNATIONAL/REGIONAL ACCOUNTS” EXIST IN THIS FRANCHISE SYSTEM. THE FRANCHISOR HAS THE EXCLUSIVE RIGHT TO RENEGOTIATE AND ENTER INTO AGREEMENTS TO PROVIDE SERVICES TO NATIONAL/INTERNATIONAL/REGIONAL ACCOUNT CUSTOMERS. YOU MAY BE OFFERED THE OPPORTUNITY TO SERVICE AN ACCOUNT OF THIS TYPE. IF YOU DECLINE TO DO SO, YOUR FRANCHISE MAY BE TERMINATED, OR THE FRANCHISOR, AN AFFILIATE OR ANOTHER FRANCHISEE MAY PROVIDE THE SERVICE WITH NO COMPENSATION TO YOU (EVEN IF THE SERVICE IS PROVIDED WITHIN YOUR EXCLUSIVE TERRITORY).

MARYLAND ADDENDUM

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

You may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

No release required as a condition of renewal, sale, assignment or transfer will apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.

Exhibit G – FRANCHISEE CERTIFICATION

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

MARYLAND ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. All initial fees and payments shall be deferred until such time as the franchisor completes its pre-opening obligations under the Franchise Agreement.
2. Notwithstanding anything to the contrary contained in the Franchise Agreement or any Consent to Transfer or Renewal Addendum, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law within three years after the grant of the franchise.
3. The general release required as a condition of renewal, sale, assignment or other transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
4. No provision in the Franchise Agreement or the Franchisee Certification is intended nor shall it act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below, with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

MARYLAND ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC
and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

- 1. All initial fees and payments shall be deferred until such time as the franchisor completes its pre-opening obligations under the Franchise Agreement.
- 2. Notwithstanding anything to the contrary contained in the Franchise Agreement or any Sample Consent to Transfer or Renewal Addendum, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law within three years after the grant of the franchise.
- 3. The general release required as a condition of renewal, sale, assignment or other transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
- 4. No provision in the Franchise Agreement or the Franchisee Certification is intended nor shall it act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below, with effect as of the date of the Franchise Agreement.

KIDZART LLC	[Franchisee]
By _____	By _____
Title _____	Title _____
Date _____	Date _____

MINNESOTA ADDENDUM

Cover Page and Item 17

MINNESOTA STATUTES, SECTION 80C.21 AND MINNESOTA RULE 2860.4400(J) PROHIBIT US FROM REQUIRING LITIGATION TO BE CONDUCTED OUTSIDE MINNESOTA, REQUIRING WAIVER OF A JURY TRIAL, OR REQUIRING THE FRANCHISEE TO CONSENT TO LIQUIDATED DAMAGES, TERMINATION PENALTIES OR JUDGMENT NOTES. IN ADDITION, NOTHING IN THE FRANCHISE DISCLOSURE DOCUMENT OR AGREEMENT(S) CAN ABROGATE OR REDUCE ANY OF YOUR RIGHTS AS PROVIDED FOR IN MINNESOTA STATUTES, CHAPTER 80C, OR YOUR RIGHTS TO ANY PROCEDURE, FORUM, OR REMEDIES PROVIDED FOR BY THE LAWS OF THE JURISDICTION.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

With respect to franchises governed by Minnesota law, the franchisor will comply with MINNESOTA STATUTES, SECTION 80C.14, Subds. 3, 4, and 5 which require (except in certain specified cases) that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement; and that consent to the transfer of the franchise will not be unreasonably withheld.

The Consent to Transfer Agreement and the Renewal Addendum (Exhibits I-1 and I-2 and J-1 and J-2), referred to in Items 17c and 17m, each contain a general release. Minnesota Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release. Accordingly, this requirement will not apply in Minnesota.

The agreements you sign give us the right to obtain injunctive relief in certain cases. (Section 7.8 of the Franchise Agreement and Section 4(b) of the Confidentiality and Non-Competition Agreement.) Under Minnesota Rule 2860.4400J, a franchisee cannot consent to the franchisor obtaining injunctive relief. Accordingly, these provisions are understood to mean that we have the right to seek injunctive relief.

The pages that follow constitute additions to the KidzArt or Club Scientific Franchise Agreement, the Franchisee Disclosure Questionnaire and the Consent to Transfer Agreement for Minnesota, and a new renewal addendum.

MINNESOTA ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. Nothing in this agreement will abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. We will not have the right to require you to litigate outside Minnesota, waive a jury trial or consent to liquidated damages, termination penalties or judgment notes. The representations contained in Section 6.1 of the Franchise Agreement are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Minnesota Statutes, Chapter 80C.

2. We will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5, which require (except in certain specified cases) that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the franchise agreement; and that consent to the transfer of the franchise will not be unreasonably withheld.

3. Section 7.8 of the Franchise Agreement and Section 4(b) of the Confidentiality and Non-Competition Agreement give us the right to obtain injunctive relief in certain cases. Under Minnesota Rule 2860.4400J, a franchisee cannot consent to the franchisor obtaining injunctive relief. Accordingly, these provisions are understood to mean that we have the right to seek injunctive relief.

4. Section 7.9 of the Franchise Agreement limits the time period in which you may bring certain actions. The provisions of Section 7.8 will not affect your right under Minnesota Statutes Section 80C.17, Subd. 5, to bring an action pursuant to Section 80C.17 at any time during the three-year period after the cause of action accrues.

Signatures on Following Page

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

MINNESOTA ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC
and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. Nothing in this agreement will abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. We will not have the right to require you to litigate outside Minnesota, waive a jury trial or consent to liquidated damages, termination penalties or judgment notes. The representations contained in Section 6.1 of the Franchise Agreement are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Minnesota Statutes, Chapter 80C.

2. We will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5, which require (except in certain specified cases) that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the franchise agreement; and that consent to the transfer of the franchise will not be unreasonably withheld.

3. Section 7.8 of the Franchise Agreement and Section 4(b) of the Confidentiality and Non-Competition Agreement give us the right to obtain injunctive relief in certain cases. Under Minnesota Rule 2860.4400J, a franchisee cannot consent to the franchisor obtaining injunctive relief. Accordingly, these provisions are understood to mean that we have the right to seek injunctive relief.

4. Section 7.9 of the Franchise Agreement limits the time period in which you may bring certain actions. The provisions of Section 7.8 will not affect your right under Minnesota Statutes Section 80C.17, Subd. 5, to bring an action pursuant to Section 80C.17 at any time during the three-year period after the cause of action accrues.

Signatures on Following Page

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

NEW YORK ADDENDUM
STATEMENT REQUIRED BY THE STATE OF NEW YORK

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

In recognition of the requirements of the New York General Business Law, Article 33, Section 68O through 695, and of the Codes, Rules, and Regulations of the State of New York, Title 13, Chapter VII, Section 200.1 through 201.16 the Franchise Disclosure Document for KidzArt LLC for use in the State of New York shall be amended as follows:

1. The following is added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

- A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.
 - B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.
 - C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.
 - D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.
2. The following is added to the end of the "Summary" sections of Item 17(c), titled "Requirements for franchisee to renew or extend," and Item 17(m), entitled "Conditions for franchisor approval of transfer":

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

3. The following language replaces the “Summary” section of Item 17(d), titled “Termination by franchisee”:

You may terminate the agreement on any grounds available by law.

4. The following is added to the end of the “Summary” sections of Item 17(v), titled “Choice of forum”, and Item 17(w), titled “Choice of law”:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

**ADDENDUM TO KIDZART, LLC
FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF RHODE ISLAND**

For franchises and franchisees subject to the Rhode Island Franchise Investment Protection Act, the following information supersedes or supplements, as the case may be, the corresponding disclosures in the main body of the text of the KidzArt, LLC Franchise Disclosure Document.

Item 17(v) of the Franchise Disclosure Document is hereby amended as follows:

§19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a Franchise Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

**ADDENDUM TO KIDZART, LLC
KIDZART AND CLUB SCIENTIFIC FRANCHISE AGREEMENTS
REQUIRED BY THE STATE OF RHODE ISLAND**

This Amendment shall pertain to franchises sold in the State of Rhode Island and shall be for the purpose of complying with Rhode Island statutes and regulations. Notwithstanding anything which may be contained in the body of the KidzArt or Club Scientific Franchise Agreements to the contrary, the Agreements shall be amended as follows:

Pursuant to §19-28.1-14 of the Rhode Island Franchise Investment, any provision in the KidzArt or Club Scientific Franchise Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the KidzArt and/or Club Scientific Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

**VIRGINIA ADDENDUM
FRANCHISE DISCLOSURE DOCUMENT**

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise-agreement.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

The following statements are added to Item 17(h):

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute "reasonable cause" as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

VIRGINIA ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the "Franchise Agreement").

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise-agreement.

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in any of the franchise agreements, does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

VIRGINIA ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the "Franchise Agreement").

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise-agreement.

.

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in any of the franchise agreements, does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

WASHINGTON ADDENDUM

Item 5 – INITIAL FRANCHISE FEE

For the protection of prospective franchisees based on our financial condition at the time of our application for registration, the Securities Division has required that we defer your obligation to pay to us the initial franchise fee and the security deposit until we have completed our initial obligations to you as described under the headings “before opening” and “training program” in item 11 of the franchise disclosure document and your franchised business is open and operating.

WASHINGTON ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the "Franchise Agreement").

1. The initial fee described in Section 2.1(a) of the Franchise agreement will be due and payable when we have completed our initial obligations to you as described under the headings "before opening" and "training program" in item 11 of the franchise disclosure document and your franchised business is open and operating.

2. The state of Washington has a statute, RCW 19.100.180 which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

3. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

4. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

WASHINGTON ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC

and

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____, between KIDZART LLC and _____ (the “Franchise Agreement”).

1. The initial fee described in Section 2.1 of the Franchise agreement will be due and payable when we have completed our initial obligations to you as described under the headings “before opening” and “training program” in item 11 of the franchise disclosure document and your franchised business is open and operating.

2. The state of Washington has a statute, RCW 19.100.180 which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

3. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

4. Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates set forth below but with effect as of the date of the Franchise Agreement.

KIDZART LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

EXHIBIT I

SAMPLE RENEWAL ADDENDUM TO KIDZART FRANCHISE AGREEMENT and CLUB SCIENTIFIC FRANCHISE AGREEMENT

SAMPLE RENEWAL ADDENDUM TO KIDZART FRANCHISE AGREEMENT

between

KIDZART LLC

and

[insert name of franchisee]

This Addendum modifies and amends the KidzArt Franchise Agreement dated as of _____ (the "Renewal Franchise Agreement"), between KIDZART LLC ("we" or "us") and [insert name of franchisee] ("you").

1. **Purpose of this Agreement.** You and we entered into a KidzArt franchise agreement dated as of _____ (the "Original Franchise Agreement"). You desire to renew the Original Franchise Agreement by entering into the Renewal Franchise Agreement, as modified by this Addendum, and by complying with the other renewal requirements under the Original Franchise Agreement. This Addendum is being signed simultaneously with the Renewal Franchise Agreement.

2. **Renewal Fee.** In accordance with Section 5.1(b)(ix) of the Original Franchise Agreement, you will not be required to pay the initial franchise fee stated in the Renewal Franchise Agreement. Instead, you will pay us a renewal fee in an amount equal to five percent (5%) of the initial franchise fee that we charge new KidzArt franchisees for the type and size of Territory under your agreement.

3. **Release.** You hereby release, discharge and hold harmless us and our past and present affiliated companies, successors, assignees and each of our and their past and present members, managers, directors, officers employees, agents, attorneys, owners, shareholders, partners, designees and representatives, from any and all debts, losses, damages, expenses, claims, demands, actions, causes of action, liabilities, costs or obligations arising from or in any way connected with the sale or operation of your franchise up to the date of this Agreement, which you may have had, now have or may hereafter discover, whether known or unknown, foreseen or unforeseen, to the extent permitted by law.

KIDZART LLC

[Franchisee]

By: _____

By: _____

SAMPLE RENEWAL ADDENDUM TO CLUB SCIENTIFIC FRANCHISE AGREEMENT

between

KIDZART LLC

and

[insert name of franchisee]

This Addendum modifies and amends the Club Scientific Franchise Agreement dated as of _____ (the "Renewal Franchise Agreement"), between KIDZART LLC ("we" or "us") and [insert name of franchisee] ("you").

1. **Purpose of this Agreement.** You and we entered into a KidzArt franchise agreement dated as of _____ (the "Original Franchise Agreement"). You desire to renew the Original Franchise Agreement by entering into the Renewal Franchise Agreement, as modified by this Addendum, and by complying with the other renewal requirements under the Original Franchise Agreement. This Addendum is being signed simultaneously with the Renewal Franchise Agreement.

2. **Renewal Fee.** In accordance with Section 5.1(b)(ix) of the Original Franchise Agreement, you will not be required to pay the initial franchise fee stated in the Renewal Franchise Agreement. Instead, you will pay us a renewal fee in an amount equal to five percent (5%) of the initial franchise fee that we charge new Club Scientific franchisees for the type and size of Territory under your agreement.

3. **Release.** You hereby release, discharge and hold harmless us and our past and present affiliated companies, successors, assignees and each of our and their past and present members, managers, directors, officers employees, agents, attorneys, owners, shareholders, partners, designees and representatives, from any and all debts, losses, damages, expenses, claims, demands, actions, causes of action, liabilities, costs or obligations arising from or in any way connected with the sale or operation of your franchise up to the date of this Agreement, which you may have had, now have or may hereafter discover, whether known or unknown, foreseen or unforeseen, to the extent permitted by law.

KIDZART LLC

[Franchisee]

By: _____

By: _____

EXHIBIT J

SAMPLE CONSENT TO TRANSFER AGREEMENTS

EXHIBIT J-1

KIDZART LLC

SAMPLE CONSENT TO TRANSFER AGREEMENT

This AGREEMENT dated as of _____, by and among _____ (“Buyer”); _____ (“Seller”); and KIDZART LLC (“we”, “us” or “Franchisor”).

1. **Purpose of this Agreement.** Buyer entered into an agreement with Seller dated _____ (the “Purchase Agreement”) to purchase from Seller the franchise rights and other assets pertaining to Seller’s KidzArt franchise. Buyer and Seller understand that any transfer of the franchise rights described in the Franchise Agreement dated as of _____, between Franchisor and Seller (the “Franchise Agreement”) requires our prior consent as a condition to such transfer, and require that Buyer enter into a new franchise agreement with us. This Agreement is being signed before the closing described in the Purchase Agreement (the “Closing”).
2. **Conditional Consent to Transfer.** We consent to the transfer of the franchise rights and other assets pursuant to the Purchase Agreement provided that all of the conditions described in Section 4.2(d) of the Franchise Agreement are satisfied, and provided further that the Closing occurs within 90 days from the date of this Agreement. If the Closing does not take place within this 90-day period, then any subsequent transfer will require a new consent from us.
3. **Termination of the Franchise Agreement.** At the Closing, Buyer will sign a new franchise agreement with us. Upon the signing of the new franchise agreement, the Franchise Agreement will terminate and all of Seller’s rights under the Franchise Agreement will end.
4. **Release.** Seller hereby releases, discharges and holds harmless Franchisor and its past and present affiliated companies, successors, assignees and each of their past and present members, managers, directors, officers employees, agents, attorneys, owners, shareholders, partners, designees and representatives, from any and all debts, losses, damages, expenses, claims, demands, actions, causes of action, liabilities, costs or obligations arising from or in any way connected with the sale or operation of Seller’s franchise during Seller’s ownership, which Seller may have had, now has or may hereafter discover, whether known or unknown, foreseen or unforeseen.
5. **Continuing Obligations.** After the Closing, Seller and all persons who have signed personal guaranties of Seller’s obligations to us will be relieved of all of their in-term obligations under their personal guaranties; provided, however, that Seller and the guarantors acknowledge that the transfer of the franchise from Seller to Buyer will not terminate their post-term obligations under the Franchise Agreement. These post-term obligations include the obligations not to disclose any of our confidential information and not to compete with us, as set forth in Sections 3.2 and 3.3(c) of the Franchise Agreement.

6. **Involvement by the Franchisor.** Buyer acknowledges that Buyer will purchase the franchise rights and other assets directly from Seller and that this transaction has not been effected by or through any of our efforts. In entering into the Purchase Agreement, Buyer and Seller each acknowledge that they have had the opportunity to consult with their own financial, accounting and legal advisors, and that they have independently satisfied themselves that all of the terms and conditions of the sale and purchase, including, without limitation, the purchase price, are satisfactory and acceptable to them.

7. **Entire Agreement.** This Agreement constitutes the entire understanding of the parties and supersedes any prior oral or written agreements between the parties with respect to the subject matter hereof.

8. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of Mississippi.

IN WITNESS WHEREOF, the parties have signed this Agreement on the dates set forth below.

[Buyer]

[Seller]

By: _____

By: _____

KIDZART LLC

By: _____

EXHIBIT J-2

KIDZART LLC

CLUB SCIENTIFIC SAMPLE CONSENT TO TRANSFER AGREEMENT

This AGREEMENT dated as of _____, by and among _____ (“Buyer”); _____ (“Seller”); and KIDZART LLC (“we”, “us” or “Franchisor”).

1. **Purpose of this Agreement.** Buyer entered into an agreement with Seller dated _____ (the “Purchase Agreement”) to purchase from Seller the franchise rights and other assets pertaining to Seller’s Club Scientific franchise. Buyer and Seller understand that any transfer of the franchise rights described in the Franchise Agreement dated as of _____, between Franchisor and Seller (the “Franchise Agreement”) requires our prior consent as a condition to such transfer, and require that Buyer enter into a new franchise agreement with us. This Agreement is being signed before the closing described in the Purchase Agreement (the “Closing”).
2. **Conditional Consent to Transfer.** We consent to the transfer of the franchise rights and other assets pursuant to the Purchase Agreement provided that all of the conditions described in Section 4.2(d) of the Franchise Agreement are satisfied, and provided further that the Closing occurs within 90 days from the date of this Agreement. If the Closing does not take place within this 90-day period, then any subsequent transfer will require a new consent from us.
3. **Termination of the Franchise Agreement.** At the Closing, Buyer will sign a new franchise agreement with us. Upon the signing of the new franchise agreement, the Franchise Agreement will terminate and all of Seller’s rights under the Franchise Agreement will end.
4. **Release.** Seller hereby releases, discharges and holds harmless Franchisor and its past and present affiliated companies, successors, assignees and each of their past and present members, managers, directors, officers employees, agents, attorneys, owners, shareholders, partners, designees and representatives, from any and all debts, losses, damages, expenses, claims, demands, actions, causes of action, liabilities, costs or obligations arising from or in any way connected with the sale or operation of Seller’s franchise during Seller’s ownership, which Seller may have had, now has or may hereafter discover, whether known or unknown, foreseen or unforeseen.
5. **Continuing Obligations.** After the Closing, Seller and all persons who have signed personal guaranties of Seller’s obligations to us will be relieved of all of their in-term obligations under their personal guaranties; provided, however, that Seller and the guarantors acknowledge that the transfer of the franchise from Seller to Buyer will not terminate their post-term obligations under the Franchise Agreement. These post-term obligations include the obligations not to disclose any of our confidential information and not to compete with us, as set forth in Sections 3.2 and 3.3(c) of the Franchise Agreement.

6. ***Involvement by the Franchisor.*** Buyer acknowledges that Buyer will purchase the franchise rights and other assets directly from Seller and that this transaction has not been affected by or through any of our efforts. In entering into the Purchase Agreement, Buyer and Seller each acknowledge that they have had the opportunity to consult with their own financial, accounting and legal advisors, and that they have independently satisfied themselves that all of the terms and conditions of the sale and purchase, including, without limitation, the purchase price, are satisfactory and acceptable to them.

7. ***Entire Agreement.*** This Agreement constitutes the entire understanding of the parties and supersedes any prior oral or written agreements between the parties with respect to the subject matter hereof.

8. ***Governing Law.*** This Agreement will be governed by and construed in accordance with the laws of the State of Mississippi.

IN WITNESS WHEREOF, the parties have signed this Agreement on the dates set forth below.

[Buyer]

[Seller]

By:_____

By:_____

KIDZART LLC

By:_____

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration:

California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	Pending
Hawaii	Pending
Illinois	Pending
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Pending
North Dakota	N/A
Rhode Island	Pending
South Dakota	N/A
Virginia	Pending
Washington	N/A
Wisconsin	N/A

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT L

RECEIPT

S

When you receive this Franchise Disclosure Document, please sign and return one copy of the receipt page to our headquarters office. We cannot process your application until we receive a properly signed receipt.

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully. If KidzArt LLC offers you a franchise, it must provide this disclosure document to you at least 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreements or payment of any consideration that relates the franchise relationship.

Michigan, Oregon, and Wisconsin require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement, or the payment of any consideration, whichever occurs first.

If KidzArt LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the applicable state agency listed in Exhibit A, which also includes a list of our agents authorized to receive service of process.

The name, principal business addresses and telephone number of each seller offering the franchise is indicated below:

<i>Name</i>	<i>Address</i>	<i>Telephone Number</i>
Robert R. Denton Mary A. Denton	KidzArt LLC 11820 Norfolk Rd. Lake Cormorant, MS 38641	517-784-5000

Other: _____

Date of Issuance: ~~March~~ February 12, 2024⁴³

I have received the KidzArt franchise disclosure document dated ~~March~~ February 12, 2024⁴³.
This disclosure document included the following Exhibits:

- | | |
|---|--|
| A. State Administrators and Agents for Service of Process | F. Agreements |
| B. List of Franchisees | G. Franchisee Certification |
| C. Franchisee Organizations | H. State Addenda |
| D. Financial Statements | I. Sample Renewal Addenda |
| E. Table of Contents of Manuals | J. Sample Consent to Transfer Agreements |

Return this receipt to:
KidzArt LLC
P.O. Box ~~81143525~~
~~Lansing~~ ~~Eaton Rapids~~, MI 48~~908~~-1143827
Fax: 517-338-5300

Date _____

Company Name

By: _____
Signature

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully. If KidzArt LLC offers you a franchise, it must provide this disclosure document to you at least 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreements or payment of any consideration that relates the franchise relationship.

Michigan, Oregon, and Wisconsin require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement, or the payment of any consideration, whichever occurs first.

If KidzArt LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the applicable state agency listed in Exhibit A, which also includes a list of our agents authorized to receive service of process.

The name, principal business addresses and telephone number of each seller offering the franchise is indicated below:

<i>Name</i>	<i>Address</i>	<i>Telephone Number</i>
Robert R. Denton Mary A. Denton	KidzArt LLC 11820 Norfolk Rd. Lake Cormorant, MS 38641	517-784-5000

Other: _____

Date of Issuance: ~~February~~ March 12, 2024.

I have received the KidzArt franchise disclosure document dated ~~February~~ March 12, 2024.
This disclosure document included the following Exhibits:

- A. State Administrators and Agents for Service of Process
- B. List of Franchisees
- C. Franchisee Organizations
- D. Financial Statements
- E. Table of Contents of Manuals

Return this receipt to:

KidzArt LLC

P.O. Box ~~81143525~~

~~Lansing~~ Eaton Rapids, MI 48908-1143827

Fax: 517-338-5300

F. Agreements

G. Franchisee Certification

H. State Addenda

I. Sample Renewal Addenda

J. Sample Consent to Transfer Agreements

Date _____

Company Name

By: _____

Signature