

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

KIDDIE ACADEMY INTERNATIONAL INC

CIK: **1001320** | IRS No.: **521938283** | State of Incorporation: **DE** | Fiscal Year End: **0930**
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SIC: **8351** Child day care services

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 29, 1996.
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from
to .

Commission File Number 1-14052

KIDDIE ACADEMY INTERNATIONAL, INC.
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-1938283
(I.R.S. Employer
Identification No.)

108 Wheel Road, Bel Air, Maryland 21015
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code: (410) 515-0788

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value \$0.01 per share
(Title of Class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$4,791,698.

The aggregate market value of voting Common Stock held by non-affiliates of the registrant as of December 11, 1996, computed by reference to the last sale price for such stock on that date as reported on the Nasdaq SmallCap Stock Market, was approximately \$4,125,000.

At December 11, 1996, the number of shares outstanding of the registrant's Common Stock, with \$0.01 par value, was 2,025,000.

Portions of the registrant's Proxy Statement for its 1997 Annual Meeting of Shareholders have been incorporated by reference in Part III of this Annual Report on Form 10-KSB.

Transitional Small Business Disclosure Format YES NO

Part I

ITEM 1. BUSINESS

General

Kiddie Academy International, Inc., a Delaware corporation (the "Company"), was incorporated on June 28, 1995 as a parent company to succeed to the ownership and operation of the Company's three wholly-owned subsidiaries:

Kiddie Academy Child Care Learning Centers, Inc., incorporated in Maryland in 1981, which operates Company-owned education-based commercial child care centers; Kiddie Academy Franchising Systems, Inc., incorporated in Maryland in 1992, which operates the Company's child care franchise business; and Kid's Craft, Inc., incorporated in Maryland in 1989, which operates the Company's school supply and equipment distribution business. During the last four years, the Company has experienced rapid and substantial growth in the number of centers opened and under development. As of September 29, 1996, the Kiddie Academy(R) system consisted of 49 centers, 17 of which were Company-owned and 32 of which were franchised, with an additional 64 franchised centers under various stages of development (23 centers under lease and 41 centers in the site selection stage). Overall, Kiddie Academy centers are open or under development in 15 states.

The Company began utilizing in fiscal year 1996 a 52 to 53 week fiscal year (comprised of 13 four-week periods), ending on the Sunday closest to September 30. All references to fiscal year 1996 are to the 52 weeks ended September 29, 1996.

The Company believes that it has benefited from a number of national demographic trends including an increased birth rate through the early 1990s, an increase in working mothers employed outside the home and a growing emphasis by employers on providing child care benefits for employees. According to U.S. Government statistics, births in 1989 exceeded 4,000,000 for the first time since 1964, and continued to exceed that number in each of 1990, 1991 and 1992. Furthermore, the percentage of all American children under age six with mothers in the labor force grew from 39% in 1975 to 58% in 1990, and the percentage of children receiving center-based child care increased from 13% of the total number of children receiving child care in 1977 to 28% in 1990. In addition, the number of children who are ages five to 12 increased to approximately 34 million in 1995 and is projected to increase to in excess of 36 million by 2000.

The Company has developed a comprehensive education-based child care program for its centers. Each Kiddie Academy center utilizes its age-appropriate, education-based curriculum designed to promote each child's intellectual, social, physical and emotional growth. In addition to the traditional areas of language arts, mathematics, science and creative arts, the Kiddie Academy curriculum and services include a preschool computer science program and a foreign language program. Many Kiddie Academy centers offer to their enrollees, for an additional fee, the opportunity to participate in COMPUTERTOTS(R), an educational computer enrichment program designed for preschoolers. Kiddie Academy centers incorporate a number of features designed to

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promote child safety and to support the Kiddie Academy curriculum. For example, many Kiddie Academy centers have "low walls" (i.e., interior walls of four feet in height) which allow for greater visibility throughout the center, resulting in enhanced security for the children. In addition to interactive learning aids and educational toys, many Kiddie Academy centers also include an area called "Kid's Towne USA," which is a miniature town comprised of child-sized buildings such as a post office, grocery store, library and restaurant, built inside the center. The Kiddie Academy program also emphasizes continuous communication between teachers and parents concerning each child's development which the Company believes is critical to maintaining high levels of parental confidence and satisfaction.

The Company has developed a comprehensive set of systems and methodologies with respect to its operating, accounting and quality control procedures which enable it to maintain uniform high quality standards throughout its Company-owned and franchised centers. These systems and methodologies, which are compiled in a series of manuals, were developed by the Company based upon its 15 years of experience in the child care industry and are continually revised and updated.

The Company provides a full range of services in support of its franchisees to develop and open their centers. These services include assistance in site selection, assistance in center design, training, assistance in obtaining regulatory approvals, assistance throughout the construction phase, assistance relating to the center's grand opening and ongoing operational support, including providing systems to process each center's financial information at the Company's corporate headquarters. The Company creates economies of scale by using the same staff and resources to develop and support both Company-owned and franchised centers.

Kid's Craft is a retail distributor of school supplies, educational toys and equipment currently serving both Company-owned and franchised centers. Currently operating from a retail/warehouse in Bel Air, Maryland, Kid's Craft offers Company-owned and franchised centers the opportunity to purchase start-up equipment, supplies and ongoing consumables at competitive prices. All supplies sold by Kid's Craft meet the Company's standards for safety and quality. Centers typically purchase a portion of their start-up equipment and continuing requirements of consumable supplies from Kid's Craft. Therefore, as the number of Company-owned and franchised centers grow, Kid's Craft revenues are expected to increase. Plans for Kid's Craft also include expansion of its customer base, which currently includes the general public, through retail sales and by marketing to other child care centers and public and private schools through a mail order catalogue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward Looking Statements."

Business Strategy

The Company is engaged in a dual growth strategy to increase its market penetration, consisting of a strategic balance of Company-operated center growth and franchised-center growth. By using the same corporate staff which develops the new Company centers to assist franchisees in locating and developing their new centers, the Company can achieve certain economies of scale,

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expanded expertise and efficiencies in the new center development process.

Whether franchised or Company-operated, each Kiddie Academy center must meet or exceed certain physical, trade area, location and demographic standards. Each location for a potential Kiddie Academy center is reviewed by a multi-disciplinary committee of the Company's key executives for adherence to these standards. The Company limits its site selection activities to selected metropolitan areas which meet its standards and show potential for growth.

The Company continually evaluates its strategy with respect to the balance of its franchised-center growth and Company-operated center growth. Given the number of franchised centers currently under development, the Company's current plans are to focus on the "ramp-up" to profitable enrollment levels through Company-operated center growth and the advancement of existing franchised centers under development.

Products and Services

Child Care Services

Management seeks to have each Kiddie Academy center conveniently and attractively located in economically and demographically-appealing communities, having an above average concentration of dual-income, young families. Kiddie Academy facilities are typically leased for a 10-year term (with renewal options) from commercial real estate developers who meet the Company's criteria for quality, resources, and experience. Developers construct and fund Kiddie Academy specified tenant improvements. The Company enjoys favorable relations with such developers and many are seeking to build additional Kiddie Academy centers. A prototypical Kiddie Academy center is a one-story building of approximately 7,500 square feet located on approximately 1 acre of land constructed in accordance with specified designs developed by the Company. The prototypical center is designed to accommodate approximately 125 to 200 children. The centers generally contain a broad array of specified design features, such as a combination of high and low walls to allow for enhanced visibility throughout the facility. The Company utilizes a computer-aided design and drafting (CADD) system to design unit floor plans for both Company-owned and franchised centers in an effort to maximize safety and revenue generation through optimum utilization of floor space.

Each center is equipped with a variety of audio and visual aids, educational toys, games, puzzles and supplies and has an adjacent playground, many of which are divided into separate areas for different age groups with age-appropriate equipment and toys. In addition, many centers contain a feature called "Kid's Towne USA," which is a miniature town made up of child-sized buildings such as a post office, grocery store, library and restaurant, built inside the center. This area is used to enhance skills such as language arts, math and large muscle development, and for role-playing activities.

The various classrooms within a center are decorated with a variety of colorful pictures,

nursery rhyme depictions, seasonal pictures, maps, bilingual calendars and color charts, and other age-appropriate materials designed to stimulate the children's curiosity and to support the Kiddie Academy curriculum. Colorful educational carpets display themes appropriate for various age groups such as the alphabet, numbers, time and educational board games. Decorative wall hangings in each classroom correlate to the Kiddie Academy curriculum's monthly and weekly themes and provide other learning supplements.

Company-owned and franchised centers are open throughout the year, five days per week, from 6:30 AM to at least 6:00 PM. Certain centers have extended hours depending on local conditions such as the length of the typical commute of the parents. Each center provides those children attending on a full-time basis with a hot lunch and two snacks, all of which are prepared on the center's premises.

Children may be enrolled on a full-time or part-time basis. Tuition for the programs varies depending on the location of the center, the age of the child and whether the child attends on a full-time or part-time basis. Tuition is generally higher for infants than it is for older children, due, in part, to the lower child/staff member ratio required by most licensing authorities for the care of infants. Tuition is proportionally higher for students attending on a part-time basis. Tuition is typically paid on a weekly basis and must be paid in advance. Tuition for full-time enrollment at Company-owned and franchised centers ranges from \$95 to \$210 per week, and for part-time enrollment ranges from \$25 to \$70 per week. Kiddie Academy systemwide enrollment at September 29, 1996 was 3,872 children.

Educational Program

Throughout the year, monthly themes are introduced in a child's classroom and divided into specific weekly programs and daily projects. During the school-year months (September through June) the curriculum focuses on traditional structured academics. In the summer months, the emphasis shifts to recreation and socialization through athletic activities and field trips. As a child advances through Kiddie Academy, the specific skills learned at each level serve as a foundation for learning at the next level. The different levels are as follows:

INFANT PROGRAM - Infants are in the midst of undergoing a dramatic transformation from a dependent newborn to an active and responsive infant during their first year. Staff work closely with parents to customize a daily routine that will fit family needs. Kiddie Academy's care is centered around keeping each child comfortable, stimulated and healthy overall, while working hand in hand with parents.

TODDLER PROGRAM - Toddlers are very busy and need a broad range of activities from which to choose. Kiddie Academy's toddler activities are plentiful and chosen to keep the child engaged, active and stimulated. Kiddie Academy's toddler program promotes intellectual, social, emotional and physical development. A stimulating environment is created to nurture curiosity and motivate each child to explore, experiment, and problem solve.

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TWO YEAR OLD PROGRAM - Kiddie Academy's preschool program is designed to guide the tremendous intellectual, social and emotional growth expected during a child's second year. The Kiddie Academy curriculum enriches each child's vocabulary and language skills by making reading a part of the every day routine. Two-year olds are given the freedom to test by trial and error. Kiddie Academy's staff are trained to encourage each child to take on new challenges.

THREE YEAR OLD PROGRAM - With the third birthday comes the beginning of a time when the world is filled with imagination. At Kiddie Academy having fun is usually also a well orchestrated learning experience. Language and vocabulary development and other more traditional academic areas are fun for children in Kiddie Academy's program. As with each of the age groups, parents are encouraged to become involved and to contribute to design the appropriate program for their child.

FOUR YEAR OLD PROGRAM - Kiddie Academy's curriculum prepares each child for

school intellectually, as well as socially and emotionally. This program builds an academic foundation, including the essential ideas of counting, alphabet and size relationships, and there is a strong focus on the language arts. Teachers meet with parents throughout the year to keep them up to date on all of the wonderful new developmental milestones four-year olds will reach during this year.

FIVE YEAR OLD PROGRAM - Kiddie Academy's kindergarten program is designed to provide each child with individualized academic content. The academic program includes organized daily activities in language arts, math, science, social studies, drama, creative arts, music and construction. Parental input and involvement are encouraged at Kiddie Academy. Teachers are available to conference and parents are welcome to visit while classroom activities are in progress.

SCHOOL-AGE PROGRAM - For parents seeking before and after school care for children ages five through 12, Kiddie Academy offers a safe, secure and stimulating environment. Activities such as arts and crafts, science and discovery, dramatic play and constructive building are designed to complement daily school activities and, at the same time, promote further learning and development. Children may also receive assistance with school assignments. Most importantly, each child is given the opportunity to choose from a variety of individual or group activities.

SUMMER FUN PROGRAM - During the summer months, classes continue but with more emphasis on socialization, recreation and outdoor experiences. Parents are invited to join the many fun, educational field trips which enhance the overall summer program.

Franchise Services

The Company offers and sells franchises nationally through its subsidiary, Kiddie Academy Franchising Systems, Inc., and is currently authorized to offer and sell franchises in 48 states. As of September 29, 1996, the Company was a party to 62 franchise agreements ("Franchise Agreements") and 41 preliminary agreements ("Preliminary Agreements") (in which a potential franchisee enters into an agreement to select a site for its center and becomes an applicant for a franchise). As of September 29, 1996, franchisees operated 32 of the 49 Kiddie Academy centers

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and 23 of the 27 centers under lease but not yet operational were being developed by franchisees of the Company.

The Company's franchise program is subject to regulation by the Federal Trade Commission ("FTC") with respect to the information required to be disclosed to prospective franchisees prior to their investment in a franchise. The Company's franchise program is subject to additional disclosure rules in a number of states in which the Company has, in the past, and intends to continue to offer franchises. The Company distributes to each prospective franchisee an offering circular which has been prepared to conform with the disclosure requirements of the FTC and applicable state authorities.

Franchisees receive support and assistance from the Company through all stages of their business development, including assistance in obtaining third-party financing, site selection, lease negotiations, regulatory approvals, facility design and construction specifications, state child care licensing and start-up operations. A prospective franchisee commences the franchising process by executing a Preliminary Agreement with the Company and paying a \$12,500 Preliminary Agreement fee. Those who complete the site selection process and enter into a Franchise Agreement, pay an additional \$17,500 franchise fee for a total of \$30,000, and, upon the opening of the center, an ongoing royalty equal to 7% of gross revenues as well as a weekly administrative fee. During fiscal year 1997, the initial fees are expected to increase for all new franchise applicants to \$40,000, consisting of a \$30,000 franchise fee, plus an additional \$10,000 Preliminary Agreement fee. A prospective franchisee will pay \$20,000 upon executing a Preliminary Agreement consisting of the \$10,000 Preliminary Agreement fee, plus \$10,000 to be applied against the franchise fee. The remainder of the franchise fee will be paid after the franchisee executes a Franchise Agreement. The regulations of four states require the Company to place funds received from potential franchisees into an escrow account until certain performance milestones are met.

Franchise applicants who are parties to a Preliminary Agreement are not deemed to be franchisees until they enter into a Franchise Agreement, and may

terminate their Preliminary Agreement with the Company at any time prior to entry into a Franchise Agreement. The form of Preliminary Agreement currently entered into by the Company with new franchise applicants provides that, upon termination by the applicant, the Company must refund the \$12,500 Preliminary Agreement fee less (i) a \$7,500 lost opportunity charge, plus (ii) any expenses incurred by the Company in assisting the applicant with the site selection process. The Company may, at its option, terminate the Preliminary Agreement at any time and, in such case, must refund the full Preliminary Agreement fee. During fiscal year 1997, the Company's form of Preliminary Agreement is expected to be revised to provide that in the event the Preliminary Agreement is terminated by the applicant, the Company will retain \$15,000 of the initial fees paid by the applicant, but must refund \$5,000, less the Company's expenses. The Company has experienced some attrition of franchise applicants during the site development process and believes that such attrition is to be expected in the ordinary course of business.

The Company assists the prospective franchisee in securing financing which is typically

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arranged through national lenders specializing in granting Small Business Administration franchise loans and other small business loans. Once the appropriate financing is obtained, the Company assists the potential franchisee in selecting a location for a proposed center. The Company's site selection assistance includes an initial consultation with the prospective franchisee regarding the site selection process, the loaning of various site selection resource materials, the screening of sites proposed by the applicant and assistance with the negotiation of the applicant's lease or purchase contract. The Kiddie Academy staff is also involved in coordinating local and regional governmental authorities in an effort to obtain all required approvals, licenses and permits required to construct and operate a child care center. See "Business -- Regulation."

During the construction phase, franchisees participate in two weeks of a full-time training program, which is divided between formal classroom exercises and hands-on experiences in operating child care facilities. The Kiddie Academy staff is available to assist in recruiting, hiring and training a Center Director for each facility. Each initial center director attends a week of Kiddie Academy training.

Franchisees utilize the localized marketing system developed by Kiddie Academy to obtain initial enrollment and to build and maintain enrollment levels of the center. The Company's mandatory business management system enables the Company to monitor certain financial activities of franchised centers on a weekly basis. Franchisees are supplied detailed weekly and monthly reports, including profit and loss statements, which assist them in evaluating the financial performance of their child care business and help them control costs and improve operations.

Each Kiddie Academy franchised center is required to utilize the procedures set forth in the Company's operating manuals which govern marketing, finance, administration, curriculum and safety procedures. Kiddie Academy's service support team provides ongoing guidance in all areas of operations through on-site visits and frequent telephone conferences. In addition, the Company monitors each franchised center to ensure high quality standardized services and to enforce compliance with both governmental requirements and the operating standards required of all Kiddie Academy centers.

Quality Assurance

The Company employs a number of initiatives, both periodic and ongoing, to assure that the highest levels of quality services are maintained in each of its corporate and franchised centers. Center service visits, conducted by field managers, are comprehensive and include a review of each classroom, curriculum activities, the food service program, staff performance as well as safety guidelines. Field management staff periodically meet directly with parents to determine parental satisfaction levels. Additionally, parents who withdraw children are given a confidential survey to determine if the withdrawal could have been prevented by an improvement in service quality. Data collected from these sources are reviewed by all staff to foster a continuing open forum in which all service providers strive to offer the highest quality and customer-service oriented care.

Marketing

Child Care Services

The Company's marketing efforts, which are designed to build awareness of Kiddie Academy centers, consist of advertising and promotion of Kiddie Academy centers and the marketing of franchise opportunities to attract new franchisees. The Company's marketing campaigns include a targeted direct-mail program, a toll-free customer hotline, advertising placement in regional newspapers, grand opening activities, yellow-page listing and signage (including billboards). Professional marketing videos which discuss the benefits to children of attending a Kiddie Academy center are shown to parents expressing interest in a center.

In addition to broad-based marketing methods, the Company also strongly emphasizes a number of interpersonal marketing techniques. For example, center directors are trained to solicit parents via telephone and personal contacts. Facility tours and "meet the teacher" interviews are included in the marketing efforts at each Kiddie Academy center. Franchisees are required to spend a certain portion of their gross revenues towards the marketing of their centers.

Prior to its opening, every Kiddie Academy center hosts an open house for the local community. This event is preceded by advertising. At the open house, parents watch a marketing video, tour the facility and have the opportunity to talk with the staff while the children enjoy ongoing entertainment, visit classrooms and play with educational toys. At this event, the Company is able to build awareness in the community of Kiddie Academy while enrolling new children.

Franchise Development

The Company's marketing efforts to solicit franchisee applications include advertisements of its franchising opportunities in publications such as the Wall Street Journal, USA Today, regional newspapers, trade journals and national magazines. The Company's franchise development staff conduct in-person interviews with qualified franchise applicants. New franchise sales also include several franchisees which have either opened additional centers or have executed agreements to open additional franchised centers. The Company has a reduced fee franchise program to encourage multiple-center operators within its system. As set forth in "Business--Strategy," the Company's current plans are to focus on the "ramp-up" to profitable enrollment levels through Company-operated center growth and the advancement of existing franchised centers under development.

Seasonality

Due to the annual seasonal reduction in enrollment during the summer months, which occurs throughout the child care industry, the Company historically has experienced a decrease in tuition revenues during the fourth quarter of each fiscal year (July through September). The Company expects to continue to experience such a decrease in tuition revenues during the fourth quarter of its fiscal year. As a result, the Company's annual earnings have been and will continue to be heavily

dependent on the results of operations during the first three quarters of each year.

Competition

The child care industry is highly fragmented and competitive. Many of the Company's competitors have greater financial and other resources than the Company. The Company experiences competition from large national chains, such as KinderCare Learning Centers Inc., which operates sites throughout the country. The Company competes with the large national chains by offering unique, professional services at highly competitive prices, thus providing families value.

Additionally, the Company experiences competition from smaller local nursery schools and child-care centers, some of which are not-for-profit

(including religion-affiliated centers), and from providers of "in-home" child care, including, inter alia, child supervision services and nannies. The typical fees and charges for "in-home" child care and local nursery schools are generally lower than those charged by the Company. Many religion-affiliated and other not-for-profit child care centers have no or minimal rental costs and may receive donations or other funding to cover operating expenses, allowing such centers to charge less for tuition than the Company-owned and franchised centers. The Company competes against this segment of the market by offering an education-based child care program centered around a professionally planned curriculum which is periodically reviewed and updated by its curriculum advisory council, well-equipped, clean and safe facilities, and trained and qualified personnel.

Personnel

At September 29, 1996, the Company employed 238 persons, 29 of whom were employed at the corporate headquarters. Of the Company's total employees, 163 were employed on a full-time basis and 75 were employed on a part-time basis as of September 29, 1996. The Company has hired and trained district managers responsible for center performance of Company and franchised units over broad geographic regions. At the center unit level, management is provided by a center director and an assistant director. Center employees include regular full-time and part-time caregivers, substitute caregivers and aides, and other staff, including cooks and van drivers. Center directors are required to have either a college degree with concentrations in early childhood education or a college degree in any discipline along with prior experience in the child care industry. Requirements as to the specific qualifications of center directors are mandated by state licensing authorities and vary from state to state. Each center's initial center director also must successfully complete Kiddie Academy's week-long training program. The Company assists center directors and owners of franchised centers with the training of other center personnel. It is the Company's policy that all Company-owned and franchised centers must comply with, and in some cases exceed, states' recommendations and guidelines pertaining to teacher-to-child staffing ratios. None of the Company's employees is represented by any labor union or covered by any collective bargaining agreement. The Company believes its relations with the employees are good.

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Regulation

Child care centers are subject to numerous state and local governmental regulations and licensing requirements, including, without limitation, regulations with regard to the fitness and adequacy of buildings and equipment, supplies, qualifications of staff, ratio of staff to enrolled children, staff training, record-keeping, dietary requirements, daily curriculum and health, fire and safety standards. Failure to comply with any applicable regulations can subject a child care center to sanctions imposed by the regulating jurisdiction, including placement on probation or, in certain serious cases, suspension or revocation of a center's license to operate. Construction of child care centers must also comply with local zoning requirements, health and building codes, which compliance can result in significant delays and added expense in opening new centers. Such zoning rules and regulations vary from jurisdiction to jurisdiction. Failure to continue to comply with such laws and regulations or the imposition of additional restrictions on the centers could have a material adverse effect on the operations of the Company and its franchisees.

Trademarks

The Company has registered with the United States Patent and Trademark Office the Kiddie Academy name and logo. In addition, the Company has trademark applications pending for the Kid's Craft name and logo. The Company believes that its intellectual property rights are important to its business and intends to continue to renew its trademark registrations and to enforce its rights thereunder.

Insurance

The Company currently has in place (i) a commercial liability policy with an aggregate policy and per occurrence limit of \$1,000,000, which includes property, business interruption, computer, criminal, comprehensive general liability and automobile liability coverage, (ii) a worker's compensation policy, and (iii) an umbrella liability policy with an aggregate policy and per occurrence limit of \$1,000,000.

In addition, each Company-owned center carries the types of insurance required for franchised centers, as described below. The Company believes that the types of insurance and amounts of coverage it maintains are customary for businesses of comparable size in its industry. There can be no assurance that the Company's current insurance program will continue to be adequate or available to the Company at reasonable rates. In the event that coverage is inadequate or becomes unavailable, the Company could be materially adversely affected.

The Company requires that franchisees procure, no later than 30 days before the date on which operations of a center are commenced, and maintain in full force and effect at all times during the term of the Franchise Agreement, the following insurance coverage: (i) comprehensive general liability insurance with an aggregate policy and per occurrence limit of \$1,000,000, including coverage for personal injury, errors and omissions, products/completed operations, contractual

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liability, professional malpractice, products liability, automobile liability and property damage liability; (ii) fire, vandalism and extended coverage insurance; (iii) student accident insurance; (iv) employer's liability, workers' compensation, business interruption and such other insurance as may be required by state and local laws; and (v) such additional insurance and types of coverages as may be required under the terms of the lease for the center. Each child enrolled in a Company-owned or franchised center is covered by the center's comprehensive general liability insurance.

Availability of Acceptable Locations

The Company's continued success and expansion depends, in large part, on the continued availability of its existing locations and on the Company's ability to identify and secure on acceptable terms suitable additional locations on which to construct new Company-owned or franchised centers. The Company, on behalf of itself or its franchisees, is currently involved in lease negotiations with landlords for a number of potential locations. There can be no assurance that lease agreements with respect to such locations and locations for future centers will be successfully negotiated and entered into. The rate of new center openings is further subject to various contingencies, many of which are beyond the Company's control. These contingencies include, among others, the progress of construction of new centers and the ability of the Company and its franchisees to successfully comply with all state and local governmental regulations (including zoning regulations) applicable to child care centers. See "Business -- Regulation." To date, the Company has experienced no significant difficulties in locating suitable locations for new centers or in negotiating acceptable lease terms. There can be no assurance, however, that the Company will be able to continue to locate a sufficient number of suitable locations to accommodate its expansion plans. Selection of an unsuitable location could lead to a center which performs below expectations. Difficulty in identifying and negotiating favorable lease terms for a suitable location could lead to delays in opening both franchised centers and Company-owned centers, and, in the case of franchised centers, could lead to termination of the Preliminary Agreement and/or Franchise Agreement by the potential franchisee or the existing franchisee. See "Business -- Franchise Services." Further, there can be no assurance that construction and other costs of opening new centers will not be higher than those anticipated by the Company, in which case, the Company might be required to reduce the rate at which it opens new centers. While some of the Company's and its franchisees' leases contain provisions for renewal options, there can be no assurance that, upon expiration of the current lease terms, such locations will continue to be available to the Company or its franchisees, or if available, that the terms of renewal for such locations will be acceptable.

Liability Under Leases

In many instances, the Company has had to guarantee some or all of a franchisee's obligations under the lease for its child care center. Although the franchisee typically agrees to personally guarantee the lease and to indemnify the Company in the event the Company is required to make any payments under its guarantee, the franchisee may not have adequate financial resources to honor its personal guarantee or indemnification obligations. Most of the Company's guarantees provide for notice of a tenant's default and an opportunity to cure the default, prior to landlord enforcement of any guarantee. In addition, most franchise agreements require the franchisee lease

to contain a Collateral Assignment of Lease Agreement, which provides that, in the event of a default which is not cured (under either the franchise agreement or the lease agreement), Kiddie Academy Franchising Systems, Inc. may, at its option (but not as an obligation), operate the center as a Company-owned center, elect to select a new franchisee to operate the center (subject to the landlord's approval), or cease the center's operations altogether (subject to the obligation of the Company to continue to pay rent if the Company has guaranteed the franchisee's obligations under the lease). While the Company believes that it may benefit from these Collateral Assignment of Lease Agreements by the receipt of income from the operation or refranchising of the center in default, the failure of one or more franchisees to meet its or their obligations under its or their leases could have a material adverse effect on the business, operations and financial condition of the Company.

ITEM 2. PROPERTIES

The Company's corporate headquarters are located in approximately 9,600 square feet of leased office space in Bel Air, Maryland. The Company considers this space for its corporate headquarters to be in good condition and adequate for its current needs.

The Company leases the land and buildings for its various Company-owned centers. Centers leased by the Company are typically leased under "triple net" leases that require the Company to pay its share of utilities, real estate taxes, maintenance costs and insurance premiums.

The following table shows the number of locations of the Company's Centers as of September 29, 1996, which are either open or are under lease, pending opening, sorted by state.

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STATE	CENTERS OPEN & OPERATIONAL	CENTERS UNDER LEASE, PENDING OPENING	TOTAL
California	1	3	4
Colorado	2	1	3
Delaware	2	1	3
Georgia	0	1	1
Illinois	4	1	5
Indiana	2	0	2
Maryland	17	5	22
Michigan	0	1	1
North Carolina	1	1	2
New Jersey	8	5	13
New York	4	2	6
Ohio	3	1	4
Pennsylvania	2	3	5
Texas	2	1	3
Virginia	1	1	2
TOTAL	49	27	76

Of the above 49 operating centers, 17 are operated by Kiddie Academy Child Care Learning Centers, Inc. and the remaining balance of 32 are leased and operated by franchisees. All centers are leased and have terms ranging from one year to 15 years in duration. Many leases contain options to extend the original lease term for additional periods ranging from five to 10 years. Certain leases contain purchase options and rights of first refusal, in favor of the Company. Typical center leases have an initial term of 10 years with at least two, five-year renewal options and often require the tenant to pay its share of utilities, real estate taxes, maintenance costs and insurance premiums.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved from time to time in routine litigation arising

course of its business, some of which is covered by insurance. In management's opinion, none of the litigation in which the Company is currently involved is material to its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY
AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq SmallCap Stock Market under the symbol KAI and on the Boston Stock Exchange under the symbol KAI. Warrants to purchase the Company's Common Stock are traded on the Nasdaq SmallCap Stock Market under the symbol KAIW and on the Boston Stock Exchange under the symbol KAIW. The following tables set forth, for fiscal year 1996 (the only period during which the Company's Common Stock and warrants were publicly traded), the high and low sales prices from the Nasdaq SmallCap Stock Market for the Company's Common Stock and warrants.

RECENT MARKET PRICES
Fiscal 1996

COMMON STOCK

QUARTER	4TH	3RD	2ND	1ST*
High	4 63/64	4 3/4	6 19/64	7
Low	4 1/4	3	3	5 1/4

WARRANTS

QUARTER	4TH	3RD	2ND	1ST*
High	45/64	13/16	1 7/32	1 7/8
Low	13/32	3/8	3/8	3/4

* Comprises the period December 18, 1996 - December 31, 1996, the only period during this quarter in which the Company's Common Stock and warrants were publicly traded.

As of December 11, 1996, there were approximately 367 holders of the Company's Common Stock and 276 holders of warrants.

Dividends

The Company has not paid dividends on shares of Common Stock and does not anticipate declaring or paying any cash dividends on its Common Stock in the foreseeable future. Any future determination as to dividend policy will be made by the Board of Directors of the Company in its discretion and will depend on a number of factors, including the future earnings, if any, capital requirements, financial condition and business prospects of the Company and such other factors as the Board of Directors may deem relevant.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes. The financial information and percentages set forth below in Results of Operations and Liquidity and Capital Resources have been rounded to the nearest thousandth and to the nearest whole percent, respectively.

When used in this report, press releases and elsewhere by management of the Company from time to time, the words "believes," "anticipates," and "expects" and similar expressions are intended to identify forward-looking statements that involve certain risks and uncertainties. A variety of factors could cause actual results to differ materially from those anticipated in the Company's forward-looking statements, some of which include the Company's ability to identify and secure on acceptable terms suitable locations on which to construct new Company-owned or franchised centers; the Company's continued ability to compete with this segment of the market; the relatively small number of Company-owned and franchised centers currently operating which could cause poor operating results at any one center or any unsuccessful new center opening to negatively impact the Company's results to a greater result than would be the case in a larger chain; the Company's dependence on franchisees which could cause the Company's revenues from franchise fees and royalties to be adversely affected if the Company's franchisees experience business or operational difficulties; the failure of one or more franchisees to meet its or their obligations under its or their leases which could have a material, adverse effect on the business, operations and financial condition of the Company to the extent such obligations have been guaranteed by the Company; the Company's need to comply with numerous state and local governmental regulations and licensing requirements; and other risk factors that are discussed from time to time in the Company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date thereof. The Company undertakes no obligation to publicly release the results of any events or circumstances after the date hereof or to reflect the occurrence of

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unanticipated events.

General

The Company derives revenue from three sources: (i) weekly tuition generated at the 17 Company-owned and operated centers; (ii) fees from franchisees, including franchise licensing fees currently totaling \$30,000 per new franchised center, ongoing royalties equal to 7% of each franchised center's gross revenues, and weekly administrative fees of \$52 per franchised center; and (iii) the sale of school supplies, educational toys and equipment by Kid's Craft. The Company experienced a net increase in the number of centers from 36, at the beginning of fiscal year 1996, to 49 at the end of fiscal year 1996. The Company has achieved this growth through a combination of Company-operated and franchised centers. The number of Company-owned centers increased by 10 during fiscal year 1996, and the number of franchised centers increased by 3 during fiscal year 1996. The growth of Company-owned centers during fiscal year 1996 included the acquisition of six centers from its franchisees.

Additionally, the Company has entered into management arrangements with two of its franchisees pursuant to which the Company has agreed to operate the relevant center and receive all revenues and assume substantially all ongoing obligations. Subsequent to September 29, 1996, the Company franchised one Company-owned center, acquired two franchised centers and took over the management of one additional franchised center. The revenues received by the Company from each franchised center under management by the Company are included in the revenues of Company-owned new centers as reflected on the Company's Consolidated Financial Statements.

The increase in franchised centers includes the opening of 12 new centers, the sale of six franchised centers to the Company and the release of one center from the system following the Company's determination that due to changes in the community in which the center is located, it no longer met the Company's minimum site criteria. The number of franchised centers was further reduced by the two which are currently under management by the Company. Subsequent to September 29, 1996, five new franchised centers have opened (including one which was purchased from the Company), two have been acquired by the Company, one has been allowed to leave the system, and one other is under Company-management, as described above. As set forth in "Business -- Strategy," the Company's current plans are to focus on the "ramp-up" to profitable enrollment levels through Company-operated center growth and the advancement of existing franchised centers under development.

Revenue from Company-owned centers is recognized in the period the child care services are provided. Revenue derived from franchise fees is recognized when the franchise center opens. Accordingly, the amount of the deferred franchise fee liability as shown on the Company's balance sheet is

directly related to the number of centers in development. All franchise fees collected by the Company for centers in development are accounted for as a current liability until the center opens, as required by generally accepted accounting principles. The amount of the Company's deferred franchise fee liability for the fiscal period ended September 29, 1996 increased over the comparable period in 1995 as a result of an increase in the number of centers in development. Royalty income is recognized in the same period in which the related revenue is generated by each franchised center.

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Revenue from administrative fees paid by franchisees for services provided by the Company is recognized when the Company provides such services. During fiscal year 1997, a change in the Company's fee structure is expected to permit \$10,000 of initial fees paid by each applicant to be recognized approximately 30 days after the applicant executes a Preliminary Agreement with the Company.

The significant growth experienced by the Company during fiscal year 1996 contributed significantly to the Company's losses. New centers typically require up to 24 months to "ramp-up" to profitable enrollment levels and of the Company's centers, five had been operated by the Company for more than 24 months. In addition, many of the centers purchased by the Company from franchisees during fiscal year 1996 had been previously poorly managed and had a negative reputation in their respective communities. As a result, many of the newly acquired centers have required a longer than average period to "ramp-up" than that experienced with new centers. Because the Company began fiscal year 1996 with very few mature Company-owned centers, the rapid expansion diluted the profitability of those centers.

Additionally, the Company has begun to increase its corporate infrastructure in anticipation of its future expansion plans. This development has involved the incurrence of substantial one-time and continuing expenses, without the immediate realization of offsetting income. The Company's expansion also significantly affects the comparability of results of operations from period to period, in part because revenues generated by a center are generally significantly lower during the first 18 to 24 months following its opening as a result of lower initial levels of enrollment. As set forth in "Business--Strategy," the Company's current plans are to focus on the "ramp-up" to profitable enrollment levels through Company-operated center growth and the advancement of existing franchised centers under development.

Results of Operations

The following table sets forth, for the periods indicated, selected information from the Company's Consolidated Statements of Operations (except for systemwide centers open at end of period and systemwide revenues and financial data for fiscal year 1994), expressed as a percentage of revenues from operations.

<TABLE>

<CAPTION>

	September 29, 1996		Twelve Months Ended September 30, 1995		September 30, 1994	
	-----	-----	-----	-----	-----	-----
Systemwide centers open	49		36		20	
<S><C>						
Systemwide revenues.....	\$13,963,000		\$7,325,000		\$4,009,000	
	-----		-----		-----	
Revenues from operations						
Company-owned centers..	\$3,129,000	65%	\$1,418,000	58%	\$2,083,000	84%
Franchising operations..	\$1,399,000	29%	\$ 872,000	36%	\$ 285,000	12%
Product sales.....	\$ 264,000	6%	\$ 160,000	6%	\$ 106,000	4%
	-----		-----		-----	
Total revenues.....	\$4,792,000	100%	\$2,450,000	100%	\$2,474,000	100%
	-----	---	-----	---	-----	---
Operating expenses.....	\$6,793,000	142%	\$3,002,000	123%	\$2,878,000	116%
	-----	---	-----	---	-----	---

</TABLE>

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<TABLE>

<S><C>

Net operating (loss).....	\$ (2,001,000)	(42)%	\$ (552,000)	(23)%	\$ (404,000)	(16)%
Interest income (expense) .	\$ 39,000	1%	\$ (269,000)	(11)%	\$ (239,000)	(10)%
Other income.....	\$ 56,000	1%	\$ 41,000	2%	\$ 359,000	15%
	-----	----	-----	----	-----	----
Net loss.....	\$ (1,906,000)	(40)%	\$ (779,000)	(32)%	\$ (284,000)	(11)%
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</TABLE>

Year Ended September 29, 1996 Compared to Year Ended September 30, 1995

Revenues

Systemwide revenues (tuition fees from Company-owned and franchised centers) for the fiscal year ended September 29, 1996 increased by 91%, to \$13,963,000 from \$7,325,000 for the fiscal year ended September 30, 1995. This increase was due to an increase in the total number of centers open to 49 at September 29, 1996, as compared to 36 open at September 30, 1995, and an increase in average enrollment levels at centers which were open during both periods.

The Company's revenues from operations for the fiscal year ended September 29, 1996 increased by 96%, to \$4,792,000 from \$2,450,000 for the fiscal year ended September 30, 1995. This increase was due to an increase in revenues generated by an increase in the number of Company-owned centers, as well as an increase in the average enrollment in those centers, an increase in revenues generated by franchising activities and increased revenues generated by Kid's Craft.

Aggregate revenues generated by Company-owned centers for the fiscal year ended September 29, 1996, which constituted 65% of revenues from operations, increased by 121%, to \$3,129,000 from \$1,418,000 for the fiscal year ended September 30, 1995. This increase was due to the increase in the number of Company-owned centers owned and operated during the fiscal year ended September 29, 1996 to 17 as compared to the fiscal year ended September 30, 1995 with seven Company-owned centers. Revenues from mature centers (owned and operated by Kiddie Academy for at least 24 months) showed an increase of 4% or \$54,000 for this same period but consisted of fewer centers, on average, in fiscal year 1996 than in fiscal year 1995. During the year ended September 29, 1996 the Company opened three new centers, sold an existing center, purchased six centers from franchisees and entered into agreements to manage two other centers all of which have revenue accounted for in Company-owned new centers.

Revenues from franchising activities (franchising fees, royalties and administrative fees) for the fiscal year ended September 29, 1996, which constituted 29% of revenues from operations, increased by 60%, to \$1,399,000 from \$872,000 for the fiscal year ended September 30, 1995. Revenues from franchise fees for the fiscal year ended September 29, 1996 increased by 36%, to \$563,000 from \$413,000 for the fiscal year ended September 30, 1995. Royalties for the fiscal year ended September 29, 1996 increased by 86%, to \$759,000 from \$408,000 for the fiscal year ended September 30, 1995. Administrative fees for the fiscal year ended September 29, 1996 increased by 48%, to \$77,000 from \$52,000 for the fiscal year ended September 30, 1995. The increase in revenues from franchise fees, royalties and administrative fees resulted from the increase in the

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number of franchised centers open during the fiscal year ended September 29, 1996 to 32 (which includes 12 new centers opened in fiscal year 1996 reduced by the six that were sold to the Company, two that are Company-managed, and one that was allowed to drop out of the system) from 29 during the fiscal year ended September 30, 1995 and the increase in enrollment levels.

Sales revenues generated by Kid's Craft for the fiscal year ended September 29, 1996, which constituted 6% of revenues from operations, increased by 65%, to \$264,000 from \$160,000 for the fiscal year ended September 30, 1995, primarily as a result of sales to new franchised centers opened during this period and ongoing sales to existing franchise centers.

Operating Expenses

Operating expenses include the expenses associated with operating the Company-owned child care centers (including payroll and related expenses, occupancy costs, and the costs of food, supplies, utilities, advertising and insurance); expenses associated with running the Company's franchise operations (including payroll, commissions and related expenses, occupancy costs, advertising, travel and utilities); and expenses associated with the operation of Kid's Craft (including costs of products, freight, occupancy and utilities); and other general and administrative expenses.

Aggregate operating expenses for the fiscal year ended September 29, 1996 increased by 126%, to \$6,793,000 from \$3,002,000 in the fiscal year ended September 30, 1995. As a percentage of operating revenues, operating expenses increased to approximately 142% for the fiscal year ended September 29, 1996 from approximately 123% for the fiscal year ended September 30, 1995. These increases were due primarily to increases in expenses associated with the Company's franchising activities and "ramp-up" expenses associated with the 10 additional centers operated by the Company during the 1996 fiscal year.

Operating expenses relating to Company-owned centers for the fiscal year ended September 29, 1996, which constituted 63% of total operating expenses, increased by 190%, to \$4,278,000 from \$1,476,000 for the fiscal year ended September 30, 1995. Expenses for mature centers increased 3% or \$39,000 for this same period. Expenses for new centers were high compared to revenues as a result of centers purchased from franchisees that required extensive advertising and re-furbishing. These expenses included many one time expenditures that should not be necessary again as the center reaches maturity. New centers that the Company opened experienced the normal economic "ramp-up" and are expected to reach maturity as anticipated. The increase in operating expenses for Company-owned centers and managed centers for the 1996 fiscal year as compared to the 1995 fiscal year is due to the increase in centers and the related increases in rent due to lease obligations, payroll, food costs and other costs increased in proportion to the number of centers operated. The Company expects that aggregate expenses relating to Company-owned centers will continue to increase as the number of Company-owned centers increases. However, over time, as the Company achieves and capitalizes upon economies of scale, and as newly-opened centers mature beyond their initial period of start-up expenses and low enrollment, the Company expects expenses as a percentage of revenues derived from Company-owned centers to decrease. The Company also intends to focus on improving

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operating results at Company-owned centers by implementing programs designed to increase revenues such as advertising and promotion, while continuing to control costs.

Costs of goods sold by Kid's Craft for the fiscal year ended September 29, 1996, which constituted 3% of total operating expenses, increased by 80%, to \$207,000 from \$115,000 for the fiscal year ended September 30, 1995. This increase was primarily due to an increase in product sales and freight costs.

General and administrative expenses, which constituted 34% of total operating expenses and which include the costs of corporate overhead, franchising operations and operating expenses for Kid's Craft, for the fiscal year ended September 29, 1996 increased by 64%, to \$2,308,000 from \$1,411,000 for the fiscal year ended September 30, 1995. Increases occurred in all areas of expense due to the growth in the corporate infrastructure undertaken in order to support the Company's expanded efforts in franchising and the substantial increase in the number of franchises open and under development. The Company expects that expenses related to franchising will continue to increase. However, over time, the Company expects such expenses to decrease as a percentage of franchise revenues.

Depreciation and Amortization

Depreciation and amortization expense consist of depreciation or amortization of certain equipment, furniture and fixtures, vehicles and leasehold improvements, and organizational costs. Depreciation and amortization expense, for the fiscal year ended September 29, 1996 decreased by \$19,000 to \$83,000 from \$102,000 for the fiscal year ended September 30, 1995. This decrease was primarily due to depreciation expense resulting from a center that was sold in 1995, the leases of which center had been accounted for as capital leases partially offset by the purchases of equipment.

Interest

Interest income, net of interest expense, for the fiscal year ended September 29, 1996 was \$39,000 as compared to interest expense of \$269,000 for the fiscal year ended September 30, 1995. This change was attributable to the pay off of the line of credit in December 1995, overnight investments in the Company's sweep account resulting from the proceeds of the initial public offering, and the elimination of capital lease obligations.

Other Income

For the fiscal year ended September 29, 1996, the Company recorded other income of \$56,000, and in the fiscal year ended September 30, 1995, \$41,000. This increase is attributable to the sale of one Company-owned center to a franchisee and the gain on sale of asset that was realized.

As a result of the foregoing, the Company recorded a net loss for the fiscal year ended September 29, 1996 of \$1,907,000 as compared to a net loss of \$779,000 for the fiscal year ended

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September 30, 1995.

Year Ended September 30, 1995 Compared to Year Ended September 30, 1994

Revenues

Systemwide revenues for the fiscal year ended September 30, 1995 increased by \$3,316,000, or 83% to \$7,325,000 from \$4,009,000 for the fiscal year ended September 30, 1994. This increase was due to an increase in the number of franchised centers open at the end of fiscal year 1995 to 36 as compared to 20 open at the end of fiscal year 1994 and an increase in average enrollment levels in fiscal year 1995 as compared with fiscal year 1994 at centers which were open during both fiscal years.

The Company's revenues from operations for fiscal year 1995 decreased by \$24,000, or 1%, to \$2,450,000 from \$2,474,000 for fiscal year 1994. This decrease was due primarily to a decrease in revenues generated by Company-owned centers which was offset, to a large extent, by an increase in revenues generated by franchising activities and increased revenues generated by Kid's Craft.

Aggregate revenues generated by Company-owned centers for fiscal year 1995, which constituted 58% of revenues from operations, decreased by \$665,000, or 32%, to \$1,418,000 from \$2,083,000 for fiscal year 1994. This decrease was due to the reduction in the number of Company-owned centers owned throughout the entire fiscal year 1995 to four as compared to eight throughout the entire fiscal year 1994. During the first four months of fiscal year 1995, one Company-owned center was sold and two others were converted to franchised centers (the "Center Conversions"). The decrease in revenues was offset slightly by revenues generated by three centers purchased by the Company from franchisees in the last two months of fiscal year 1995 and revenues received by the Company in consideration of its management of one franchised center, which commenced in July 1995 (the "Purchased Centers"). The net proceeds from the Center Conversions were used to fund the expansion of the Company's franchise operations. Revenues from the four Company-owned centers owned throughout all four quarters of fiscal year 1995 increased by \$257,000, or 27% to \$1,200,000 for fiscal year 1995 from \$943,000 for fiscal year 1994. This increase was primarily due to a substantial increase in enrollment at the newest Company-owned center, which opened in May 1994.

Revenues from franchising activities (site selection and franchising fees, royalties and administrative fees) for fiscal year 1995, which constituted 36% of revenues from operations, increased by \$587,000, or 206%, to \$872,000 from \$285,000 for fiscal year 1994. Revenues from site selection and franchise fees for fiscal year 1995 increased by \$281,000, or 213%, to \$413,000 from \$132,000 for fiscal year 1994. Royalties for fiscal year 1995 increased by \$273,000, or 202%, to \$408,000 from \$135,000 for fiscal year 1994. Administrative fees for fiscal year 1995 increased by \$34,000, or 189%, to \$52,000 from \$18,000 for fiscal year 1994. The increase in revenues from site selection and franchise fees, royalties and administrative fees resulted from the substantial increase in the number of franchised centers open during fiscal year 1995 to 29 from 13 during fiscal

year 1994.

Sales revenues generated by Kid's Craft for fiscal year 1995, which constituted 6% of revenues from operations, increased by \$54,000, or 51%, to \$160,000 from \$106,000 for fiscal year 1994, primarily as a result of sales to the 16 new franchised centers opened during this period.

Operating Expenses

Operating expenses include the expenses associated with operating the Company-owned child care centers (including payroll and related expenses, occupancy costs, and the costs of food, supplies, utilities, advertising and insurance); expenses associated with running the Company's franchise operations (including payroll, commissions and related expenses, occupancy costs, advertising, travel and utilities); and expenses associated with the operation of Kid's Craft (including costs of products, freight, occupancy and utilities); and other general and administrative expenses.

Aggregate operating expenses for fiscal year 1995 increased by \$124,000, or 4%, to \$3,002,000 from \$2,878,000 in fiscal year 1994. As a percentage of operating revenues, operating expenses also increased to approximately 123% for fiscal year 1995 from approximately 116% for fiscal year 1994. These increases were due primarily to increases in expenses associated with the Company's franchising activities and expenses associated with the Purchased Centers, which increases were partially offset by reductions in expenses for Company-owned centers as a result of the Center Conversions.

Operating expenses relating to Company-owned centers for fiscal year 1995, which constituted 49% of total operating expenses, decreased by \$348,000, or 19%, to \$1,476,000 from \$1,824,000 for fiscal year 1994. Reductions occurred in all categories of expense due to the Center Conversions. Such reductions in expenses were partially offset by increases in expenses for the four remaining centers primarily reflecting expenses related to one center which was open for the full fiscal year 1995 which had been open only for the last five months of fiscal year 1994 and an increase in expenses of \$174,000 attributable to the Purchased Centers. The Company expects that aggregate expenses relating to Company-owned centers will continue to increase as the number of Company-owned centers increases. However, over time, as the Company achieves and capitalizes upon economies of scale, and as newly-opened centers mature beyond their initial period of high start-up expenses and low enrollment, the Company expects expenses as a percentage of revenues derived from Company-owned centers to decrease. The Company also intends to focus on improving operating results at Company-owned centers by implementing programs designed to increase revenues while continuing to control costs.

General and administrative expenses, which constituted 47% of total operating expenses and which include the costs of corporate overhead, franchising operations and operating expenses for Kid's Craft, for fiscal year 1995 increased by \$420,000, or 42%, to \$1,411,000 from \$991,000 for fiscal year 1994. Increases occurred in all areas of expense due to the growth in the corporate infrastructure undertaken in order to support the Company's expanded efforts in franchising and the

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substantial increase in the number of franchises open and under development. The Company expects that expenses relating to franchising will continue to increase. However, over time, the Company expects such expenses to decrease as a percentage of franchise revenues.

Costs of goods sold by Kid's Craft for fiscal year 1995, which constituted 4% of total operating expenses, increased by \$51,000, or 80%, to \$115,000 from \$64,000 for fiscal year 1994. This increase was primarily due to an increase in product sales and freight costs.

Depreciation and Amortization

Depreciation and amortization expense consist of depreciation or amortization of certain equipment, furniture and fixtures, vehicles and leasehold improvements, capitalized leases and organizational costs.

Depreciation and amortization expense for fiscal year 1995 decreased by \$12,000 to \$102,000 from \$114,000 for fiscal year 1994. This decrease was primarily due to a decrease in depreciation expense resulting from the Center Conversions, the leases of which centers had been accounted for as capital leases, partially offset by increases in depreciation expense due to the purchase of additional playground equipment, food service equipment and computer and office equipment for the corporate office.

Interest

Interest expense for fiscal year 1995 increased by \$30,000, or 13%, to \$269,000 from \$239,000 for fiscal year 1994. Of these amounts, \$166,000 and \$234,000 for fiscal years 1995 and 1994, respectively, was attributable to interest expense associated with capitalized lease obligations, which obligations have been eliminated as a result of the release of the Company as co-borrower or guarantor under certain loan agreements secured by mortgages in connection with the refinancing of such loans in September 1995. This increase was due to an increase in interest expense resulting from a bridge financing (the "Bridge Financing") offset in part by a decline in interest expense associated with the conversion of two Company-owned centers to franchised centers as part of the Center Conversions, the leases of which centers had been categorized as capital leases. The balance of interest expense during both periods was due to borrowings on the Company's line of credit.

Other Income

For fiscal year 1995, the Company realized other income of \$41,000, consisting primarily of consideration received from the sale of a Company-owned center as part of the Center Conversions during the first quarter of fiscal year 1995 and interest income.

As a result of the foregoing, the Company recorded a net loss for fiscal year 1995 of \$779,000 as compared to a net loss of \$284,000 for fiscal year 1994.

Liquidity and Capital Resources

During the past two fiscal years, the Company has satisfied its cash requirements from cash flow from operations, the sale of one Company-owned center, the conversion of four Company-owned centers to franchised centers, borrowing under its line of credit, advances from certain principal stockholders, and the initial public offering which amounted to approximately \$4 million. The primary uses of cash have been for the pay-off of borrowings under the line of credit, purchase of supplies, financing the start-up of new Company-owned centers, the purchase of seven centers from franchisees and the repurchase of one previously Company-owned center which had been sold to a franchisee, capital expenditures, and expenditures relating to the development of the Company's franchising business, including hiring of necessary sales, real estate, legal and operations personnel, legal requirements associated with obtaining the necessary franchise registrations, production of operating manuals, purchasing the necessary office equipment and furnishings for the Company's corporate headquarters, marketing for new franchisees (including expenses for printing, advertising and travel) and expenses related to the site selection process (including extensive travel). As set forth in "Business--Strategy," the Company's current plans are to focus on the "ramp-up" to profitable enrollment levels through Company-operated center growth and the advancement of existing franchised centers under development.

Net cash used in operating activities for fiscal year 1996 totaled approximately \$1,969,000, reflecting, primarily, the net loss of \$1,907,000, which included a write off of goodwill of approximately \$220,000, increases in notes receivable and franchise development costs offset by increases in accounts payable, deferred franchise fees and other liabilities. Net cash used in operating activities for fiscal year 1995 totaled approximately \$542,000, reflecting, primarily, the net loss of \$779,000 and decreases in other liabilities, offset by net cash provided by franchise fees over deferred franchise costs. Net cash used for investing activities for the fiscal years 1996 and 1995 totaled approximately \$686,000 and \$24,000, respectively, reflecting the acquisition of furniture and equipment for Company-owned centers and the corporate office. Net cash provided by financing for fiscal year 1996 totaled \$3,836,000 which included approximately \$4 million from the initial

public offering, \$66,000 from long-term borrowings offset by the pay off of the line of credit of \$150,000 and payment to the shareholder for loans of \$88,000. Net cash provided by financing activities for fiscal year 1995 totaled approximately \$479,000, reflecting the proceeds from the Bridge Financing of approximately \$400,000, borrowings of \$89,000 under the Company's line of credit and \$88,000 from certain principal stockholders and affiliates, offset by a reduction of \$12,000 in long-term debt and net payments to affiliates of \$86,000.

The Company has available a bank line of credit which permits the Company to borrow up to \$200,000, with interest at the rate of 1.5% over the bank's prime rate. The line of credit is collateralized by all inventory, equipment and accounts receivables of Kiddie Academy International, Inc. and expires on February 22, 1997. The Company also has available the ability to borrow \$500,000 against a Certificate of Deposit (CD) for the same amount. The interest cost is 2% greater than the interest earnings of the CD. This line of credit expires on July 26, 1996. At September 29, 1996, there were no borrowings against either of the lines of credit.

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As of September 29, 1996, the Company's total debt obligations (exclusive of trade credit) consisted of \$301,346 which included a \$44,000 equipment loan, a \$14,000 vehicle loan and various notes payable as a result of the purchase of franchisee centers.

The Company believes that the remaining net proceeds of the initial public offering, available cash flow from operations and its existing bank facilities will be sufficient to satisfy its capital expenditures and debt obligations and will be sufficient to meet its working capital requirements for the ensuing fiscal year. The Company believes that, depending upon its success in opening and operating new Company-owned and franchised centers (of which there can be no assurance), its revenues will be sufficient to meet its working capital requirements associated with such plans. Additionally, the Company may choose to seek to raise additional capital in the future, but no decisions have been made in such regard. If such a plan is adopted, there can be no assurances that additional financings could be consummated at all or on terms favorable to the Company.

Effects of Inflation

The impact of general inflation on the Company's business has been insignificant to date and the Company believes that it will continue to be insignificant for the foreseeable future.

ITEM 7. FINANCIAL STATEMENTS

Information required by this Item appears on pages F1 - F16.

ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item will be contained in the 1997 Proxy Statement of the Company and is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

Information required by this Item will be contained in the 1997 Proxy Statement of the Company and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN

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BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item will be contained in the 1997 Proxy Statement of the Company and is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item will be contained in the 1997 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

No current reports on Form 8-K were filed by the Company during the last quarter of the fiscal year ended September 29, 1996.

Exhibits

- 3(a) Certificate of Incorporation, as amended.*
- (b) Certificate of Amendment of Certification of Incorporation.*
- (c) Amended and Restated By-laws.***
- 4(a) Form of Public Warrant Certificate.*
- (b) Form of Warrant Agreement.*
- (c) Specimen certificate of Common Stock of the Company.*
- 9 Voting Agreement.*
- 10(a) The Company's 1995 Incentive Compensation Plan (Second Amended and Restated).***
- (b) Employment Agreement between the Company and George Miller.*
- (c) Amendment to George Miller Employment Agreement.***
- (d) Employment Agreement between the Company and Michael J. Miller.*
- (e) Amendment to Michael J. Miller Employment Agreement.***
- (f) Employment Agreement between the Company and Angelo D. Bizzarro.**
- (g) Guaranty of certain leases by the Company in favor of The Sparks State Bank.*
- (h) Form of Preliminary Agreement (1996 Revision).***
- (i) Form of Franchise Agreement (1996 Revision).***
- (j) Form of Mutual General Release Agreement (1996 Revision).***
- (k) Form of Collateral Assignment of Lease (1996 Revision).***
- (l) Lease Agreement among Penguin Properties Corporation ("PPC"), as lessor, and Kiddie Academy Child Care Learning Centers, Inc. ("Kiddie Centers"), Kiddie Academy Franchising Systems, Inc. ("Kiddie Franchising") and Kid's Craft, Inc. ("Kid's Craft"), as lessees for property located at 108 Wheel Road, Bel Air, Maryland (the "Office Lease") dated September 25, 1995.*
- (m) Amendment to Office Lease, dated October 24, 1995.*
- (n) Second Amendment to Office Lease, dated October 18, 1996.***

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- (o) Lease Agreement, dated September 25, 1995, between PPC, as lessor, and Kiddie Centers, as lessee, for the property located at 2235 Old Emmorton Road, Bel Air, Maryland, as amended (the "Old Emmorton Road Lease").*
 - (p) Amendment to Old Emmorton Road Lease, dated October 24, 1995.*
 - (q) Lease Agreement, dated October 2, 1995, between PPC, as lessor, and Kiddie Centers, as lessee, for the property located at 3609 Milford Mill Road, Baltimore, Maryland.***
 - (r) Lease Agreement, dated September 30, 1994 (the "Kent Island Lease"), between PPC, as lessor, and TAG, Incorporated ("TAG"), as lessee, for the property located at Route 18, Village of Benton's Crossing, Stevensville, Maryland.***
 - (s) Assignment of Lease dated November 4, 1996 between TAG, as assignor, and Kiddie Centers, as assignee, respecting the Kent Island Lease.***
 - (t) Line of Credit Agreement between the Company and Sparks State Bank, dated February 22, 1996.***
 - (u) Line of Credit Agreement between the Company and Sparks State Bank dated July 26, 1996.***
 - (v) Letter, dated September 27, 1995 by PPC to the Company, Kiddie Centers, Kiddie Franchising, Kid's Craft with respect to (i) the Office Lease, (ii) the Old Emmorton Road Lease, (iii) the Lease Agreement, dated August 25, 1986, between Kiddie Centers and PPC and (iv) the Lease Agreement, dated February 15, 1988, between Kiddie Centers and PPC.*
 - (w) Line of Credit Agreement between the Company and Harford National Bank.*
21. List of Subsidiaries of the Company*
27. Financial Data Schedule.***

- * Incorporated by reference to the Company's Registration Statement on Form SB-2 (Commission File No.: 33-97282).
- ** Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Commission on October 21, 1996.
- *** Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant, Kiddie Academy International, Inc., has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on December 30, 1996.

KIDDIE ACADEMY INTERNATIONAL, INC.

By: /s/ George Miller

 George Miller, Chairman of the
 Board and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned hereby constitutes and appoints George Miller and Michael J. Miller, or any one of them acting singly, his true and lawful agents and attorneys-in-fact with full power and authority in said agents and attorneys-in-fact, or any of them, to sign for the undersigned and in his name, in the capacity indicated opposite his name, this Report of Kiddie Academy International, Inc. on Form 10-KSB (and any pre-effective or post-effective amendment or supplement to such Report) to be filed under the Securities Act of 1933, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Act of 1933, this Report has been signed by the following persons in the capacities and on the dates indicated.

The signing persons include a majority of the Registrant's Board of Directors.

Name ----	Capacity -----	Date ----
/s/ George Miller ----- George Miller	Chairman of the Board, Chief Executive Officer (Principal Executive Officer), and Director	December 30, 1996
/s/ Michael J. Miller ----- Michael J. Miller	President and Director	December 30, 1996
/s/ Guy A. Matta ----- Guy A. Matta	Chief Financial Officer (Principal Financial and Accounting Officer)	December 30, 1996
 		December 30, 1996
/s/ Carl J. Meil, Jr. ----- Carl J. Meil, Jr.	Director	

/s/ Angelo D. Bizzarro Director

December 30, 1996

Angelo D. Bizzarro

/s/ James A. Mitarotonda Director

December 30, 1996

James A. Mitarotonda

/s/ Julian R. Siegel Director

December 30, 1996

Julian R. Siegel

KIDDIE ACADEMY INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
Kiddie Academy International, Inc.

We have audited the accompanying consolidated balance sheets of Kiddie Academy International, Inc. and its subsidiaries (the Company) as of September 29, 1996 and September 30, 1995, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended September 29, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of September 29, 1996 and September 30, 1995, and the results of its operations and its cash flows for each of the two years in the period ended September 29, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Baltimore, Maryland
November 15, 1996

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KIDDIE ACADEMY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

<TABLE>
<CAPTION>

	September 29, 1996	September 30, 1995
	-----	-----
<S> <C>		
Current assets:		
Cash and cash equivalents	\$1,232,098	\$51,527
Accounts receivable	127,972	75,640
Prepaid expenses	60,024	5,065
Inventories	90,347	6,498
Notes receivable, current	15,361	21,454
Franchise development costs	699,527	554,106
Deferred offering costs	---	485,837
	-----	-----
Total current assets	2,225,329	1,200,127
	-----	-----
Property and equipment	1,057,066	331,211
Accumulated depreciation	(300,086)	(234,545)
	-----	-----
Net property and equipment	756,980	96,666
	-----	-----
Notes receivable, long-term	136,635	85,115
Goodwill	116,910	---
Deposits	105,437	16,227
	-----	-----
Total assets	\$3,341,291	\$1,398,135
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes payable	---	\$549,861
Accounts payable and accrued expenses	\$ 787,654	889,440
Deferred franchise license fees	1,125,002	1,065,371
Current portion of long-term debt	111,114	291
Current portion of deferred rent credits	93,992	93,993
	-----	-----
Total current liabilities	2,117,762	2,598,956
Long-term debt	190,312	---
Stockholder notes	---	87,722
Deferred rent payments	159,005	3,338
Deferred rent credits	281,976	375,968
	-----	-----
Total liabilities	2,749,055	3,065,984
	-----	-----
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, par value \$0.01 per share: authorized 1,000,000 shares; no shares issued and outstanding	---	---
Common stock, par value \$0.01 per share: authorized 10,000,000 shares; issued and outstanding shares 2,025,000 in 1996; 925,000 in 1995.	20,250	9,250
Additional paid-in capital	4,260,280	214,505
Accumulated deficit	(3,688,294)	(1,781,604)
Deferred compensation	---	(110,000)
	-----	-----
Total stockholders' equity (deficit)	592,236	(1,667,849)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$3,341,291	\$1,398,135
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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KIDDIE ACADEMY INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

YEARS ENDED

	SEPTEMBER 29, 1996	SEPTEMBER 30, 1995
<S> <C>		
REVENUES:		
Company-owned mature centers	\$1,397,502	\$1,343,224
Company-owned new centers	1,731,018	75,114
Franchise license fees	563,329	412,979
Franchise royalties	758,403	407,719
Product sales	264,442	159,856
Administrative fees	77,004	51,520
	-----	-----
Total revenue	4,791,698	2,450,412
OPERATING EXPENSES:		
Company-owned mature centers	1,340,386	1,301,662
Company-owned new centers	2,938,072	174,507
Cost of product sales	206,835	115,174
General and administrative	2,307,745	1,410,956
	-----	-----
Total operating expenses	6,793,038	3,002,299
	-----	-----
Loss from operations	(2,001,340)	(551,887)
INTEREST INCOME (EXPENSE)	38,996	(269,020)
OTHER INCOME (EXPENSE), net	55,654	41,460
NET LOSS	(\$1,906,690)	(\$779,447)
	=====	=====
NET LOSS PER COMMON SHARE	(\$1.06)	(\$0.81)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	1,795,833	964,700
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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KIDDIE ACADEMY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional	Accumulated	Deferred	Total
	Shares	Amount	Paid-in Capital	Deficit	Compensation	Stockholders' Equity (Deficit)
	-----	-----	-----	-----	-----	-----
<S> <C>						
Balance at						
October 1, 1994	925,000	\$9,250	\$74,505	\$(1,002,157)		\$(918,402)
Warrants issued	---	---	30,000	---		30,000
Deferred compensation on stock options	---	---	110,000	---	\$(110,000)	
Net loss				(779,447)		(779,447)
	-----	-----	-----	-----	-----	-----
Balance at						
September 30, 1995	925,000	9,250	214,505	(1,781,604)	(110,000)	(1,667,849)
Initial public offering	1,100,000	11,000	4,061,782	---	---	4,072,782
Deferred rent credits	---	---	93,993	---	---	93,993
Deferred compensation on stock options	---	---	(110,000)	---	110,000	---
Net loss				(1,906,690)		(1,906,690)
	-----	-----	-----	-----	-----	-----
Balance at						
September 29, 1996	2,025,000	\$20,250	\$4,260,280	\$(3,688,294)	---	\$592,236
	=====	=====	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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KIDDIE ACADEMY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED	
	SEPTEMBER 29, 1996	SEPTEMBER 30, 1995
	-----	-----
<S> <C>		
Cash flows from operating activities:		
Net loss	(\$1,906,690)	(\$779,447)
Adjustments to reconcile net loss to net cash used in operating activities:		
Write-off of goodwill	220,214	---
Depreciation and amortization	82,784	102,377
(Gain) loss on sale of assets	(52,065)	32,304
Amortization of debt issuance costs	26,667	83,333
Changes in assets and liabilities:		
Accounts receivable	(52,332)	(24,334)
Inventories	(83,849)	2,732
Notes receivable	14,573	48,112
Franchise development costs	(145,421)	(230,840)
Other assets	(261,079)	5,592
Accounts payable and accrued expenses	(21,119)	79,333
Deferred franchise license fees	59,631	277,691
Other liabilities	149,392	(138,364)
	-----	-----
Net cash used in operating activities	(1,969,294)	(541,511)
	-----	-----
Cash flow from investing activities:		
Acquisition of property and equipment	(725,855)	(31,906)
Proceeds from disposal of property and equipment	40,000	7,975
	-----	-----
Net cash used in investing activities	(685,855)	(23,931)
	-----	-----
Cash flows from financing activities:		
Borrowings from (payments on) notes payable	(549,861)	489,361
Borrowings from (payments to) shareholders	(87,722)	87,722
Net proceeds from IPO	4,407,391	---
Payments of loans from affiliates, net	---	(86,054)
Borrowings (payments) of long-term debt	65,912	(11,909)
	-----	-----
Net cash provided by financing activities	3,835,720	479,120
	-----	-----
Net increase (decrease) in cash	1,180,571	(86,322)
	-----	-----
Cash, beginning of year	51,527	137,849
	-----	-----
Cash, end of year	\$1,232,098	\$51,527
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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KIDDIE ACADEMY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 29, 1996 AND SEPTEMBER 30, 1995

1. Summary of Significant Accounting Policies

(a) Description of Business

Kiddie Academy International, Inc., a Delaware Corporation (the "Parent Company") (together with its subsidiaries, the "Company" or "Kiddie Academy") operates and franchises education-based child care centers for children from six weeks to 12 years of age under the name Kiddie Academy Child Care Learning

Centers, Inc. ("Kiddie Centers"), a wholly-owned subsidiary of the Parent Company which was incorporated in Maryland in 1981 and operates the Company-owned centers; Kiddie Academy Franchising Systems, Inc. ("Kiddie Franchising"), formerly known as Kiddie Academy International, Inc. and a wholly-owned subsidiary of Kiddie Centers, which was incorporated in Maryland in 1992 and operates the Company's franchise business; and Kid's Craft, Inc. ("Kid's Craft"), a wholly-owned subsidiary of the Parent Company, which was incorporated in Maryland in 1989 and operates the Company's school supply distribution business.

The Company was incorporated on June 28, 1995 to succeed to the ownership and operation of Kiddie Centers, Kiddie Franchising and Kid's Craft. All of the shares of Kiddie Centers and Kid's Craft were owned by the principal stockholders of the Parent Company. Each of Pauline, George and Michael J. Miller exchanged their respective shares of Kiddie Centers and Kid's Craft for shares of common stock of the Parent Company at an exchange rate of 523.81 shares of common stock of the Parent Company for one share of Kiddie Centers common stock and one share of Kid's Craft common stock, resulting in a total of 1,100,000 shares of common stock of the Parent Company outstanding.

The Company experienced a net increase in the number of centers from 36, at the beginning of fiscal year 1996, to 49 at the end of fiscal year 1996 operating in 15 states. The Company has achieved this growth through a combination of Company-operated and franchised centers. The number of Company-owned centers increased by ten during fiscal year 1996, and the number of franchised centers increased by 3 during fiscal year 1996. The growth of Company-owned centers during fiscal year 1996 included the acquisition of six centers from its franchisees.

(b) Principles of Consolidation

The consolidated financial statements include the results of operations of the Parent Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

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(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Inventories

Inventories, consisting of educational materials, are stated at the lower of first-in, first-out cost or market.

(e) Franchise development costs

Direct costs relating to franchise sales for which franchise revenue has not been recognized are deferred until the related revenue is recognized.

(f) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Property acquired under capital leases is stated at the lower of the present value of future minimum lease payments or fair value at the inception of the lease, less accumulated amortization.

Depreciation, including amortization of assets covered by capital leases, is provided on both the straight-line and accelerated methods over the estimated useful lives of the assets as follows:

Equipment.	5-10 years
Furniture and fixtures.	5 years
Vehicles.	3 years

Amortization of leasehold improvements and items under capital leases is provided over their useful lives or the remaining lease term, whichever is shorter. Expenditures for maintenance and repairs are charged to expense as incurred. As discussed in Note 5 in 1995, the Company executed new lease agreements to replace the capital leases.

(g) Revenue Recognition

Revenue from Company-owned centers is recognized in the period the child care services are provided. Revenue derived from initial franchise fees is

recognized when the franchise centers open. Royalties are recognized in the same period related franchise center revenue is generated. Revenue from other services provided to franchisees, such as accounting, is recognized when the service is provided. Certain states require the Company to place funds received from potential franchisees in escrow until certain performance milestones are achieved. At September 29, 1996 funds held in escrow amounted to approximately \$60,000.

Revenue on product sales is recognized at the time of shipment.

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Deferred franchise license fees represent amounts received by the Company from prospective franchisees which will be recorded as revenue when the centers open.

(h) Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109) which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

(i) Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is determined by dividing the net earnings (loss) by the weighted average number of common and common share equivalents outstanding. Weighted average shares used in computing net loss per common share for 1996 consist solely of 1,795,833 shares of common stock issued as the effect of the warrants would be antidilutive. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, stock options and warrants granted during the 12-month period prior to the expected date of the initial filing of the Registration Statement, with exercise prices below the initial public offering price, have been included in the calculation of the 1995 common share equivalents, using the treasury stock method, as if they were outstanding for the entire year. Weighted average shares used in computing net income (loss) per common share for 1995 consist of 925,000 shares of common stock issued in connection with the reorganization of the Company and 39,700 common stock equivalents (representing employee options and warrants issued in connection with the Bridge Units (see Note 4).

(j) Common Stock

On October 24, 1995, the Company effected a reverse stock split (.77273 to 1) reducing the outstanding shares to 850,000. On November 21, 1995, the Company effected a stock split (1.088236 to 1) increasing the outstanding shares to 925,000. The accompanying 1995 financial statements and all common stock and per share data included in the accompanying financial statements and notes thereto have been restated to reflect the reorganization of entities under common control in a manner similar to a pooling of interests and to give retroactive effect to the reverse stock split and stock split.

As of September 29, 1996, 1,446,491 shares of common stock are reserved for issuance in connection with outstanding offering purchase warrants and bridge warrants and the Incentive Compensation Plan.

(k) Initial Public Offering

In December 1995 the Company completed an initial public offering (the "Offering") of 1,100,000 shares of common stock and 1,100,000 common stock purchase warrants. The warrants allow the holders to purchase 1,100,000 shares of common stock at \$7.46 per share.

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In February 1996, the underwriter exercised its option to purchase 165,000 warrants at an option price of \$.10 per share. Each warrant allows the holder to purchase one share of common stock at \$7.46 per share. As of September 29, 1996, there were no warrants exercised. These warrants expire in February, 2000.

At September 30, 1995, in connection with the Offering, the Company had incurred and deferred offering costs approximating \$486,000. The total offering costs incurred approximated \$740,000 and were deducted from the net proceeds recorded of approximately \$4,812,000.

(l) Acquisition and Goodwill

The Company acquired six centers from franchisees during the 1996 fiscal year for \$250,000 in cash and the issuance of notes payable of \$305,000. The purchase price was allocated to the net assets acquired (equipment - \$147,000 and deposits - \$47,000) and the excess of the purchase price over the fair value of net assets acquired (\$361,000) has been recorded as goodwill. Goodwill is amortized on a straight-line basis over a 7 - 10 year period.

Based on an evaluation of estimated future cash flows of these centers by the Company at September 29, 1996, it was determined that goodwill of approximately \$220,000 was impaired and it was written off.

(m) Fiscal Year-end

During fiscal year 1996, the Company changed its fiscal year to be a fiscal year which covers the 52 or 53 week period which ends the Sunday nearest to September 30.

(n) Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents - The carrying amounts reported in the balance sheets for cash approximates fair value.

Accounts Receivable and Accounts Payable - The carrying amounts reported in the balance sheets for accounts receivable and accounts payable approximate fair value.

Notes Receivable - The carrying amounts reported in the balance sheets for the current and long-term portions of notes receivable approximate fair value as the interest rates are comparable to current rates.

Long-term Debt - The carrying amounts reported in the balance sheets for the current and long-term portions of long-term debt approximate fair value as the notes were executed in the current year and were done so at current rates for any agreement with an original maturity greater than 12 months.

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2. Notes Receivable

Notes receivable at September 29, 1996 and September 30, 1995 consist of installment notes due from franchisees as follows:

<TABLE>
<CAPTION>

	September 29, 1996	September 30, 1995
	-----	-----
<S> <C>		
Collateralized notes receivable in monthly installments of \$1,868, including interest at 8% to 10% through February 2006	\$146,983	\$101,069
Collateralized note receivable due December 1996 including interest at 12%	5,013	5,500
	-----	-----
Total notes receivable	151,996	106,569
Current portion	15,361	21,454
	-----	-----
Long-term portion	\$136,635	\$ 85,115
	=====	=====

</TABLE>

3. Property and Equipment

Property and equipment at September 29, 1996 and September 30, 1995 consist of:

<TABLE>
<CAPTION>

	September 29, 1996	September 30, 1995
	-----	-----

<S>	<C>		
Equipment		\$ 797,326	\$173,370
Furniture and fixtures		69,635	36,286
Vehicles		16,648	---
Leasehold Improvements		173,457	121,555
		-----	-----
		1,057,066	331,211
Less accumulated depreciation and amortization		(300,086)	(234,545)
		-----	-----
		\$756,980	\$96,666
		=====	=====

</TABLE>

4. Indebtedness

(a) Notes Payable

The Company has available a bank line of credit which permits the Company to borrow up to \$200,000 at 1.5% over the Bank's prime rate. Borrowings under the agreement are collateralized by inventory, equipment and accounts receivable. The line of credit expires on February 22, 1997. At September 30, 1995, \$149,861 was outstanding on a previous line of credit that expired on June 30, 1996. The Company also has available a \$500,000 line of credit secured by a \$500,000 Certificate of Deposit (CD) which permits the Company to borrow at 2% above the CD rate of 4.95%. The line expires on July 26, 1997. At September 29, 1996, there were no borrowings on either lines of credit.

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(b) Long-Term Debt

Long-term debt at September 29, 1996 and September 30, 1995 consists of the following:

<TABLE>			
<CAPTION>			
		September 29, 1996	September 30, 1995
		-----	-----
<S>	<C>		
Equipment loan, bearing interest at 7.5% per annum, maturing in 1995		\$ ---	\$ 291
Equipment loans bearing interest at 1.5% above prime, and 8.5% maturing in February 1999 and May 1999, respectively, collateralized by equipment and a vehicle		58,492	---
Various notes payables, bearing interest at 0% to 8%, maturing at various dates through 2002, issued in connection with the purchase of centers		242,934	---
Less current maturities of long-term debt		(111,114)	(291)
		-----	-----
Long-term debt		\$190,312	\$ ---
		=====	=====

</TABLE>

(c) Bridge Loan

On August 8, 1995, the Company sold four units (the "Bridge Units") each consisting of a Bridge Note for \$100,000 and a Bridge Warrant to purchase 21,023 shares of common stock. The net proceeds received by the Company from the sale of the Bridge Units were approximately \$320,000 and were used to fund expenses of the Company in connection with the Offering, for working capital requirements and for other corporate purposes prior to the Offering. The Bridge Notes bore interest at a rate of 10% per annum and were paid off with the proceeds of the Offering. The Bridge Warrants entitle the holders thereof to purchase, in the aggregate, up to 84,091 shares of common stock at an exercise price of \$3.38 per share. The Bridge Warrants may be exercised at any time and expire on August 8, 2000. Debt issuance costs associated with the bridge loan were being amortized over the period the Bridge Notes were outstanding. Through September 30, 1995, the Company amortized \$30,000 relating to the estimated value ascribed to the Bridge Warrants by the Company and \$53,000 relating to costs associated with the sale of the Bridge Units. For the year ended September 29, 1996, the Company amortized the remaining \$27,000 relating to costs associated with the sale of the Bridge Units.

5. Capital Leases and Commitments

(a) Capital Leases

During 1993, the Company leased three child care centers and its corporate headquarters from Penguin Properties Corporation ("PPC"), an entity owned by certain officers, directors and shareholders of the Company. The Company also guaranteed the debt of PPC relating to these buildings. The initial terms of the respective leases were for five years with a series of renewal options. Because of the debt guarantee, the lease term was considered to include

all renewals during which the debt guarantee was expected to be in effect. As a result, the leases were capital leases for financial reporting purposes.

During September 1995, the Company entered into new lease agreements for the remaining capital leases with PPC and PPC refinanced its existing debt on all of these buildings. As a result of the refinancing discussed above, the debt was no longer guaranteed by the Company and capitalized lease obligations and related accrued interest were removed from the balance sheet. The

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resulting gain has been deferred and will be amortized to additional paid-in capital over the term of the new lease. The new lease agreements with PPC have an initial term of five years and contain renewal options.

(b) Operating Leases

The Company leases certain facilities in connection with its Company-owned centers as well as its corporate headquarters. The negotiated leases contain rental abatements and scheduled payment increases which are amortized on a straight-line basis over the terms of the leases.

Future minimum rentals under non-cancelable operating leases, including the leases with PPC, are as follows:

Year Ending September	
1997	\$1,578,000
1998	1,592,000
1999	1,631,000
2000	1,650,000
2001	1,224,000
Thereafter	5,579,000

Rent expense for the years ended September 29, 1996 and September 30, 1995 was \$1,257,000 and \$414,000, respectively.

(c) Commitments and Contingencies

In September 1995, the Company entered into three-year employment agreements with each of George Miller and Michael J. Miller. The agreements provide for a minimum salary level as well as bonuses based on a percentage of pre-tax profits.

Also, in September 1995 the Company entered into a two-year employment agreement with a chief operating officer who subsequently resigned his position in January 1996. In connection with the agreement, the Company had agreed to grant an option to purchase 40,000 shares of the Company's common stock at a price below par value. At September 30, 1995, \$110,000 of compensation costs related to the option grant was deferred and to be amortized. As a result of the resignation, the options expired and the deferred compensation amount was reversed.

In October 1996, the Company entered into a three-year agreement with a new chief executive officer. The agreement calls for a minimum salary level, a bonus based on a percentage of pre-tax profits and various stock options, including 75,000 non-qualified stock options (at an exercise price of \$3.64) and 25,000 incentive stock options (at an exercise price equal to the per share fair market value on the date he commences employment). The new Chief Executive Officer will further be entitled to an additional 100,000 incentive stock options if the stockholders of the

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Company approve a proposed increase in the number of shares available under the Company's 1995 Incentive Compensation Plan (see Note 9). Also in October 1996 the agreements with the Millers were extended to expire in approximately February 2000.

In many instances, the Company has guaranteed some or all of a franchisee's obligations under the lease for the franchisee's child care center. In addition, the Company has entered into a management agreements with two of its franchisees, pursuant to which the Company has agreed to operate the center and assume certain long-term commitments.

The Company is subject to complaints and claims arising in the ordinary

course of business, including its business as a franchisor. The Company believes that none of the current claims or complaints are material to the Company's consolidated financial position.

6. Income Taxes

Due to the Company's operating losses, a provision for income taxes has not been necessary.

The components of the net deferred tax assets as of September 29, 1996 and September 30, 1995 are as follows:

	1996	1995
	-----	-----
Deferred tax assets:		
Financial statement accruals, net	\$ 44,000	\$ 12,000
Deferred franchisee fee, net of costs	170,000	185,000
Differences in bases of assets	88,000	---
Net operating loss carryforwards	966,000	309,000
Valuation allowance	(1,257,000)	(506,000)
	-----	-----
	11,000	---
Deferred tax liabilities:		
Depreciation	(11,000)	---
	-----	-----
Net deferred tax asset	\$ ---	\$ ---
	=====	=====

The corporate reorganization and offering, as discussed in Note 1, will result in an annual limitation of the Company's utilization of its net operating losses. There is no assurance that the Company will generate future taxable income sufficient to allow for such utilization. Accordingly, the Company has fully reserved all tax assets.

At September 29, 1996, NOL carryforwards of approximately \$2,415,000 were available to reduce future taxable income. The NOL carryforwards expire in varying amounts from 2007 to 2011.

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7. Supplementary Cash Flow Information

For the years ended September 29, 1996 and September 30, 1995, certain supplementary cash flow information follows:

<TABLE>
<CAPTION>

	Years Ended	
	September 29, 1996	September 30, 1995
	----	----
<S> <C>		
Cash paid for interest	\$ 54,000	\$ 220,892
Non-cash financing activities:		
-- reduction of capital lease obligation (see Note 5)	---	1,013,298
-- deferred offering costs included in accounts payable	75,000	460,000
Notes payable issued on acquisition of centers	305,000	
Non-cash investing activities, note received on sale of fixed assets	60,000	---

</TABLE>

8. Related Party Transactions

From time to time from 1991 to 1995, PPC advanced certain amounts to Kiddie Centers and Kiddie Centers advanced certain amounts to PPC. In addition, the stockholders advanced certain amounts to Kiddie Centers and Kiddie Centers advanced certain amounts to its principal stockholders. These did not bear interest. As of September 30, 1995, Kiddie Centers wrote off the remaining balance of its loans of \$39,630 to the principal stockholders which was in excess of its payable to PPC. As a result, there was no net balance in affiliate loans at September 30, 1995.

From January 1995 through September 1995, Kiddie Centers borrowed an aggregate of \$63,895 from George Miller, Chief Executive Officer and a stockholder of the Company, and an aggregate of \$21,700 from Michael J. Miller, President and a stockholder of the Company, to fund certain of the Company's

working capital needs and expenses related to the bridge financing (see Note 4). Each of these loans bears interest at the rate of 8% per annum. As of September 30, 1995, \$87,772 in principal plus accrued interest remained outstanding under these loans. A portion of the proceeds of the Offering (see Note 1) was used to repay these loans.

The Company also leases certain property from PPC. Such leases were accounted for as capital leases until September 1995 (see Note 5).

9. Incentive Compensation Plan

The Company has established a 1995 Incentive Compensation Plan (the "Plan") which is designed to provide additional incentives for officers and other key employees of the Company to promote the success of the business and to enhance the Company's ability to attract and retain the services of qualified persons. The Plan will be administered by the Board of Directors or by a compensation committee of the Board of Directors (the "Committee") which will be authorized to grant to key employees (including officers) restricted stock, incentive stock options and non-qualified stock options. A maximum of 100,000 shares of common stock was reserved for issuance under the Plan. The Board of Directors has approved an increase in the number of shares reserved for issuance under the plan to 300,000, which increase is subject to the approval of the Company's stockholders. The Plan will expire on, and no awards may be granted thereunder after, the tenth anniversary of the adoption of the Plan, subject to the right of the Board of Directors to terminate the Plan at any time prior thereto. The Board of Directors may amend the Plan at any time, except no such amendment may impair the rights of recipients of previous grants without such grantees' consent. At September 29, 1996 no options have been granted under the Plan.

AMENDED AND RESTATED

BY-LAWS

of

KIDDIE ACADEMY INTERNATIONAL, INC.

KIDDIE ACADEMY INTERNATIONAL, INC.
A Delaware Corporation

AMENDED AND RESTATED
BY-LAWS

ARTICLE I
STOCKHOLDERS

Section 1.1 Annual Meeting.

An annual meeting of stockholders for the purpose of electing directors and of transacting such other business as may come before it shall be held each year at such date, time, and place, either within or without the State of Delaware, as may be specified by the Board of Directors.

Section 1.2 Special Meetings.

Special meetings of stockholders for any purpose or purposes may be held at any time upon call of the Chairman or Vice Chairman of the Board, if any, or the Chief Executive Officer ("CEO"), President or any Vice President, at such time and place either within or without the State of Delaware as may be stated in the notice. A special meeting of stockholders shall be called by the Chairman of the Board, Vice Chairman of the Board, CEO, President, any Vice President, or the Secretary upon the written request, stating time, place, and the purpose or purposes of the meeting, of stockholders who together own of record 10% of the outstanding stock of all classes entitled to vote at such meeting.

Section 1.3 Notice of Meetings.

Written notice of stockholders meetings, stating the place, date, and hour thereof, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the Chairman or Vice Chairman of the Board, if any, the CEO, President, any Vice President, the Secretary, or any Assistant Secretary, to each

stockholder entitled to vote thereat at least ten days but not more than sixty days before the date of the meeting, unless a different period is prescribed by law.

Section 1.4 Quorum.

Except as otherwise provided by law or in the Certificate of Incorporation or these By-Laws, at any meeting of stockholders, the holders of a majority of the outstanding shares of each class of stock entitled to vote at the meeting shall be present or represented by proxy in order to constitute a quorum for the transaction of any business. In the absence of a quorum, a majority in interest of the stockholders present or the chairman of the meeting may adjourn the meeting from time to time in the manner provided in Section 1.5 of these By-Laws until a quorum shall attend.

Section 1.5 Adjournment.

Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.6 Organization.

The Chairman of the Board, or in his or her absence the Vice Chairman, or in their absence the President, or in their absence the CEO, or in their absence any Vice President, shall call to order meetings of stockholders and shall act as chairman of such meetings. The Board of Directors or, if the Board fails to act, the stockholders, may appoint any stockholder, director, or officer of the Corporation to act as chairman of any meeting in the absence of the Chairman of the Board, Vice Chairman of the Board, the CEO, the President, and all Vice Presidents.

The Secretary of the Corporation shall act as secretary of all meetings of stockholders, but, in the absence of the Secretary, the chairman of the meeting may

appoint any other person to act as secretary of the meeting.

Section 1.7 Voting.

Except as otherwise provided by law or in the Certificate of Incorporation or these By-Laws and except for the election of directors, at any meeting duly called and held at which a quorum is present, a majority of the

votes cast at such meeting upon a given question by the holders of outstanding shares of stock of all classes of stock of the Corporation entitled to vote thereon who are present in person or by proxy shall decide such question. At any meeting duly called and held for the election of directors at which a quorum is present, directors shall be elected by a plurality of the votes cast by the holders (acting as such) of shares of stock of the Corporation entitled to elect such directors.

ARTICLE II
BOARD OF DIRECTORS

Section 2.1 Number and Term of Office.

The business, property, and affairs of the Corporation shall be managed by or under the direction of a Board of not less than six nor more than ten directors; provided, however, that the Board, by resolution adopted by vote of a majority of the then authorized number of directors, may increase or decrease the number of directors. The directors shall be elected by the holders of shares entitled to vote thereon at the annual meeting of stockholders, and each shall serve (subject to the provisions of Article IV) until the next succeeding annual meeting of stockholders and until his or her respective successor has been elected and qualified.

Section 2.2 Chairman of the Board.

The directors may elect one of their members to be Chairman of the Board of Directors. The Chairman shall be subject to the control of, and may be removed by, the Board of Directors. He or she shall perform such duties as may from time to time be assigned to him or her by the Board.

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Section 2.3 Meetings.

Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board.

Special meetings of the Board of Directors shall be held at such time and place as shall be designated in the notice of the meeting whenever called by the Chairman or Vice Chairman of the Board, if any, the CEO, the President, or a majority of the directors then in office.

Section 2.4 Notice of Special Meetings.

The Secretary, or in his or her absence any other officer of the Corporation, shall give each director notice of the time and place of holding of special meetings of the Board of Directors by mail at least ten days before the meeting, or by facsimile transmission, telecopy, telegram, cable, radiogram, or personal service at least one day before the meeting. Unless otherwise stated in the notice thereof, any and all business may be transacted at any meeting without specification of such business in the notice.

Section 2.5 Quorum and Organization of Meetings.

A majority of the total number of members of the Board of Directors as constituted from time to time shall constitute a quorum for the transaction of

business, but, if at any meeting of the Board of Directors (whether or not adjourned from a previous meeting) there shall be less than a quorum present, a majority of those present may adjourn the meeting to another time and place, and the meeting may be held as adjourned without further notice or waiver provided that a majority of the total number of members of the Board of Directors are then present. Except as otherwise provided by law or in the Certificate of Incorporation or these By-Laws, a majority of the directors present at any meeting at which a quorum is present may decide any question brought before such meeting. Any action to (i) elect, remove or terminate the employment of the Chairman of the Board or any executive officer of the Corporation, (ii) fill any vacancy on the Board resulting from the death or resignation of a director, or (iii) amend this Section 2.5, shall require the approval of the greater of four directors or a majority of the total number of members of the Board of Directors (or, if there are less than four directors then in office, all directors then in

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office). Meetings shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, or in their absence the President, or in their absence the CEO, or in their absence by such other person or as the directors may select. The Secretary of the Corporation shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.6 Committees.

The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business, property, and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the Certificate of Incorporation of the Corporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors pursuant to authority expressly granted to the Board of Directors by the Corporation's Certificate of Incorporation, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation, or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the

Corporation) , adopting an agreement of merger or consolidation under Section 251 or 252 of the General Corporation Law of the State of Delaware,

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recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, or amending these By-Laws; and, unless the resolution expressly so provided, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of the State of Delaware. Each committee which may be established by the Board of Directors pursuant to these By-Laws may fix its own rules and procedures. Notice of meetings of committees, other than of regular meetings provided for by the rules, shall be given to committee members. All action taken by committees shall be recorded in minutes of the meetings.

Section 2.7 Action Without Meeting.

Nothing contained in these By-Laws shall be deemed to restrict the power of members of the Board of Directors or any committee designated by the Board of Directors to take any action required or permitted to be taken by them without a meeting.

Section 2.8 Telephone Meetings.

Nothing contained in these By-Laws shall be deemed to restrict the power of members of the Board of Directors or any committee designated by the Board of Directors, to participate in a meeting of the Board of Directors, or committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

Section 2.9 Removal.

Directors may be removed, with or without cause, by the vote of stockholders who together own of record 66 2/3% of the outstanding stock of all classes entitled to vote.

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ARTICLE III
OFFICERS

Section 3.1 Executive Officers.

The executive officers of the Corporation shall be a CEO, President, one or more Executive Vice Presidents, a Treasurer, and a Secretary, each of whom shall be elected by the Board of Directors. The Board of Directors may further elect or appoint such other officers (including a Controller, Chief

Financial Officer, and one or more Vice Presidents, Assistant Vice Presidents, Assistant Treasurers and Assistant Secretaries) as it may deem necessary or desirable. Each officer shall hold office for such term as may be prescribed by the Board of Directors from time to time. Any person may hold at one time two or more offices.

Section 3.2 Powers and Duties.

The Chairman of the Board, if any, or, in his or her absence, the Vice Chairman of the Board, if any, or, in his or her absence, the President, or in his or her absence the CEO, shall preside at all meetings of the stockholders and of the Board of Directors. The CEO shall be the chief executive officer of the Corporation. In the absence of the CEO, the President shall perform all duties of the CEO. In the absence of the President, a Vice President appointed by the President or, if the President fails to make such appointment, by the Board of Directors, shall perform all the duties of the CEO. The officers and agents of the Corporation shall each have such powers and authority and shall perform such duties in the management of the business, property, and affairs of the Corporation as generally pertain to their respective offices, as well as such powers and authorities and such duties as from time to time may be prescribed by the Board of Directors.

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ARTICLE IV RESIGNATIONS, REMOVALS, AND VACANCIES

Section 4.1 Resignations.

Any director or officer of the Corporation, or any member of any committee, may resign at any time by giving written notice to the Board of Directors, the CEO, the President, or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified therein, then upon receipt thereof. The acceptance of such resignation shall not be necessary to make it effective.

Section 4.2 Removals.

Subject to the provisions of Section 2.5 hereto, the Board of Directors, by a vote of not less than a majority of the entire Board, at any meeting thereof, or by written consent, at any time, may, to the extent permitted by law, remove with or without cause from office any officer or member of any committee and may, with or without cause, disband any committee.

Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares entitled at the time to vote at an election of directors.

Section 4.3 Vacancies.

Subject to the provisions of Section 2.5 hereof, any vacancy in the office of any director or officer through death, resignation, removal, disqualification, or other cause, and any additional directorship resulting from increase in the number of directors, may be filled at any time by a majority of

the directors then in office (even though less than a quorum remains) or, in the case of any vacancy in the office of any director, by the stockholders, and, subject to the provisions of this Article IV, the person so chosen shall hold office until his or her successor shall have been elected and qualified; or, if the person so chosen is a director elected to fill a vacancy, he shall (subject to the provisions of this Article IV) hold office for the unexpired term of his or her predecessor.

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ARTICLE V CAPITAL STOCK

Section 5.1 Stock Certificates.

The certificates representing shares of the capital stock of the Corporation shall be in such form as shall be prescribed by law and approved, from time to time, by the Board of Directors.

Section 5.2 Transfer of Shares.

Shares of the capital stock of the Corporation may be transferred on the books of the Corporation only by the holder of such shares or by his or her duly authorized attorney, upon the surrender to the Corporation or its transfer agent of the certificate representing such stock properly endorsed.

Section 5.3 Fixing Record Date.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which, unless otherwise provided by law, shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

Section 5.4 Lost Certificates.

The Board of Directors or any transfer agent of the Corporation may direct a new certificate or certificates representing stock of the Corporation to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors (or any transfer agent of the Corporation authorized to do so by a resolution of the Board of Directors) may, in its discretion and as a condition

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precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his or her legal representative, to give the Corporation a bond in such sum as the Board of Directors (or any transfer agent so authorized) shall direct to indemnify the Corporation against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed or the issuance of such new certificates, and such requirement may be general or confined to specific instances.

Section 5.5 Regulations.

The Board of Directors shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer, registration, cancellation, and replacement of certificates representing stock of the Corporation.

ARTICLE VI
MISCELLANEOUS

Section 6.1 Corporate Seal.

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the words "Corporate Seal" and "Delaware."

Section 6.2 Fiscal Year.

The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

Section 6.3 Notices and Waivers Thereof.

Whenever any notice whatever is required by law, the Certificate of Incorporation, or these By-Laws to be given to any stockholder, director, or officer, such notice, except as otherwise provided by law, may be given personally, or by mail, or, in the case of directors or officers, by facsimile transmission, telecopy, telegram, cable, or radiogram, addressed to such address as appears on the books of the Corporation. Any notice given by facsimile transmission, telecopy, telegram, cable, or radiogram shall be deemed to have been given when it shall have been delivered for transmission and any notice given by mail

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shall be deemed to have been given when it shall have been deposited in the United States mail with postage thereon prepaid.

Whenever any notice is required to be given by law, the Certificate of Incorporation, or these By-Laws, a written waiver thereof, signed by the person entitled to such notice, whether before or after the meeting or the time stated therein, shall be deemed equivalent in all respects to such notice to the full extent permitted by law.

Section 6.4 Stock of Other Corporations or Other Interests.

Unless otherwise ordered by the Board of Directors, the Chairman of the Board, Vice Chairman of the Board, the CEO, the President, the Secretary, and such attorneys or agents of the Corporation as may be, from time to time, authorized by the Board of Directors or the CEO, shall have full power and authority on behalf of this Corporation to attend and to act and vote in person or by proxy at any meeting of the holders of securities of any corporation or other entity in which this Corporation may own or hold shares or other securities, and at such meetings shall possess and may exercise all the rights and powers incident to the ownership of such shares or other securities which this Corporation, as the owner or holder thereof, might have possessed and exercised if present. The Chairman of the Board, Vice Chairman of the Board, the CEO, the President, the Secretary, or such attorneys or agents, may also execute and deliver on behalf of this Corporation powers of attorney, proxies, consents, waivers, and other instruments relating to the shares or securities owned or held by this Corporation.

ARTICLE VII
AMENDMENTS

The holders of shares entitled at the time to vote for the election of directors shall have power to adopt, amend, or repeal the By-Laws of the Corporation by vote of not less than a majority of such shares, and, except as otherwise provided by law, the Board of Directors shall have power equal in all respects to that of the stockholders to adopt, amend, or repeal the By-Laws by vote of not less than a majority of the entire Board. However, any By-Law adopted by the Board may be amended or repealed by vote of the holders of a majority of the shares entitled at the time to vote for the election of directors.

SECOND AMENDMENT AND RESTATEMENT OF
KIDDIE ACADEMY INTERNATIONAL, INC.
1995 INCENTIVE COMPENSATION PLAN

PREAMBLE

On September 18, 1995, the Board of Directors (the "Board") of Kiddie Academy International, Inc. (the "Company") adopted the Kiddie Academy International, Inc. 1995 Incentive Compensation Plan (the "Plan"). In September, 1996, the Board amended and restated the Plan in its entirety. Pursuant to resolutions duly adopted by the Board, the Plan has been fully amended and restated a second time and is embodied in this document.

1. Purpose

The purpose of this Plan is to encourage and enable selected management, other key employees, directors and consultants of the Company and its Affiliates (as hereinafter defined) to acquire a proprietary interest in the Company through the ownership of common stock of the Company. Such ownership will provide such individuals with a more direct stake in the future welfare of the Company and encourage them to remain with the Company or an Affiliate of the Company. It is also expected that the Plan will encourage qualified persons to seek and accept employment with the Company or an Affiliate of the Company. Pursuant to the Plan, such employees will be offered the opportunity to acquire such common stock through the grant of Incentive Stock Options, "non-qualified" stock options and stock awards. All options shall be separately designated as Incentive Stock Options or "non-qualified" stock options at the time of the grant.

As used herein, the term "Affiliate" shall mean any parent or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) of the Internal Revenue Code of 1986, as amended (the "Code").

2. Administration of the Plan

The Plan shall be administered by the Board of Directors of the Company (the "Board") or by a stock option committee, which may also be the compensation committee (the "Committee"), appointed from time to time by the Board, which Committee shall consist of not less than two members of the Board and all of the members of which Committee shall be "Non-Employee Directors" within the meaning of Rule 16b-3 as from time to time in effect under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and "Outside Directors" within the meaning of Section 162(m) of the Code.

The Board or Committee may adopt such rules and regulations, as it deems necessary, desirable or appropriate, for the administration of the Plan. The interpretation and decision with regard to any question arising under the Plan made by the Board or Committee shall be final and conclusive on all employees, directors and consultants of the Company or an Affiliate of the

Company participating or eligible to participate in the Plan. The Board or Committee shall determine, among other things, the individuals to whom, and the time or times at which, grants shall be made, the number of options or shares of stock to be included in the grants, whether options granted shall be Incentive Stock Options or non-qualified stock options, the option price, and all other

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terms and conditions of any such grant (which terms and conditions shall be consistent with the provisions of the Plan).

3. Shares of Stock Subject to the Plan

The number of shares available for stock awards, or which may be issued or transferred pursuant to the exercise of options granted under the Plan, shall not exceed 300,000 shares of the common stock, par value \$.01 per share, of the Company (the "Common Stock"). Such shares may be authorized and unissued shares or previously issued shares acquired or to be acquired by the Company and held in treasury. Any shares subject to an option which for any reason expires or is terminated unexercised as to such shares may again be subject to a stock award or option under the Plan.

The maximum number of shares of Common Stock which may be awarded or for which options may be granted under the Plan during any one calendar year to any one individual shall be limited to 250,000. For purposes of applying this limitation, if an award or option is terminated, surrendered or canceled, the shares or underlying shares in the case of an option shall continue to be counted against the maximum number of shares that may be awarded or for which options may be granted during any one calendar year to any one individual.

4. Eligibility

Stock awards and options may be granted only to management, other key employees who are employed by the Company and its Affiliates, directors of the Company or any of its Affiliates and consultants engaged by the Company or any of its Affiliates. Incentive Stock Options may be granted only to management and other key employees who are employed by the Company and its Affiliates. A director or officer

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shall in no event be eligible to receive stock awards or options under the Plan unless at the time discretion is exercised in the selection of such person as a person to whom stock may be awarded or options may be granted, or in the determination of the number of shares which may be covered by any such award or option, (i) the Board has delegated its discretionary authority over the Plan to a Committee which consists solely of Non-Employee Directors and such discretion is exercised by such Committee, or (ii) the grant of such stock award or option otherwise complies with the requirements of Rule 16b-3.

5. Granting of Stock Awards

The Board or the Committee may grant stock awards under the Plan in Common Stock or denominated in units of Common Stock. Such awards may be granted either alone, in addition to, or in tandem with any other type of award granted under the Plan. The Board or the Committee, in its discretion, may make such awards either noncontingent or contingent upon attainment of certain performance objectives to be achieved during a period of time, or upon continued service with the Company. The measure of whether and to what degree such objectives have been attained and the resulting awards will be determined by the Board or the Committee in its discretion. The Board or the Committee may choose, at the time of the grant of the award, or any time thereafter up to the time of payment of the award, to include as part of such award an entitlement to receive dividends or dividend equivalents, subject to such terms as the Board or the Committee may establish. All dividends or dividend equivalents which are not paid currently may, at the Board's or the Committee's discretion, accrue interest and be paid to the participant if and when and to the extent that such award is paid. The grant

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of any such stock awards shall be evidenced by stock award agreements in such form, not inconsistent with this Plan, as the Board or the Committee shall approve from time to time.

6. Terms and Conditions of Options

No option pursuant to this Plan shall be exercisable after the expiration of 10 years from the date it was granted. The date of the grant of any option shall be the date on which the Board or the Committee, as the case may be, authorizes the grant of such option. Options shall be evidenced by stock option agreements in such form, not inconsistent with this Plan, as the Board or the Committee shall approve from time to time, which agreements need not be identical and shall contain in substance the following terms and conditions:

(a) Option Price. The purchase under each Incentive Stock Option shall be 100% of the fair market value of the Common Stock at the time the option is granted but in no case less than the par value of such Common Stock. In the case of an Incentive Stock Option granted to an employee owning more than 10% of the total combined voting power of all classes of stock of the Company or any of its Affiliates, actually or constructively under Section 424(d) of the Code (a "10% Stockholder"), the option price shall not be less than 110% of the fair market value of the Common Stock subject to the option at the time of its grant and the option shall not be exercisable after the expiration of five years from the date of grant. The fair market value of the Common Stock on such date shall be determined in a manner consistent with the requirements of the Code. The purchase price under each non-qualified stock option shall be specified by the Board or the Committee but in no case shall be less than the par value of the Common Stock subject to the non-qualified stock option.

(b) Medium and Time of Payment. The vested portion of an option may be exercised, in whole or in part, by delivering written notice to the Board or Committee in such form as the Board or Committee may require from time to time. Such notice shall specify the number of shares of Common Stock subject to the option as to which the option is being exercised, and shall be accompanied by full payment of the exercise price of the shares of Common Stock as to which the option is being exercised. Payment of the exercise price shall be made in cash. In the Board or Committee's sole and absolute discretion, the Board or Committee

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may authorize payment of the exercise price to be made, in whole or in part, by such other means as the Board or Committee may prescribe. The Option may be exercised only in multiples of whole shares and no partial shares shall be issued.

If the Common Stock is registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, the Board or Committee, subject to such limitations as it may determine, may authorize payment of the exercise price, in whole or in part, by delivery of a properly executed exercise notice, together with irrevocable instructions, to: (i) a brokerage firm designated by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the exercise price and any withholding tax obligations that may arise in connection with the exercise, and (ii) the Company to deliver the certificates for such purchased shares directly to such brokerage firm.

Upon receipt of written notice of exercise and payment, the Company shall deliver to the person exercising the option a certificate or certificates for such shares. It shall be a condition to the performance of the Company's obligation to issue or transfer Common Stock upon exercise of this option that the optionee pay, or make provision satisfactory to the Company for the payment of, any taxes (other than stock transfer taxes) which the Company is obligated to collect with respect to the issue or transfer of Common Stock upon exercise.

(c) Rights as a Stockholder. A recipient of options shall have no rights as a stockholder with respect to any shares issuable or transferable upon exercise thereof until such shares have been issued upon the due exercise of the option. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock

certificate is issued.

(d) Non-Assignability of Options. No option shall be assignable or transferable by the recipient except by will or by the laws of descent and distribution. During the lifetime of a recipient, options shall be exercisable only by him or during the period he is under legal disability, by his guardian or legal representative.

(e) Vesting. The term during which each option may be exercised shall be determined by the Board or Committee. In no event shall a stock option be exercisable more than ten years from the date it is granted. In the case of an Incentive Stock Option granted to a 10% Stockholder (as defined in subparagraph 6(a) hereof), such option, by its terms, shall be exercisable only within five years from the date it is granted.

(f) Restrictions as to Incentive Stock Options. To the extent that the aggregate fair market value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any option holder during any calendar year under all plans of the Company and its Affiliates

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exceeds \$100,000, the options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as non-qualified stock options.

(g) Securities Law Compliance. The Company may require any option holder, or any person to whom an option is transferred under subparagraph (d) hereof, as a condition of exercising any such option, (i) to give written assurances satisfactory to the Company as to the option holder's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the option; and (ii) to give written assurances satisfactory to the Company stating that such person is acquiring the stock subject to the option for such person's own account and not with any present intention of selling or otherwise distributing the stock. These requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise of the option has been registered under a then currently effective registration statement under the Securities Act of 1933, as amended, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement

need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of stock.

(h) Effect of Termination of Relationship with the Company or an Affiliate or Death. No option shall be exercisable after termination of such holder's relationship with the Company or any Affiliate of the Company as an employee, director or consultant unless such termination occurs by reason of retirement with the consent of the Company, disability (within the meaning of Section 22(e)(3) of the Code) or death. In the event of the retirement of a recipient of options with the consent of the Company, the options or unexercised portions thereof which were otherwise exercisable on the date of retirement shall expire unless exercised within a period of three months after the date of retirement. Option rights shall not be affected by any change of employment as long as the recipient continues to be employed by either the Company or an Affiliate of the Company. In the event of the termination of a recipient's employment due to disability, the options or unexercised portions thereof which were otherwise exercisable on the date of termination shall expire unless exercised within one year after the date of termination pursuant to Section 22(e)(3) of the Code. In the event of the death of a recipient of options while an employee, director or consultant of the Company or an Affiliate of the Company or in the event of the death of the recipient within the three-month period following termination of such relationship by reason of retirement with the consent of the

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Company, the options which were otherwise exercisable on the date of termination of such relationship shall be exercisable by his personal representatives, heirs, or legatees at any time prior to the expiration of one year from the date of his death. In no event, however, shall an option be exercisable after 10 years from the date it is granted (five years in the case of an option granted to a 10% Stockholder). In the event that an option holder's relationship with the Company or of any Affiliate of the Company ceases for any reason, including death or retirement, prior to the lapse of the applicable waiting period, his option shall terminate and be null and void. The Board or the Committee may, if it determines that to do so would be in the Company's best interests, provide in a specific case or cases for the exercise of options which would otherwise terminate upon termination of the holder's relationship with the Company or an Affiliate of the Company for any reason, upon such terms and conditions as the Committee determines to be appropriate.

(i) Leave of Absence. In the case of a recipient on an approved leave of absence, the Committee may, if it determines that to do so would be in the best interests of the Company, provide in a specific case for continuation of options during such leave of absence, such continuation to be on such terms and conditions as the Committee determines to be appropriate, except that in no event shall an option be exercisable after 10 years from the date it is granted (five years in the case of an option granted to a 10% Stockholder).

(j) Dividends; Recapitalization. In the event that dividends payable in Common Stock during any fiscal year of the Company exceed in the aggregate five percent of the Common Stock issued and outstanding at the beginning of the year, or in the event there is during any fiscal year of the Company one or more splits, subdivisions, or combinations of shares of Common Stock resulting in an increase or decrease by more than five percent of the shares outstanding at the beginning of the year, the number of shares available under the Plan shall be increased or decreased proportionately, as the case may be, and the number of shares deliverable upon the exercise thereafter of any options theretofore granted shall be increased or decreased proportionately, as the case may be, without change in the aggregate purchase price. Common Stock dividends, splits, subdivisions, or combinations during any fiscal year which do not exceed in the aggregate five percent of the Common Stock issued and outstanding at the beginning of such year shall be ignored for purposes of the Plan. All adjustments shall be made as of the day such action necessitating such adjustment becomes effective.

(k) Sale or Reorganization. In case the Company is merged or consolidated with another corporation, or in case the property or stock of the Company is acquired by another corporation, or in case of a separation, reorganization or liquidation of the Company, the Board, or the board of directors of any corporation assuming the obligations of the Company hereunder, shall either (i) make appropriate provisions for the protection of any outstanding

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options by the substitution on an equitable basis of appropriate stock of the Company, or appropriate stock of the merged, consolidated or otherwise reorganized corporation, provided only that any such adjustment shall be subject to the requirements of Section 424 of the Code, or (ii) give written notice to recipients that their options, which will become immediately exercisable notwithstanding any vesting period otherwise prescribed by the Committee, must be exercised within 60 days of the date of such notice or they will be terminated.

(l) General Restrictions. Each option granted under the Plan

shall be subject to the requirement that, if at any time the Board shall determine, in its discretion, that the listing, registration or qualification of the shares issuable or transferable upon exercise thereof upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue, transfer or purchase of shares thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

7. Termination and Amendment of the Plan

The Board shall have the right to amend, suspend or terminate the Plan at any time; provided, however, that no such action shall affect or in any way impair the rights of a recipient under any option right or stock award theretofore granted under the Plan; and, provided, further, that unless first duly approved by the holders of Common Stock entitled to vote thereon at a meeting (which may be the annual meeting) duly called and held for such purpose, except as provided in subparagraphs 6(j) and 6(k) hereof, no amendment or change shall be made in the Plan to: (i) increase the total number of shares which may be issued or transferred under the Plan; (ii) change the purchase price hereinbefore specified for the shares subject to options; (iii) extend the period during which options may be granted or exercised under the Plan; (iv) change the designation of employees eligible to receive options or stock awards under the Plan; or (v) modify the Plan in any other way if such modification requires stockholder approval in order for the

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Plan to satisfy the requirements of Section 422 of the Code or to comply with the requirements of Rule 16b-3 under the Exchange Act.

8. Restriction on Sale of Shares

Without the written consent of the Company, no stock acquired by an optionee upon exercise of an Incentive Stock Option granted hereunder shall be disposed of by the optionee within two years from the date such Incentive Stock Option was granted, nor within one year after the transfer of such stock to the optionee; provided, however, that a transfer to a trustee, receiver, or other fiduciary in any insolvency proceeding, as described in Section 422(c)(3) of the Code, shall not be deemed to be such a disposition.

9. Miscellaneous

(a) The Board shall have the power to accelerate the time at which an option may first be exercised or the time during which an option or any part thereof will vest pursuant to subparagraph 6(e) hereof, notwithstanding the provisions in the option agreement stating the time at which it may first be exercised or the time during which it will vest.

(b) Nothing in the Plan or any instrument executed or option

granted pursuant thereto shall confer upon any employee, director or optionee any right to continue in the employ of the Company or any Affiliate (or continue to act as a director) or shall affect the right of the Company or any Affiliate to terminate the employment or relationship as a director of any employee, director or optionee with or without cause.

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10. Effective Date of the Plan

This Plan shall become effective on the date of its adoption by the favorable vote of the majority of the Board, subject, however, to approval by the stockholders of the Company within 12 months next following such adoption by the Board; and if such approval is not obtained, the Plan shall terminate and any and all options granted during such interim period shall also terminate and be of no further force or effect. The Plan shall, in all events, terminate on September 18, 2005, or such earlier date as the Board of Directors of the Company may determine. Any option outstanding at the termination date shall remain outstanding until it has either expired or has been exercised.

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AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT is made this 18th day of October, 1996, by and between Kiddie Academy International, Inc., a Delaware corporation (the "Company"), and George Miller ("Employee").

Explanatory Statement

A. The Company and Employee entered into an Employment Agreement dated as of October 1, 1995 (the "Employment Agreement") pursuant to which the Company engaged Employee to perform certain services for the Company, all as more specifically set forth therein.

B. The Company and Employee desire to modify and amend certain matters respecting Employee's terms of employment, as more specifically set forth below.

NOW THEREFORE, in consideration of the Explanatory Statement, the covenants of the parties herein and in the Employment Agreement and other good and valuable consideration, the receipt of which is hereby acknowledged, the Company and Employee hereby agree that the Employment Agreement is hereby amended to include the following new provisions:

I. Extension of Term. Company and Employee wish to extend the term of the Employment Agreement so that it shall terminate simultaneously with the term of the Employment Agreement to be entered into, simultaneously with its execution of this Amendment, between the Company and Angelo D. Bizzarro as Chief Executive Officer (the "Bizzarro Agreement"). Accordingly, the Employment Period under the Employment Agreement is hereby extended so that it shall end on the last day of the Initial Term (as defined in the Bizzarro Agreement) or, if the Bizzarro Agreement is renewed, the last day of the last Renewal Term (as defined in the Bizzarro Agreement).

II. Defined Terms. All capitalized terms not defined herein shall have the meaning ascribed to them in the Employment Agreement.

III. Employment Agreement Remains in Effect. From and after the date hereof, the Employment Agreement shall be amended as set forth in this Amendment, and all other provisions, terms and conditions of the Employment Agreement shall in all respects remain as set forth in the Employment Agreement, in full force and effect.

IN WITNESS WHEREOF, the Company and Employee have respectively signed and sealed this Amendment to Employment Agreement as of the day and year first above written.

WITNESS/ ATTEST:

KIDDIE ACADEMY INTERNATIONAL, INC.

/s/ Cynthia L. Spell

By: /s/ Michael J. Miller (SEAL)

Name: Michael J. Miller

Title: President

WITNESS:

/s/ Cynthia L. Spell

By: /s/ George Miller (SEAL)

George Miller

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT is made this 18th day of October, 1996, by and between Kiddie Academy International, Inc., a Delaware corporation (the "Company"), and Michael J. Miller ("Employee").

Explanatory Statement

A. The Company and Employee entered into an Employment Agreement dated as of October 1, 1995 (the "Employment Agreement") pursuant to which the Company engaged Employee to perform certain services for the Company, all as more specifically set forth therein.

B. The Company and Employee desire to modify and amend certain matters respecting Employee's terms of employment, as more specifically set forth below.

NOW THEREFORE, in consideration of the Explanatory Statement, the covenants of the parties herein and in the Employment Agreement and other good and valuable consideration, the receipt of which is hereby acknowledged, the Company and Employee hereby agree that the Employment Agreement is hereby amended to include the following new provisions:

I. Extension of Term. Company and Employee wish to extend the term of the Employment Agreement so that it shall terminate simultaneously with the term of the Employment Agreement to be entered into, simultaneously with its execution of this Amendment, between the Company and Angelo D. Bizzarro as Chief Executive Officer (the "Bizzarro Agreement"). Accordingly, the Employment Period under the Employment Agreement is hereby extended so that it shall end on the last day of the Initial Term (as defined in the Bizzarro Agreement) or, if the Bizzarro Agreement is renewed, the last day of the last Renewal Term (as defined in the Bizzarro Agreement).

II. Defined Terms. All capitalized terms not defined herein shall have the meaning ascribed to them in the Employment Agreement.

III. Employment Agreement Remains in Effect. From and after the date hereof, the Employment Agreement shall be amended as set forth in this Amendment, and all other provisions, terms and conditions of the Employment Agreement shall in all respects remain as set forth in the Employment Agreement, in full force and effect.

IN WITNESS WHEREOF, the Company and Employee have respectively signed and sealed this Amendment to Employment Agreement as of the day and year first above written.

WITNESS/ ATTEST:

KIDDIE ACADEMY INTERNATIONAL, INC.

/s/ Cynthia L. Spell

By: /s/ George Miller (SEAL)

Name: George Miller

Title: Chairman, CEO

WITNESS:

/s/ Cynthia L. Spell

By: /s/ Michael J. Miller (SEAL)

Michael J. Miller

PRELIMINARY AGREEMENT

KIDDIE ACADEMY FRANCHISING SYSTEMS, INC.
PRELIMINARY AGREEMENT

THIS PRELIMINARY AGREEMENT (this "Agreement") is made and entered into on _____, 1996 by and between KIDDIE ACADEMY FRANCHISING SYSTEMS, INC., a Maryland corporation with its principal offices at Kiddie Academy Corporate Center, 108 Wheel Road, Bel Air, Maryland 21015 ("Kiddie Academy"), and _____, whose principal address is _____ ("Applicant").

WHEREAS, Kiddie Academy licenses a system (the "Kiddie Academy System") relating to the establishment, development and operation of child care learning centers known as Kiddie Academy Centers;

WHEREAS, Kiddie Academy licenses the use of the trademark and service mark "Kiddie Academy Child Care Learning Centers" and such other trade names, trademarks and service marks as are now, or may later be, designed as part of the Kiddie Academy System (the "Marks");

WHEREAS, Applicant has applied to Kiddie Academy for a franchise to operate a Kiddie Academy Center utilizing the Kiddie Academy System and the Marks within the following designated area (the "Designated Area"):

and Kiddie Academy has accepted that application in reliance upon the representations made in it; and

WHEREAS, Applicant wishes to avail itself of Kiddie Academy's expertise in locating an acceptable site and securing financing prior to executing a Franchise Agreement.

NOW THEREFORE, the parties mutually agree as follows:

Section 1.

APPLICANT'S DUTY TO LOCATE SITE

Applicant will use its best efforts to seek and select a location within the Designated Area acceptable to Kiddie Academy for the operation of a Kiddie Academy Center. The final site will be subject to the approval of both Applicant and Kiddie Academy, which approval shall not be unreasonably withheld or delayed.

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Section 2.

ASSISTANCE BY KIDDIE ACADEMY

Kiddie Academy will use its reasonable efforts to assist Applicant in its location of a site and in securing third-party financing by:

- a. Loaning to Applicant a Business Resource Packet which contains a sample business plan, an initial list of lenders and financial brokers, and a sample loan application;
- b. Loaning to Applicant a Site Approval Resource Packet which contains, among other items, Kiddie Academy's site specifications and background information, a sample real property lease, and instructions for preparing a trade area study;
- c. Providing a consultation between Applicant and Kiddie Academy's staff prior to the commencement of Applicant's search for an acceptable site and its application for financing. The consultation will be held, at Applicant's option, at Kiddie Academy's Corporate Headquarters in Bel Air, Maryland, in which event all of Applicant's travel, lodging and food expenses will be paid for by Applicant, or by telephone. The consultation will be scheduled according to the availability of Kiddie Academy's personnel;
- d. Consulting with Applicant on an as-needed basis throughout the term of this Agreement for purposes of assisting Applicant in determining the availability and feasibility of prospective sites within the Designated Area and in obtaining third-party financing;
- e. Inspecting prospective sites after Kiddie Academy's initial screening of proposed locations; and
- f. Assisting in the negotiation of the lease or sales agreement for the location mutually agreed upon by Applicant and Kiddie Academy.

Section 3.

APPROVAL BY KIDDIE ACADEMY

Prior to Kiddie Academy's approval of a site, Applicant will submit to Kiddie Academy (a) evidence of having secured financing sufficient to meet the minimum financial requirements outlined in Item 7 of Kiddie Academy's Uniform Franchise Offering Circular previously provided to Applicant; and (b) a written proposal consisting of a description of the proposed site, a trade area study and competition survey prepared by Applicant in accordance with Kiddie Academy's specifications, and a letter of intent or other evidence satisfactory to Kiddie Academy confirming Applicant's intent to obtain the proposed site. Kiddie Academy will provide Applicant with written notice of its approval or disapproval of the proposed site within fifteen (15) days after receiving Applicant's complete written proposal. Applicant must receive Kiddie Academy's prior written approval of a proposed site before entering into a lease or purchase agreement for such site. Kiddie Academy's approval of a final location will be made on the basis that it meets Kiddie Academy's

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standards for general location and neighborhood, traffic patterns, size, layout and other physical characteristics, rental, lease terms including duration, and general conditions for use as a Kiddie Academy Center. Kiddie Academy's approval of a site will not constitute a judgment as to the relative desirability of that location in comparison to other locations and will in no way be deemed a judgment or guaranty by Kiddie Academy of the expected success or profitability of such site.

Section 4. LEASE

Kiddie Academy agrees to expend time and effort and to incur expenses as may reasonably be required to help locate and approve a site as described in paragraph 1 above and to assist in the negotiation of the lease or purchase of a location jointly approved by the Applicant and Kiddie Academy. The Applicant and Kiddie Academy will jointly approve the lease or purchase agreement before its execution by Applicant. Any lease entered into by Applicant as contemplated by this Agreement will contain those provisions that are required by Kiddie Academy's standard form of Franchise Agreement. Applicant hereby acknowledges that the lease or purchase contract of any site approved by Kiddie Academy is likely to be subject to contingencies such as Applicant's ability to obtain licensing, zoning approvals or a building permit. The ability to satisfy such contingencies is solely the responsibility of Applicant and in no way will Kiddie Academy be responsible for Applicant's failure to satisfy any or all of such contingencies.

Section 5. COLLATERAL ASSIGNMENT

Applicant will execute a collateral assignment of Applicant's lease, in a form prescribed by Kiddie Academy, to secure the franchisee's obligations to Kiddie Academy under the terms of the Franchise Agreement.

Section 6.

PRELIMINARY AGREEMENT FEE

In consideration of Kiddie Academy entering into this Agreement, Applicant, at the execution of this Agreement, has paid to Kiddie Academy the amount of Twelve Thousand Five Hundred Dollars (\$12,500.00) (the "Preliminary Agreement Fee"). The Preliminary Agreement Fee is deemed fully earned upon its receipt by Kiddie Academy, and is non-refundable, except as otherwise set forth in Section 7 below. In the event that Applicant enters into a Franchise Agreement, as contemplated by Section 8 below, then upon the commencement of the initial term of the Franchise Agreement, the Preliminary Agreement Fee will be credited, in full, against the Franchise Fee payable under that agreement.

Section 7.

TERMINATION/REFUND OF PRELIMINARY AGREEMENT FEE

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PRIOR TO EXECUTION OF LEASE OR PURCHASE CONTRACT

a. Applicant may, for any reason, withdraw the application for a franchise to operate a Kiddie Academy Center and request Kiddie Academy's mutual agreement to the termination of this Agreement. This request must be in writing and must be made prior to the execution by Applicant of a lease or purchase contract for Applicant's Kiddie Academy Center. Kiddie Academy will agree to Applicant's request for termination, provided that Kiddie Academy may condition its agreement on the execution by Applicant of a mutual general release, in a form prescribed by Kiddie Academy, of any and all claims against Kiddie Academy and its affiliates, and their respective officers, directors, agents, and employees. Upon such termination, Kiddie Academy will refund Applicant the Preliminary Agreement Fee less the sum of Seven Thousand Five Hundred Dollars (\$7,500.00) to cover Kiddie Academy's lost or deferred opportunity costs. In addition, Kiddie Academy's expenses will be deducted from the Preliminary Agreement Fee, which expenses shall include, but not be limited to, the airfare, travel, food and lodging expenses incurred by Kiddie Academy's employees in locating or approving a site on Applicant's behalf, and the payroll expenses of such employees.

b. Kiddie Academy may, in its sole discretion, terminate this Agreement for any reason by written notice to Applicant at any time before Applicant executes a lease or purchase contract for Applicant's Kiddie Academy Center. Upon such termination, Kiddie Academy will refund to Applicant the entire amount of the Preliminary Agreement Fee.

c. Following Applicant's execution of a lease or purchase contract for Applicant's Kiddie Academy Center, this Agreement may not be terminated by Kiddie Academy or Applicant and all fees and other amounts paid by Applicant to

Kiddie Academy will be deemed fully earned by Kiddie Academy and non-refundable, in consideration of administrative and other expenses incurred by Kiddie Academy under this Agreement, including the salaried services of its personnel, and for Kiddie Academy's lost or deferred opportunity to franchise others. However, the Preliminary Agreement Fee and Site Approval Fee, as defined below, may be credited against the Franchise Fee payable by Applicant under its Franchise Agreement, as more specifically set forth in Section 6 above and Section 8 below.

Section 8.

FRANCHISE AGREEMENT/SITE APPROVAL FEE

a. Unless Applicant withdraws its application for a franchise to operate a Kiddie Academy Center or unless this Agreement has been terminated by Kiddie Academy pursuant to Section 7 above, Applicant agrees that, concurrently with its execution of a lease or purchase contract for a site as contemplated by this Agreement, Applicant will execute Kiddie Academy's standard form of Franchise Agreement, at which time Applicant hereby agrees to pay to Kiddie Academy an additional fee in the amount of Twelve Thousand Five Hundred Dollars (\$12,500) (the "Site Approval Fee"). The Site Approval

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Fee is deemed fully earned upon its receipt by Kiddie Academy, and is non-refundable. However, the Site Approval Fee will be credited, in full, against the Franchise Fee payable under Applicant's Franchise Agreement upon the commencement of the initial term of that agreement. The Franchise Agreement to be executed by Applicant will be for a term that will commence upon the issuance of a building permit for Applicant's Kiddie Academy Center or when the final remaining contingency in Applicant's lease or purchase contract is met, whichever last occurs. Until the term of the Franchise Agreement commences, this Agreement will remain in full force and effect and Applicant will not be deemed a Kiddie Academy franchisee. At such time as the term of the Franchise Agreement commences, the Franchise Agreement will in all respects supersede this Agreement which will terminate automatically.

b. In the event a lease or purchase contract contingency is not met and cancellation of the lease or purchase contract occurs, Kiddie Academy will not refund the Preliminary Agreement Fee or Site Approval Fee previously paid by Applicant. Kiddie Academy's sole obligation to Applicant in such event will be to continue to assist Applicant, at no additional cost to Applicant, in its efforts to locate an alternative site and to negotiate a corresponding lease or purchase contract for Applicant's Kiddie Academy Center, in accordance with the terms of this Agreement, subject to the termination provisions set forth in Section 9 below.

Section 9

AUTOMATIC TERMINATION

a. Unless terminated sooner by Applicant or Kiddie Academy pursuant to Section 7 above or by the commencement of Applicant's Franchise Agreement pursuant to Section 8 above, this Agreement will terminate automatically and be of no further force and effect on that date which is twelve (12) months after the date of this Agreement; provided, however, that the term of this Agreement may be extended for an additional six (6) months by a written agreement entered into between Applicant and Kiddie Academy prior to the expiration of the initial 12-month term. So long as Applicant did not enter into a lease or purchase contract for Applicant's Kiddie Academy Center during such 12-month period, or any extension thereof, upon such termination, Kiddie Academy will refund Applicant the Preliminary Agreement Fee, less the sum of Seven Thousand Five Hundred Dollars (\$7,500.00) to cover Kiddie Academy's lost or deferred opportunity costs. In addition, Kiddie Academy's expenses will be deducted from the Preliminary Agreement Fee, which expenses shall include, but not be limited to, the airfare, travel, food and lodging expenses incurred by Kiddie Academy's employees in locating or approving a site on Applicant's behalf, and the payroll expenses of such employees. Kiddie Academy may require that Applicant execute and deliver a mutual general release, in a form prescribed by Kiddie Academy, of any and all claims against Kiddie Academy and its affiliates, and their respective officers, directors, agents and employees, prior to the refund of any portion of the Preliminary Agreement Fee to Applicant.

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b. In the event that Applicant enters into a lease or purchase contract for Applicant's Kiddie Academy Center, then the 12-month term, or any extension thereof, described in subparagraph a above, will be automatically extended for the duration of any period that such lease or purchase contract is subject to any contingencies required to be satisfied prior to the commencement of the lease term or closing under the purchase contract, as the case may be, it being the intention of the parties that this Agreement not terminate automatically pursuant to subparagraph a above during any contingency period of such lease or purchase contract.

c. In the event that Applicant enters into a lease or purchase contract for Applicant's Kiddie Academy Center during the initial 12-month term of this Agreement, or any extension thereof, but such lease or purchase contract is terminated due to the failure to satisfy any contingency set forth in such lease or purchase contract, then the 12-month time period described in subparagraph a above shall begin anew as of the date such lease or purchase contract is terminated in order to allow Applicant an additional 12-month period to select an acceptable site before this Agreement is subject to automatic termination. Unless terminated sooner by the commencement of Applicant's Franchise Agreement pursuant to Section 8 above, this Agreement shall terminate automatically upon the termination of such additional 12-month period and, following such termination, Applicant shall not be entitled to the refund of any fees or other

amounts previously paid to Kiddie Academy.

Section 10. LIMITATION OF LIABILITY

Kiddie Academy's sole liability to the Applicant under this Agreement will be to refund all amounts paid to Kiddie Academy by Applicant under this Agreement, in whole or in part, as provided in this Agreement, and Kiddie Academy will have no other liability to Applicant.

Section 11. CONFIDENTIALITY

a. The Business Resource Packet and Site Approval Resource Packet will at all times remain the property of Kiddie Academy, and will be returned promptly to Kiddie Academy upon the expiration or other termination of this Agreement.

b. Applicant acknowledges that Kiddie Academy will devote significant time, effort and resources to assist Applicant in identifying potential sites suitable for the location and operation of a Kiddie Academy Center. Applicant further acknowledges that the information that will be developed by Applicant or Kiddie Academy as a result of their efforts is a valuable, confidential trade secret of Kiddie Academy. Applicant therefore agrees that if this Agreement is terminated for any reason, the Applicant will not, for a period of one (1) year after the termination date of this Agreement, obtain any direct or indirect ownership or leasehold interest in any site which Kiddie Academy identified to

Applicant or negotiated for rights to lease or purchase on behalf of the Applicant, or which was identified by Applicant during the term of this Agreement. Furthermore, Applicant acknowledges that Kiddie Academy has devoted significant time, effort, money and resources to develop goodwill for the name Kiddie Academy. Applicant therefore agrees to refrain from any discussion or communications with any employee, former employee, customer, landlord or any person or persons associated with Kiddie Academy now or in the past, that may be determined to defame, slander or be considered detrimental to the goodwill name of Kiddie Academy.

c. Applicant further acknowledges that it will receive additional, valuable confidential information in addition to the information regarding potential sites referred to in the preceding paragraph. Applicant recognizes that disclosure of any of this confidential information would be detrimental to Kiddie Academy. Applicant agrees that Applicant will hold in strict confidence any information designated by Kiddie Academy as confidential, including the information contained in the Business Resource Packet and the Site Approval Resource Packet, and will not disclose it to another person, without the prior written consent of Kiddie Academy. Applicant's obligation to maintain the

confidentiality of information received from Kiddie Academy does not apply to information which came to Applicant's attention before Kiddie Academy disclosed it to Applicant or to information which becomes public knowledge through disclosure by others without the assistance of Applicant.

Section 12. NONASSIGNMENT

This Agreement is personal to Applicant and may not be assigned, sold or otherwise transferred by Applicant to any other person or entity except to a corporation owned entirely by Applicant, so long as each and all of the obligations of the Applicant are personally guaranteed by the original individual applicants, and Kiddie Academy receives prior notice of the transfer, along with a complete set of Applicant's corporate documents.

Section 13. APPLICABLE LAW/CONSENT TO FORUM

This Agreement takes effect upon its acceptance by Kiddie Academy in Maryland and shall be interpreted and construed under the laws of that State, which laws shall prevail in the event of any conflict of law. The parties agree that any action brought by either party against the other in any court, whether federal or state, will be brought within the United States District Court for the District of Maryland or the Circuit Court of Harford County, State of Maryland, and do hereby waive all questions of personal jurisdiction or venue for the purpose of carrying out this provision.

Section 14. ARBITRATION

All disputes and claims relating to any provision of this Agreement shall be settled

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by arbitration in Baltimore City, Maryland in accordance with the United States Arbitration Act (9 United States Code, Section 1, et seq.) and the Rules of the American Arbitration Association relating to the arbitration of disputes arising under franchise and related agreements, if any; otherwise, the general rules of commercial arbitration. All awards of the arbitrations shall be binding and non-appealable except as otherwise provided in the United States Arbitration Act. Judgment upon the award of the arbitrator may be entered in any court having jurisdiction thereof. During the pendency of any arbitration proceeding hereunder, Kiddie Academy and Applicant shall fully perform their obligations under this Agreement.

Section 15. NOTICES

Any notices required or permitted under this Agreement shall be in writing and shall be personally delivered with a receipt or mailed by registered

or certified mail, return receipt requested, postage prepaid, or sent by Airborne Express or other nationally recognized overnight courier service, to the respective parties at the address shown on the first page of this Agreement, unless a different address has been designated in writing by the other party. Any notice by certified or registered mail shall be deemed to have been given at the time the return receipt is executed.

APPLICANT ACKNOWLEDGES THAT HE/SHE HAS READ THIS AGREEMENT (AND KIDDIE ACADEMY'S STANDARD FRANCHISE AGREEMENT AND UNIFORM FRANCHISE OFFERING CIRCULAR) AND HAS BEEN GIVEN THE OPPORTUNITY TO CLARIFY ALL OF ITS TERMS AND PROVISIONS AND TO CONSULT WITH ANY ATTORNEY OR OTHER PROFESSIONAL ADVISOR. APPLICANT REPRESENTS THAT HE/SHE UNDERSTANDS THE TERMS, CONDITIONS AND OBLIGATIONS OF THIS AGREEMENT AND AGREES TO BE BOUND BY THOSE TERMS, CONDITIONS AND OBLIGATIONS.

KIDDIE ACADEMY
FRANCHISING SYSTEMS, INC.

By:

Michael J. Miller, President

Witness

APPLICANT

Applicant

Witness

Applicant

Witness

Applicant

Witness

Franchise Agreement

KIDDIE ACADEMY FRANCHISING SYSTEMS, INC.

FRANCHISE AGREEMENT

between

Kiddie Academy Franchising Systems, Inc.
(a Maryland corporation)

Franchisor

and

Franchisee

FRANCHISE AGREEMENT

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FRANCHISE AGREEMENT

THIS AGREEMENT is made and entered into between Kiddie Academy Franchising Systems, Inc. a Maryland corporation with offices in Bel Air,

Maryland (the "Franchisor"), and
(the "Franchisee").

WHEREAS, Franchisor has expended time, skill, effort, and money, and has developed and owns a specialized system (the "Kiddie Academy System") for the establishment and operation of centers offering activities devoted to the development of academic and social skills, as well as child care services, for children from six (6) weeks to twelve (12) years of age;

WHEREAS, the distinguishing characteristics of the Kiddie Academy System include, without limitation, distinctive interior and exterior design, decor, layout and color scheme; exclusively designed signage, decorations, equipment, furnishings and materials; specialized educational equipment and materials; the Kiddie Academy Manuals; uniform operating methods, procedures and techniques; other confidential operating procedures, methods and techniques for inventory and cost controls, record keeping and reporting, personnel/management, purchasing, sales promotion, marketing and advertising materials (all of which may be changed, improved and further developed by Franchisor from time to time);

WHEREAS, Franchisor identifies the Kiddie Academy System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the mark KIDDIE ACADEMY, and such other trade names, service marks, and trademarks as are now designated (and may be designated by Franchisor in writing in the future) for use in connection with the Kiddie Academy System (the "Marks");

WHEREAS, Franchisor continues to develop, use, and control the use of the Marks in order to identify for the public the source of services marketed under the Marks and under the Kiddie Academy System, and to represent the Kiddie Academy System's high standards of quality, appearance, and service;

WHEREAS, Franchisor grants to qualified persons franchises to own and operate Kiddie Academy Centers which provide learning, recreational and child care services and activities authorized and approved by Franchisor and utilizing the Kiddie Academy System and the Marks;

WHEREAS, Franchisee desires to enter into the business of operating a franchise

Page 1

under Franchisor's Kiddie Academy System and to obtain a franchise from Franchisor for that purpose, as well as to receive the training and other assistance provided by Franchisor in connection with the Kiddie Academy System;

WHEREAS, Franchisee understands and acknowledges the importance of

Franchisor's high standards of quality, cleanliness, appearance, and commitment to the social and academic welfare of children and the necessity of operating the franchised business in conformity with Franchisor's standards and specifications;

WHEREAS, Franchisee represents that it or its director will be qualified to provide child care services in a child care center in the state where the Kiddie Academy Center operated by Franchisee is to be located, or is permitted by law to operate a franchise of this nature;

WHEREAS, Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received or relied upon, any warranty or guarantee, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement; and

WHEREAS, Franchisee acknowledges that it has read this Agreement and Franchisor's Uniform Franchise Offering Circular and has no knowledge of any representation by Franchisor or its officers, directors, shareholders, employees or agents that is contrary to the statements made in Franchisor's Uniform Franchise Offering Circular or to the terms of that Offering Circular.

NOW, THEREFORE, the parties in consideration of the undertakings and commitments of each party to the other party set forth in this Agreement, agree as follows:

1. GRANT 3 Sections Follow

Franchised Business 1.1

Franchisor grants to Franchisee, upon the terms and conditions contained in this Agreement, the right, license, and privilege, and Franchisee undertakes the obligation, to operate a Kiddie Academy Center (the "Kiddie Academy Center" or "Franchised Business") and to use solely in connection with the Franchised Business the Marks, and the Kiddie Academy System, as they may be changed, improved, and further developed from time to time, only within the geographic territory designated below.

Territorial Exclusivity 1.2

Page 2

Franchisee is granted the right to operate the Franchised Business only at the specific location described on Exhibit A to this Agreement. Franchisor, during the term of this Agreement and any renewal term, will not establish, or

license another to establish, more than one (1) Kiddie Academy Center using the Kiddie Academy System within Franchisee's "Exclusive Territory". Franchisee's "Exclusive Territory" is hereby defined as a circle having a three (3) mile diameter, with the location of Franchisee's Kiddie Academy Center as its center point.

Rights Retained

1.3

Franchisee expressly acknowledges and agrees that except as provided in Section 1.2 of this Agreement, the rights granted Franchisee by this Agreement are non-exclusive. Franchisor will retain the right, among others, to use, and to license others to use, the Kiddie Academy System and the Marks at any location, subject only to Section 1.2 above. Franchisor reserves all rights to develop, use, and license the use of proprietary marks other than the Marks in connection with the operation of a program or system which offers services which are the same as or similar to those offered under the Kiddie Academy System, on any terms and conditions as Franchisor deems advisable and without granting Franchisee any rights in those proprietary marks.

2. TERM

2 Sections Follow

Ten (10) Year Agreement

2.1

Except as otherwise provided in this Agreement, this Agreement will be for a term of ten (10) years. This Agreement will become effective, and its term will commence, on that date (the "Commencement Date") on which the building permit for Franchisee's Kiddie Academy Center is issued or when the final remaining contingency in Franchisee's lease or purchase contract is satisfied, whichever last occurs, and Franchisee pays to Franchisor the initial Franchise Fee (as defined in Section 7 below). The term of this Agreement will expire ten (10) years after the Commencement Date. Franchisee and Franchisor will confirm in writing the Commencement Date of this Agreement. Until the term of this Agreement commences, the Preliminary Agreement previously entered into between Franchisee and Franchisor, if any, will remain in full force and effect. Notwithstanding the foregoing, in the event that no Preliminary Agreement was entered into between the parties prior to their execution of this Agreement, then the term of this Agreement will commence immediately upon its execution by Franchisee and Franchisor, and Franchisee's payment to Franchisor of the initial Franchise Fee.

Extension to Conform to Lease

2.2

In the event Franchisee enters into a lease of the Kiddie Academy Center and such lease is of a term which commences after the date of this Agreement so that its initial ten (10) year term will expire after the expiration date of this Agreement, then the term of this Agreement will be automatically extended through the termination date of the lease, it being the intention of Franchisor and Franchisee that this Agreement and the lease terminate simultaneously; provided, however, that in no event shall this Agreement be extended pursuant to this Section 2.2 for more than one (1) year beyond the initial ten (10) year term of this Agreement.

3. RENEWAL

6 Sections Follow

Franchisee may, at its option, renew this Agreement to operate the Kiddie Academy Center for successive terms of five (5) years each, subject to the following conditions which must be met prior to renewal:

Notice 3.1

Franchisee will give Franchisor written notice of Franchisee's election to renew not less than six (6) months nor more than twelve (12) months prior to the end of the initial term, which will be sent by certified mail.

Refurbishment 3.2

Franchisee, at Franchisee's expense, will replace or refurbish the Kiddie Academy Center, as reasonable and necessary, to conform the Kiddie Academy Center to Franchisor's then-current standards and specifications, including without limitation interior and exterior design specifications regarding size, color, trade dress, presentation of the Marks, accessories and installed equipment.

Compliance 3.3

Franchisee will not be in default of any provision of this Agreement, any amendment to or successor of this Agreement, or any other agreement between Franchisee and Franchisor or its subsidiaries and affiliates; and Franchisee will have substantially complied with all the provisions and conditions of those agreements during the terms of those agreements. Franchisee will have satisfied all monetary obligations owed by Franchisee to Franchisor or its subsidiaries or affiliates and will have timely met those obligations throughout the term of this Agreement. Franchisee will comply with Franchisor's then-current qualification and training requirements.

New Franchise Agreement 3.4

Franchisee (and the shareholders of Franchisee if Franchisee is a corporation, or the general partners of Franchisee if Franchisee is a partnership, or the members of Franchisee if Franchisee is a limited liability company) will execute Franchisor's then-current form of renewal franchise agreement, which agreement will supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement, including without limitation a higher percentage royalty fee; provided, however, that the percentage royalty fee payable during a renewal term will never be increased to a percentage which is greater than that which is then required to be paid system-wide by Franchisor's new franchisees. The location for Franchisee's Kiddie Academy Center, as designated in this Agreement, however, will remain the same.

Renewal Fee 3.5

Franchisee will pay to Franchisor a renewal fee of Seven Thousand Five Hundred Dollars (\$7,500.00), which fee will compensate Franchisor for its administrative expenses related to considering and granting renewal.

Release 3.6

Franchisee will have executed a mutual general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates and their respective officers, directors, shareholders, and employees, in their corporate and individual capacities, including without limitation claims arising under federal, state, and local laws, rules, and ordinances.

4. LOCATION OF KIDDIE ACADEMY FRANCHISE 5 Sections Follow

Lease of Kiddie Academy Center 4.1

The form of any lease of the Kiddie Academy Center, and any renewal of a lease, must be approved in writing by Franchisor before the execution of that lease or renewal. After the lease or lease renewal is executed, it cannot be modified, amended or assigned without Franchisor's prior written consent. Franchisor's approval of the lease or renewal may be conditioned upon the prior execution of the agreements described below in this Section 4 and the inclusion in the lease or renewal of those provisions as Franchisor may reasonably require, including, without limitation, the following:

4.1(a)

A provision which requires the lessor concurrently to provide Franchisor with a copy of any written notice of deficiency under the lease sent to Franchisee and which

grants to Franchisor, in its sole discretion and sole option, the right (but no obligation) to cure any deficiency under the lease, should Franchisee fail to do so within fifteen (15) days after the expiration of the period in which Franchisee may cure the default.

4.1 (b)

A provision which evidences the right of Franchisee to display the Marks in accordance with the specifications required by the Kiddie Academy Manuals, subject only to the provisions of applicable law, and which grants to Franchisor the right to enter the premises to inspect and make any necessary modifications necessary to protect the Marks.

4.1 (c)

A provision that the center location will be used only for the operation of a Kiddie Academy Center.

4.1 (d)

A provision which expressly states that any default under the lease will constitute a default under this Agreement, and any default under this Agreement will constitute a default under the lease.

4.1 (e)

A lease term which is coterminous with the current term of this Agreement.

4.1 (f)

A provision which states that Franchisee may not sublease or assign the premises except as a condition of the sale of the Kiddie Academy Center, which must be approved by Franchisor.

4.1 (g)

A provision that the lessor will grant Franchisor an option to purchase the site on which the Kiddie Academy Center is located, which right will be assigned to Franchisee in the event that Franchisor fails to exercise that right.

4.1 (h)

A provision that the lessor will grant Franchisor a right of first refusal to purchase the site on which the Kiddie Academy Center is located in the event that lessor desires

to sell, transfer or convey the site, which right will be assigned to Franchisee if Franchisor fails to exercise such right.

Collateral Assignment of Lease

4.2

In addition, prior to entering into a lease of the Kiddie Academy Center, Franchisee will execute Franchisor's then-current form of Collateral Assignment of Lease Agreement (the "Collateral Assignment"). Franchisee will provide the prospective lessor with the Collateral Assignment at the commencement of Franchisee's discussions with the potential lessor. If Franchisee proposes to lease the Kiddie Academy Center from any owner, partner, director, officer or other principal of Franchisee or any person related to or affiliated with Franchisee or any of Franchisee's owners, partners, directors, officers or other principals (an "Affiliate"), Franchisor may also require the Affiliate to sign this Agreement and/or separate agreements for the purpose of binding the Affiliate to the applicable provisions of this Agreement, as determined by Franchisor.

Site and Relocation of Kiddie Academy Center

4.3

Franchisee will operate the Kiddie Academy Center only at the location noted in Exhibit A. If the lease for the site of the Kiddie Academy Center expires or terminates through no fault of Franchisee, or if the site is destroyed, condemned or otherwise rendered unusable, or if in the judgment of Franchisor there is a change in character of the location of the Kiddie Academy Center sufficiently detrimental to its business potential to warrant its relocation, Franchisor will grant permission for relocation of the Kiddie Academy Center within the Territory to a new location approved by Franchisor. The relocation will be at Franchisee's sole expense, but Franchisor will not charge Franchisee for any assistance provided by Franchisor to Franchisee in connection with the relocation of the Kiddie Academy Center.

Signs

4.4

Franchisor will provide Franchisee with specifications for signs and any related accessories which will be required for the Kiddie Academy Center. Franchisee may purchase original and replacement signs and materials and services meeting those specifications from any source. If Franchisee elects to purchase any sign or related material which has not been approved by Franchisor, Franchisee will notify Franchisor of its election to purchase. Franchisor may require that the specifications, photographs, drawings and/or other information and samples be submitted in order to determine whether such signs or related material meet its specifications. Franchisor will notify Franchisee within a

Site Approval

4.5

If Franchisee is forced to find a new location for the Franchised Business as contemplated by Section 4.3, Franchisee will use its best efforts to select and purchase or lease an acceptable site for the location of its Kiddie Academy Center. Prior to the execution of any lease or purchase of any site for the premises of the Kiddie Academy Center, Franchisee will submit to Franchisor a written proposal consisting of a description of the proposed site, a demographic study prepared in accordance with Franchisor's specifications, and a letter of intent or other evidence satisfactory to Franchisor confirming Franchisee's intent to obtain the proposed site. Franchisor will provide Franchisee written notice of approval or disapproval of the proposed site within thirty (30) days after receiving Franchisee's complete written proposal. Franchisee must first receive Franchisor's written approval of the proposed site before Franchisee may enter into a lease or purchase agreement, and the lease must be approved by Franchisor in accordance with the terms of Section 4.1 above.

5. DUTIES OF FRANCHISOR

9 Sections Follow

All duties of Franchisor under this Agreement are to Franchisee, and no other party is entitled to rely on, enforce or obtain relief for breach of such obligation, either directly or by subrogation. Franchisor will undertake the following duties:

Training

5.1

Franchisor will provide an initial training program for Franchisee as set forth in Section 8 below. The purpose of the initial training program is to develop a basic working knowledge of the trade secret skills and techniques necessary to operate the Franchised Business. Franchisor may also, at its option, provide a refresher training program as set forth in Section 8.3 below.

Grand Opening Assistance

5.2

Franchisor will provide between three (3) and five (5) days of on-site assistance to Franchisee in preparation for the opening of the Kiddie Academy Center.

Operational Assistance

5.3

Franchisor will further provide, as Franchisor deems necessary, up to three (3) days of on-site supervision and assistance in the six (6) months after

opening, by a representative(s) of Franchisor, subject (as to timing) to the availability of personnel. Also, Franchisor will provide, from time to time as it deems appropriate, advisory assistance and materials from its corporate offices concerning operation, promotion

Page 8

and management of the Franchised Business.

Advertising 5.4

Franchisor will make available to Franchisee, from time to time, advertising and promotional plans, materials and methods for local advertising and promotions as described in Section 13 of this Agreement.

Kiddie Academy Manuals 5.5

Franchisor will provide Franchisee, on loan, one (1) copy each of the Kiddie Academy Accounting Manual, the Kiddie Academy Administrative Manual, the Kiddie Academy Curriculum Manual I, the Kiddie Academy Curriculum Manual II, the Kiddie Academy Teacher's Resource Manual and the Kiddie Academy Marketing Film (the "Kiddie Academy Manuals"), as more fully described in Section 10 of this Agreement.

Plans and Specifications 5.6

Franchisor will make available, at no charge to Franchisee, standard plans and specifications for the Kiddie Academy Center, including general specifications for interior and exterior design, appearance, equipment, furnishings, and signs, as more fully described in Section 6 of this Agreement.

Inspections 5.7

Franchisor will strive to maintain the high standards of quality, appearance, and service of the Kiddie Academy System, and to that end it will conduct, as it deems advisable, inspections of the Franchised Business and evaluations of the teaching staff and personnel and the services rendered by those persons and Franchisee.

Supplies and Equipment 5.8

Franchisor will provide, at no expense to Franchisee, a Kiddie Academy Supply and Equipment Booklet, to be updated from time to time, which lists and describes all supplies and equipment approved by Franchisor and needed by Franchisee to open and operate Franchisee's Kiddie Academy Center.

Business Management System 5.9

Franchisor will provide Franchisee with a business administrative support system to be used in the operation of the Kiddie Academy Center, as an integral part of the Kiddie Academy System (the "Business Management System"), as more fully set forth in Section 12.

6. DUTIES OF FRANCHISEE

16 Sections Follow

Franchisee understands and acknowledges that every detail of the Franchised Business is important to Franchisee, Franchisor, and other franchisees in order to maintain high and uniform operating standards, to increase the demand for the services offered by all franchisees, and to protect Franchisor's reputation and goodwill. Toward that end, Franchisee acknowledges and accepts the following duties:

Training 6.1

Franchisee will attend and successfully complete all of Franchisor's required training programs as set forth in Section 8 below.

Service and Program Quality 6.2

Franchisee will offer only such services and programs as meet Franchisor's uniform standards of quality and as have been expressly approved in writing by Franchisor, through its Manuals or otherwise. Franchisee will provide services only in accordance with Franchisor's methods and techniques. Franchisee will not deviate from Franchisor's standards and specifications for the provision of services or the type or quality of programs, without Franchisor's prior written consent. Franchisee will discontinue offering such services or programs, or the use of teaching methods and/or child care techniques, as Franchisor may, in its discretion, disapprove in writing at any time.

Price of Kiddie Academy Services 6.3

Franchisee will have the right to offer and sell its services at any price Franchisee may determine and will in no way be bound by any price which may be recommended or suggested by Franchisor. Franchisor, however, has published in its Kiddie Academy Manuals recommended weekly child care service prices, which may be changed from time to time.

Telephone and Facsimile 6.4

Franchisee will secure and at all times maintain two (2) separate business telephone lines for telephone and facsimile use. Franchisee will provide telephone answering coverage by an employee from 6:30 a.m. through 6:00 p.m., Monday through Friday, the minimum operational hours of the Kiddie Academy

Center. Franchisee will be solely responsible for the payment of all bills which result from the use of the telephone lines at the Kiddie Academy Center.

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Construction

6.5

With the assistance of Franchisor, Franchisee will commence any required construction promptly upon execution of a lease or contract of sale for the location of the Kiddie Academy Center. Franchisee or Franchisee's landlord will maintain continuous construction of the Kiddie Academy Center until it is ready to open. Franchisee will complete construction in accordance with the plans and specifications provided by Franchisor and in accordance with the Kiddie Academy Manuals. Franchisee acknowledges that the plans and specifications are in standard form, and Franchisee or Franchisee's landlord will hire an architect and/or engineer to adapt and modify the plans as necessary in order to satisfy relevant building codes and the specific requirements of Franchisee's location.

Commencement of Operations

6.6

Franchisee will commence operation of the Kiddie Academy Center after the construction completion provided in Section 6.6. If for any reason Franchisee anticipates that it will be unable to commence as called for by this Franchise Agreement, Franchisee will provide Franchisor with written notice of that fact at least ten (10) business days prior to the expiration of the designated time period. In any event, however, Franchisee must commence operations of the Kiddie Academy Center within ten (10) business days after the issuance of all governmental approvals required in order to operate the Kiddie Academy Center.

6.6(a)

If Franchisee is leasing a facility which will be converted into a Kiddie Academy Center, Franchisee will use its best efforts to open the Kiddie Academy Center within four (4) months after the execution of this Agreement, subject to all governmental approvals.

6.6(b)

If Franchisee is constructing a new Kiddie Academy Center facility, Franchisee will use its best efforts to open the Kiddie Academy Center within nine (9) months after the execution of this Agreement, subject to all governmental approvals.

6.6(c)

If Franchisee is entering into a contract for the purchase or lease of an existing Kiddie Academy Center, Franchisee will use its best efforts to open the Kiddie Academy Center within thirty (30) days after execution of this Agreement, subject to

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all governmental approvals.

Licenses, Hiring, Classroom Completion 6.7

Prior to the opening of the Kiddie Academy Center, Franchisee will with the assistance of Franchisor have obtained all necessary licenses, permits and approvals, including without limitation child care facility licenses and approvals required by the state in which the Kiddie Academy Center is located and have hired and trained personnel, made necessary leasehold improvements, and purchased and installed necessary classroom and office equipment as required by Franchisor and as outlined in the Kiddie Academy Manuals. If for any reason Franchisee fails to satisfy these conditions, or any others required in this Agreement, prior to opening the Kiddie Academy Center, unless precluded from doing so by war, civil disturbance, natural disaster or labor dispute, that failure will be considered a default and Franchisor may terminate this Agreement.

Compliance with Laws 6.8

Prior to occupancy of the Kiddie Academy Center and during the term of this Agreement and any renewal, Franchisee will, at its own expense, but with Franchisor's assistance, comply with all applicable laws, ordinances, and regulations of municipal, county, state, or federal authorities, including without limitation compliance with all building codes applicable to the Kiddie Academy Center.

Hours of Operation 6.9

Franchisee will operate the Kiddie Academy Center during the operational hours of 6:30 a.m. through 6:00 p.m. (at a minimum), Monday through Friday, in conformity with the methods, standards, and specifications as Franchisor may from time to time prescribe in the Kiddie Academy Manuals or otherwise in writing, to insure that the highest degree of quality and service is uniformly maintained.

Conformance to Kiddie Academy Standards and Notification to Franchisor of Supplies and Equipment to be Stocked or Used in the Kiddie Academy Center 6.10

Franchisee agrees to purchase for use in its Kiddie Academy Center only

those new supplies and new items of equipment specified by Franchisor and described in the Kiddie Academy Center Administrative Manual Supplement/Equipment and Operating Supplies (the "Equipment Supplement"), previously provided to Franchisee. Such supplies and equipment will have never been used for any prior purpose whatsoever and must arrive at Franchisee's Kiddie Academy Center in the manufacturer's original box or carton to be opened and unpacked by the Franchisee or the supervisory

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personnel of the Kiddie Academy Center. Prior to ordering any item for use in its Kiddie Academy Center Franchisee will, by facsimile transmission on Franchisor's form supplied to Franchisee, notify Franchisor of each and every item of supply or equipment Franchisor intends to order for its Kiddie Academy Center for the purpose of informing Franchisor of the exact items which will enter the Kiddie Academy Center and to allow Franchisor opportunity to monitor same for safety or other consideration. Within forty-eight (48) hours Franchisor will approve by facsimile the items of supply and equipment Franchisee intends to purchase with the exception of those items listed which are not found in the Kiddie Academy Center Supply and Equipment Booklet or those items not acceptable in a Kiddie Academy Center for reasons of manufacturer's recall, prior use, inappropriateness for children, toxicity, flammability or other reason causing reasonable concern to Franchisor.

Approved Supplies and Equipment
Submission of Unapproved Supplies and Equipment 6.11

Franchisee may purchase from any supplier the supply and equipment items described in Section 6.11 provided, however, that Franchisee adheres to notification provisions set forth in Section 6.11 and provided also, that the goods are those that are specified in the Equipment Supplement. If Franchisee desires to purchase an unapproved item Franchisee will submit to Franchisor a written request for Franchisor's approval of such item. Franchisor will have the right to have its representatives inspect the item. Franchisor reserves the right, at its option, to reinspect the equipment item or the product item and to revoke its approval upon any failure to continue to meet any of Franchisor's then-current criteria. Franchisor will approve or reject the submitted item in writing, within thirty (30) days based upon its standards of safety, suitability for children, and educational or recreational value to the operation of a Kiddie Academy Center.

Pledge of Fair Dealing 6.12

In all dealings with customers, suppliers and Franchisor, Franchisee will adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct.

Kiddie Academy Center Maintenance and Repair 6.13

Franchisee will purchase and install in or on the premises of the Kiddie Academy Center, at Franchisee's expense, all furnishings, fixtures, signs and equipment as Franchisor may reasonably direct from time to time in the Kiddie Academy Manuals or otherwise in writing. Franchisee will not install or permit to be installed in or on the premises of the Kiddie Academy Center, without Franchisor's prior written consent, any furnishings, signs, equipment or other improvements not previously approved as meeting Franchisor's standards and specifications.

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6.13(a)

Franchisee will maintain the Kiddie Academy Center in the highest degree of repair and condition. In connection with the maintenance of the Kiddie Academy Center, Franchisee will make such additions, alterations, repairs, and replacements (but no others without Franchisor's prior written consent) as may be required for that purpose, including without limitation such periodic repainting, repairing, and replacing of obsolete signs, fixtures, equipment and furnishings as Franchisor may reasonably direct.

6.13(b)

In the event of Franchisee's delay, refusal, or failure upon request to make said repairs or modifications, Franchisor or its agents may enter the Kiddie Academy Center without further notice and without liability for trespass or other tort; and Franchisor at its option may remove, repair and/or replace, at Franchisee's expense, any items which do not conform with Franchisor's then-current standards and specifications.

Inspections

6.14

Franchisee will grant Franchisor and its agents the right to enter the Kiddie Academy Center, including without limitation a right to pre-occupancy inspections conducted by Franchisor, and to view the operations of the Franchised Business prior to occupancy and during hours of operation in order to inspect, photograph, or videotape on-going new construction or leasehold improvements, equipment, and operations and the performance of any services by Franchisee to insure compliance with all requirements of this Agreement. Franchisee will cooperate with Franchisor's representatives in those inspections by rendering whatever assistance as they may reasonably request, including assistance necessary to enable Franchisor to contact and interview any contractor, Franchisee's clients and their children. Upon reasonable notice from Franchisor, and without limiting Franchisor's other rights under this Agreement,

Franchisee will take such steps as may be necessary to correct immediately the deficiencies detected during any such inspection, including without limitation immediately correcting any problems with construction or leasehold improvements, and immediately desisting from the further use of any equipment, advertising materials, products, child care methods or supplies that do not conform with Franchisor's then-current plans and specifications, standards, or requirements.

Evaluation

6.15

Franchisee will furnish to its clients evaluation forms pre-addressed to Franchisor in a form as prescribed by Franchisor from time to time in the Kiddie Academy Manuals or otherwise in writing.

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Harmful Business Practices Prohibited

6.16

Franchisee will not engage in any trade practice or other activity which is harmful to the goodwill or reflects unfavorably on the reputation of Franchisee or Franchisor, the Franchised Business, or the services and/or products sold at the Kiddie Academy Center, or constitutes deceptive or unfair competition or otherwise is in violation of any applicable laws.

7. FEES

5 Sections Follow

Initial Franchise Fee

7.1

Franchisee will pay to Franchisor an initial franchise fee of Thirty Thousand Dollars (\$30,000) (the "Franchise Fee"). The Franchise Fee is payable in full when the term of this Agreement commences. The term of this Agreement will commence upon the issuance of a building permit for Franchisee's Kiddie Academy Center or when the final contingency in Franchisee's lease or purchase contract is satisfied, whichever last occurs. (Franchise Agreement -- Section 2.1.) When the term of this Agreement commences, any Preliminary Agreement Fee and Site Approval Fee previously paid by Franchisee to Franchisor under the Preliminary Agreement for the business location designated by this Agreement will be credited, in full, against the Franchise Fee payable under this Agreement, and the remaining unpaid balance of the Franchise Fee will be immediately due and payable.

7.1(b)

The Franchise Fee, when paid as above, will be deemed fully earned and non-refundable upon receipt by Franchisor in consideration of administrative and other expenses incurred by Franchisor in granting this franchise, including the

salaries of its personnel, and for Franchisor's lost or deferred opportunity to franchise to others.

7.1(c)

In the event that a Preliminary Agreement was not executed between the parties prior to Franchisee and Franchisor entering into this Agreement, then Franchisee will pay to Franchisor the entire Franchise Fee of Thirty Thousand Dollars (\$30,000), simultaneously with Franchisee's execution of this Agreement.

Royalties

7.2

During the initial term of this Agreement, Franchisee will pay to Franchisor each

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week a royalty fee equal to seven percent (7%) of gross revenues, as defined below, generated by the Franchised Business during the preceding week.

Definition of Gross Revenues

7.3

As used in this Agreement, "gross revenues" will mean all revenues generated from the sale of all products and performance of any learning, recreational and child care services and any other activities in connection with the Franchised Business at or through the Kiddie Academy Center, whether for cash or credit and regardless of collection in the case of credit, and income of every kind and nature related to the Franchised Business; provided, however, that "gross revenues" will not include any revenue taxes or other taxes collected from customers by Franchisee for transmittal to the appropriate taxing authority.

Business Administrative Support Service Fee

7.4

Franchisee will pay to Franchisor a weekly Business Administrative Support Service Fee (the "Administration Fee") for the Business Management System, as described in Section 12, and the Business System Reports, as defined in Section 12.3. The Administration Fee will increase each year during the term of this Agreement and any renewal of this Agreement. From 1995 to 2004 the Administration Fee is as follows:

YEAR	FEE/WEEK
1995	\$50.00
1996	\$52.00
1997	\$54.10
1998	\$56.25

1999	\$58.50
2000	\$60.85
2001	\$63.30
2002	\$65.80
2003	\$68.45
2004	\$71.20

Submitting Payments; Interest On Late Payments; Late Charge 7.5

All weekly payments required by this Section 7 will be sent by automatic electronic bank transfer on Monday of each week to Franchisor's account at the bank designated by Franchisor. If any payment is not transferred as anticipated by this Section 7.5, Franchisee will pay Franchisor, in addition to the overdue amount, interest on that amount from the date it was due until paid at the rate of one and one-half percent (1.5%) per month, or the maximum rate permitted by law, whichever is less.

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In addition, any such amount which is not transferred as anticipated by this Section 7.5 shall bear a late charge equal to ten percent (10%) of the late payment to cover Franchisor's costs arising out of the late payment. Entitlement to such interest and late charge will be in addition to any other remedies Franchisor may have. To insure the orderly electronic transfer of the royalties and all other fees, as outlined in this Section 7, Franchisee will enter into and maintain an agreement with the financial institution which will be responsible for the transfer and payment of the fees owed by Franchisee to Franchisor, and a copy of that agreement will be submitted to Franchisor.

8. TRAINING

5 Sections Follow

Owner's Training

8.1

Franchisor will provide an initial training program (the "Owner's Training Program") for Franchisee (or, if Franchisee is a corporation or partnership, a principal of Franchisee) and will make available other training programs as it deems appropriate. The Owner's Training Program will comprise approximately ten (10) business days of instruction in all aspects of management techniques and operation of the Franchised Business. The Owner's Training Program will include on-site training in the company-owned Kiddie Academy Centers located in Bel Air or Forest Hill, Maryland. Prior to Franchisee's commencement of the Franchised Business, Franchisee agrees to complete to Franchisor's satisfaction the initial training program. Franchisee acknowledges and agrees that the purpose of the initial training program is to develop a basic working knowledge of the classroom training and child care skills and techniques necessary to operate the Franchised Business, including without

limitation:

8.1(a)

An understanding of Kiddie Academy Center conceptual plans outlined in the Kiddie Academy Manuals.

8.1(b)

General knowledge of promotion, advertising and marketing techniques.

8.1(c)

General recognition and understanding of the statutory regulations governing day-care operations.

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8.1(d)

The ability to assess the needs of potential clientele.

8.1(e)

General office and professional practice operations and procedures and the use of the Accounting System.

8.1(f)

Implementation of the Kiddie Academy Center learning and educational equipment and materials.

Director's Training

8.2

Franchisor will provide an initial training program (the "Director's Training Program") for the initial Center Director retained by Franchisee and will make available other training programs for Franchisee's personnel as it deems appropriate. The Director's Training Program will comprise approximately five (5) business days of instruction in the day-to-day management and operation of a Kiddie Academy Centers and will include on-site training in the company-owned Kiddie Academy Center located in Bel Air or Forest Hill, Maryland. Prior to Franchisee's commencement of the Franchised Business, Franchisee's Center director must complete to Franchisor's satisfaction the Director's Training Program. Any new Center director retained by Franchisee may, at Franchisee's option, attend the Director's Training Program. Franchisor reserves the right to charge a fee for training subsequent directors if more than one

Center Director per year is enrolled.

Refresher Training and Completion

8.3

Franchisor may also provide refresher training programs for Franchisee, as Franchisor in its sole discretion deems appropriate. Franchisee will attend and complete to Franchisor's satisfaction any refresher courses, seminars, and other training programs as Franchisor may reasonably require from time to time.

Training Cost and Location

8.4

All training contemplated by this Section 8 will be conducted at Franchisor's headquarters in Bel Air, Maryland or any other location as Franchisor may specify. Franchisor will provide instructors and training materials for all required training programs. Franchisor reserves the right to assess a reasonable training fee for any refresher training programs. Franchisee will be responsible for all other expenses

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incurred by Franchisee in connection with any training programs, including without limitation transportation, lodging, meals, and wages.

Employee Training

8.5

It will be Franchisee's sole responsibility to ensure that all new employees and current employees are trained to perform their services in a proper fashion for the Franchised Business. All employees must have all certifications and credentials as required by applicable state laws and licensing regulations and by Franchisor, and must meet all continuing educational training as may be required by applicable laws and by Franchisor. If Franchisee is unable to provide the employee training required pursuant to this Section 8.5, upon Franchisee's request, Franchisor, at its option, may provide training to Franchisee's employees at Franchisor's then-current fee plus expenses. Training by Franchisor will be at reasonable times and subject to availability of Franchisor's representatives. If Franchisor provides training upon Franchisee's request, Franchisee will remain solely responsible for, and releases, indemnifies and holds harmless Franchisor from, claims, expenses or damages arising out of or related to the training and continuing education of Franchisee's employees as set forth in this Agreement.

9. MARKS

6 Sections Follow

Franchisor Rights In The Marks

9.1

Franchisor represents with respect to the Marks that Franchisor has the right to use and to license others to use the Marks. Franchisor also has taken and will take all steps reasonably necessary to preserve and protect the validity in and of the Marks. Franchisor will permit Franchisee and other franchisees to use the Marks only in accordance with the Kiddie Academy System and the standards and specifications attendant to the Marks which underlie the goodwill associated with and symbolized by the Marks.

License and Use of Marks

9.2

With respect to Franchisee's licensed use of the Marks pursuant to this Agreement, Franchisee agrees that Franchisee will use only the Marks designated by Franchisor and will use them only in the manner authorized and permitted by Franchisor. Franchisee will use the Marks only for the operation of the Franchised Business and only in the Territory, or in advertising for the Franchised Business in the geographic region in which the Territory is located. Franchisee will not use the Marks

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as part of its corporate or other legal name. Unless otherwise authorized or required by Franchisor, Franchisee will operate and advertise the Franchised Business only under the name "Kiddie Academy" or "Kiddie Academy Child Care Learning Center".

Protection of Marks

9.3

During the term of this Agreement and any renewal of this Agreement, Franchisee will give notice that Franchisee is the owner of the Franchised Business in conjunction with any use of the Marks, including without limitation on invoices, order forms, receipts, and contracts, and otherwise as Franchisor may designate in writing. The form and content of that identification will comply with standards set forth in the Kiddie Academy Manuals. Franchisee's right to use the Marks is limited to the uses authorized under this Agreement, and any unauthorized use of the Marks will constitute an infringement of Franchisor's rights and a breach of this Agreement. Franchisee will not use the Marks to incur any obligation or indebtedness on behalf of Franchisor. Franchisee will comply with Franchisor's instructions in filing and maintaining requisite trade name or fictitious name registrations, and will execute any documents deemed necessary by Franchisor or its counsel to obtain protection for the Marks or to maintain their continued validity and enforceability. If litigation involving the Marks is instituted or threatened against Franchisee, Franchisee will promptly notify Franchisor in writing within five (5) business days and will cooperate fully in defending or settling the litigation.

Acknowledgments

9.4

Franchisee expressly understands and acknowledges that as between the parties to this Agreement, Franchisor has the exclusive right and interest in and to the Marks and the goodwill associated with and symbolized by them. The Marks are valid and serve to identify the Kiddie Academy System and those who are authorized to operate under the Kiddie Academy System. Franchisee will not directly or indirectly contest the validity or Franchisor's ownership of the Marks. Franchisee also acknowledges that its use of the Marks pursuant to this Agreement does not give Franchisee any ownership or other interest in or to the Marks, except the license granted by this Agreement. Any and all goodwill arising from Franchisee's use of the Marks in its franchise will inure solely and exclusively to Franchisor's benefit, and upon expiration or termination of this Agreement and the license granted by this Agreement, no monetary amount will be assigned as attributable to any goodwill associated with Franchisee's use of the Kiddie Academy System or the Marks.

Nonexclusive Grant of Marks

9.5

The right and license of the Marks granted by this Agreement to Franchisee is nonexclusive, and Franchisor has and retains the right, among others; to use the Marks

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in connection with selling products and performing services; to grant other licenses for the Marks in addition to those licenses already granted to existing franchisees; and to develop and establish other systems using the same or similar Marks, or any other proprietary marks, as well as to grant licenses or franchises to those other systems without providing any rights in those systems to Franchisee.

Substitution of Marks

9.6

Franchisor reserves the right to substitute different Marks for use in identifying the Kiddie Academy System and the businesses operating under the Agreement if Franchisor's currently-owned Marks no longer can be used, or if Franchisor, in its sole discretion, determines that substitution of different Marks will be beneficial to the Kiddie Academy System.

10. KIDDIE ACADEMY MANUALS

4 Sections Follow

Operation in Conformity with Kiddie Academy Manuals

10.1

In order to protect the reputation and goodwill of Franchisor and to maintain high standards of operation under Franchisor's Marks, Franchisee will conduct all aspects of its business in accordance with the Kiddie Academy

Confidentiality of Kiddie Academy Manuals 10.2

Franchisee will at all times treat the Kiddie Academy Manuals, any other manuals created for or approved for use in the operation of the Franchised Business, and the information contained in the Kiddie Academy Manuals as confidential, and Franchisee will use all reasonable efforts to maintain the information as secret and confidential. Franchisee will not at any time copy, duplicate, record, or otherwise reproduce those materials, in whole or in part, nor otherwise make the materials available to any unauthorized person.

Ownership of Kiddie Academy Manuals 10.3

The Kiddie Academy Manuals will at all times remain the sole property of Franchisor and will at all times be kept in a secure place at Franchisee's Kiddie Academy Center. The Kiddie Academy Manuals will be returned promptly to Franchisor upon the expiration or other termination of this Agreement.

Revisions of Kiddie Academy Manuals 10.4

Franchisor may from time to time revise the contents of the Kiddie Academy Manuals, and Franchisee expressly agrees to comply with each new or revised standard. Further, Franchisee will at all times ensure that its copies of the Kiddie Academy Manuals are kept current and up-to-date. In the event of any dispute as to the contents of the Kiddie Academy Manuals, the terms of the master copies of the Kiddie Academy Manuals maintained by Franchisor at Franchisor's headquarters will be controlling.

11. CONFIDENTIAL INFORMATION 4 Sections Follow

Definition 11.1

Any and all information, knowledge, know-how, training and techniques which Franchisor designates as confidential and which is legally protectable will be deemed confidential for purposes of this Agreement.

Prohibition 11.2

Franchisee will not, during the term of this Agreement or upon its expiration or termination, communicate, divulge, or use for the benefit of any other person, persons, partnership, association, or corporation, or after the term of this Agreement use for itself or its business, any confidential

information, knowledge, know-how or training concerning the methods of operation of the Franchised Business which may be communicated to Franchisee or of which Franchisee may be apprised by virtue of Franchisee's operation of the Kiddie Academy Center under the terms of this Agreement.

Transmittal to Personnel

11.3

Franchisee will divulge such confidential information only to such of its personnel, if any, as must have access to it in order to operate the Franchised Business. Further, Franchisee will require all personnel having access to any confidential information from Franchisor to execute an agreement that they will maintain the confidentiality of information they receive in connection with their employment by Franchisee at the Kiddie Academy Center. Those agreements will be in a form satisfactory to Franchisor, including without limitation specific identification of Franchisor as a third-party beneficiary of such agreements, with the independent right to enforce them.

Consequences of Breach

11.4

Franchisee acknowledges that any failure to comply with the requirements of this

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Section 11 will cause Franchisor irreparable injury, and Franchisee agrees to pay all court costs and reasonable attorney's fees incurred by Franchisor in obtaining specific performance of, or an injunction against violation of, the requirements of this Section 11.

12. REPORTING AND RECORDS

10 Sections Follow

Forms and Invoices

12.1

Franchisee will use only such forms and invoices, including without limitation the Business System Reports, as are approved by Franchisor from time to time in the Kiddie Academy Manuals or otherwise in writing. Franchisee will obtain forms, at Franchisee's expense, from Franchisor or suppliers approved by Franchisor to produce the forms utilizing the Marks.

Maintenance of Records

12.2

Franchisee will record all sales and gross revenues on Business System Reports. Franchisee will also maintain during the term of this Agreement, and will preserve for at least five (5) years from the dates of their preparation, full, complete, and accurate books, records, and accounts in accordance with generally accepted accounting principles and in the form and manner prescribed

by Franchisor from time to time in the Kiddie Academy Manuals or otherwise in writing.

Business Management System

12.3

As part of the Business Management System, Franchisor will produce for use by Franchisee an Accounts Receivable Report, as well as a General Ledger Report, a Monthly Profit and Loss Statement, a Cash Disbursements Journal and a Check Register (collectively, the "Business System Reports"). The Business System Reports will be prepared in the form prescribed by Franchisor. Franchisee will use the Business Management System in accordance with the Kiddie Academy Manuals. Franchisee will submit all Business System Reports on a timely basis as outlined by Franchisor in the Kiddie Academy Manuals.

Payroll Service

12.4

In addition, Franchisee will use the payroll service currently designated by Franchisor, or a similar system as approved in writing by Franchisor, which will include as part of its service the impounding of all employee withholding taxes payable to the Internal Revenue Service and state and local governmental agencies. Franchisee will be responsible for all charges related to that payroll service.

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Acknowledgment of Franchisee

12.5

Franchisee expressly acknowledges that Franchisor does not warrant or guarantee the accuracy or completeness of the Business Management System, nor will Franchisor be liable for any costs or damages incurred by Franchisee as a result of its use of the Business Management System. Franchisee acknowledges that Franchisor is not responsible for the preparation of Franchisee's books and records, financial reports or financial statements, and Franchisee agrees that the Business System Reports are intended to be used by Franchisee's independent accountant, as that person may choose, to prepare those books and records, reports and statements.

Weekly Reports and Financial Information

12.6

Franchisee will submit to Franchisor no later than Monday of each week during the term of this Agreement, after the opening of the Franchised Business all parent agreements, enrollment rosters, cash receipt journals, daily payroll reports and status log reports in the forms prescribed by Franchisor which accurately reflect all gross revenues during the preceding week and copies of all Business System Reports in accordance with the Kiddie Academy Manuals.

Monthly Reports and Financial Information

12.7

Franchisee will submit to Franchisor, postmarked no later than the tenth (10th) day of each month during the term of this Agreement, after the opening of the Franchised Business copies of all daily cash flow reports and copies of all required financial reports pertaining to Franchisee or the operation of the Franchised Business.

Annual Tax Returns 12.8

Franchisee will provide to Franchisor a copy of its annual federal income tax return on the same date it is submitted to the Internal Revenue Service.

Other Reports Required by Franchisor 12.9

Franchisee will also submit to Franchisor, for review or auditing, in addition to the Business System Reports, such other forms, reports, records, information, and data as Franchisor may reasonably designate, in the form and at the times and places reasonably required by Franchisor, upon request and as specified from time to time in the Kiddie Academy Manuals or otherwise in writing.

Franchisor's Right to Audit 12.10

From the date of this Agreement until three (3) years elapse following the

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termination of this Agreement, Franchisor or its designated agents will have the right, at all reasonable times and upon forty-eight (48) hours prior notice to Franchisee, to examine and copy, at Franchisor's expense, the books, records, and tax returns of Franchisee and of the Franchised Business. Franchisor will also have the right, at any time, to have an independent audit made of the books of the Franchised Business. Franchisee will cooperate fully with Franchisor or its representatives and independent auditors in connection with an audit or inspection, should one be conducted. If an inspection should reveal that any payments have been understated in any report to Franchisor, Franchisee will immediately pay to Franchisor the amount understated upon demand, in addition to interest on such amount from the date such amount was due until paid, at the rate which is two (2) points above the prime rate published by the Wall Street Journal on the date payment was due (or, if the due date was not a business day, the next business day that follows), or the maximum rate permitted by law, whichever is less, calculated on a daily basis. If an inspection discloses an understatement in any payment of three percent (3%) or more, Franchisee will in addition reimburse Franchisor for any and all costs and expenses connected with the inspection (including without limitation travel, lodging, wage expenses and reasonable accounting and legal costs). These remedies will be in addition to any other remedies Franchisor may have.

Recognizing the value of advertising and the importance of the standardization of advertising and promotional programs to the furtherance of the goodwill and public image of the Kiddie Academy System, the parties agree as follows:

Advertising Expenditures 13.1

During the term of this Agreement, Franchisee will make expenditures for advertising and promotions as follows:

13.1(a)

Franchisee will conduct a "Grand Opening and Start-Up Advertising" promotion of the Kiddie Academy Center and will spend not less than Six Thousand Dollars (\$6,000.00) on that promotion.

13.1(b)

For the term of this Agreement, Franchisee will spend each year an amount equal to the greater of one percent (1%) of gross revenues from the Kiddie Academy Center or Four Thousand Dollars (\$4,000.00) (the "Annual Advertising Expense").

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13.1(c)

Franchisee will at all times maintain a Yellow Page advertisement in accordance with Franchisor's specifications. Franchisee may share with other franchisees Yellow Page advertisements in areas in which multiple centers are able to be included in the same advertisement. If more than one franchisee shares the Yellow Page advertising, the cost is pro-rated among all participating centers.

13.1(d)

The Annual Advertising Expense will not include payments made by Franchisee for the Grand Opening, classified advertising used to locate employees for the Kiddie Academy Center, or for placement of Yellow Page advertisements. Franchisee will submit to Franchisor proof of the expenditure of the Annual Advertising Expense which will include, without limitation, all invoices, contracts and canceled checks documenting the expenses incurred by Franchisee in satisfying this requirement.

Upon maintaining eighty-five percent (85%) capacity at the Kiddie Academy Center during any year of the term of this Agreement or any renewal, Franchisee may request written approval by Franchisor to reduce its Annual Advertising Expense to an amount not less than Three Thousand Dollars (\$3,000.00).

Approval of Franchisor

13.2

Franchisor will review and approve or disapprove all advertising and promotional materials which Franchisee proposes to use.

Submission of Advertising Samples and Approval Procedure

13.3

All advertising and promotion by Franchisee in any manner or medium will be conducted in an appropriate manner and will conform to such standards and requirements as are specified by Franchisor and in accordance with the Kiddie Academy Manuals. Franchisee will submit to Franchisor through the mail, return receipt requested, for its prior approval (except with respect to prices to be charged), samples of all advertising and promotional plans and materials that Franchisee desires to use which have not been prepared or approved by Franchisor within the immediately preceding twelve (12) months. If written disapproval of those samples and/or materials is not received by Franchisee from Franchisor within thirty (30) days of the date of receipt by Franchisor of those samples and/or materials, Franchisor will be deemed to have given the required approval. Franchisee will not use any advertising or promotional plans or materials that Franchisor has disapproved. Franchisee will display

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the Marks in the manner prescribed by Franchisor in the Kiddie Academy Manuals or otherwise in writing on all signs and all other advertising and promotional materials used in connection with the Franchised Business.

Advertising Provided by Franchisor

13.4

Franchisor will, from time to time, offer to provide to Franchisee such approved advertising and promotional plans and materials as Franchisor deems advisable. Franchisor expressly disclaims, and Franchisee acknowledges that it has not received or relied upon any warranty as to, the success of any advertising and promotional plans recommended by Franchisor for use by Franchisee.

Compliance with Laws

13.5

Franchisee will be solely responsible for compliance with all relevant local, state and federal laws which apply to advertising and promotional plans

and materials used by Franchisee, whether approved and/or provided by Franchisor.

14. INSURANCE

5 Sections Follow

Requirement

14.1

Franchisee will procure, no later than thirty (30) days before the date on which the Franchised Business commences operations, and maintain in full force and effect at all times during the term of this Agreement, at Franchisee's expense, an insurance policy or policies protecting Franchisee and Franchisor, and their respective officers, directors, shareholders, partners, and employees, against any demand or claim with respect to personal injury, death, or property damage, or any loss, liability, or expense whatsoever arising or occurring upon or in connection with the Franchised Business.

Minimum Coverage

14.2

Such policy or policies will be written by an insurance company satisfactory to Franchisor in accordance with standards and specifications set forth in the Kiddie Academy Manuals or otherwise in writing, which company will have an A.M. Best Rating of A+ and will name Franchisor as an additional insured in each such policy or policies, and include, at a minimum (except as additional coverages and higher policy limits may reasonably be specified by Franchisor from time to time, and Franchisee will comply with such additional coverage and higher policy limits with thirty (30) days' written notice by Franchisor), the following:

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14.2(a)

Comprehensive general liability insurance, including personal injury, errors and omissions, products/completed operations, contractual liability, professional malpractice, and products liability, as well as comprehensive automobile liability coverage for both owned and non-owned vehicles, and property damage liability coverage, in the amount of One Million Dollars (\$1,000,000.00) per occurrence.

14.2(b)

All risk including theft insurance coverage with primary and excess limits of not less than the full repair and replacement value of the Kiddie Academy Center, improvements, equipment and supplies.

14.2(c)

Student accident insurance coverage.

Employer's liability, workers' compensation, business interruption and such other insurance as may be required by statute or rule of the state or locality in which the Franchised Business is located and operated.

Such additional insurance and types of coverage as may be required under the terms of any lease for the Kiddie Academy Center, or as may be required by the Franchisor.

The insurance Franchisor will require the Franchisee to maintain will be commercially reasonable and will be comparable to the insurance generally maintained within the child care industry, as determined by Franchisor.

Effect of Insurance Coverage

14.3

Franchisee's obligation to obtain and maintain the policy or policies in the amounts specified from time to time will not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor will Franchisee's performance

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of that obligation relieve it of liability under the indemnity provisions set forth in Section 21 of this Agreement.

Certificates of Insurance

14.4

At least thirty (30) days prior to the time any insurance is first required to be carried by Franchisee, and at least thirty (30) days prior to the expiration of any such policy, Franchisee will deliver to Franchisor Certificates of Insurance evidencing the proper coverage with limits not less than those required by this Agreement. All Certificates will expressly provide that not less than thirty (30) days' prior written notice will be given Franchisor in the event of material alteration to, or cancellation of, the coverages evidenced by the Certificates.

Franchisor's Remedy Upon Franchisee's Failure to Insure

14.5

Should Franchisee for any reason fail to procure or maintain the insurance required by this Agreement, as those requirements may be revised from time to time by Franchisor in the Kiddie Academy Manuals or otherwise in

writing, Franchisor will have the right and authority (without, however, any obligation to do so) immediately to procure that insurance and to charge the amount of the cost to procure that insurance to Franchisee, which charges, together with a reasonable fee for Franchisor's expenses in procuring the insurance, will be payable by Franchisee immediately upon notice. These remedies will be in addition to any other remedies Franchisor may have.

15. TRANSFER OF INTEREST

12 Sections Follow

Transfer by Franchisor

15.1

Franchisor will have the right to transfer or assign all or any part of its rights or obligations in this Agreement to any person or legal entity. If the Franchisor's assignee assumes all of the obligations of Franchisor under this Agreement and sends written notice of the assignment so attesting, Franchisee will promptly execute a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates and their respective officers, directors, shareholders, and employees, in their corporate and individual capacities, including without limitation claims arising under federal, state, and local laws, rules, and ordinances.

Transfer by Franchisee

15.2

Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Franchisee, and that Franchisor has granted this

Agreement in reliance on Franchisee's business skill, aptitude, financial capacity, and personal character. Accordingly, neither Franchisee nor any immediate or remote successor to any part of Franchisee's interest in this franchise, nor any individual, partnership, corporation, or other legal entity which directly or indirectly owns any interest in this franchise, will sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any direct or indirect interest in this franchise (including any direct or indirect interest in a corporate or partnership Franchisee) without the prior written consent of Franchisor. Any purported assignment or transfer, by operation of law or otherwise, not having the written consent of Franchisor required by this Section will be null and void and will constitute a material breach of this Agreement, for which Franchisor may then terminate without opportunity to cure pursuant to Section 16.2(j) of this Agreement.

Conditions of Transfer by Franchisee

15.3

Franchisor will not unreasonably withhold its consent to a transfer of any interest in the Franchised Business. If a transfer, alone or together with other previous, simultaneous, or proposed transfers would have the effect of transferring a controlling interest in the Franchised Business, however, Franchisor may, in its sole discretion, require any or all of the following as conditions of its approval:

15.3(a)

All of Franchisee's accrued monetary obligations and all other outstanding obligations to Franchisor or its affiliates, and all other outstanding obligations incurred in connection with the Kiddie Academy Center, including without limitation to suppliers, will have been satisfied. Franchisor may conduct an investigation and audit pursuant to Section 12.9 in order to determine the extent of any accrued obligations.

15.3(b)

Franchisee will not be in default of any provision of this Agreement, any amendment to or successor of this Agreement, any other agreement between Franchisee and Franchisor or its affiliates, or any lease entered into for the premises of the Franchised Business.

15.3(c)

The transferor will have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates and their respective officers, directors, shareholders, and employees, in their corporate and

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individual capacities, including without limitation claims arising under federal, state, and local laws, rules, and ordinances.

15.3(d)

The transferee (and if the transferee is other than an individual, the owners of a beneficial interest in the transferee as Franchisor may request) will enter into a written assignment in a form satisfactory to Franchisor, assuming and agreeing to discharge all of Franchisee's obligations under this Agreement.

15.3(e)

The transferee (or if the transferee is a corporation or partnership, a principal of transferee) will demonstrate to Franchisor's satisfaction that the transferee meets Franchisor's educational, managerial, and business standards;

possesses a good moral character, business reputation, and credit rating; has the aptitude and ability to conduct the Franchised Business as may be evidenced by receiving passing scores on Franchisor's screening tests, by prior related business experience or otherwise; and has adequate financial resources and capital to operate the business.

15.3(f)

The transferee, including all shareholders, officers, directors and partners of the transferee, will execute, for a term ending on the expiration date of this Agreement and with such renewal term as may be provided by this Agreement, the standard form franchise agreement then being offered to new franchisees and such other ancillary agreements as Franchisor may require for the Franchised Business, the terms of which agreements may differ from the terms of this Agreement, including without limitation a higher percentage royalty rate, Administrative Fee and/or Annual Advertising Expense; provided, however, that the royalty rate payable by the transferee will not be increased to an amount which is greater than that then required to be paid system-wide by Franchisor's new franchisees, the transferee will not be required to pay a Franchise Fee, and the Territory designated in this Agreement will remain the same.

15.3(g)

At the transferee's expense, the transferee must satisfy all applicable child care licensing requirements of the municipality, county and state in which the Kiddie Academy Center is located.

15.3(h)

Within the time specified by Franchisor, the transferee, at its expense, will

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replace or refurbish the Kiddie Academy Center, as necessary, to conform the Kiddie Academy Center to Franchisor's then-current standards and specifications, including without limitation specifications regarding size, color, trade dress, presentation of the Marks, accessories and installed equipment.

15.3(i)

Franchisee will remain liable for all of the obligations to Franchisor in connection with the Franchised Business prior to the effective date of the transfer and will execute any and all instruments reasonably requested by Franchisor to evidence such liability. In addition, Franchisee shall continue to be bound by the agreements set forth in Sections 10.2, 11.2 and Sections 18.3 through 18.7 (inclusive) of this Agreement, which agreements shall survive any transfer or assignment of this Agreement.

15.3(j)

The transferee will complete any training programs then in effect for franchisees upon those terms and conditions as Franchisor may reasonably require and will pay Franchisor a Five Thousand Dollar (\$5,000.00) training and initial assistance fee for that training and assistance.

15.3(k)

Except in the case of a transfer to a corporation formed for the convenience of ownership, Franchisee will pay a transfer fee of Three Thousand Dollars (\$3,000.00) to reimburse Franchisor for its reasonable costs and expenses incurred in connection with the proposed transfer.

15.3(l)

If Franchisor is responsible for locating the transferee, Franchisee will pay Franchisor an amount equal to six percent (6%) of the gross sales price of the Kiddie Academy Center. In addition, all costs of advertising the sale of the Kiddie Academy Center will be the responsibility of Franchisee.

15.3(m)

Franchisee acknowledges and agrees that each condition which must be met by the transferee is necessary to assure the transferee's full performance of the obligations under this Agreement.

15.3(n)

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Franchisee may transfer its interest under this Agreement to a corporation, so long as the corporation is owned entirely by each of the original individual franchisees, each and all of the obligations of the Franchisee are personally guaranteed by the original individual franchisees, and Franchisor receives prior written notice of the transfer along with a complete set of Applicant's corporate documents.

Grant of Security Interest

15.4

Franchisee will not grant a security interest in any of the assets of the Franchised Business unless the secured party agrees that in the event of any default by Franchisee under any documents related to the security interest, Franchisor will have the right and option to be substituted as obligor to the secured party and to cure any default of Franchisee.

Any party holding any interest in this Agreement who desires to accept any bona fide offer from a third party to purchase that interest will notify Franchisor in writing of each offer and will provide the information and documentation relating to the offer that Franchisor may require. Franchisor will have the right and option, exercisable within sixty (60) days after receipt of the written notification, to send written notice to the seller that Franchisor intends to purchase the seller's interest on the same terms and conditions offered by the third party. In the event that Franchisor elects to purchase the seller's interest, closing on that purchase must occur within ninety (90) days from the date of notice to the seller of the election to purchase by Franchisor. Any material change in the terms of any offer prior to closing will constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of an initial offer. Failure of Franchisor to exercise the option afforded by this subsection will not constitute a waiver of any other provision of this Agreement with respect to a proposed transfer.

Appraisal of Third Party Offer

15.6

In the event the form of consideration, or the terms and/or conditions offered by a third party are such that Franchisor may not reasonably be required to furnish the same form of consideration, or the terms and/or conditions, Franchisor may purchase the interest in the Franchised Business proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the cash consideration, an independent appraiser will be jointly designated by Franchisee and Franchisor, and the appraiser's determination will be binding.

Acceptance of Offer by Franchisee

15.7

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If Franchisor does not exercise the right of first refusal as set forth in this Section 15.5, the offer may be accepted by Franchisee, subject to the prior written approval of Franchisor, as provided for in this Section 15. If any such proposed sale or transfer is not consummated within three (3) months of the date of the initial written offer, Franchisor will again have the right of first refusal as described in this Section 15.5. Any transferee will also be subject to Franchisor's right of first refusal set forth in this Section 15.5.

Transfer Upon Death or Mental Incompetency

15.8

Upon the death or mental incompetency, as determined by a court of competent jurisdiction, of any person with an interest in the Franchised Business, the guardian, executor, administrator, or personal representative of that person's estate must transfer the interest to a third party approved by

Franchisor within six (6) months after the date of death or determination of mental incompetency.

Transfer to Heir

15.9

In the case of a death, if the heir or successor wants to retain the decedent's interest in the Franchised Business, the heir or successor must promptly apply to Franchisor for that right, for the duration of the term of this Agreement and any renewals of this Agreement. Franchisor will approve that application upon the fulfillment of all of the conditions for a transfer set forth in Section 15.3 of this Agreement, except that no transfer fee will be required. If a proper and timely application is filed and rejected by Franchisor, the six (6) month period stated in Section 15.8 will be extended by the amount of time between the date of death and the date of the notice of rejection. The successor or personal representative must sell, assign, transfer or convey a decedent's interest in the Franchised Business in compliance with the provisions of this Section 15, in the case of a death where: no heir or successor wants to retain that interest; or in the judgment of Franchisor, the heir(s) or successor(s) is clearly unable to meet the conditions of Section 15.3 (e.g., because the heir is a minor).

Transfer for Mental Incompetency

15.10

In the case of a determination of mental incompetency, the duly appointed guardian must promptly decide whether to retain the interest in the Franchised Business and, if necessary, select a qualified manager to direct its operation. The guardian may then apply to Franchisor for the right to retain that interest for the duration of the term of this Agreement and any renewals of this Agreement. Franchisor will approve that application upon the fulfillment of all of the conditions for a transfer set forth in Section 15.3 of this Agreement, except that no transfer fee will be required. The six (6) month period stated in Section 15.9 will not be extended,

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whether or not the guardian applies for a right to retain the interest in the Franchised Business.

Termination After Six Months

15.11

If the interest in the Franchised Business is not transferred, sold, assigned or conveyed within the six (6) month period stated in Section 15.8 (as possibly extended by Section 15.9), Franchisor may terminate this Agreement.

Non-Waiver of Claims

15.12

Franchisor's consent to a transfer of any interest in the Franchise granted in this Agreement will not constitute a waiver of any claims it may have

against the transferring party, nor will it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee.

16. DEFAULT AND TERMINATION

4 Sections Follow

Termination Without Notice

16.1

Franchisee will be deemed to be in default under this Agreement, and all rights granted in this Agreement will automatically terminate without notice to Franchisee, if Franchisee:

16.1(a)

At any time ceases to operate or otherwise abandons the Franchised Business, or loses the right to possession of the Kiddie Academy Center, or otherwise forfeits the right to do or transact business in the jurisdiction where the franchise is located; provided, however, that if any such loss of possession results through no fault of Franchisee, and the Kiddie Academy Center is damaged or destroyed, then Franchisee will have thirty (30) days after such event in which to apply for Franchisor's approval to reconstruct or replace the Kiddie Academy Center, which approval will not be unreasonably withheld; and/or

16.1(b)

Or, if Franchisee is a corporation or partnership, any principal of Franchisee, is convicted of a felony, a fraud, a crime involving moral turpitude, or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the

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Kiddie Academy System, the Marks, the goodwill associated with the System and the Marks, or Franchisor's interest in them.

Termination Upon Notice

16.2

Upon the occurrence of any of the following events, Franchisee will be deemed to be in default and Franchisor may, at its option, terminate this Agreement and all rights granted under this Agreement without affording Franchisee any opportunity to cure the default. That termination will be effective immediately upon receipt of notice by Franchisee of such termination if Franchisee:

16.2(a)

Makes a material misrepresentation or omission in its application for

the franchise;

16.2 (b)

Becomes insolvent or makes a general assignment for the benefit of creditors, or if a petition in bankruptcy is filed by Franchisee or against Franchisee and not opposed by Franchisee;

16.2 (c)

Is adjudicated as bankrupt or insolvent, or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee, or if a receiver or other permanent or temporary custodian of Franchisee's assets or property, or any part of its assets or property, is appointed by any court of competent jurisdiction, or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee;

16.2 (d)

If a final judgment which remains unsatisfied or of record for thirty (30) days or longer (unless a supersedeas bond is filed), or Franchisee is dissolved, or a suit to foreclose any lien or mortgage against the Franchised Business or its equipment is instituted against Franchisee and not dismissed within thirty (30) days, or if execution is levied against Franchisee's business or property, or if the real or personal property of Franchisee's Kiddie Academy Center will be sold after levy upon Franchisee's real or personal property by any sheriff, marshal, or constable.

16.2 (e)

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Continues to employ any person which Franchisee knows or has reason to know has been engaged in, charged with, convicted of or pleaded nolo contendere to a felony or any other criminal misconduct, or any offense involving moral turpitude, which Franchisor deems relevant to the operation of the Kiddie Academy Center;

16.2 (f)

Misuses or makes any unauthorized use of the Marks or otherwise materially impairs the goodwill associated with the Marks or Franchisor's rights in the Marks;

16.2 (g)

Contests in any court or proceeding the validity of, or Franchisor's

rights in, any of the trademarks, service marks, or other rights licensed under this Agreement;

16.2(h)

Contrary to the terms of Sections 10 or 11 of this Agreement, discloses or divulges the contents of the Kiddie Academy Manuals, Franchisor's trade secrets or other confidential information provided to Franchisee by Franchisor;

16.2(i)

Fails to comply with the in-term covenants in Section 18 of this Agreement;

16.2(j)

Any partner or shareholder in Franchisee purports to transfer any rights or obligations under this Agreement or any interest in Franchisee to any third party without Franchisor's prior written consent, contrary to the terms of Section 15.2 of this Agreement;

16.2(k)

Fails to effect an approved transfer within a reasonable time, as required by Section 15.11 of this Agreement, following Franchisee's death or mental incompetency;

16.2(l)

Operates or fails to maintain the Kiddie Academy Center in such a fashion that it becomes a threat or danger to public health or safety;

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16.2(m)

Fails to maintain any license required by law to provide child care or other services contemplated under this Agreement;

16.2(n)

Maintains false books or records, or knowingly submits any false reports to Franchisor;

16.2(o)

Submits to Franchisor on two (2) or more separate occasions at any time during the term of this Agreement or any renewal, any reports or other data, information or supporting records which understate by more than three percent

(3%) the royalty fees and any other fees owed to Franchisor for any period of, or periods aggregating, three (3) or more weeks, and Franchisee is unable to demonstrate that such understatements resulted from inadvertent error.

16.2(p)

Knowingly fails to comply with the provisions of Section 19 of this Agreement;

16.2(q)

Defaults (and does not cure that default within permitted periods) under any material lease, contract, financing or similar agreement in connection with the Kiddie Academy Center;

16.2(r)

After curing a default pursuant to Section 16.3 of this Agreement, commits the same act of default again within six (6) months;

16.2(s)

Repeatedly is in default under Section 16.3 of this Agreement for failure to substantially comply with any of the requirements imposed by this Agreement;

16.2(t)

Fails, refuses or neglects promptly to pay when due any monies owing to

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Franchisee's landlord (unless as a result of a bona fide dispute with the landlord; subject, however, to Franchisee's payment, into escrow, of all disputed rentals); and/or

16.2(u)

Fails to commence operation of the Franchised Business in accordance with Section 6.7 of this Agreement.

Termination After Notice and Opportunity to Cure 16.3

Except as provided in Sections 16.1 and 16.2 of this Agreement, Franchisee will have thirty (30) days after its receipt from Franchisor of a written notice of default within which to remedy any default under this Agreement (or, if the default cannot reasonably be cured within such thirty (30) days, to initiate within that time substantial and continuing action to cure the

default), and to provide evidence of an attempt to remedy the default to Franchisor. If any such default is not cured within that time (or, if appropriate, substantial and continuing action to cure the default is not initiated within that time), or such longer period as applicable law may require, this Agreement, at Franchisor's sole option, will terminate effective immediately upon Franchisee's receipt of Franchisor's notice of such termination. Franchisee will be in default under this Agreement for any failure to comply substantially with any of the requirements imposed by this Agreement, as it may from time to time reasonably be supplemented by the Kiddie Academy Manuals, or to carry out the terms of this Agreement in good faith. The defaults will include, without limitation, the occurrence of any of the following events:

16.3(a)

Fails, refuses, or neglects promptly to pay when due any monies owing to Franchisor or its affiliates; or fails, refuses, or neglects promptly to submit the financial or other information required by Franchisor under this Agreement;

16.3(b)

If Franchisee fails to maintain any of the standards or procedures prescribed by Franchisor in this Agreement, the Kiddie Academy Manuals, or otherwise in writing, or fails to comply with any provision of this Agreement, or any other agreement to which Franchisor and Franchisee or any of the Affiliates are parties;

16.3(c)

If Franchisee fails, refuses, or neglects to obtain Franchisor's prior written

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approval or consent as required by this Agreement;

16.3(d)

If Franchisee fails, refuses or neglects to use the Business Management System and the Business System Reports;

16.3(e)

If Franchisee engages in any business or markets any service or product under a name or mark which, in Franchisor's opinion, is confusingly similar to the Marks;

16.3(f)

If Franchisee, by act or omission, permits a continued violation in connection with the operation of the Kiddie Academy Center of any law, ordinance, rule or regulation of a governmental agency, in the absence of a good faith dispute over its application or legality and without promptly resorting to an appropriate administrative or judicial forum for relief, and fails to immediately notify Franchisor of that violation;

16.3(g)

If Franchisee fails to refurbish the Kiddie Academy Center in accordance with Sections 3.2 and 6.13(a) of this Agreement;

16.3(h)

If Franchisee fails to maintain a good credit rating by failing to make prompt payment of undisputed bills, invoices or statements from suppliers of products and services;

16.3(i)

If Franchisee fails to obtain execution of the covenants required under Section 11.3 or Section 18.10 of this Agreement; and/or

16.3(j)

If Franchisee fails to attend and complete to Franchisor's satisfaction the training program, as required under Section 8 of this Agreement.

Franchisor's Operation of the Kiddie Academy Center

16.4

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In addition to Franchisor's right to terminate this Agreement, and not in place of that right or any other rights against Franchisee, after notifying Franchisee of its default under this Agreement (except that as to those defaults for which Franchisee is entitled to a 30-day opportunity to cure, Franchisor may exercise the rights described below only if such default is not cured within the aforesaid 30-day cure period), Franchisor may at its option enter upon the premises of the Kiddie Academy Center and exercise complete authority with respect to the operation of the Franchised Business until such time as Franchisor determines that the default of Franchisee has been cured and that there is compliance with the requirements of this Agreement. Franchisee specifically agrees that a designated representative of Franchisor may take over, control and operate the Franchised Business, and that Franchisee will pay Franchisor a service fee of not less than Two Hundred Fifty Dollars (\$250.00) per day or any part of a day plus all travel expenses, room and board and other expenses reasonably incurred by that representative as long as it is required by the representative to enforce compliance with this Agreement. Franchisee further

agrees that if, as provided in this Section 16.4, Franchisor temporarily operates for Franchisee the Franchised Business, Franchisee agrees to indemnify and hold harmless Franchisor and any representative of Franchisor who may act under this Agreement, respecting any and all acts and omissions, including negligence, which Franchisor may perform, or fail to perform, with respect to the interests of Franchisee or third parties.

17. OBLIGATIONS UPON TERMINATION OR EXPIRATION

11 Sections Follow

Upon termination or expiration of this Agreement, all rights granted under this Agreement to Franchisee will terminate, and:

Cessation of Operations

17.1

Franchisee will immediately cease to operate the Kiddie Academy Center and will not after that time, directly or indirectly, represent to the public that Franchisee is a Kiddie Academy franchise or hold itself out as a present or former franchisee of Franchisor.

Discontinue Use of Marks

17.2

Franchisee will immediately and permanently cease to use, in any manner whatsoever, any confidential information, methods, procedures, techniques, and training associated with the Kiddie Academy System; the Mark "KIDDIE ACADEMY"; and all other Marks and distinctive forms, slogans, signs, symbols, and devices associated with the Kiddie Academy System. In particular, Franchisee will cease to

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use, without limitation, all signs, public relations and promotional materials, displays, stationery, forms, and any other articles which display the Marks; provided, however, that this Section will not apply to the operation by Franchisee of any other franchise under the Kiddie Academy System which may be granted by Franchisor to Franchisee. Franchisee will take such action as may be necessary to cancel or assign to Franchisor or Franchisor's designee any assumed name or equivalent registration which contains the Mark "KIDDIE ACADEMY" or any other service mark or trademark of Franchisor, and Franchisee will furnish Franchisor with proof of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement.

Assignment of Lease

17.3

Franchisee will, at Franchisor's option, assign to Franchisor any interest which Franchisee has in any lease of the Kiddie Academy Center. Any such lease entered into by Franchisee will contain a clause specifying the title holder's consent to assign that lease to Franchisor or its assigns if this

Agreement is terminated. In the event Franchisor does not elect to exercise its option to acquire the lease, Franchisee will make such modifications or alterations to the Kiddie Academy Center (including without limitation changing the telephone number) immediately upon termination or expiration of this Agreement as may be necessary to prevent the operation of any business on the premises by itself or others in derogation of this Section 17 and will make such specific additional changes to the premises and the Kiddie Academy Center as Franchisor may reasonably request for that purpose, including without limitation removal of all distinctive physical and structural features identifying the Kiddie Academy System. If Franchisee fails or refuses to comply with the requirements of this Section 17, Franchisor will have the right to enter upon the premises without being liable for trespass or any other tort, for the purpose of making or causing to be made such changes at the expense of Franchisee, which expense Franchisee agrees to pay upon demand.

Operation of Another Business

17.4

Franchisee agrees, in the event it operates any other business, not to use any reproduction, counterfeit, copy, or colorable imitation of the Marks, either in connection with that other business or the promotion of that business, which is likely to cause confusion, mistake, or deception, or which is likely to dilute Franchisor's rights in and to the Marks. Further, Franchisee agrees not to utilize any designation of origin or description or representation which falsely suggests or represents an association or connection with Franchisor constituting unfair competition.

Payment of Monies Due

17.5

Franchisee will promptly pay all sums owing to Franchisor and its affiliates. In

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the event of termination for any default of Franchisee, those sums will include all damages, costs, and expenses, including reasonable attorney's fees, incurred by Franchisor as a result of the default. This obligation will give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, signs, fixtures, and inventory owned by Franchisee and located on the premises operated pursuant to this Agreement at the time of default.

Cost of Enforcement

17.6

Franchisee will pay to Franchisor all damages, costs, and expenses, including reasonable attorney's fees, incurred by Franchisor subsequent to the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement, including without limitation Section 17, Section 11 and/or Section 18.

Franchisee will immediately deliver to Franchisor all documents, including the Kiddie Academy Manuals, the membership card, Business System Reports, records, files, instructions, correspondence, brochures, agreements, disclosure statements, invoices, and any and all other materials relating to the operation of the Franchised Business in Franchisee's possession, and all copies of those documents and materials (all of which are acknowledged to be Franchisor's property). Franchisee will retain no copy or record of any of these documents, except Franchisee's copy of this Agreement and of any correspondence between the parties and any other documents which Franchisee reasonably needs for compliance with any provision of law.

Forfeiture of Signs

17.8

Franchisor will acquire all right, title and interest in and to any sign or sign faces bearing the Marks. Franchisee acknowledges Franchisor's right to have access to the premises of the Kiddie Academy Center should Franchisor elect to take possession of the sign or sign faces bearing Franchisor's Marks.

Repurchase Option

17.9

Within fifteen (15) days from the date of termination or expiration of this Agreement, Franchisee and Franchisor will arrange for an inventory to be made, at Franchisor's cost, of all the personal property, equipment, and inventory of Franchisee, including without limitation any and all items bearing the Marks, related to the operation of the Franchised Business (the "Assets"). Franchisor will have the option, to be exercised within thirty (30) days after termination or expiration, to purchase from Franchisee any or all of the Assets (excluding the Kiddie Academy Manuals, which are

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acknowledged to be Franchisor's property) at fair market value. If the parties cannot agree on fair market value within a reasonable time, an independent appraiser will be designated, and his or her determination will be binding. If Franchisor elects to exercise any option to purchase as provided, it will have the right to set off all amounts due from Franchisee under this Agreement, and the cost of the appraisal, if any, against any payment for the Assets.

Covenants

17.10

Franchisee will comply with the covenants contained in Section 18 of this Agreement and the confidentiality requirements set forth in Sections 10.2 and 11 of this Agreement.

Other Obligations

17.11

All obligations of Franchisor and Franchisee which expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect subsequent to and notwithstanding its expiration or termination for any reason and until they are satisfied or by their nature expire.

18. COVENANTS

10 Sections Follow

Best Efforts 18.1

Franchisee covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Franchisee (or if Franchisee is a corporation, partnership or limited liability company, a principal of Franchisee approved by Franchisor) will devote full time or provide adequate on-premises management, energy, and best efforts to the management and operation of the Kiddie Academy Center and other franchised businesses established and operated by Franchisee under the Kiddie Academy System.

Acknowledgment 18.2

Franchisee specifically acknowledges that, pursuant to this Agreement, Franchisee will receive valuable specialized training and confidential information, including without limitation information regarding the operational, sales, promotional and marketing methods and techniques of Franchisor and the Kiddie Academy System.

Covenant of Noncompetition 18.3

Franchisee covenants that, during the term of this Agreement and for a

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continuous uninterrupted period commencing upon the expiration or termination of this Agreement, regardless of the cause for termination, and continuing for two (2) years after except as otherwise approved in writing by Franchisor, Franchisee will not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, or legal entity:

18.3(a)

Divert or attempt to divert any business or client of the Franchised Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Franchisor's Marks and the Kiddie Academy System.

18.3(b)

Employ or seek to employ any person who is at that time employed by Franchisor or by any other franchisee of Franchisor, or otherwise directly or indirectly induce such person to leave his or her employment.

18.3(c)

Own, maintain, operate, engage in, be employed by, provide consulting services to, or have any interest in any business which performs, in any aspect, educational services and/or daytime child care services to children ages six (6) weeks through twelve (12) years or services similar in scope to the services offered by the Franchised Business and which is, or is intended to be, located or operated within the United States of America or Canada (the "Restricted Area"). Notwithstanding the foregoing, upon the termination of this Agreement, the Restricted Area shall be reduced to include only the Territory, the territory of any other Kiddie Academy Center, and the primary market area served by any business operated by the Franchisor or its affiliates under the Marks.

Covenant Not to Use Confidential Information After Termination 18.4

Franchisee acknowledges and agrees that the obligations regarding the use of confidential and trade secret information set forth in Sections 10.2 and 11.2 of this Agreement will apply throughout the term of this Agreement and after the expiration or termination of this Agreement, without limitation as to time or geographic scope. Franchisee covenants that upon termination, Franchisee will immediately and permanently cease to use, in any manner whatsoever, any confidential information, methods, procedures and techniques associated with the Kiddie Academy System.

Public Corporation Exclusion 18.5

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This Section 18 above will not apply to Franchisee's ownership of less than a five percent (5%) beneficial interest in the outstanding equity securities of a publicly-held corporation offering early childhood learning services or care.

Severability 18.6

The parties agree that each of the foregoing covenants in this Section 18 will be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 18 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 18.

Franchisee understands and acknowledges that Franchisor will have the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 18.3 and 18.4 of this Agreement, or any portion of any covenant in Sections 18.2, 18.3 and 18.4 without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice of that reduction; and Franchisee agrees that it will comply with any covenant as so modified, which will be fully enforceable.

Cost of Enforcement

18.8

Franchisee expressly agrees that the existence of any claims it may have against Franchisor, whether or not arising from this Agreement, will not constitute a defense to the enforcement by Franchisor of the covenants in this Section 18. Franchisee agrees to pay all reasonable costs and expenses (including reasonable attorney's fees) incurred by Franchisor in connection with the enforcement of this Section 18.

Injunctive Relief

18.9

Franchisee acknowledges that Franchisee's violation of the terms of this Section 18 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Franchisee accordingly agrees that Franchisor may seek to obtain the issuance of an injunction prohibiting any conduct by Franchisee in violation of the terms of this Section 18.

Confidentiality Agreements

18.10

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At Franchisor's request, Franchisee will require and obtain execution of covenants similar to those set forth in this Section 18 (including covenants applicable upon the termination of a person's relationship with Franchisee) from any personnel, including any principals of Franchisee (if Franchisee is a corporation or partnership); any other personnel employed by Franchisee who have received or will receive training from Franchisor; any officers, directors, and holders of a beneficial interest of five percent (5%) or more of the securities of Franchisee; any corporation directly or indirectly controlling Franchisee, if Franchisee is a corporation; and any of the general partners and any limited partners (including any corporation, and the officers, directors, and holders of a beneficial interest of five percent (5%) or more of the securities of any corporation which controls, directly or indirectly, any general or limited partner), if Franchisee is a partnership. Every covenant required by this Section 18 will be in a form satisfactory to Franchisor, including without limitation specific identification of Franchisor as a third party beneficiary of such covenants with the independent right to enforce them. Failure by Franchisee to obtain execution of a covenant required by this Section 18.10 will constitute a default under Section 16.2(i) of this Agreement.

Payment of Taxes 19.1

Franchisee will promptly pay when due all taxes levied or assessed, including without limitation unemployment and sales taxes, and all accounts and other indebtedness of every kind incurred by Franchisee in the conduct of the Franchised Business. Franchisee will pay to Franchisor an amount equal to any sales tax, gross receipts tax, or similar tax (other than income tax or similar tax) imposed on Franchisor with respect to any payments to Franchisor required under this Agreement, unless the tax is credited against income tax otherwise payable by Franchisor.

Disputed Tax Liability 19.2

In the event of any bona fide dispute as to Franchisee's liability for taxes assessed or other indebtedness, Franchisee may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law. In no event, however, will Franchisee permit a tax sale or seizure by levy or execution or similar writ or warrant, or attachment by a creditor, to occur against the assets of the Franchised Business.

Permits 19.3

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Franchisee will comply with all federal, state, and local laws, rules and regulations, and will timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the Franchised Business, including without limitation licenses to do business, drivers licenses, fictitious name registrations, sale tax permits, and fire clearances.

Notice of Litigation 19.4

Franchisee will notify Franchisor in writing within five (5) days of the commencement of any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality, which may adversely affect the operation or financial condition of the Franchised Business.

Independent Contractor Status 20.1

It is understood and agreed by the parties to this Agreement that this Agreement does not create a fiduciary relationship between them; that Franchisee

will be an independent contractor; and that nothing in this Agreement is intended to constitute either party as an agent, legal representative, subsidiary, joint venturer, partner, employee, or servant of the other for any purpose whatsoever.

Public Representation as Independent Contractor

20.2

During the term of this Agreement and any renewal of this Agreement, Franchisee will hold itself out to the public as an independent contractor operating the Franchised Business pursuant to a franchise from Franchisor. Franchisee agrees to take such action as may be necessary to evidence this franchise relationship, including without limitation exhibiting a notice of that fact in a conspicuous place in the Kiddie Academy Center and on all forms, stationery, or other written materials, the content and form of which Franchisor reserves the right to specify.

Indemnification

20.3

It is understood and agreed that nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty, or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name. Franchisor will in no event assume liability for, or be deemed liable under this Agreement as a result of, any such action; nor will Franchisor be liable by reason of any act or omission of Franchisee in its conduct in operating the Franchised Business or for any claim or

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judgment arising from the operation of the Kiddie Academy Center against Franchisee or Franchisor. Franchisee will indemnify and hold Franchisor and Franchisor's officers, directors, and employees harmless against any and all claims arising directly or indirectly from, as a result of, or in connection with Franchisee's operation of the Franchised Business, as well as the costs, including attorney's fees, of defending against them.

21. APPROVAL

Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee will make a timely written request to Franchisor for that approval or consent, which will be obtained in writing. Franchisor makes no warranties or guarantees upon which Franchisee may rely, and assumes no liability or obligation to Franchisee, by providing any waiver, approval, consent, or suggestion to Franchisee in connection with this Agreement, or by reason of any neglect, delay, or denial of any request therefor.

22. NONWAIVER

No failure of Franchisor to exercise any power reserved to it in this Agreement, or to insist upon compliance by Franchisee with any obligation or condition in this Agreement, and no custom or practice of the parties at variance with the terms of this Agreement, will constitute a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement. Waiver by Franchisor of any particular default will not affect or impair Franchisor's right with respect to any subsequent default of the same or of a different nature; nor will any delay, forbearance, or omission by Franchisor to exercise any power or right arising out of any breach or default by Franchisee of any of the terms, provisions, or covenants of this Agreement affect or impair Franchisor's rights; nor will such constitute a waiver by Franchisor of any rights under this Agreement or rights to declare any subsequent breach or default. Subsequent acceptance by Franchisor of any payments due to it will not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants, or conditions of this Agreement.

23. NOTICES

Any and all notices, demands and requests required or permitted under this Agreement will be in writing and will be personally delivered with a receipt or mailed by United States certified or registered mail, return receipt requested, postage prepaid, or sent by Airborne Express or other nationally recognized overnight courier service,

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to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor:	Kiddie Academy Franchising Systems, Inc. Kiddie Academy Corporate Center 108 Wheel Road Bel Air, Maryland 21015 Attn: Michael J. Miller, President
------------------------	--

Notices to Franchisee:

All notices delivered in the foregoing manner will be deemed to have been given at the time the return receipt is executed.

24. ENTIRE AGREEMENT

This Agreement, the documents referred to in this Agreement, and the attachments to this Agreement constitute the entire, full, and complete Agreement between Franchisor and Franchisee concerning the subject matter of this Agreement and supersede all prior agreements. No other representation has induced Franchisee to execute this Agreement, and there are no representations, inducements, promises, or agreements, oral or otherwise, between the parties not in this Agreement, which are of any force or effect with reference to this Agreement or otherwise. Except for those permitted to be made unilaterally by Franchisor under this Agreement, no amendment, change, or variance from this Agreement will be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

25. SEVERABILITY AND CONSTRUCTION

6 Sections Follow

Severability

25.1

Except as expressly provided to the contrary in this Agreement, each portion, section, part, term and/or provision of this Agreement will be considered severable; and if for any reason a portion, section, part, term, and/or provision in this Agreement is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, that will not impair the

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operation of, or have any other effect upon, the other portions, sections, parts, terms, and/or provisions of this Agreement as may remain otherwise intelligible; and the latter will continue to be given full force and effect and bind the parties of this Agreement; and the invalid portions, sections, parts, and/or provisions will be deemed not to be a part of this Agreement.

No Rights to Other Parties

25.2

Nothing in this Agreement is intended, nor will be deemed, to confer any rights or remedies upon any person or legal entity other than Franchisor or Franchisee, and their respective successors and assigns as may be contemplated by Section 15 of this Agreement.

Franchisee's Agreement to be Bound

25.3

Franchisee expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is contained within the terms of any provision of this Agreement, as though it were separately articulated in

and made a part of this Agreement, that may result from striking from any of the provisions of this Agreement any portion or portions which a court may hold to be unreasonable and unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

Captions 25.4

All captions in this Agreement are intended solely for the convenience of the parties, and none will be deemed to affect the meaning or construction of any provision of this Agreement.

Gender 25.5

All references in this Agreement to the masculine, neuter, or singular will be construed to include the masculine, feminine, neuter, or plural, where applicable; and all acknowledgments, promises, covenants, agreements, and obligations in this Agreement made or undertaken by Franchisee will be deemed jointly and severally undertaken by all those executing this Agreement on behalf of Franchisee.

Counterparts 25.6

This Agreement may be executed in several parts, and each copy so executed will be deemed an original.

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26. APPLICABLE LAW 4 Sections Follow

Place of Execution and Governing Law 26.1

This Agreement takes effect upon its acceptance and execution by Franchisor in the State of Maryland and will be interpreted and construed under the laws of the State of Maryland, which laws will prevail in the event of any conflict of law; provided, however, that if any of the provisions of this Agreement would not be enforceable under the laws of the State of Maryland, those provisions will be interpreted and construed under the laws of the state in which the premises of the Kiddie Academy Center are located. The parties further acknowledge and agree that this Agreement and the franchise relationship created by this Agreement will not be subject to the provisions of the Maryland Franchise Practices Act unless the Franchised Business is located in Maryland.

Consent to Forum 26.2

The parties agree that any cause of action by either party against the other and which cause of action is not subject to arbitration provisions provided in Section 27 must be filed in the United States District Court for the

District of Maryland or the Circuit Court of Harford County, State of Maryland, and the parties do hereby waive all questions of personal jurisdiction or venue for the purpose of carrying out this provision.

Cumulative Remedies

26.3

No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor will be deemed, exclusive of any other right or remedy in this Agreement or by law or equity provided or permitted, but each will be cumulative of every other right or remedy.

Injunctive Relief

26.4

Nothing in this Agreement will bar Franchisor's right to apply for injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

Costs of Collection

26.5

If Franchisee withholds any monies owed to Franchisor in the absence of a court order permitting the withholding of such monies, Franchisee shall reimburse Franchisor for all reasonable costs incurred by Franchisor in pursuing the collection of the

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withheld monies. These costs shall include, but not be limited to, court costs, reasonable attorneys' fees, the reasonable value of Franchisor's employees' time, witness fees and travel expenses incurred by Franchisor. This obligation will give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, signs, fixtures, and inventory owned by Franchisee and located on the premises operated pursuant to this Agreement.

27. ARBITRATION

3 Sections Follow

Nature of Dispute and Procedure

27.1

Except for disputes regarding the payment or nonpayment of any amount due under this Agreement to Franchisor (Franchise Agreement -- Section 7) and/or disputes regarding the requirement that Franchisee provide to the public only the approved services and system of Franchisor or any specification and standard operating procedure thereof (Franchise Agreement -- Section 6), all disputes and claims relating to any provision of this Franchise Agreement (including, without limitation, any claim that any provision of this Franchise Agreement is illegal or otherwise unenforceable or voidable under any law or ruling) shall be settled by arbitration in Baltimore City, Maryland in accordance with the United States

Arbitration Act (9 United States Code, Section 1, et seq.) and the Rules of the American Arbitration Association relating to the arbitration of disputes arising under franchise agreements, if any; otherwise, the general rules of commercial arbitration. All awards of the arbitration shall be binding and non-appealable except as otherwise provided in the United States Arbitration Act. Judgment upon the award of the arbitrator may be entered in any court having jurisdiction thereof. During the pendency of arbitration proceeding hereunder, Franchisee and Franchisor shall fully perform their obligations under this Agreement.

Time of Demand and Statute of Limitations 27.2

If the aggrieved party fails to give written notice to the other requesting arbitration under this section within ninety (90) days after the action or event giving rise to the dispute, any claim of said party relating to the dispute shall be deemed barred unless prohibited by law and no further relief, whether by way of arbitration or action or defense in any court, shall be permitted.

Specific Enforcement and Injunctive Relief 27.3

Nothing herein, including without limitation the provisions of this Section 27, shall bar Franchisor or Franchisee's right to obtain specific performance of the

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provisions of this Agreement and injunctive relief against threatened conduct that will cause it loss or damage under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions.

28. ACKNOWLEDGMENTS 3 Sections Follow

Independent Investigation 28.1

Franchisee has conducted an independent investigation of the Franchised Business and recognizes that the business venture contemplated by this Agreement involves business risks and that its success will be largely dependent upon the ability of Franchisee as an independent businessperson. Franchisor expressly disclaims the making of, and Franchisee acknowledges that Franchisee has not received, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the business venture contemplated by this Agreement.

Receipt of Disclosure 28.2

Franchisee acknowledges receipt of a copy of the complete Kiddie Academy Franchise Agreement, the Attachments to this Agreement, and agreements relating to this Agreement at least five (5) business days prior to the date on which

this Agreement was executed. Franchisee further acknowledges receipt of the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" at least ten (10) business days prior to the date on which this Agreement was executed.

Opportunity to Consult

28.3

Franchisee has read and understood this Agreement, the Attachments to this Agreement, and any agreements relating to this Agreement, and Franchisor has accorded Franchisee ample time and opportunity to consult with advisors of Franchisee's own choosing about the potential benefits and risks of entering into this Agreement.

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IN WITNESS WHEREOF, the parties to this Agreement have duly executed and delivered this Agreement, under seal, on the day and year first above written.

WITNESS/ATTEST:

KIDDIE ACADEMY
FRANCHISING SYSTEMS, INC.

By: (SEAL)

Title:

Effective Date: , 19
(Refer to Section 26.1.)

WITNESS/ATTEST:

FRANCHISEE

By: (SEAL)

Title:

Date: , 19

[Signatures Continued on Next Page]

In consideration of, and as an inducement to, the execution by Kiddie Academy Franchising Systems, Inc. ("KAFS") of this Agreement, each undersigned hereby personally and unconditionally (1) guarantees to KAFS and its successors and assigns, for the term of the franchise and thereafter as provided in this Agreement, that Franchisee shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement, and (2) agrees to be personally bound by, and personally liable for the breach of, each and every provision in this Agreement.

(SEAL)

WITNESS

GUARANTOR

Name:

Address:

(SEAL)

WITNESS

GUARANTOR

Name:

Address:

KIDDIE ACADEMY FRANCHISING SYSTEMS, INC.

FRANCHISE AGREEMENT

Exhibit A to Franchise Agreement

The location of Franchisee's Kiddie Academy Center is:

Franchisor's Initial

Franchisee's Initial

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KIDDIE ACADEMY FRANCHISING SYSTEMS, INC.

MUTUAL GENERAL RELEASE AGREEMENT

THIS AGREEMENT is made and entered into this day of , 1996 by and between Kiddie Academy Franchising Systems, Inc., a Maryland corporation ("Kiddie Academy"), and ("Applicant").

BACKGROUND

Kiddie Academy and Applicant entered into a Kiddie Academy Preliminary Agreement (the "Preliminary Agreement") on , which set forth the terms by which the parties would seek to locate and lease a suitable location for a Kiddie Academy Child Care Learning Center (the "Center"). The parties contemplated that the Center would be operated and leased by Applicant under the proprietary mark "Kiddie Academy" and would use Kiddie Academy's systems relating to the establishment, development and operation of a Center, pursuant to a Franchise Agreement to be entered into by the parties after an acceptable site was leased or purchased.

The Applicant has elected to withdraw its application and terminate the Preliminary Agreement. Kiddie Academy will permit the Applicant to withdraw the application, provided the Applicant executes this Mutual General Release Agreement.

NOW THEREFORE, in consideration of the mutual covenants and conditions contained in this Agreement, and other good and valuable consideration, receipt of which is acknowledged by each of the parties to this Agreement, the parties agree as follows:

AGREEMENT

1. The Preliminary Agreement is terminated as of the effective date of this Agreement.

2. Upon Kiddie Academy's receipt of this Agreement, fully executed by Applicant, and Kiddie Academy's receipt of the documents and materials described in Paragraph 6 below, Kiddie Academy shall promptly deliver to Applicant the amount of , which the parties hereby acknowledge is the portion of Applicant's Preliminary Agreement Fee to be returned to Applicant by Kiddie Academy, after deduction of Kiddie Academy's lost opportunity cost of Seven Thousand Five Hundred Dollars (\$7,500.00), as well as Kiddie Academy's expenses incurred in behalf of Applicant.

3. Applicant acknowledges that Kiddie Academy has devoted significant time, effort and resources to identify potential sites suitable for the location and operation of a Center. Applicant further acknowledges that the information developed by Kiddie Academy as a result of its efforts is a valuable, confidential trade secret of Kiddie Academy. Applicant therefore agrees that the Applicant will not, for a period of two years after the effective date of this Agreement, obtain any direct or indirect ownership or leasehold interest in any site which Kiddie Academy has proposed to or discussed with the Applicant for which Kiddie Academy negotiated for rights to lease or purchase on behalf of the Applicant. Furthermore, Applicant acknowledges that Kiddie Academy has devoted significant time, effort, money, and resources to develop goodwill for the name Kiddie Academy. Applicant therefore agrees to refrain from any discussion or communications with any employee, former employee, customer, landlord, or any person or persons associated with Kiddie Academy now or in the past, that may be determined to defame, slander or be considered detrimental to the goodwill name of Kiddie Academy.

4. Applicant further acknowledges that they have received additional, valuable confidential information in addition to the information regarding potential sites referred to in the preceding paragraph. Applicant recognizes that disclosure of any of this confidential information would be detrimental to Kiddie Academy. Applicant agrees that Applicant will hold in strict confidence any information designated by Kiddie Academy as confidential and will not disclose it to another person, without the prior written consent of Kiddie Academy. Applicant's obligation to maintain the confidentiality of information received from Kiddie Academy does not apply to information which came to Applicant's attention before Kiddie Academy disclosed it to Applicant or to information which becomes public knowledge through disclosure by others without the assistance of Applicant.

5. Kiddie Academy and Applicant mutually release and forever discharge each other and each other's heirs, successors, representatives, assigns, agents, employees, officers, and directors ("Designees"), and each of them, of and from any claims, debts, liabilities, demands, obligations, costs, expenses, actions, and causes of action of every nature, character, and description, known or unknown, vested or contingent, which each party now owns or holds, or has at any time heretofore owned or held, or may at any time own or hold against the other party hereto, arising prior to and including the date of this Agreement; provided, however, that this release shall exclude claims arising from assertion of any continuing rights granted by this Agreement.

6. Applicant will immediately deliver to Kiddie Academy all and any documents, forms, reports, site information, files, instructions, correspondence, brochures, and any and all other materials relating to the site selection process in Applicant's possession, and all copies of those documents

and materials. Applicant will retain no copy or record of any of those documents, except Applicant's copy of the Preliminary Agreement for a franchise to operate a Kiddie Academy Center, this Agreement and any correspondence between the

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parties and any other documents which Applicant reasonably needs for compliance with any provision of law.

7. By executing this Agreement, Kiddie Academy and Applicant for themselves and their respective successors, represent and warrant that their representations herein are true and correct and that each of them has the right and authority to enter into and to accept the terms and covenants of the Agreement, and that no third party has or claims an interest in any claim released by Paragraph 5 of this Agreement.

8. Kiddie Academy and Applicant for themselves and their respective Designees, acknowledge that Paragraphs 3, 4 and 6 of this Agreement shall be a complete defense to any claim that is subject to the terms thereof; consent to the entry of a temporary or permanent injunction, whether affirmative or negative, to prevent or end any breach hereof; and agree to indemnify each other and their successors for any and all costs and expenses incurred as a result of their breach of Paragraphs 3, 4 and 6 hereof, including reasonable attorney's fees.

9. This Agreement represents the complete, integrated, and entire agreement between the parties, and may not be modified except in writing signed by the parties.

10. This Agreement shall take effect upon its execution and dating by Kiddie Academy in Maryland, and shall be governed by the laws of the State of Maryland, which laws shall be controlling in the event of any conflict of law.

11. The provisions of this Agreement are severable, and, in the event that any of them is held void and unenforceable as a matter of law, the remainder shall continue in full force and effect.

12. Each of the undersigned, if a corporation, hereby represents and warrants that, as of the date of execution of this Agreement, it is in good standing in the state of its incorporation, has the power to enter into this Agreement, has duly authorized the execution of this Agreement, and that such execution does not violate any other agreement to which it is a party.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

KIDDIE ACADEMY FRANCHISING SYSTEMS,
INC.

Witness

Name:

Title:

APPLICANT

Witness

Witness

COLLATERAL ASSIGNMENT OF LEASE

FOR VALUE RECEIVED, THE UNDERSIGNED Assignor assigns, transfers and sets over to the Assignee, KIDDIE ACADEMY FRANCHISING SYSTEMS, INC., a Maryland corporation, all of the Assignor's right, title and interest as tenant in, to and under the lease, a copy of which is attached (the "Lease"), for the premises known as

This Assignment is for collateral purposes only and except as specified here, the Assignee will have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment, or from or in connection with the Lease, unless (i) the Assignee takes possession of the premises subject to the Lease pursuant to the terms of this Assignment, and (ii) the Assignee assumes the obligations of the Assignor under the Lease. The Assignor agrees to indemnify and hold harmless the Assignee from and against all claims and demands of any type, kind or nature made by any third party which arise out of or are in any manner connected with the Assignor's use and occupancy of the premises subject to the Lease.

The Assignor represents and warrants to the Assignee that it has full power and authority to assign the Lease and its interest in the Lease.

If the Assignor defaults under the Lease or under the Franchise Agreement between the Assignee and the Assignor for a Kiddie Academy Center located at the leased premises (the "Franchise Agreement"), the Assignee will have the right and is empowered to take possession of the premises subject to the Lease, expel the Assignor from those premises, and in that event, the Assignor will have no further right, title or interest in the Lease. The Assignor will reimburse the Assignee for the costs and expenses incurred in connection with any such retaking, including but not limited to the payment of any back rent and other payments due under the Lease (whether the payments are made by a separate agreement with the lessor or otherwise), attorney's fees and expenses of litigation incurred in enforcing this Collateral Assignment of Lease, costs incurred in reletting the premises, and costs incurred for putting the premises in good working order and repair.

The Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of the Assignee. Throughout the term of the Franchise Agreement and any renewals of that Agreement, the Assignor agrees that it will elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless the Assignee otherwise agrees in writing. Upon the failure of the Assignor to so

elect to extend or renew the Lease, the Assignor appoints the Assignee as its true and lawful attorney-in-fact to exercise that extension or renewal option in the name, place and stead of the Assignor, for the sole

purpose of effecting the extension or renewal.

Dated: _____

ASSIGNOR: _____ (SEAL)

By: _____

Its: _____

SIGNED AND SEALED this
day of _____, 19 ____ .

Notary Public

SECOND AMENDMENT OF LEASE

THIS SECOND AMENDMENT OF LEASE is made this 18th day of October, 1996 by and among Penguin Properties Corporation, a corporation formed under the laws of the State of Maryland (the "Landlord"), and Kiddie Academy Child Care Learning Centers, Inc., together with Kid's Craft, Inc., and Kiddie Academy Franchising Systems, Inc., all corporations formed under the laws of the State of Maryland (collectively, the "Tenant").

Explanatory Statement

A. Landlord and Tenant entered into a lease dated September 25, 1995 (the "Lease") for a portion of the building (the "Building") located at 108 Wheel Road, Bel Air, Maryland 21015 containing 6,678 rentable square feet (the "Original Leased Premises"). The separately subdivided property on which the Building is located is referred to as the "Land."

B. The Lease was amended pursuant to a First Lease Amendment dated October 24, 1995 entered into between Landlord and Tenant pursuant to which the Basic Rent was adjusted.

C. Landlord and Tenant desire to modify and amend certain terms respecting the Leased Premises and the Lease on the terms set forth below.

NOW THEREFORE, in consideration of the Explanatory Statement, the covenants of the parties herein and in the Lease and other good and valuable consideration, the receipt of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. From and after November 1, 1996 (the "Expansion Space Commencement Date"), Landlord hereby agrees to and shall lease unto Tenant and Tenant hereby agrees to and shall rent from Landlord, in addition to the Original Leased Premises, the remainder of the Building consisting of:

(a) that portion of the Building containing approximately one thousand three hundred twenty-two usable square feet (1,322) (the "Expansion Space"), as outlined in red on Exhibit "A" attached hereto and incorporated by reference herein, as well as;

(b) the exclusive use of all other areas of the Building formerly identified as "common areas" including all interior hallways, restrooms, and mechanical rooms comprising approximately 1,600 square feet (the "Common Areas"), and

(c) all exterior sidewalks, driveways and parking facilities on

the Land.

2. The Expansion Space shall be delivered to Tenant in "As-Is" condition.

3. From and after the Expansion Space Commencement Date, all references to the square footage of the Leased Premises set forth in the Lease shall be deleted and in place thereof shall be inserted the number of nine thousand six hundred (9,600), so that the Leased Premises shall be deemed to include the Original Leased Premises, the Expansion Space, and the Common Areas. Notwithstanding the foregoing, Basic Rent and Additional Rent shall be calculated based upon differing rates for the Original Leased Premises, the Expansion Space, and the Common Areas, in accordance with the procedure outlined below in Section 4.

4. Basic Rent. From and after the Expansion Space Commencement Date, in addition to the Basic Rent payable by Tenant with respect to the Original Leased Premises as set forth in Section 6(b) the Lease, Tenant shall pay basic rent, with respect to the Expansion Space only (the "Expansion Space Basic Rent"), in an amount equal to Fifteen Thousand Eight Hundred Sixty-Four Dollars (\$15,864.00) annually, and One Thousand Three Hundred Twenty-Two Dollars (\$1,322.00) monthly (\$12.00 per square foot, annually.) Commencing on October 1, 1997 and on each October 1 thereafter, the Expansion Space Basic Rent shall be increased in accordance with increases in the Consumer Price Index, using the formula set forth in Section 6(c) of the Lease (except that "Expansion Space Basic Rent" shall be substituted for "Basic Rent", wherever in the formula it appears.) Tenant shall continue to pay Basic Rent for the Original Leased Premises pursuant to Section 6(b) of the Lease based upon six thousand six hundred seventy-eight (6,678) square feet, notwithstanding the revised references herein to 9,600 square feet comprising the Leased Premises.

5. Additional Rent.

(a) With regard to Subsection 7 (b) (i) of the Lease for Taxes, Subsection 7 (b) (ii) of the Lease for Insurance, and Subsection 7 (b) (iii) of the Lease for Common Area Charges, from and after the Expansion Space Commencement Date, the percentage of 69.56% set forth as "Tenant's Portion" in Section 7, of the Lease shall be deleted and in its place shall be substituted the percentage of One Hundred Percent (100%) so that Tenant shall pay one hundred percent of all Taxes, Insurance, and Common Area Charges with respect to the Building and/or Land. With regard to Subsection 7 (b) (iv) of the Lease for Common Area Rent, the Tenant's portion shall remain as 69.56% for calculation of Common Area Rent purposes only.

(b) In addition, Section 7 (b) is modified by adding the following as new Subsection 7 (b) (v):

"7 (b) (v) Tenant shall pay as Additional Rent, in addition to the above charges in Subsection 7 (b) (i), Subsection 7 (b) (ii), Subsection 7 (b) (iii) and Subsection 7 (b) (iv), additional charges for use of the balance of the common areas ("Balance Common Area Rent")

which is annually adjusted in the same manner as Basic Rent in Section 6 herein, and is determined by the following formula: Balance Common Area Rent is equal to the percentage of thirty and 44/100 (30.44%) multiplied by the difference between the Rentable Area of the Building and the Useable Area of the Building, which is then multiplied by the then-current Expansion Space Basic Rent Per Square Foot. For illustrative purposes only, the first Balance Common Area Rent would be $30.44\% \times (9,600 \text{ SF} - 8,000 \text{ SF}) \times \12.00 per square foot which equals \$5,844.48 for one Lease Year, assuming the Expansion Space Basic Rent is \$12.00 per square foot.

6. From and after the Expansion Space Commencement Date, the Lease shall be amended and in full force and effect in such respects as are set forth in this Amendment of Lease, and all other provisions, terms, conditions and riders of and to the Lease shall in all respects remain as set forth in the Lease, in full force and effect and applicable to the Expansion Space.

7. Unless otherwise defined herein or unless the context requires a contrary meaning, all capitalized terms used in this Amendment shall have the meaning ascribed to them in the original Lease.

8. This Agreement sets forth all of the covenants between the parties to this Agreement respecting the matters set forth herein and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between or among them, other than as set forth in this Agreement. This Agreement is intended by the parties to be an integration of all prior or contemporaneous promises, agreements, conditions, negotiations and undertakings between them. Except as otherwise provided in this Agreement, no alteration, amendment, change or addition to this Agreement shall be binding on any party to this Agreement unless and until in writing and signed by the parties hereto.

9. The covenants, conditions and agreements contained herein shall bind and inure to the benefit of the parties hereto and their respective heirs, distributees, executors, administrators, successors and assigns.

10. This Agreement may be executed in counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

11. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity and enforceability of the other provisions hereof.

12. Conflict: Should any conflict in terms and conditions exist or arise between this Assignment Of Lease and the Lease, the terms and conditions in this Second Amendment Of Lease shall prevail.

13. Except as specifically provided herein, the Lease shall remain in full force and effect and be unaffected hereby.

IN WITNESS WHEREOF, the parties have caused these presents to be executed under

seal the on the day and year written.

WITNESS:

LANDLORD:

Penguin Properties Corporation

/s/ Christine Cooney

BY: /s/ Michael J. Miller

Michael J. Miller, President

Date: October 18, 1996

WITNESS:

TENANT:

Kiddie Academy Child Care Learning Centers,
Inc.

/s/ Christine Cooney

BY: /s/ George Miller (SEAL)

George Miller, President

Kids Craft, Inc.

/s/ Christine Cooney

BY: /s/ George Miller (SEAL)

George Miller, President

Kiddie Academy Franchising Systems, Inc.

/s/ Christine Cooney

BY: /s/ Michael J. Miller (SEAL)

Michael J. Miller, President

(SIGNATURES CONTINUED ON NEXT PAGE)

Kiddie Academy International, Inc., a Delaware corporation, with offices at 108 Wheel Road, Bel Air, Maryland 21015 (the "Guarantor"), executed a Guaranty of this Lease on September 22, 1995 and executes this Second Amendment of Lease to:

1. Acknowledge and agree with the terms and

conditions of this Second Amendment of Lease as Guarantor; and

2. To amend its Guaranty to include the additional obligations of the Tenant created in this Second Amendment of Lease; and

3. To warrant and represent that Guarantor has full authority from its Board of Directors to execute this Second Amendment of Lease.

WITNESS:

GUARANTOR:

Kiddie International, Inc.

/s/ Christine Cooney

BY: /s/ Michael J. Miller (SEAL)

Michael J. Miller, President

LEASE AGREEMENT

LANDLORD: Penguin Properties Corporation

TENANT: Kiddie Academy Child Care Learning Centers, Inc.

PREMISES: 3609 Milford Mill Road, Baltimore, Maryland

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LEASE AGREEMENT

THIS LEASE, made and entered into this Second day of October, 1995, by and between Penguin Properties Corporation, a corporation formed under the laws of the State of Maryland ("Landlord"), and Kiddie Academy Child Care Learning Centers, Inc., a corporation formed under the laws of the State of Maryland ("Tenant").

For good and valuable consideration and performance of the covenants and provisions of this Lease, Landlord and Tenant agree as follows:

1. LEASED PREMISES. Landlord is the owner of a building containing approximately Four Thousand (4,000) square feet (the "Building"), the address of which is 3609 Milford Mill Road, Baltimore, Maryland. The separately subdivided lot on which the Building is located is hereinafter referred to as the "Land". Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms, covenants, and conditions set out below, the Building containing approximately Four Thousand (4,000) usable square feet, the location of which is described in Exhibit A (the "Leased Premises"), together with the non-exclusive right, in common with the other tenants of the Building, if any, to the use of all hallways, lobbies, corridors, lavatories, ramps, stairways and other common areas and facilities of the Building, and together with the sidewalks, driveways and parking facilities provided for in Section 27 below. The Leased Premises shall also be deemed to include a portion of the Land containing no more than Two Thousand (2,000) square feet, for use as a playground.

2. USE. The Leased Premises shall be used only as a Kiddie Academy Child Care Learning Center. No other use shall be permitted without the prior written consent of Landlord. Landlord warrants and represents, to the best of its knowledge, to Tenant that there are no zoning ordinances or other prohibitions restricting or limiting the use of the Leased Premises for the purposes herein specified.

3. LEASE TERM AND DELIVERY OF LEASED PREMISES.

(a) The Lease shall be for an initial term of five (5) years (the

"Lease Term"), commencing on the Commencement Date, as hereinafter defined, and ending on the last day of the fifth lease year following the Commencement Date. Tenant shall have the option to renew this Lease for four (4) additional terms of five (5) years each, upon the terms and conditions set forth in Section 8 below. The "Commencement Date" shall be November 15, 1995.

(b) "Lease Year" shall mean the successive period of 12 full calendar months beginning on the Commencement Date, and each succeeding twelve (12) month period thereafter except that if the Commencement Date occurs on any day other than the first day of a calendar month, then the first Lease Year shall also include the partial month remaining in the calendar month in which the Commencement Date occurs.

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(c) On the Commencement Date or such later date as Landlord or Tenant may request, Landlord and Tenant shall promptly enter into a supplementary written agreement thereby specifying the Commencement Date and the date on which the Lease Term shall expire.

4. ACCESS PRIOR TO TERM. At anytime during the one (1) week period prior to the Commencement Date, Tenant and its agents, servants, employees and contractors may enter the Leased Premises for purposes of installing Tenant's furnishings, fixtures, telephones and other equipment. Such entry shall constitute the agreement of Tenant that none of such parties nor their work, equipment, or materials will interfere with the work of Landlord in the Leased Premises.

5. INTENTIONALLY DELETED

6. RENT.

(a) Commencing on the Commencement Date, Tenant shall pay basic rent ("Basic Rent") in the amounts and with respect to the time periods set forth below; provided however that if the Lease Term should commence on a day other than the first day of the month, the first month's rent shall be prorated for such partial month. Basic Rent shall be paid in equal monthly installments as set forth below and shall be due and payable on the first day of each month during the Lease Term, without any set-off or deduction whatsoever. All rent shall be paid to the Landlord at the address in Section 21 herein.

(b) Basic Rent for the first Lease Year shall be \$49,440.00 annually, \$4,120.00 monthly (\$12.36 per square foot, per annum).

(c) The monthly Basic Rent payable for each successive Lease Year of the initial Lease Term any for any Renewal Terms, if exercised, shall be adjusted in accordance with the following procedure:

(i) Beginning on the first day of each Lease Year, (except the first Lease Year) (the "Adjustment Date") the Basic Rent shall be increased, but in no event decreased, by 100% of the increase in the Consumer Price Index for all Urban Consumers as published by the Bureau of Labor and Statistics, United States Department of Labor (1982 - 1984 = 100) for Baltimore, Maryland (the "Index").

(ii) The adjusted Basic Rent shall be calculated by multiplying the Basic Rent for the month prior to the month that contains the Adjustment Date ("BAR") by a number that is determined by dividing the Index for the month one (1) month prior to the Adjustment Date (the First Current Index Number ("FCIN")) by the Index for the month twelve (12) months prior to the Adjustment Date (the First Base Index Number ("FBIN")), as illustrated below:

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Adjusted Basic Rent = BAR x FCIN divided by FBIN

(d) If the Index is not published for any calendar month, then the Index for the most recent calendar month or other period for which it is so published shall be used in making such calculation. If the Index hereafter uses a different standard reference base or is otherwise revised, an adjustment shall be made therein for the purposes of the provisions of this Lease, using such conversion factor, formula or table for making such adjustment as is published by such Bureau, or if such Bureau does not publish the same, then Landlord may select a nationally recognized source of similar statistical information, as is published by the Bureau of National Affairs, Commerce Clearing House, Prentice-Hall, Inc. or other nationally recognized publisher of such information.

(e) The Basic Rent shall increase in each successive year of the initial Lease Term, and any Renewal Term exercised by Tenant, in accordance with the formula set forth above.

(f) Any installment of Basic Rent which is paid more than ten (10) days after the date on which it is due shall bear interest at the rate of eighteen percent (18%) per annum for the period of such arrearage. Any Basic Rent, Additional Rent or other payments received by Landlord from Tenant shall be applied first to the oldest outstanding balance due from Tenant under the terms of this Lease.

7. ADDITIONAL RENT.

(a) For all purposes of this Lease, "Rentable Area of the Leased Premises" shall be the usable area of the Leased Premises (but specifically excepting the playground) . "Rentable Area of the Building" shall be deemed to mean 4,000 square feet, which is the total usable area of the Building. "Tenant's Portion" shall mean one hundred percent (100%), computed on the basis of the Rentable Area of the Leased Premises divided by the Rentable Area of the Building.

(b) Tenant shall pay all real estate taxes and/or special assessments levied against the Land and building, directly to taxing authority or to the Landlord, upon presentation of invoice for said taxes. Tenant shall, at Tenant's expense, cause the Leased Premises to be maintained including, but not limited to lawn maintenance, grounds keeping, snow removal, parking lot maintenance, including repair or replacement of the parking lot and interior portions of the Leased Premises.

(c) In addition to Basic Rent, Tenant shall pay as additional rent (the "Additional Rent") Tenant's Portion of the following expenses which are applicable to the Lease Term:

- (i) all real estate taxes and/or special governmental assessments imposed or levied against the Building or Land during the Lease Term ("Taxes");
- (ii) all reasonable and customary insurance expenses incurred by Landlord in connection with Landlord's ownership of the Building and Land including the cost of liability insurance and insurance against losses from fire and other casualties ("Insurance");

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and

- (iii) all reasonable and customary expenses incurred by Landlord in connection with Landlord's maintenance of the common areas of the Leased Premises, Land and/or Building which are not paid by Tenant.

(d) Landlord will forward to Tenant, within Twenty (20) days of Landlord's receipt, all taxes and insurance bills for the leased premises . Tenant shall pay directly to Landlord or taxing authority, all such bills within Ten (10) days of receipt by Tenant.

For the year in which the Lease Term commences or terminates, Tenant's liability for its Portion of any such costs for such partial year shall be subject to a pro rata adjustment based upon the number of full calendar months of said year during which the Leased Premises are occupied by Tenant.

Whenever, under the terms of this Lease, any sum of money is required

to be paid by Tenant, in addition to the rental herein reserved, whether such payment is to be made to the Landlord or to any other party, and said additional amount which Tenant is to pay is not designated "Additional Rent", or provision is not made for the collection of said amount as "Additional Rent", then said amount shall nevertheless if not paid when due, be deemed "Additional Rent", and shall be collectible as such with the first installment of minimum rent due thereafter.

8. OPTIONS TO RENEW. So long as this Lease is then in full force and effect, and Tenant is not in default under this Lease, Tenant shall have the right to renew this Lease for four (4) renewal terms of five (5) years each immediately following the expiration of the initial term or the first renewal term, as the case may be, on the same terms and conditions as are set forth herein except that the Basic Rent payable by Tenant during the renewal terms shall be adjusted in accordance with the formula set forth in Section 6 herein. Tenant shall notify Landlord in writing of its intention to renew no less than one hundred and eighty (180) days prior to the expiration of the original Lease Term or the first renewal term, as the case may be.

9. UTILITIES. Tenant shall contract for and pay, directly to the provider thereof, all charges for natural gas, electricity, water, telephone and other utility charges used or consumed at the Leased Premises.

10. MAINTENANCE AND REPAIR OF PREMISES. Commencing on the Commencement Date of this Lease, Tenant shall assume responsibility for maintenance, cleaning and repair of the interior of the Leased Premises including but not limited to janitorial services, carpet cleaning, trash removal, electrical system maintenance, plumbing system maintenance and all mechanical equipment, Tenant shall be responsible for all of the maintenance, repair or replacement of the entire heating, ventilation, and air conditioning systems and related equipment.

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Tenant shall perform maintenance of all lawns, snow removal, sidewalk and parking lot cleaning and play area maintenance, but Landlord shall maintain the exterior of the Leased Premises and Building (including the roof, foundation and exterior walls) and all common areas and structural components of the Building. Throughout the term of this Lease, Tenant will secure and maintain, at Tenant's sole expense, a full service contract on the heating and/or air conditioning equipment servicing the Leased Premises with a reputable company approved by Landlord.

The Leased Premises are leased to Tenant "as is". Except as herein expressly provided, Landlord shall be under no liability, nor have any obligation to do any work or make any repairs in or to the Leased Premises, and any work which may be necessary to outfit the Leased Premises for Tenant's occupancy of for the operation of Tenant's business therein is the sole

responsibility of Tenant and shall be performed by Tenant at its own cost and expense. Tenant acknowledges that it has fully inspected the Leased Premises prior to the execution of this Lease, and Tenant further acknowledges that Landlord has made no warranties or representations with respect to the condition or state of repairs.

Tenant shall during the term of this Lease keep the Leased Premises in good order and repair and will make all repairs necessary at its own expense.

If Tenant refuses or neglects to repair properly as required hereunder and to the reasonable satisfaction of Landlord, then, following written notice to Tenant and a thirty day opportunity to cure (provided, however, that if more than 30 days is reasonably required for such cure, then the 30 day cure period shall be extended for whatever period is reasonably required, so long as Tenant commences the cure within such 30 day cure period and diligently prosecutes such cure to completion), Landlord may make such repairs and Tenant shall reimburse Landlord the reasonable expense incurred thereby within thirty (30) days of receipt of a statement therefor from Landlord.

11. REQUIREMENTS OF LAW. Landlord covenants that on the Commencement Date, to the best of Landlord's knowledge, the Leased Premises and the Building do conform, to every applicable requirement of law and of any Board of Underwriters, rating bureau, or similar organization, and the requirements of the carriers of all insurance on or relating to the Leased Premises or the Building, whether such insurance be furnished by Landlord or Tenant. Tenant shall, at its own expense, comply with all applicable statutes, ordinances, rules and regulations of federal, state and municipal governments and all applicable rules and regulations of the Board of Fire Underwriters as such statutes, ordinances, rules and regulations pertain to Tenant's particular use of the Leased Premises. Tenant shall also comply with all applicable city, county, state and federal ordinances in effect from time to time with respect to facilities and areas for the handicapped in the Leased Premises and the Building including all requirements imposed by the Americans with Disabilities Act.

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12. ALTERATIONS, CHANGES, AND ADDITIONS. No changes, alterations, or additions shall be made by Tenant to the Leased Premises without the prior written consent of Landlord. The foregoing restriction shall not prohibit Tenant from painting or making other decorative or non-structural changes in the Leased Premises without Landlord's prior consent. Tenant may further install, at its expense and without Landlord's written consent, trade fixtures, playground equipment, supplies, toys, movable partitions, furniture, equipment, and other personal property.

13. ENTRY BY LANDLORD. Landlord shall have the right, following reasonable prior notice to Tenant, which may be verbal (except in the event of an emergency when no prior notice need be given), to enter the Leased Premises

for purpose of inspection or to make repairs, so long as Landlord's entry or the making of such repairs does not unreasonably disrupt the business operations of Tenant.

14. ASSIGNMENT AND SUBLETTING. Tenant shall not transfer, assign, sublet, mortgage, encumber, or otherwise alienate its interest in the Leased Premises without first obtaining Landlord's written consent. If such assignment or subletting is permitted by Landlord, Tenant shall not be relieved from any liability whatsoever under this Lease. No consent by the Landlord to any assignment or sublease to another tenant shall relieve Tenant of any obligations to be performed by Tenant under this Lease, whether arising before or after the assignment or sublease. Acceptance of rent from the proposed assignee or subtenant or other transfers, shall not constitute consent by the Landlord to any assignment or sublease to, or of any failure of the Tenant to comply with the requirements of this Section. In the event that the amount of the rent to be paid by the Tenant to the Landlord pursuant to this Lease, Tenant shall pay to Landlord any such excess as is received by Tenant from such assignee or sublessee.

In the event Tenant desires to assign this Lease to sublease all or any substantial portion of the Leased Premises, Landlord shall have the right and option to terminate this Lease, which right or option shall be exercisable by written notice from Landlord to Tenant within thirty (30) days from the date Tenant gives Landlord written notice of its desire to assign or sublease. If Tenant is a corporation and in the event that any part or all of the corporation shares shall be transferred by sale, assignment, bequest, inheritance, operation of law or other disposition so as to result in a change in the present control of said corporate shares, Landlord may terminate this Lease and the term at any time after such notice of such change of control by giving Tenant sixty (60) days prior written notice of such termination. If Tenant is a corporation, the filing of Articles of Transfer or Merger with the State Department of Assessments and Taxation or the failure to do so when Tenant would otherwise be so legally required by operation of law of the assets of the corporation shall constitute an unauthorized assignment of this Lease.

15. DEFAULT BY TENANT. The occurrence of any one or more of the following events shall constitute a material breach by Tenant of this Lease:

- (a) the failure by Tenant to make any payment of rent, Additional Rent or any other payment required to be made by Tenant hereunder, as and when due;
- (b) the failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease where such failure shall continue for a period of fifteen (15) days after receipt of written

notice thereof by Tenant from Landlord, provided, however, that if the nature of Tenant's default is such that it cannot be cured solely by payment of money and that more than fifteen (15) days may be reasonable required for such cure, than Tenant shall not be deemed to be in default if Tenant shall commence such cure within such fifteen (15) day period and shall thereafter diligently prosecute such cure to completion;

- (c) the making of any general arrangement or any assignment by Tenant for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition of reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, such petition is dismissed within ninety (90) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets;
- (d) if the Leased Premises are vacant, unoccupied or deserted for a period of fifteen (15) days or more at any time during the term

In the event of any material breach of this Lease by Tenant, then Landlord, in addition to other rights or remedies it may have, shall have the right to terminate this Lease, and also the right, with or without termination of this Lease, to reenter and take possession of the Leased Premises and Landlord may remove all persons and property from the Leased Premises; such property may be removed and stored in any other place in the Building or in any other reasonably secure place for the account of and at the expense and risk of Tenant. Should Landlord elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Landlord may either terminate this Lease or, Landlord, without terminating this Lease, shall use its reasonable efforts to relet the Leased Premises or any part thereof for such terms and conditions as may be reasonable, with the right to make alterations and repairs to the Leased Premises. Rental received by Landlord from such reletting shall be applied first, to the payment of any costs of such reletting including reasonable brokerage and attorneys' fees; and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder or Tenant shall pay to Landlord, at Landlord's sole option, the difference between the rent reserved under this Lease and the fair rental value of the Leased Premises for the balance of the term to be determined as the date of re-entry. Should such rentals received from such reletting during any month be less than the monthly basic rent reserved hereunder, then Tenant shall pay such

deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such reentry or taking possession of the Leased Premises by Landlord shall be

construed as an election on its part to terminate this Lease, unless written notice of such intention be given to Tenant, in which event Tenant's obligations to Landlord shall forthwith cease, or unless the termination thereof be decreed by a court of competent jurisdiction.

In the event Tenant fails to pay Landlord any rental payment or other charge due hereunder within ten (10) days from the date on which any such payment was due, Tenant shall pay Landlord, a late charge equal to fifteen percent (15%) of the rental payment or other such charge, which late charge shall be considered Additional Rent and collectible as Additional Rent without notice from Landlord.

16. INSURANCE, MUTUAL WAIVER OF SUBROGATION, HOLD HARMLESS.

(a) Tenant shall at all times during the Lease Term, and at its sole expense, keep in effect a policy of public liability insurance, naming Landlord as an additional insured, with respect to the Leased Premises and the business of Tenant at the Leased Premises. Said policy shall contain a provision preventing the cancellation of the policy without a minimum of thirty (30) days written notice to Tenant and Landlord. Tenant's insurance shall have a limit of liability of not less than \$1,000,000. Tenant shall deliver a certificate evidencing such insurance policy to Landlord at the inception of each policy and renewal thereof. All such insurance maintained by Tenant shall be written by an insurance company licensed to do business in the state in which the Leased Premises are located.

(b) Landlord and Tenant each hereby waive all rights of recovery against the other and against the officers, employees and agents of the other, on account of loss or damage to the waiving party or its property or the property of others under its control, to the extent that such loss or damage is insured against under any fire and extended coverage insurance policy which the waiving party may have in force at the time of the loss or damage. Tenant and Landlord shall give notice to their respective insurance carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

(c) Landlord and Tenant (each, an "Indemnitor") shall hold harmless the other (the "Indemnitee"), its officers, agents and employees, from and against any and all claims, damages or causes of action for damages on account of any injury to or death of any person or any loss of damage to property occurring in, on or about the Leased Premises, the Building or the Project at any time during the term of this Lease which is caused by the negligence or intentional misconduct of Indemnitor, its officers, agents or employees. This indemnification provision shall survive the termination or expiration of this Lease.

(d) Tenant shall maintain property damage and casualty

insurance on the Leased Premises in the amount sufficient to restore the Leased Premises to its condition prior to the casualty or damage, with proceeds payable to Landlord. Said insurance shall contain a provision that the policy may not be terminated without thirty (3) days prior written notice to Landlord. tenant shall deliver to Landlord, prior to the Commencement Date, a certificate of insurance, evidencing the aforesaid insurance coverage.

17. HAZARDOUS SUBSTANCES. To the best of Landlord's knowledge, Landlord represents to Tenant that the Project (including the Land thereunder and the Building and Leased Premises) does not contain any Hazardous Substance, as hereinafter defined, of any kind. "Hazardous Substance" means (i) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), as amended from time to time and regulations promulgated thereunder; (iii) any infectious or medical waste as defined under federal, state or local law or regulation; (iv) asbestos or contamination of any kind (including, but not limited to transformers containing PCBs); or (v) any other substance, the presence of which on the Leased Premises would be prohibited, regulated or restricted by any law or regulation similar to those set forth in this definition. Landlord agrees to indemnify and defend Tenant (with legal counsel reasonably acceptable to Tenant) from and against any costs, fees or expenses (including, without limitation, environmental assessment, investigation and environmental remediation expenses, third party expenses) incurred by Tenant if any Hazardous Substances whatsoever are subsequently found, and Tenant shall have the right and option to terminate this Lease and thereafter be released from all liability hereinafter in such event. This indemnification by Landlord shall survive the termination or expiration of this Lease.

18. DAMAGE AND DESTRUCTION BY FIRE OR OTHER CASUALTY. In the event that the Building or Leased Premises are partially damaged for any reason, other than the negligence of the Tenant, Landlord shall using reasonable efforts, and being subject to the Landlord's receipt of a sufficient amount of proceeds from any insurance carrier, promptly restore the Leased Premises to its original condition, within a reasonable period of time. In the event that Tenant is unable to carry on its normal business operations due to such casualty or damage to the Leased Premises, Tenant shall be entitled to an abatement or reduction of rent in proportion to the amount by which the area so rendered untenable bears to the original Leased Premises for a period beginning on the date of the damage and ending upon the date on which the Leased Premises are rendered fully tenantable.

In the event the Leased Premises are wholly damaged by fire or other casualty, Landlord shall have the option to either restore the Leased Premises to their condition immediately prior to the damage or terminate this Lease. In the event that Landlord elects to terminate this Lease, such option shall be exercised by Landlord by written notice to Tenant within forty five (45) days after

the damage. In the event of such termination, rent will be adjusted as of the date of damage. In the event that Landlord elects to restore the Leased Premises, such restoration shall be completed as promptly as reasonably possible and the rent reserved hereunder shall abate until the Leased Premises are again rendered tenantable.

19. CONDEMNATION. In the event that all or a "Substantial Part of the Leased Premises" (as hereinafter defined) shall be taken or condemned through the exercise of the power of eminent domain, with or without litigation, this Lease shall terminate as of the Basic and Additional Rent shall be proportioned to and abate from and after, the date of the taking. Tenant shall have no right to participate in any award or damages for such taking and hereby assigns all of its right, title and interest therein to Landlord. For purposes of this paragraph, a "Substantial Part of the Leased Premises" shall mean that such part that the remainder thereof is rendered inadequate for Tenant's business and that such remainder cannot permit Tenant to carry on its business with substantially the same efficiency as before the taking.

In the event that less than a Substantial Part of the Leased Premises shall be taken or condemned through the exercise of the power of eminent domain, with or without litigation, this Lease shall remain in full force and effect according to its terms and Tenant shall not have the right to participate in any award or damages for such taking and hereby assigns all of its right, title and interest therein to Landlord. In such event, Landlord shall, at its expense, promptly make such repairs and improvements and shall be necessary to make the remainder of the Leased Premises adequate to permit Tenant to carry on its business to substantially the same efficiency as before the taking: provided that in no event shall Landlord be required to expend an amount in excess of the award received by Landlord for such taking. If as a result of such taking any part of the Leased Premises is rendered permanently unusable, the Basic Annual Rent reserved hereunder shall be reduced in such amount as may be fair and reasonable, which amount shall not exceed the proportion which the area so taken or made unusable bears to the total area which was usable by Tenant prior to the taking. If the taking does not render any part of the Leased Premises unusable, there shall be no abatement of rent.

Nothing herein shall be deemed to prevent Tenant from claiming and receiving from the condemning authority, if legally payable compensation for the taking of Tenant's own tangible property and damages for Tenant loss of business, business interruption, or removal and relocation.

20. QUIET ENJOYMENT. Landlord agrees that Tenant, so long as it is not in default under this Lease, shall at all times during the term of this Lease peaceably and quietly have, hold, and enjoy the Leased Premises without disturbance by Landlord or any person claiming through Landlord.

21. NOTICES. Any notice, demand, or communication called for under this Lease shall be in writing and shall be given, served, or delivered by United States registered or certified mail,

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return receipt requested, postage prepaid, or by Airborne Express or other nationally recognized overnight courier service, or hand-delivered with a receipt and addressed (i) if to Tenant, 108 Wheel Road, Suite 200, Bel Air, Maryland 21015, Attention Michael J. Miller, President, (ii) if to Landlord, to Penguin Properties Corporation, P. O. Box 58, Churchville, Maryland 21012-0058. All notices delivered in the foregoing manner shall be deemed delivered on the date the return receipt is executed. Either party may designate a change of address by written notice to the other party.

22. WAIVER. The failure of either party to require strict compliance with any provision of this Lease shall not constitute a waiver of any right or otherwise prevent either party from subsequently requiring strict compliance with any provisions hereof.

23. WHOLE AGREEMENT. The Lease constitutes the whole agreement between the parties, and may not be amended except by a writing signed by both parties. When appropriate, words of one gender shall mean and include the other gender, and the singular shall mean and include the plural, and vice versa. Paragraph captions herein are for Landlord's and Tenant's convenience only, and neither limit nor amplify the provisions of this Lease. The terms, covenants and conditions of this Lease shall be binding upon and shall inure to the benefit of Landlord and Tenant and their respective executors, administrators, heirs, distributees, legal representatives, successors and permitted assigns.

24. COUNTERPARTS. This Lease may be executed in counterparts.

25. SIGNAGE. Subject to the approval of governmental authorities granting permission for signs, Tenant will be permitted to erect a sign on the exterior of the Building and at the entrance to the Leased Premises using Kiddie Academy Franchising Systems, Inc.'s national logotype, provided that any exterior sign does not violate any governmental law, ordinance or regulation. Throughout the Lease Term, Franchisor shall have the right to enter the Leased Premises to assure proper usage of its logotype and compliance with its other requirements and to make any modifications as it deems necessary.

26. TERMINATION/EXPIRATION. Upon the termination or expiration of this Lease, Tenant shall surrender the Leased Premises in the same condition as existed at the commencement of the term, except for normal wear and tear and casualty loss. Tenant shall have the right but not the obligation to remove any and all improvements and alterations made to the Leased Premises by Tenant or at Tenant's expense, as well as any signs and other indicia of Kiddie Academy Child

Care Learning Centers, provided that any damage to the Building or Leased Premises resulting from such

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removals shall be repaired by Tenant.

27. PARKING. Throughout the Lease Term, Landlord shall provide, at no cost to Tenant, the existing parking spaces in the parking area proximate to the Leased Premises for the exclusive use of Tenant.

28. LANDLORD'S CONSENT. Whenever the consent or approval of either Landlord or Tenant is required under this Lease, such consent shall not be unreasonably withheld, conditioned or delayed.

29. HOLDOVER. If Tenant shall remain in possession of the Leased Premises after the expiration or the original or any additional term hereof, Tenant's occupancy shall be a month-to-month tenancy at the one hundred fifty percent (150%) of the rental rate applicable to the last month of the expired term and under all of the other terms, conditions and provisions hereof except those pertaining to the term of the Lease.

30. SUBORDINATION. Tenant shall, if so requested by Landlord, subordinate this Lease and the leasehold estate created hereunder to any future mortgage or ground lease covering the Building or the Leased Premises; provided however, that the mortgagee or ground lessor, as the case may be, shall deliver to Tenant at or prior to the time that this Lease becomes so subordinate a written agreement in recordable form whereby Tenant, so long as Tenant is not in default hereunder, may remain in possession of the Leased Premises pursuant to the terms hereof and without any diminution of the Tenant's rights should Landlord become in default with respect to such mortgage or ground lease or should the Leased Premises become the subject of any action to foreclose any mortgage or to dispossess Landlord. Tenant hereby constitutes and appoints Landlord as Tenant's attorney-in-fact to execute any such instrument for and on behalf of Tenant.

31. WATER AND OTHER DAMAGE. Landlord shall not be liable for, and Landlord is hereby released and relieved from all claims and demands of any kind by reason of or resulting from damage or injury to person or property of Tenant or any other party, directly or indirectly caused by (a) dampness, water, rain, or snow, in any part of the Leased Premises or in any part of any other property of Landlord or of others and/or (b) falling plaster, steam, gas, electricity, or any leak or break in any part of the Leased Premises or from any pipes, appliances or plumbing or from sewers or the property of Landlord or of others or in the pipes of the plumbing or heating facilities thereof, no matter how caused.

32. ESTOPPEL CERTIFICATE. Landlord and Tenant shall, at any time upon not less than twenty (20) days prior written notice from the other party, execute and deliver to the other party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the party's knowledge, any uncured defaults on the part of the other party hereunder, or specifying such defaults if any are claimed.

33. CHOICE OF LAW AND INTERPRETATION. This Lease shall be governed by the law of the State in which the Project is situate. Should any provisions of this Lease require judicial interpretation, it is agreed that the court interpreting or construing the same shall not apply a presumption that the terms of any such provision shall be more strictly construed against one party or the other by reason of the rule of construction that a document is to be construed most strictly against the party who itself or through its agent prepared the same, it being agreed that the agents of all parties hereto have participated in the preparation of this Lease.

34. INTENTIONALLY DELETED

35. INTENTIONALLY DELETED

36. WAIVER OF TRIAL BY JURY. It is mutually agreed by and between Landlord and Tenant that the respective parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim whatsoever arising out of or in anyway connected with this Lease, the relationship of Landlord and Tenant, tenant's use or occupancy of the Leased Premises, and/or any claim of injury or damage.

IN WITNESS WHEREOF, the parties have caused these presents to be executed under seal the day and year first above written.

WITNESS:

LANDLORD:

Penguin Properties Corporation

/s/ Christine Cooney

BY: /s/ Michael J. Miller (SEAL)

Michael J. Miller, President

TENANT:
Kiddie Academy Child Care Learning Centers, Inc.

/s/ Christine Cooney

BY: /s/ George Miller (SEAL)

George Miller, President

EXHIBIT A
DESCRIPTION OF LEASED PREMISES

A free standing, single story, building containing approximately Four Thousand (4,000) square feet, The address of which is 3609 Milford Mill Road, Baltimore, Maryland , plus an adjacent, outdoor playground area containing 2,000 square feet of land

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EXHIBITS

Exhibit A--Description of Leased Premises

Exhibit B--Collateral Assignment of Lease

Exhibit C--Personal Guaranty

LEASE AGREEMENT

THIS LEASE, made and entered into this 30th day of September, 1994, by and between Penguin Properties Corporation, a corporation formed under the laws of the State of Maryland ("Landlord"), and TAG, Incorporated, a corporation formed under the laws of the State of Maryland, Trading as Kiddie Academy ("Tenant").

For good and valuable consideration and performance of the covenants and provisions of this Lease, Landlord and Tenant agree as follows:

1. LEASED PREMISES.

(a) Landlord is the owner of a building containing approximately 6,500 square feet (the "Building"), the address of which is Rt 18, Village of Benton's Crossing, Stevensville, Maryland 21666. The separately subdivided lot on which the Building is located is hereinafter referred to as the "Land". Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms, covenants, and conditions set out below, the Building containing 6,500 usable square feet, the location of which is described in Exhibit A (the "Leased Premises"), together with the non-exclusive right, in common with the other tenants of the Building, if any, to the use of all hallways, lobbies, corridors, lavatories, ramps, stairways and other common areas and facilities of the Building, and together with the sidewalks, driveways and parking facilities provided for in Section 27 below. The Leased Premises shall also be deemed to include that portion of the Land, for use as a playground.

2. USE. The Leased Premises shall be used only as a Kiddie Academy Child Care Learning Center. No other use shall be permitted without the prior written consent of Landlord. Landlord warrants and represents, to the best of its knowledge, to Tenant that there are no zoning ordinances or other prohibitions restricting or limiting the use of the Leased Premises for the purposes herein specified.

3. LEASE TERM AND DELIVERY OF LEASED PREMISES.

(a) The Lease shall be for an initial term of ten (10) years (the "Lease Term"), commencing on the Commencement Date, as hereinafter defined, and ending on the last day of the tenth lease year following the Commencement Date. Tenant shall have the option to renew this Lease for two (2) additional terms of five (5) years each upon the terms and conditions set forth in Section 8 below. The "Commencement Date" shall be the later to occur of (i) November 20, 1994

(the "Estimated Commencement Date"), or (ii) that date which is the date on which the contingency in Section 34 herein is satisfied or waived by Tenant.

(b) "Lease Year" shall mean the successive period of 12 full calendar months beginning on the Commencement Date, and each succeeding twelve (12) month period thereafter except that if the Commencement Date occurs on any day other than the first day of a calendar month, then the first Lease Year shall also include the partial month remaining in the calendar month in which the Commencement Date occurs.

(c) On the Commencement Date or such later date as Landlord or Tenant may request, Landlord and Tenant shall promptly enter into a supplementary written agreement thereby specifying the Commencement Date and the date on which the Lease Term shall expire.

4. ACCESS PRIOR TO TERM. At anytime during the one (1) week period prior to the Commencement Date, Tenant and its agents, servants, employees and contractors may enter the Leased Premises for purposes of installing Tenant's furnishings, fixtures, telephones and other equipment. Such entry shall constitute the agreement of Tenant that none of such parties nor their work, equipment, or materials will interfere with the work of Landlord in the Leased Premises.

5. SECURITY DEPOSIT. Tenant has deposited with Landlord a security deposit in the amount of \$5,416.67 (the "Security Deposit"), receipt of which is hereby acknowledged by Landlord. Landlord shall have the right to apply the Security Deposit to cure any breach by Tenant of any of Tenant's obligations under this Lease. The Security Deposit, to the extent it has not been applied or exhausted by Landlord pursuant to the terms of this paragraph, shall be returned to Tenant within thirty (30) days following the expiration or termination of the Lease Term.

6. RENT. Commencing on the Commencement Date, Tenant shall pay basic rent ("Basic Rent") in the amounts and with respect to the time periods set forth below; provided however that if the Lease Term should commence on a day other than the first day of the month, the first month's rent shall be prorated for such partial month. Basic Rent shall be paid in equal monthly installments as set forth below and shall be due and payable on the first day of each month during the Lease Term, without any set-off or deduction whatsoever. All rent shall be paid to the Landlord at the address in Section 21 herein.

	BASIC	BASIC	BASIC RENT
LEASE	ANNUAL	MONTHLY	PER SQUARE
YEAR	RENT	RENT	FOOT

1	\$65,000.00	\$5,416.67	\$10.00
2	\$66,950.00	\$5,579.17	\$10.30
3	\$68,958.50	\$5,746.54	\$10.61
4	\$71,027.26	\$5,918.94	\$10.93
5	\$73,158.07	\$6,096.51	\$11.26
6	\$75,352.81	\$6,279.40	\$11.59
7	\$77,613.40	\$6,467.78	\$11.94
8	\$79,941.80	\$6,661.82	\$12.30
9	\$82,340.06	\$6,861.67	\$12.67
10	\$84,810.26	\$7,067.52	\$13.05

Any installment of Basic Rent which is paid more than ten (10) days after the date on which it is due shall bear interest at the rate of eighteen percent (18%) per annum for the period of such arrearage. Any Basic Rent, Additional Rent or other payments received by Landlord from Tenant shall be applied first to the oldest outstanding balance due from Tenant under the terms of this Lease.

7. ADDITIONAL RENT.

(a) For all purposes of this Lease, "Rentable Area of the Leased Premises" shall be the usable area of the Leased Premises (but specifically excepting the playground) . "Rentable Area of the Building" shall be deemed to mean 6,500 square feet, which is the total usable area of the Building. "Tenant's Portion" shall mean

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one hundred percent (100%), computed on the basis of the Rentable Area of the Leased Premises divided by the Rentable Area of the Building.

(b) Tenant shall pay all real estate taxes and/or special assessments levied against the Land and building, directly to taxing authority, upon presentation of invoice for said taxes. Tenant shall, at Tenant's expense, cause the Leased Premises to be maintained including, but not limited to lawn maintenance, grounds keeping, snow removal, parking lot maintenance (excluding repair or replacement of the parking lot) and interior portions.

(d) In addition to Basic Rent, Tenant shall pay as additional rent (the "Additional Rent") Tenant's Portion of the following expenses, that are not paid by Tenant, which are applicable to the Lease Term: (a) all real estate taxes and/or special governmental assessments imposed or levied against the Building or Land during the Lease Term ("Taxes"); (b) all reasonable and customary insurance expenses incurred by Landlord in connection with Landlord's ownership of the Building including the cost of liability insurance and insurance against losses from fire and other casualties ("Insurance"); and (c) all reasonable and customary expenses incurred by Landlord in connection with Landlord's maintenance of the common areas of the Land and/or Building which are not paid by Tenant

(e) Until the actual cost of Taxes, Insurance and Common Area Expenses are known by Landlord, Tenant shall pay to Landlord the following monthly amounts, which amounts are equal to 1/12 of Landlord's good faith estimate of Tenant's Portion of Taxes, Insurance and Common Area Charges for the first year of the Lease Term:

	Per Sq. Foot	Annual Amount	Monthly Payment
Taxes	\$0.00	\$0.00	\$0.00
Insurance	\$0.31	\$2,015.00	\$167.92
Common Area Expenses	\$0.00	\$0.00	\$0.00
Total	\$0.31	\$2,015.00	\$167.92

Within 90 days following the close of each fiscal year, Landlord shall provide Tenant with a statement of the actual amount of Taxes, Insurance and Common Area Expenses for such period and Tenant's Portion thereof. In the event that Tenant's Portion of the actual amount of Taxes, Insurance and Common Area Expenses is greater than the estimated amounts paid by Tenant with respect to such period, Tenant shall remit the difference to Landlord within 30 days after receipt of such statement. In the event that the actual amount of Tenant's Portion of Taxes, Insurance and Common Area Expenses is less than the estimated amounts paid by Tenant with respect to such period, Landlord shall credit the difference to Tenant against the next installment of rent due hereunder

For the year in which the Lease Term commences or terminates, Tenant's liability for its Portion of any such costs for such partial year shall be subject to a prorata adjustment based upon the number of full calendar months of said year during which the Leased Premises are occupied by Tenant.

Whenever, under the terms of this Lease, any sum of money is required to be paid by Tenant, in addition to the rental herein reserved, whether such payment is to be made to the Landlord or to any other party, and said additional amount which Tenant is to pay is not designated "Additional Rent", or provision is not made for the collection of said amount as "Additional Rent", then said amount shall nevertheless if not paid when due, be deemed "Additional Rent", and shall be collectible as such with the first installment of minimum rent due thereafter.

8. OPTIONS TO RENEW. So long as this Lease is then in full force and effect, and Tenant is not in default under this Lease, Tenant shall have the right to renew this Lease for two (2) renewal terms of five (5) years each immediately following the expiration of the initial term or the first renewal term, as the case may be, on the same terms and conditions as are set forth herein except that the Basic Rent payable by Tenant during the renewal terms

shall be as set forth below. Tenant shall notify Landlord in writing of its intention to renew no less than one hundred and eighty (180) days prior to the expiration of the original Lease Term or the first renewal term, as the case may be. The Basic Rent payable by Tenant throughout the first renewal term shall be the greater of:

(a) \$87,354.56; or

(b) Ninety percent (90%) of the current market rent for facilities of similar nature as determined by an independent appraisal by Landlord; or

(c) the Basic Rent payable by Tenant during the first year of the initial Lease Term, multiplied by 3% for each year of the initial Lease Term; and

the Basic Rent payable by Tenant during the second renewal term shall be the greater of:

(a) \$101,267.88; or

(b) Ninety percent (90%) of the current market rent for facilities of similar nature as determined by an independent appraisal by Landlord; or

(b) the Basic Rent payable by Tenant during the first year of the first renewal term, multiplied by 3% for each year of the first renewal term.

9. UTILITIES. Except to the extent provided by Landlord under the Common Area Expenses, Tenant shall contract for and pay, directly to the provider thereof, all charges for natural gas, electricity, water, telephone and other utility charges used or consumed at the Leased Premises.

10. MAINTENANCE AND REPAIR OF PREMISES. During the first ninety (90) days of the Lease Term ("Landlord's Warranty Period"), Landlord, at Landlord's sole cost and expense, shall maintain and repair the well water and associated systems in the Leased Premises. Upon notification by Tenant, Landlord shall promptly repair any damage to or defect in the well or water systems, in the Leased Premises arising during Landlord's Warranty Period except to the extent that any such damage is caused by the negligence or intentional misconduct of Tenant. Landlord hereby agrees to and shall assign to Tenant upon the expiration of Landlord's Warranty Period, to the extent they are assignable, any and all written warranties and guarantees from Landlord's contractors, subcontractors and suppliers of any materials and labor to the well and water systems Leased Premises. In the event that the well supplying water to the Leased Premises does not provide water in a sufficient amount required for the Tenant's use, in Section 2 herein, Landlord shall repair or replace the well at its expense. Specifically excluded from Landlord's obligation to repair or replace the well, shall be the associated well water systems inside of the Leased Premises.

Commencing on the Commencement Date of this Lease, except as provided

above, ("Tenant's Maintenance Period"), Tenant shall assume responsibility for maintaining the interior of the Leased Premises, all lawn maintenance, snow removal, sidewalk and parking lot cleaning and maintenance (excluding repair or

replacement of the parking lot) and play area maintenance, but Landlord shall continue to maintain the exterior of the Leased Premises and Building (including the roof, foundation and exterior walls) and all common areas and structural components of the Building. Throughout the term of this Lease, Tenant will secure and maintain a full service contract on the heating and/or air conditioning equipment servicing the Leased Premises with a reputable company approved by Landlord.

The Leased Premises are leased to Tenant "as is". Except as herein expressly provided, Landlord shall be under no liability, nor have any obligation to do any work or make any repairs in or to the Leased Premises, and any work which may be necessary to outfit the Leased Premises for Tenant's occupancy or for the operation of Tenant's business therein is the sole responsibility of Tenant and shall be performed by Tenant at its own cost and expense. Tenant acknowledges that it has fully inspected the Leased Premises prior to the execution of this Lease, and Tenant further acknowledges that Landlord has made no warranties or representations with respect to the condition or state of repairs.

If Landlord refuses or neglects to repair properly as required hereunder and to the reasonable satisfaction of Tenant, then, following written notice to Landlord and a thirty day opportunity to cure (provided, however, that if more than 30 days is reasonably required for such cure, then the 30 day cure period shall be extended for whatever period is reasonably required, so long as Landlord commences the cure within such 30 day cure period and diligently prosecutes such cure to completion), Tenant may make such repairs and shall have the right to set off any reasonable expense incurred thereby against any rent or other payment due or to become due hereunder.

Tenant shall during the term of this Lease keep the Leased Premises in good order and repair and will make all repairs necessary at its own expense.

If Tenant refuses or neglects to repair properly as required hereunder and to the reasonable satisfaction of Landlord, then, following written notice to Tenant and a thirty day opportunity to cure (provided, however, that if more than 30 days is reasonably required for such cure, then the 30 day cure period shall be extended for whatever period is reasonably required, so long as Tenant commences the cure within such 30 day cure period and diligently prosecutes such cure to completion), Landlord may make such repairs and Tenant shall reimburse Landlord the reasonable expense incurred thereby within thirty (30) days of receipt of a statement therefor from Landlord.

11. REQUIREMENTS OF LAW. Landlord covenants that on the Commencement Date, to the best of Landlord's knowledge, the Leased Premises and the Building do conform, to every applicable requirement of law and of any Board of Underwriters, rating bureau, or similar organization, and the requirements of the carriers of all insurance on or relating to the Leased Premises or the Building, whether such insurance be furnished by Landlord or Tenant. Tenant shall, at its own expense, comply with all applicable statutes, ordinances, rules and regulations of federal, state and municipal governments and all applicable rules and regulations of the Board of Fire Underwriters as such statutes, ordinances, rules and regulations pertain to Tenant's particular use of the Leased Premises. Tenant shall also comply with all applicable city, county, state and federal ordinances in effect from time to time with respect to facilities and areas for the handicapped in the Leased Premises and the Building including all requirements imposed by the Americans with Disabilities Act.

12. ALTERATIONS, CHANGES, AND ADDITIONS. No structural changes, alterations, or additions shall be made by Tenant to the Leased Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. The foregoing restriction shall not prohibit Tenant from painting or making other decorative or non-structural changes in the Leased Premises without Landlord's prior consent. Tenant may further install, at its expense and without Landlord's written consent, trade

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fixtures, playground equipment, supplies, toys, movable partitions, furniture, equipment, and other personal property.

13. ENTRY BY LANDLORD. Landlord shall have the right, following reasonable prior notice to Tenant, which may be verbal (except in the event of an emergency when no prior notice need be given), to enter the Leased Premises for purpose of inspection or to make repairs, so long as Landlord's entry or the making of such repairs does not unreasonably disrupt the business operations of Tenant.

14. ASSIGNMENT AND SUBLETTING. Tenant shall not transfer, assign, sublet, mortgage, encumber, or otherwise alienate its interest in the Leased Premises without first obtaining Landlord's written consent, which consent shall not be unreasonably withheld, conditioned or delayed. If such assignment or subletting is permitted by Landlord, Tenant shall not be relieved from any liability whatsoever under this Lease. No consent by the Landlord to any assignment or sublease to another tenant shall relieve Tenant of any obligations to be performed by Tenant under this Lease, whether arising before or after the assignment or sublease. Acceptance of rent from the proposed assignee or subtenant or other transfers, shall not constitute consent by the Landlord to any assignment or sublease to, or of any failure of the Tenant to comply with

the requirements of this Section. In the event that the amount of the rent to be paid by the Tenant to the Landlord pursuant to this Lease, Tenant shall pay to Landlord any such excess as is received by Tenant from such assignee or sublessee.

In the event Tenant desires to assign this Lease to sublease all or any substantial portion of the Leased Premises, Landlord shall have the right and option to terminate this Lease, which right or option shall be exercisable by written notice from Landlord to Tenant within thirty (30) days from the date Tenant gives Landlord written notice of its desire to assign or sublease. If Tenant is a corporation and in the event that any part or all of the corporation shares shall be transferred by sale, assignment, bequest, inheritance, operation of law or other disposition so as to result in a change in the present control of said corporate shares, Landlord may terminate this Lease and the term at any time after such notice of such change of control by giving Tenant sixty (60) days prior written notice of such termination. If Tenant is a corporation, the filing of Articles of Transfer or Merger with the State Department of Assessments and Taxation or the failure to do so when Tenant would otherwise be so legally required by operation of law of the assets of the corporation shall constitute an unauthorized assignment of this Lease.

Notwithstanding the foregoing, Landlord hereby grants its consent to Tenant entering into the Collateral Assignment of Lease which is attached to this Lease as Exhibit B and incorporated by reference herein and further agrees that in the event of a sale or transfer of the Kiddie Academy Child Care Learning Center to a new owner approved in writing by Franchisor (as hereinafter defined), this Lease shall be assigned to such new owner.

15. DEFAULT BY TENANT. The occurrence of any one or more of the following events shall constitute a material breach by Tenant of this Lease:

- (a) the failure by Tenant to make any payment of rent, Additional Rent or any other payment required to be made by Tenant hereunder, as and when due,;
- (b) the failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease where such failure shall continue for a period of fifteen (15) days after receipt of written notice thereof by Tenant from Landlord, provided, however, that if the nature of Tenant's default is such that it cannot be cured solely by payment of money and that more than fifteen (15) days may be reasonable required for such cure, than Tenant shall not be deemed to be in default if Tenant shall commence such cure within such fifteen (15) day period and shall thereafter diligently prosecute such cure to completion;

- (c) the making of any general arrangement or any assignment by Tenant for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition of reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, such petition is dismissed within ninety (90) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets;
- (d) the breach or default under the Franchise Agreement between Tenant and Franchisor (as hereinafter defined), remaining uncured within the time periods provided in the Franchise Agreement;
- (e) if the Leased Premises are vacant, unoccupied or deserted for a period of fifteen (15) days or more at any time during the term

In the event of any material breach of this Lease by Tenant, then Landlord, in addition to other rights or remedies it may have, shall have the right to terminate this Lease, and also the right, with or without termination of this Lease, to reenter and take possession of the Leased Premises and Landlord may remove all persons and property from the Leased Premises; such property may be removed and stored in any other place in the Building or in any other reasonably secure place for the account of and at the expense and risk of Tenant. Should Landlord elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Landlord may either terminate this Lease or, Landlord, without terminating this Lease, shall use its reasonable efforts to relet the Leased Premises or any part thereof for such terms and conditions as may be reasonable, with the right to make alterations and repairs to the Leased Premises. Rental received by Landlord from such reletting shall be applied first, to the payment of any costs of such reletting including reasonable brokerage and attorneys' fees; and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder or Tenant shall pay to Landlord, at Landlord's sole option, the difference between the rent reserved under this Lease and the fair rental value of the Leased Premises for the balance of the term to be determined as the date of re-entry. Should such rentals received from such reletting during any month be less than the monthly basic rent reserved hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such reentry or taking possession of the Leased Premises by Landlord shall be construed as an election on its part to terminate this Lease, unless written notice of such intention be given to Tenant, in which event Tenant's obligations to Landlord shall forthwith cease, or unless the termination thereof be decreed by a court of competent jurisdiction.

Any default by Tenant under this Lease shall be deemed an event of default under that Franchise Agreement (the "Franchise Agreement") entered into or to be entered into between Tenant and Kiddie Academy International, Inc., a

Maryland corporation ("Franchisor"), and any default by Tenant under the Franchise Agreement shall be deemed an event of default by Tenant under this Lease.

In the event of Tenant's default or failure to perform hereunder, Landlord shall concurrently provide notice to Franchisor of such default or failure to perform. Franchisor, at its sole option, shall have the right (but not the obligation), to cure any such deficiency or default by Tenant, should Tenant fail to do so, within fifteen (15) days after the expiration of the period in which Tenant may cure such deficiency or default. In addition, Franchisor, at its sole option, shall have the right (but not the obligation), within sixty (60) days of the date of receipt of notice from the Landlord of default by Tenant, to take possession of the Leased Premises and become the assignee of this Lease for a period not to exceed one (1) year from the date of assumption, with no liability for any default caused by the Tenant up to the point of assumption. Landlord hereby agrees that the Franchisor may seek another franchisee to take over the operation of the Kiddie Academy Center at the Leased Premises, and that when a new franchisee is selected by Franchisor and approved by Landlord within a reasonable period of time, the new franchisee will become the tenant under this Lease and Franchisor shall have no further liability or obligation hereunder. Landlord further agrees that if Franchisor does not select a new franchisee within one (1) year from

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the date of assignment of the Lease under the immediately preceding sentence, Franchisor shall have no further liability under the Lease as of the end of that one (1) year period.

In the event Tenant fails to pay Landlord any rental payment or other charge due hereunder within ten (10) days from the date on which any such payment was due, Landlord may at its option charge Tenant a late charge equal to fifteen percent (15%) or the rental payment or other such charge, which late charge shall be collectible as Additional Rent and shall be payable to Landlord within ten (10) days after written notice from Landlord to Tenant assessing the same.

16. INSURANCE, MUTUAL WAIVER OF SUBROGATION, HOLD HARMLESS.

(a) Tenant shall at all times during the Lease Term, and at its sole expense, keep in effect a policy of public liability insurance, naming Landlord as an additional insured, with respect to the Leased Premises and the business of Tenant at the Leased Premises. Said policy shall contain a provision preventing the cancellation of the policy without a minimum of thirty (30) days written notice to Tenant and Landlord. Tenant's insurance shall have a limit of liability of not less than \$1,000,000. Tenant shall deliver a certificate evidencing such insurance policy to Landlord at the inception of each policy and renewal thereof. All such insurance maintained by Tenant shall be written by an

insurance company licensed to do business in the state in which the Leased Premises are located.

(b) Landlord and Tenant each hereby waive all rights of recovery against the other and against the officers, employees and agents of the other, on account of loss or damage to the waiving party or its property or the property of others under its control, to the extent that such loss or damage is insured against under any fire and extended coverage insurance policy which the waiving party may have in force at the time of the loss or damage. Tenant and Landlord shall give notice to their respective insurance carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

(c) Landlord and Tenant (each, an "Indemnitor") shall hold harmless the other (the "Indemnitee"), its officers, agents and employees, from and against any and all claims, damages or causes of action for damages on account of any injury to or death of any person or any loss of damage to property occurring in, on or about the Leased Premises, the Building or the Project at any time during the term of this Lease which is caused by the negligence or intentional misconduct of Indemnitor, its officers, agents or employees. This indemnification provision shall survive the termination or expiration of this Lease.

(d) Tenant shall maintain property damage and casualty insurance on the Leased Premises in the amount sufficient to restore the Leased Premises to its condition prior to the casualty or damage, with proceeds payable to Landlord. Said insurance shall contain a provision that the policy may not be terminated without thirty (3) days prior written notice to Landlord. Tenant shall deliver to Landlord, prior to the Commencement Date, a certificate of insurance, evidencing the aforesaid insurance coverage.

17. HAZARDOUS SUBSTANCES. To the best of Landlord's knowledge, Landlord represents to Tenant that the Project (including the Land thereunder and the Building and Leased Premises) does not contain any Hazardous Substance, as hereinafter defined, of any kind. "Hazardous Substance" means (i) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), as amended from time to time and regulations promulgated thereunder; (iii) any infectious or medical waste as defined under federal, state or local law or regulation; (iv) asbestos or contamination of any kind (including, but not limited to transformers containing PCBs); or (v) any other substance, the presence of which on the Leased Premises would be prohibited, regulated or restricted by any law or regulation similar to those set

forth in this definition. Landlord agrees to indemnify and defend Tenant

(with legal counsel reasonably acceptable to Tenant) from and against any costs, fees or expenses (including, without limitation, environmental assessment, investigation and environmental remediation expenses, third party expenses) incurred by Tenant if any Hazardous Substances whatsoever are subsequently found, and Tenant shall have the right and option to terminate this Lease and thereafter be released from all liability hereinafter in such event. This indemnification by Landlord shall survive the termination or expiration of this Lease.

18. DAMAGE AND DESTRUCTION BY FIRE OR OTHER CASUALTY. In the event that the Building or Leased Premises are partially damaged for any reason, other than the negligence of the Tenant, Landlord shall using reasonable efforts, and being subject to the Landlord's receipt of a sufficient amount of proceeds from any insurance carrier, promptly restore the Leased Premises to its original condition, within a reasonable period of time. In the event that Tenant is unable to carry on its normal business operations due to such casualty or damage to the Leased Premises, Tenant shall be entitled to an abatement or reduction of rent in proportion to the amount by which the area so rendered untenable bears to the original Leased Premises for a period beginning on the date of the damage and ending upon the date on which the Leased Premises are rendered fully tenantable.

In the event the Leased Premises are wholly damaged by fire or other casualty, Landlord shall have the option to either restore the Leased Premises to their condition immediately prior to the damage or terminate this Lease. In the event that Landlord elects to terminate this Lease, such option shall be exercised by Landlord by written notice to Tenant within forty five (45) days after the damage. In the event of such termination, rent will be adjusted as of the date of damage. In the event that Landlord elects to restore the Leased Premises, such restoration shall be completed as promptly as reasonably possible and the rent reserved hereunder shall abate until the Leased Premises are again rendered tenantable.

19. CONDEMNATION. In the event that all or a "Substantial Part of the Leased Premises" (as hereinafter defined) shall be taken or condemned through the exercise of the power of eminent domain, with or without litigation, this Lease shall terminate as of the Basic and Additional Rent shall be proportioned to and abate from and after, the date of the taking. Tenant shall have no right to participate in any award or damages for such taking and hereby assigns all of its right, title and interest therein to Landlord. For purposes of this paragraph, a "Substantial Part of the Leased Premises" shall mean that such part that the remainder thereof is rendered inadequate for Tenant's business and that such remainder cannot permit Tenant to carry on its business with substantially the same efficiency as before the taking.

In the event that less than a Substantial Part of the Leased Premises shall be taken or condemned through the exercise of the power of eminent domain, with or without litigation, this Lease shall remain in full force and effect according to its terms and Tenant shall not have the right to participate in any award or damages for such taking and hereby assigns all of its right, title and

interest therein to Landlord. In such event, Landlord shall, at its expense, promptly make such repairs and improvements and shall be necessary to make the remainder of the Leased Premises adequate to permit Tenant to carry on its business to substantially the same efficiency as before the taking: provided that in no event shall Landlord be required to expend an amount in excess of the award received by Landlord for such taking. If as a result of such taking any part of the Leased Premises is rendered permanently unusable, the Basic Annual Rent reserved hereunder shall be reduced in such amount as may be fair and reasonable, which amount shall not exceed the proportion which the area so taken or made unusable bears to the total area which was usable by Tenant prior to the taking. If the taking does not render any part of the Leased Premises unusable, there shall be no abatement of rent.

Nothing herein shall be deemed to prevent Tenant from claiming and receiving from the condemning authority, if legally payable compensation for the taking of Tenant's own tangible property and damages for Tenant loss of business, business interruption, or removal and relocation.

20. QUIET ENJOYMENT. Landlord agrees that Tenant, so long as it is not in default under this Lease, shall at all times during the term of this Lease peaceably and quietly have, hold, and enjoy the Leased Premises without disturbance by Landlord or any person claiming through Landlord.

21. NOTICES. Any notice, demand, or communication called for under this Lease shall be in writing and shall be given, served, or delivered by United States registered or certified mail, return receipt requested, postage prepaid, or by Airborne Express or other nationally recognized overnight courier service, or hand-delivered with a receipt and addressed (i) if to Tenant, at TAG, Incorporated, c/o Pete Kedzia, 1710 Allen Court, Bel Air, MD 21015, (ii) if to Franchisor, to Kiddie Academy International, Inc., Kiddie Academy Corporate Center, 108 Wheel Road, Suite 200, Bel Air, Maryland 21015, Attention Michael J. Miller, President or (iii) if to Landlord, to Penguin Properties Corporation, 108 Wheel Road, Suite 200, Bel Air, MD 21015, Attention: George Miller. All notices delivered in the foregoing manner shall be deemed delivered on the date the return receipt is executed. Either party may designate a change of address by written notice to the other party.

22. WAIVER. The failure of either party to require strict compliance with any provision of this Lease shall not constitute a waiver of any right or otherwise prevent either party from subsequently requiring strict compliance with any provisions hereof.

23. WHOLE AGREEMENT. The Lease constitutes the whole agreement between

the parties, and may not be amended except by a writing signed by both parties. When appropriate, words of one gender shall mean and include the other gender, and the singular shall mean and include the plural, and vice versa. Paragraph captions herein are for Landlord's and Tenant's convenience only, and neither limit nor amplify the provisions of this Lease. The terms, covenants and conditions of this Lease shall be binding upon and shall inure to the benefit of Landlord and Tenant and their respective executors, administrators, heirs, distributees, legal representatives, successors and permitted assigns.

24. COUNTERPARTS. This Lease may be executed in counterparts.

25. SIGNAGE. Subject to the approval of governmental authorities granting permission for signs, Tenant will be permitted to erect a sign on the exterior of the Building and at the entrance to the Leased Premises using Kiddie Academy International, Inc.'s national logotype, provided that any exterior sign does not violate any governmental law, ordinance or regulation. In addition, upon Landlord's commencement of the tenant improvements in the Leased Premises, Tenant will be permitted to erect on the exterior of the Building a "Coming Soon" sign, advertising Tenant's business. Throughout the Lease Term, Franchisor shall have the right to enter the Leased Premises to assure proper usage of its logotype and compliance with its other requirements and to make any modifications as it deems necessary.

26. TERMINATION/EXPIRATION. Upon the termination or expiration of this Lease, Tenant shall surrender the Leased Premises in the same condition as existed at the commencement of the term, except for normal wear and tear and casualty loss. Tenant shall have the right but not the obligation to remove any and all improvements and alterations made to the Leased Premises by Tenant or at Tenant's expense, as well as any signs and other indicia of Kiddie Academy Child Care Learning Centers, provided that any damage to the Building or Leased Premises resulting from such removals shall be repaired by Tenant. Following the termination or

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expiration of this Lease or Tenant's vacating of the Leased Premises, Landlord will not use or permit anyone holding under it to use in the Leased Premises any trademark, tradename, sign or other indicia of Kiddie Academy Child Care Learning Centers or any trademark, tradename or sign which is similar enough as to cause confusion with that of Kiddie Academy Child Care Learning Centers, without the express written consent of Franchisor.

27. PARKING. Throughout the Lease Term, Landlord shall provide, at no cost to Tenant, the existing parking spaces in the parking area proximate to the Leased Premises for the exclusive use of Tenant.

28. LANDLORD'S CONSENT. Whenever the consent or approval of either Landlord or Tenant is required under this Lease, such consent shall not be unreasonably withheld, conditioned or delayed.

29. HOLDOVER. If Tenant shall remain in possession of the Leased Premises after the expiration or the original or any additional term hereof, Tenant's occupancy shall be a month-to-month tenancy at the one hundred fifty percent (150%) of the rental rate applicable to the last month of the expired term and under all of the other terms, conditions and provisions hereof except those pertaining to the term of the Lease.

30. SUBORDINATION. Tenant shall, if so requested by Landlord, subordinate this Lease and the leasehold estate created hereunder to any future mortgage or ground lease covering the Building or the Leased Premises; provided however, that the mortgagee or ground lessor, as the case may be, shall deliver to Tenant at or prior to the time that this Lease becomes so subordinate a written agreement in recordable form whereby Tenant, so long as Tenant is not in default hereunder, may remain in possession of the Leased Premises pursuant to the terms hereof and without any diminution of the Tenant's rights should Landlord become in default with respect to such mortgage or ground lease or should the Leased Premises become the subject of any action to foreclose any mortgage or to dispossess Landlord. Tenant hereby constitutes and appoints Landlord as Tenant's attorney-in-fact to execute any such instrument for and on behalf of Tenant.

31. WATER AND OTHER DAMAGE. Landlord shall not be liable for, and Landlord is hereby released and relieved from all claims and demands of any kind by reason of or resulting from damage or injury to person or property of Tenant or any other party, directly or indirectly caused by (a) dampness, water, rain, or snow, in any part of the Leased Premises or in any part of any other property of Landlord or of others and/or (b) falling plaster, steam, gas, electricity, or any leak or break in any part of the Leased Premises or from any pipes, appliances or plumbing or from sewers or the property of Landlord or of others or in the pipes of the plumbing or heating facilities thereof, no matter how caused.

32. ESTOPPEL CERTIFICATE. Landlord and Tenant shall, at any time upon not less than twenty (20) days prior written notice from the other party, execute and deliver to the other party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the party's knowledge, any uncured defaults on the part of the other party hereunder, or specifying such defaults if any are claimed.

33. CHOICE OF LAW AND INTERPRETATION. This Lease shall be governed by the law of the State in which the Project is situate. Should any provisions of this Lease require judicial interpretation, it is agreed that the court interpreting or construing the same shall not apply a presumption that the terms of any such provision shall be more strictly construed against one party or the other by reason of the rule of construction that a document is to be construed most strictly against the party who itself or through its agent prepared the same, it being agreed that the agents of all parties hereto have participated in the preparation of this Lease.

34. LICENSE CONTINGENCY. This Lease is expressly contingent upon the issuance of a license or pre-approval for the Leased Premises which will allow Tenant to conduct a day care center in the Leased Premises for a minimum of 100 children between the ages of two months and twelve years of age. In the event Tenant is unable to obtain such license or pre-approval within thirty (30) days after the date this Lease is fully executed by Landlord and Tenant, this Lease shall automatically terminate, all money previously paid by Tenant to Landlord, including the Security Deposit, shall be immediately returned to Tenant, and neither Landlord nor Tenant shall have any further liability hereunder.

35. EXCLUSIVE. Throughout the term of this Lease, Landlord shall not lease any space in the Building, or in any project within a three (3) mile radius of the Leased Premises, to any Tenant for use as a day care, child development or educational facility.

36. FRANCHISOR AS THIRD PARTY BENEFICIARY. Landlord and Tenant hereby acknowledge and agree that Franchisor is a third party beneficiary to this Lease and that in the event of a breach or infringement of the rights bestowed upon Franchisor hereunder, Franchisor may avail itself of any remedy available at law or at equity, including but not limited to, bringing suit directly against Landlord and/or Tenant.

37. WAIVER OF TRIAL BY JURY. It is mutually agreed by and between Landlord and Tenant that the respective parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim whatsoever arising out of or in anyway connected with this Lease, the relationship of Landlord and Tenant, tenant's use or occupancy of the Leased Premises, and/or any claim of injury or damage.

IN WITNESS WHEREOF, the parties have caused these presents to be executed under seal the day and year first above written.

WITNESS:

LANDLORD:

Penguin Properties Corporation

/s/ Pete Kedzia

BY: /s/ Michael J. Miller (SEAL)

Michael J. Miller, Its President

TENANT:
TAG, Incorporated

/s/ Michael J. Miller

BY: /s/ Pete Kedzia (SEAL)

Pete Kedzia, Its President

STATE OF Maryland

COUNTY OF Harford

On this day of September, 1994, before me, the subscriber, a Notary Public of the State aforesaid, Michael J. Miller personally appeared, who acknowledged himself to be the President of Penguin Properties, Inc., Landlord, and that he, as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

Notary Public: /s/ Christine E. Cooney

My Commission expires:

(NOTARIAL SEAL)

STATE OF Maryland

COUNTY OF Harford

On this day of September, 1994, before me, the subscriber, a Notary Public of the State aforesaid, Pete Kedzia personally appeared, who acknowledged himself to be the President of TAG, Incorporated, Tenant, and that he, as such officer, being authorized so to do, executed the foregoing

instrument for the purposes therein contained, by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

Notary Public: /s/ Christine E. Cooney

My Commission expires: -----

(NOTARIAL SEAL)

EXHIBIT A
DESCRIPTION OF LEASED PREMISES

A free standing, single story, building containing approximately 6,500 square feet, the address of which is Rt 18, Village of Benton's Crossing, Stevensville, Maryland 21666, plus an adjacent, outdoor playground area.

EXHIBIT B
COLLATERAL ASSIGNMENT OF LEASE

FOR VALUE RECEIVED, THE UNDERSIGNED Assignor assigns, transfers and sets over to the Assignee, KIDDIE ACADEMY INTERNATIONAL, INC., a Maryland corporation, all of the Assignor's right, title and interest as tenant in, to and under the lease, a copy of which is attached (the "Lease"), for the premises known as Rt 18, Village of Benton's Crossing, Stevensville, Maryland 21666.

This Assignment is for collateral purposes only and except as specified here, the Assignee will have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment, or from or in connection with the Lease, unless (i) the Assignee takes possession of the premises subject to the Lease pursuant to the terms of this Assignment, and (ii) the Assignee assumes the obligations of the Assignor under the Lease. The Assignor agrees to indemnify and hold harmless the Assignee from and against all claims and demands of any type, kind or nature made by any third party which arise out of or are in any manner connected with the Assignor's use and occupancy of the premises subject to the Lease.

The Assignor represents and warrants to the Assignee that it has full power and authority to assign the Lease and its interest in the Lease.

If the Assignor defaults under the Lease or under the Franchise Agreement between the Assignee and the Assignor for a Kiddie Academy Center located at the leased premises (the "Franchise Agreement"), the Assignee will have the right and is empowered to take possession of the premises subject to the Lease, expel the Assignor from those premises, and in that event, the Assignor will have no further right, title or interest in the Lease. The Assignor will reimburse the Assignee for the costs and expenses incurred in connection with any such retaking, including but not limited to the payment of any back rent and other payments due under the Lease (whether the payments are made by a separate agreement with the lessor or otherwise), attorney's fees and expenses of litigation incurred in enforcing this Collateral Assignment of Lease, costs incurred in reletting the premises, and costs incurred for putting the premises in good working order and repair.

The Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of the Assignee. Throughout the term of the Franchise Agreement and any renewals of that Agreement, the Assignor agrees that it will elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless the Assignee otherwise agrees in writing. Upon the failure of the Assignor to so elect to extend or renew the Lease, the Assignor appoints the Assignee as its true and lawful attorney-in-fact to exercise that extension or renewal option in the name, place and stead of the Assignor, for the sole purpose of effecting the extension or renewal.

Dated:

ASSIGNOR:
TAG, Incorporated

(SEAL)

BY: _____
Pete Kedzia, It's President

EXHIBIT C
PERSONAL GUARANTY OF LEASE

Pete Kedzia ("Guarantor"), an individual residing in the State of Maryland, whose address is 1710 Allen Court, Bel Air, MD 21015, as a material inducement to and in consideration of Penguin Properties, Inc. ("Landlord") entering into that Lease dated September 30, 1994 (the "Lease") with TAG, Incorporated ("Tenant"), unconditionally guarantees the prompt payment of all basic annual rent, additional rent being due and payable under the Lease and for the full and faithful performance of all covenants and terms of the Lease, to Landlord, during the entire term of the Lease and any renewals, extensions or modifications, to the same extent as if said Lease had been executed by the

Guarantor.

Guarantor covenants and agrees that if Tenant shall default at any time during the term granted by the Lease, or during any renewal or extension thereof in the payment of rent, additional rent, or other charges to be paid by Tenant, or in the performance of any of the terms, covenants or conditions of the Lease on Tenant's part to be performed, then the Guarantor will on demand will and truly pay to Landlord the said rent, additional rent and default, without requiring notice from Landlord of any such default or defaults by Tenant.

Guarantor further covenants and agrees that the Guarantor may, at Landlord's option, be joined in any action or proceeding commenced by Landlord against Tenant in connection with and based upon said Lease or any term, covenant or condition thereof.

This Guaranty shall remain and continue in full force and effect as to any renewal, extension, modification or amendment of said Lease and as to any successor, assignee or sub-lessee of Tenant and regardless of any changed or different use of the Leased Premises (other than that provided for in said Lease) whether by Tenant or any successors, assignee or sub-lessee of Tenant.

Guarantor agrees that the validity of this instrument and the obligations of the Guarantor shall in no way be terminated, affected or impaired by reason of any action which of, or failure to take against Tenant or by reason of any waiver of, or failure to enforce, any of the rights or remedies reserved to Landlord in the Lease, or otherwise, or by reason of any changes or modifications that may be made in the terms, covenants or conditions of the Lease.

Guarantor waives notice of any and all notices or demands which may be given by Landlord to Tenant and whether or not required to be given to Tenant under the terms of the Lease (provided however, that nothing herein contained shall modify any requirement in the Lease for the giving of notice of, but not limited to, the following: (1) any modification, extension or indulgence granted to Tenant and assigns; (2) any assignment by Tenant, its successors and assigns; (3) the exercise or non-exercise of any renewal option or options; and (4) any changed or different use of the Leased Premises.

Guarantor further agrees that, so long as the Lease shall remaining effect, it will not either directly or indirectly own, operate or be financially interested in a business like or similar to the business permitted to be conducted under the Lease. Guarantor represents and warrants that it owns a majority of the voting stock of the Tenant and acknowledge that this Guaranty is a material inducement to Landlord's entry into the Lease.

Guarantor hereby consents to the Collateral Assignment of Lease previously entered into, or to be entered into, between Tenant and Kiddie Academy International, Inc.

If Landlord disposes of its interest in the Lease, "Landlord", as used in this guaranty, shall mean Landlord's successors. Guarantor's obligations under this guaranty shall be binding on Guarantor's successors.

Guarantor hereby authorizes any attorney-at-law to appear for them before any court of competent jurisdiction, and enter judgement by confession against the Guarantor jointly and severally, for the unpaid balance then due under the Lease, plus interest, court costs, and attorneys fees of 15% of the amount declared due, without stay of execution expressly waiving all exemptions. This agreement may not be changed, modified or terminated except in writing duly executed by Landlord and Guarantor.

WITNESS:

GUARANTOR:

----- (SEAL)
Pete Kedzia

ASSIGNMENT OF LEASE

This Assignment of Lease (this "Agreement") by and between: Tag, Incorporated, a Maryland corporation (the "Assignor"), Kiddie Academy Child Care Learning Centers, Inc., a Maryland corporation (the "Assignee"), Penguin Properties, Inc., a Maryland corporation (the "Landlord") and Pete Kedzia, an individual residing in the State of Maryland (the "Personal Guarantor").

EXPLANATORY STATEMENT

A. By Lease Agreement dated September 30, 1994, (the "Lease"), entered into between Assignor as tenant and Landlord, wherein Landlord leased to Assignor the premises located at Route 18, Village of Benton's Crossing, Stevensville, Maryland 21666, for the operation therein of a Kiddie Academy Child Care Center (the "Center").

B. Pursuant to a Asset Purchase and Sale agreement dated September _____, 1996 (the "Sale Agreement") between Assignor and Assignee, Assignor has agreed to transfer to Assignee, and Assignee has agreed to assume from Assignor, certain of Assignor's assets pertaining to the Center, including all of Assignor's right, title and interest under the Lease.

C. Personal Guarantor entered into a Guaranty of Lease (the "Personal Guaranty"), which guarantees the performance of the tenant under the Lease.

NOW, THEREFORE, in consideration of the Explanatory Statement (which is a substantive part of the Agreement), the purchase price to be paid by Assignee to Assignor pursuant to the terms of the Sale Agreement, and of the mutual agreements set forth below, the receipt, adequacy of which consideration the parties acknowledge, the parties hereto covenant, promise, agree, represent and warrant as follows:

- A. The parties hereto agree to the Assignment of the Lease from Assignor to Assignee as of 12:01 A. M. on the first Monday following the date on which Assignee receives its license to operate the Center pursuant to the terms of the Sale Agreement (the "Effective Date").
- B. As of the Effective Date, Assignor shall be relieved of all its rights and obligations as tenant under the Lease.
- C. As of the Effective Date, Assignee accepts the Assignment and agrees to perform each and every obligation under the Lease, on the part of the tenant to be performed, including but not limited to the obligation to pay rent in accordance with the terms of the Lease and to perform and

- D. Landlord acknowledges and consents to the Assignment, and as of the Effective Date, releases the Assignor from its obligations under the Lease, and agrees that Assignee shall, as of the Effective Date, inure to all of the rights of the tenant under the Lease.
- E. The parties hereto agree that, as of the date of this Agreement, no uncured default of the Lease exists and that all rights of Assignee as tenant under the Lease shall remain unaffected by any past performance of the parties hereto.
- F. The Personal Guaranty shall remain in full force or effect for one (1) year, after the Effective Date.
- G. Landlord acknowledges that all forms of rent and any other sum of money due to Landlord, have been received by Landlord as of the Effective Date and that no default exists under the Lease on the part of the Assignor as tenant.
- H. The address of the Assignee is: 108 Wheel Road, Bel Air, Maryland 21015, Attention: Chief Financial Officer.
- I. Assignor hereby agrees to indemnify and hold harmless Assignee from and against any and all obligations arising under the Lease attributable to the period preceding the Effective Date. Assignor further agrees to cure any default under the Lease which occurred or accrued prior to the Effective Date at its sole cost and expense.
- J. Assignee hereby agrees to indemnify and hold harmless Assignor from and against any and all obligations arising under the Lease attributable to the period following the Effective Date.
- K. The parties hereto represent and warrant, each to the other, that it is duly authorized and empowered to execute and deliver this Agreement and to perform its obligations hereunder and that the person signing on behalf of each entity is fully authorized to do so.
- L. Assignor's interest in the Security Deposit in the amount of Five Thousand Four Hundred Sixteen and 67/100 Dollars (\$5,416.67) is hereby transferred to Assignee as of the Effective Date and Assignor shall have no further interest or claim to the Security Deposit.
- M. Assignee shall have the sole right to assign or sublet its interest under the Lease to a franchisee of Kiddie Academy Franchising Systems, Inc., (the "Franchisor") a Maryland corporation and wholly-owned

subsidiary of Assignee, provided that Assignee remains liable under the Lease and further provided that Assignee notifies Landlord of the identity, address and financial information of the substitute tenant.

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- N. This Agreement sets forth all of the covenants between the parties to this Agreement respecting the matters set forth herein and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between or among them, other than as set forth in this Agreement. This Agreement is intended by the parties to be an integration of all prior or contemporaneous promises, agreements, conditions, negotiations and undertakings between them. Except as otherwise provided in this Agreement, no alteration, amendment, change or addition to this Agreement shall be binding on any party to this Agreement unless and until in writing and signed by the parties hereto.
- O. The covenants, conditions and agreements contained herein shall bind and inure to the benefit of the parties hereto and their respective heirs, distributees, executors, administrators, successors and assigns.
- P. This Agreement may be executed in counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.
- Q. This Agreement shall be governed by the laws of the State of Maryland.
- R. The Provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity and enforceability of the other provisions hereof.
- S. Conflict: Should any conflict in terms and conditions exist or arise between this Assignment Of Lease and the Lease, the terms and conditions in this Assignment Of Lease Agreement shall prevail.
- T. Except as specifically provided herein, the Lease shall remain in full force and effect and be unaffected hereby.

(SIGNATURES ON NEXT PAGE)

Page 3 of 4

IN WITNESS WHEREOF, the parties have caused these presents to be executed under seal the on the day and year written.

WITNESS:

LANDLORD:

Penguin Properties, L. P.

/s/ Thomas A. Sheehan

BY: /s/ Michael J. Miller

Michael J. Miller, President
Date: November 4, 1996

ASSIGNOR:
Tag, Incorporated

/s/ Thomas A. Sheehan

BY: /s/ Pete Kedzia

Pete Kedzia, President
Date: November 4, 1996

ASSIGNEE:
Kiddie Academy Child Care Learning Centers, Inc.

/s/ Thomas A. Sheehan

BY: /s/ George Miller

George Miller, President
Date: November 4, 1996

The following Guarantor joins in the execution of this Agreement to indicate its consent to the modifications of the Lease and its consent to the Assignment of the Lease:

PERSONAL GUARANTOR
Pete Kedzia

/s/ Thomas A. Sheehan

/s/ Pete Kedzia

Pete Kedzia
Date: November 4, 1996

<TABLE>
<CAPTION>
<S> <C>

Kiddie Academy International, Inc.
108 Wheel Road
Suite 200
Bel Air, Maryland 21015-8908
BORROWER'S NAME AND ADDRESS

Sparks State Bank
14804 York Road
Sparks, Maryland 21152
LENDER'S NAME AND ADDRESS

Line of Credit No. _____
Date: February 22, 1996
Max. Credit Amt. \$200,000.00
Loan Ref. No.

"I" includes each borrower above,
jointly and severally.

"You" means the lender,
its successors and assign.

</TABLE>

You have extended to me a line of credit in the AMOUNT of
Two Hundred Thousand and 00/100 \$ 200,000.00.

You will make loans to me from time to time until 12:00 PM on February 22,
1997. Although the line of credit expires on that date. I will remain
obligated to perform all my duties under this agreement so long as I owe
you any money advanced according to the terms of this agreement, as evidenced
by any note or notes I have signed promising to repay these amounts.

This line of credit is an agreement between you and me. It is not intended
that any third party receive any benefit from this agreement, whether by
direct payment, reliance for future payment or in any other manner. This
agreement is not a letter of credit.

1. AMOUNT: This line of credit is:

- OBLIGATORY: You may not refuse to make a loan to me under this
line of credit unless one of the following occurs:
 - a. I have borrowed the maximum amount available to me;
 - b. This line of credit has expired;
 - c. I have defaulted on the note (or notes) which show my
indebtedness under this line of credit;
 - d. I have violated any term of this line of credit or any note or
other agreement entered into in connection with this line of
credit;
 - e. _____.

DISCRETIONARY: You may refuse to make a loan to me under this line
of credit once the aggregate outstanding advances equal or exceed
Zero \$.00 .

Subject to the obligatory or discretionary limitations above, this line
of credit is:

OPEN-END (Business or Agricultural only): I may borrow up to the
maximum amount of principal more than one time.

CLOSED-END: I may borrow up to the maximum only one time.

2. PROMISSORY NOTE: I will repay any advances made according to this line
of credit agreement as set out in the promissory note, I signed on
February 22, 1996 , or any note(s) I sign at a later time which
represent advances under this agreement. The note(s) set(s) out the
terms relating to maturity, interest rate, repayment and advances. If
indicated on the promissory note, the advances will be made as follows:

In Person, In Writing or by Telephone

3. RELATED DOCUMENTS: I have signed the following documents in connection
with this line of credit and note(s) entered into in accordance with
this line of credit:

- security agreement dated February 22, 1996 [] _____
- [] mortgage dated _____ [] _____
- [] guaranty dated _____ [] _____

4. REMEDIES: If I am in default on the note(s) you may:
a. take any action as provided in the related documents;
b. without notice to me, terminate this line of credit.

By selecting any of these remedies you do not give up your right to later use any other remedy. Be deciding not to use any remedy should I default, you do not waive your right to later consider the event a default, if it happens again.

- 5. COSTS AND FEES: If you hire an attorney to enforce this agreement I will pay your reasonable attorney's fees, where permitted by law. I will also pay your court costs and costs of collection, where permitted by law.
- 6. COVENANTS: For as long as this line of credit is in effect or I owe you money for advances made in accordance with the line of credit, I will do the following:
 - a. maintain books and records of my operations relating to the need for this line of credit;
 - b. permit you or any of your representatives to inspect and/or copy these records;
 - c. provide to you any documentation requested to you which support the reason for making any advance under this line of credit;
 - d. permit you to make any advance payable to the seller (or seller and me) of any items being purchased with that advance;
 - e. The Principal Balance must be reduced to a Zero Balance for at least Thirty Consecutive Days during the term of this Note.
- 7. NOTICES: All notices or other correspondence with me should be sent to my address stated above. The notice or correspondence shall be effective when deposited in the mail, first class, or delivered to me in person.
- 8. MISCELLANEOUS: This line of credit may not be changed except by a written agreement signed by you and me. The law of the state in which you are located will govern this agreement. Any term of this agreement which is contrary to applicable law will not be effective, unless the law permit you and me to agree to such a variation.

FOR THE LENDER Sparks State Bank

SIGNATURES: I AGREE TO THE TERMS OF THIS LINE OF CREDIT. I HAVE RECEIVED A COPY ON TODAY'S DATE.

/s/ William R. Hyde

Kiddie Academy International, Inc.

Title: _____

/s/ George Miller

George Miller, CEO

/s/ Michael J. Miller

Michael J. Miller, President/Secretary

<TABLE>

<S> <C>

Kiddie Academy International, Inc.

Sparks State Bank

108 Wheel Road, Suite 200

14804 York Road

Loan Number _____

Bel Air, Maryland 21015-8908

Sparks, Maryland 21152

Date February 22, 1996

BORROWER'S NAME AND ADDRESS

LENDER'S NAME AND ADDRESS

Maturity Date February 22, 1997

"I" includes each borrower above, jointly and severally.

"You" means the lender, its successors and assign.

Loan Amount \$200,000.00

Renewal of

</TABLE>

For value received, I promise to pay to you, or your order, at your address listed above the PRINCIPAL sum of Two Hundred Thousand and 00/100 Dollars

\$200,000.00.

[] Single Advance: I will receive all of this principal sum on _____. No additional advances are contemplated under this note.

[X] Multiple Advance: The principal sum shown above is the maximum amount of principal I can borrow under this note. On February 22, 1996 I will receive the amount of \$.00 and future principal advances are contemplated.

Conditions: The conditions for future advances are As stated in the Line of Credit Agreement dated February 22, 1996.

[X] Open End Credit: You and I agree that I may borrow up to the maximum

amount of principal more than one time. This feature is subject to all other conditions and expires on February 22, 1997.

Closed End Credit: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

INTEREST: I agree to pay interest on the outstanding principal balance from February 22, 1996 at the rate of 9.75% per year until a Change in the Prime Rate of Interest Occurs.

Variable Rate: This rate may then change as stated below.

Index Rate: The future rate will be 1.50% above the following index rate: The Highest Prime Rate of Interest as stated in the Wall Street Journal.

Frequency and Timing: The rate on this note may change as often as Monthly. A change in the interest rate will take effect on the tenth of each month.

Limitations: During the term of this loan, the applicable annual interest rate will not be more than _____% or less than _____%.

Effect of Variable Rate: A change in the interest rate will have the following effect on the payments:

The amount of each scheduled payment will change.

The amount of the final payment will change.

Monthly Interest Bills Will Reflect Rate Changes.

ACCRUAL METHOD: Interest will be calculated on a 365 day basis.

POST MATURITY RATE: I agree to pay interest on the unpaid balance of this note owing after maturity, and until paid in full, as stated below:

on the same fixed or variable rate basis in effect before maturity (as indicated above).

at a rate equal to _____.

LATE CHARGE: If a payment is made more than 15 days after it is due, I agree to pay a late charge of 5% of any late payment.

ADDITIONAL CHARGES: In addition to interest, I agree to pay the following charges which are are not included in the principal amount above: _____.

PAYMENTS: I agree to pay this note as follows:

Interest: I agree to pay accrued interest Monthly as billed.

Principal: I agree to pay the principal As stated in the Line of Credit Agreement dated February 22, 1996.

Installments: I agree to pay this note in _____ payments. The first payment will be in the amount of \$_____ and will be due_____. A payment of \$_____ will be due _____ thereafter. The final payment of the entire unpaid balance of principal and interest will be due _____.

Unpaid Interest: If checked, any accrued interest not paid when due (whether due by reason of a schedule of payments or due because of Lender's demand) will become part of the principal thereafter, and will bear interest at the interest rate in effect from time to time as provided for in this agreement.

STATUTORY AUTHORITY: This loan is made under Subtitle 9 of Title 12 of the Commercial Law Article of the Annotated Code of Maryland.

ADDITIONAL TERMS: This Note is further secured by the Security Agreement dated February 22, 1996.

<TABLE>
<S> <C>

CONFESSION OF JUDGMENT: If checked, I agree to the paragraph on page 2 confessing judgment.

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON PAGE 2).

PURPOSE: The purpose of this loan is Business: Cash Flow

I have received a copy on today's date.

Signature for Lender

Sparks State Bank

Kiddie Academy International, Inc.

/s/ William R. Hyde

/s/ George Miller

George Miller, CEO

/s/ Michael J. Miller

Michael J. Miller, President

</TABLE>

APPLICABLE LAW: The law of the state of Maryland will govern this note. Any term of this note which is contrary to applicable law will not be effective, unless the law permits you and me to agree to such a variation. If any provision of this agreement cannot be enforced according to its terms, this fact will not affect the enforceability of the remainder of this agreement. No modification of this agreement may be made without your express written consent. Time is of the essence in this agreement.

PAYMENTS: Each payment I make on this note will first reduce the amount I owe you for charges which are neither interest nor principal. The remainder of each payment will then reduce accrued unpaid interest, and then unpaid principal. If you and I agree to a different application of payments, we will describe our agreement on this note. I may prepay a part of, or the entire balance of this loan without penalty, unless we specify to the contrary on this note. Any partial prepayment will not excuse or reduce any later scheduled payment until this note is paid in full (unless, when I make the prepayment, you and I agree in writing to the contrary).

INTEREST: If I receive the principal in more than one advance, each advance will start to earn interest only when I receive the advance. The interest rate in effect on this note at any given time will apply to the entire principal advance at that time. You and I may provide in this agreement for accrued interest not paid when due to be added to principal. Notwithstanding anything to the contrary, I do not agree to pay and you do not intend to charge any rate of interest that is higher than the maximum rate of interest agreed to here (either before or after maturity). If any notice of interest accrual is sent and is in error, we mutually agree to correct it, and if you actually collect more interest than allowed by law and this agreement, you agree to refund it to me.

INDEX RATE: The index will serve only as a device for setting the rate on this note. You do not guarantee by selecting this index, or the margin, that the rate on this note will be the same rate you charge on any other loans or class of loans to me or other borrowers.

ACCRUAL METHOD: The amount of interest that I will pay on this loan will be calculated using the interest rate and accrual method stated on page 1 of this note. For the purpose of interest calculation, the accrual method will determine the number of days in a "year". If no accrual method is stated, then you may use any reasonable accrual method for calculating interest.

POST MATURITY RATE: For purposes of deciding when the "Post Maturity Rate" (shown on page 1) applies, the term "maturity" means the date of the last scheduled payment indicated on page 1 of this note or the date you accelerate payment on the note, whichever is earlier.

SINGLE ADVANCE LOANS: If this is a single advance loan, you and I expect that you will make only one advance of principal. However, you may add other amounts to the principal if you make any payments described in the "PAYMENTS BY LENDER" paragraph below, or if we have agreed that accrued interest not paid when due may be added to principal.

MULTIPLE ADVANCE LOANS: If this is a multiple advance loan, you and I expect that you will make more than one advance of principal. If this is closed end credit, repaying a part of the principal will not entitle me to additional credit.

PAYMENTS BY LENDER: If you are authorized to pay, on my behalf, charges I am obligated to pay (such as property insurance premiums), then you may treat those payments made by you as advances and add them to the unpaid principal under this note, or you may demand immediate payment of the charges.

SET-OFF: I agree that you may set off any amount due and payable under this note against any right I have to receive money from you. "Right to receive money from you" means:

- (1) any deposit account balance I have with you;
- (2) any money owed to me on an item presented to you or in your possession for collection or exchange; and

(3) any repurchase agreement or other nondeposit obligation.

"Any amount due and payable under this note" means the total amount of which you are entitled to demand payment under the terms of this note at the time you set off. This total includes any balance the due date for which you properly accelerate under this note.

If my right to receive money from you is also owned by someone who has not agreed to pay this note, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement. Your right of set-off does not apply to an account or other obligation where my rights are only as a representative. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account.

You will not be liable for the dishonor of any check when the dishonor occurs because you set off this debt against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right of set-off.

REAL ESTATE OR RESIDENCE SECURITY: If this note is secured by real estate or a residence that is personal property, the existence of a default and your remedies for such a default will be determined by applicable law, by the terms of any separate instrument creating the security interest and, to the extent not prohibited by law and not contrary to the terms of the separate security instrument, by the "Default" and "Remedies" paragraphs herein.

DEFAULT: I will be in default if any one or more of the following occur: (1) I fail to make a payment on time or in the amount due; (2) I fail to keep the property insured, if required; (3) I fail to pay, or keep any promise, on any debt or agreement I have with you; (4) any other creditor of mine attempts to collect any debt I owe him through court proceedings; (5) I die, am declared incompetent, make an assignment for the benefit of creditors, or become insolvent (either because my liabilities exceed my assets or I am unable to pay my debts as they become due); (6) I make any written statement or provide any financial information that is untrue or inaccurate at the time it was provided; (7) Any collateral securing this note is used in a manner or for a purpose which threatens confiscation by a legal authority; (8) I change my name or assume an additional name without first notifying you before making such a change; (9) I fail to plant, cultivate and harvest crops in due season; (10) any loan proceeds are used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 C.F.R. Part 1940, Subpart G, Exhibit M.

REMEDIES: If I am in default on this note you have, but are not limited to, the following remedies:

(1) You may demand immediate payment of all I owe you under this note (principal, accrued unpaid interest and accrued unpaid charges).

(2) You may set off this debt against any right I have to the payment of money from you, subject to the terms of the "Set-Off" paragraph herein.

(3) You may demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy.

(4) You may refuse to make advances to me or allow purchases on credit by me.

(5) You may use any remedy you have under state or federal law.

By selecting any one or more of these remedies you do not give up your right to later use any other remedy. By waiving your right to declare an event to be a default, you do not waive your right to later consider the event as a default if it continues or happens again.

COLLECTION COSTS AND ATTORNEY'S FEES: I agree to pay all costs of collection, replevin or any other or similar type of cost if I am in default. In addition, if you hire an attorney to collect this note, I also agree to pay any fee you incur with such attorney plus court costs (except where prohibited by law). To the extent permitted by the United States Bankruptcy Code, I also agree to pay the reasonable attorney's fees and costs you incur to collect this debt as awarded by any court exercising jurisdiction under the Bankruptcy Code.

WAIVER: I give up my rights to require you to do certain things. I will not require you to:

- (1) demand payment of amounts due (presentment);
- (2) obtain official certification of nonpayment (protest); or
- (3) give notice that amounts due have not been paid (notice of dishonor).

OBLIGATIONS INDEPENDENT: I understand that I must pay this note even if someone else has also agreed to pay it (by, for example, signing this form or a separate guarantee or endorsement). You may sue me alone, or anyone else who is obligated on this note, or any number of us together, to collect this note. You may do so without any notice that it has not been paid (notice of dishonor). You may without notice release any party to this agreement without releasing any other party. If you give up any of your rights, with or without notice, it will not affect my duty to pay this note. Any extension of new credit to any of us, or renewal of this note by all or less than all of us will not release me from my duty to pay it. (Of course, you are entitled to only one payment in full.) I agree that you may at your option extend this note or the debt represented by this note, or any portion of the note or debt, from time to time without limit or notice and for any term without affecting my liability for payment of the note. I will not assign my obligation under this agreement without your prior written approval.

CREDIT INFORMATION: I agree and authorize you to obtain credit information about me from time to time (for example, by requesting a credit report) and to report to others your credit experience with me (such as a credit reporting agency). I agree to provide you, upon request, any financial statement or information you may deem necessary. I warrant that the financial statements and information I provide to you are or will be accurate, correct and complete.

NOTICE: Unless otherwise required by law, any notice to me shall be given by delivering it or by mailing it by first class mail addressed to me at my last known address. My current address is on page 1. I agree to inform you in writing of any change in my address. I will give any notice to you by mailing it first class to your address stated on page 1 of this agreement, or to any other address that you have designated.

CONFESSION OF JUDGMENT: If checked on page 1, I authorize any attorney to appear in a court of record and confess judgment, without process, against me, in favor of you, for any amounts owed under this note, together with collection costs including reasonable attorney's fees.

<TABLE>
<CAPTION>

<S> <C> Kiddie Academy International, Inc. 108 Wheel Road Suite 200 Bel Air, Maryland 21015-8908	Sparks State Bank 14804 York Road Sparks, Maryland 21152	Line of Credit No. _____
BORROWER'S NAME AND ADDRESS "I" includes each borrower above, jointly and severally.	LENDER'S NAME AND ADDRESS "You" means the lender, its successors and assign.	Date: July 26, 1996
</TABLE>		Max. Credit Amt. \$500,000.00
		Loan Ref. No.

You have extended to me a line of credit in the AMOUNT of Five Hundred Thousand and 00/100 \$500,000.00.

You will make loans to me from time to time until 12:00 PM on July 26, 1997 . Although the line of credit expires on that date. I will remain obligated to perform all my duties under this agreement so long as I owe you any money advanced according to the terms of this agreement, as evidenced by any note or notes I have signed promising to repay these amounts.

This line of credit is an agreement between you and me. It is not intended that any third party receive any benefit from this agreement, whether by direct payment, reliance for future payment or in any other manner. This agreement is not a letter of credit.

1. AMOUNT: This line of credit is:

OBLIGATORY: You may not refuse to make a loan to me under this line of credit unless one of the following occurs:

- a. I have borrowed the maximum amount available to me;
- b. This line of credit has expired;
- c. I have defaulted on the note (or notes) which show my indebtedness under this line of credit;
- d. I have violated any term of this line of credit or any note or other agreement entered into in connection with this line of credit;
- e. _____ .

DISCRETIONARY: You may refuse to make a loan to me under this line of credit once the aggregate outstanding advances equal or exceed Zero \$.00.

Subject to the obligatory or discretionary limitations above, this line of credit is:

OPEN-END (Business or Agricultural only): I may borrow up to the maximum amount of principal more than one time.

CLOSED-END: I may borrow up to the maximum only one time.

2. PROMISSORY NOTE: I will repay any advances made according to this line of credit agreement as set out in the promissory note, I signed on July 26, 1996 , or any note(s) I sign at a later time which represent advances under this agreement. The note(s) set(s) out the terms relating to maturity, interest rate, repayment and advances. If indicated on the promissory note, the advances will be made as follows: In Person, In Writing or by Telephone

3. RELATED DOCUMENTS: I have signed the following documents in connection

with this line of credit and note(s) entered into in accordance with this line of credit:

[X] security agreement dated July 26, 1996 []
[] mortgage dated []
[] guaranty dated []

- 4. REMEDIES: If I am in default on the note(s) you may:
a. take any action as provided in the related documents;
b. without notice to me, terminate this line of credit.

By selecting any of these remedies you do not give up your right to later use any other remedy. Be deciding not to use any remedy should I default, you do not waive your right to later consider the event a default, if it happens again.

- 5. COSTS AND FEES: If you hire an attorney to enforce this agreement I will pay your reasonable attorney's fees, where permitted by law. I will also pay your court costs and costs of collection, where permitted by law.

- 6. COVENANTS: For as long as this line of credit is in effect or I owe you money for advances made in accordance with the line of credit, I will do the following:
a. maintain books and records of my operations relating to the need for this line of credit;
b. permit you or any of your representatives to inspect and/or copy these records; c. provide to you any documentation requested to you which support the reason for making any advance under this line of credit;
d. permit you to make any advance payable to the seller (or seller and me) of any items being purchased with that advance;
e. _____.

- 7. NOTICES: All notices or other correspondence with me should be sent to my address stated above. The notice or correspondence shall be effective when deposited in the mail, first class, or delivered to me in person.

- 8. MISCELLANEOUS: This line of credit may not be changed except by a written agreement signed by you and me. The law of the state in which you are located will govern this agreement. Any term of this agreement which is contrary to applicable law will not be effective, unless the law permit you and me to agree to such a variation.

FOR THE LENDER Sparks State Bank

/s/ Lois L. Wainwright

Title: Assistant Vice President

SIGNATURES: I AGREE TO THE TERMS OF THIS LINE OF CREDIT. I HAVE RECEIVED A COPY ON TODAY'S DATE.
Kiddie Academy International, Inc.

/s/ George Miller

George Miller, CEO
/s/ Michael J. Miller

Michael J. Miller, President

<TABLE>
<CAPTION>

<S> <C>	Sparks State Bank	Loan Number _____
Kiddie Academy International, Inc.	14804 York Road	Date July 26, 1996
108 Wheel Road, Suite 200	Sparks, Maryland 21152	Maturity Date July 26, 1997
Bel Air, Maryland 21015-8908	LENDER'S NAME AND ADDRESS	Loan Amount \$500,000.00
BORROWER'S NAME AND ADDRESS	"You" means the lender,	Renewal of
"I" includes each borrower above,	its successors and assign.	
jointly and severally.		
</TABLE>		

For value received, I promise to pay to you, or your order, at your address listed above the PRINCIPAL sum of Five Hundred Thousand and 00/100 Dollars \$500,000.00.

Single Advance: I will receive all of this principal sum on. No additional advances are contemplated under this note.

Multiple Advance: The principal sum shown above is the maximum amount of principal I can borrow under this note. On July 26, 1996

I will receive the amount of \$.00 and future principal advances are contemplated.

Conditions: The conditions for future advances are As stated in the Line of Credit Agreement dated July 26, 1996.

Open End Credit: You and I agree that I may borrow up to the maximum amount of principal more than one time. This feature is subject to all other conditions and expires on July 26, 1997.

Closed End Credit: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

INTEREST: I agree to pay interest on the outstanding principal balance from July 26, 1996 at the rate of 6.95% per year until July 26, 1997 or the loan is paid in full, whichever comes first.

Variable Rate: This rate may then change as stated below.

Index Rate: The future rate will be the following index rate:

Frequency and Timing: The rate on this note may change as often as . A change in the interest rate will take effect .

Limitations: During the term of this loan, the applicable annual interest rate will not be more than % or less than %.

Effect of Variable Rate: A change in the interest rate will have the following effect on the payments:

The amount of each scheduled payment will change. The amount of the final payment will change.

_____.

ACCRUAL METHOD: Interest will be calculated on a 365 day basis.

POST MATURITY RATE: I agree to pay interest on the unpaid balance of this note owing after maturity, and until paid in full, as stated below:

on the same fixed or variable rate basis in effect before maturity (as indicated above).

at a rate equal to _____.

LATE CHARGE: If a payment is made more than 15 days after it is due, I agree to pay a late charge of \$2.00 or 5% of any late payment whichever is greater .

ADDITIONAL CHARGES: In addition to interest, I agree to pay the following charges which are are not included in the principal amount above: _____.

PAYMENTS: I agree to pay this note as follows:

[X] Interest: I agree to pay accrued interest Monthly as billed

[X] Principal: I agree to pay the principal As stated in the Line of Credit Agreement dated July 26, 1996 .

[] Installments: I agree to pay this note in _____ payments. The first payment will be in the amount of \$ _____ and will be due _____. A payment of \$ _____ will be due _____ thereafter. The final payment of the entire unpaid balance of principal and interest will be due _____.

[] Unpaid Interest: If checked, any accrued interest not paid when due (whether due by reason of a schedule of payments or due because of Lender's demand) will become part of the principal thereafter, and will bear interest at the interest rate in effect from time to time as provided for in this agreement.

[X] STATUTORY AUTHORITY: This loan is made under Subtitle 9 of Title 12 of the Commercial Law Article of the Annotated Code of Maryland .

ADDITIONAL TERMS: The Line of Credit is secured by a 12 month Certificate of Deposit #300911 opened at Sparks State Bank in the amount of \$500,000.00

[X] CONFESSION OF JUDGMENT: If checked, to the paragraph on page 2 confessing judgment.

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON PAGE 2). I have received a copy on today's date.

PURPOSE: The purpose of this loan is Business: Cash Flow

Kiddie Academy International, Inc.

Signature for Lender Sparks State Bank /s/ Lois L. Wainwright

/s/ George Miller George Miller, CEO /s/ Michael J. Miller

Michael J. Miller, President

APPLICABLE LAW: The law of the state of Maryland will govern this note. Any term of this note which is contrary to applicable law will not be effective, unless the law permits you and me to agree to such a variation. If any provision of this agreement cannot be enforced according to its terms, this fact will not affect the enforceability of the remainder of this agreement. No modification of this agreement may be made without your express written consent. Time is of the essence in this agreement.

PAYMENTS: Each payment I make on this note will first reduce the amount I owe you for charges which are neither interest nor principal. The remainder of each payment will then reduce accrued unpaid interest, and then unpaid principal. If you and I agree to a different application of payments, we will describe our agreement on this note. I may prepay a part of, or the entire balance of this loan without penalty, unless we specify to the contrary on this note. Any partial prepayment will not excuse or reduce any later scheduled payment until this note is paid in full (unless, when I make the prepayment, you and I agree in writing to the contrary).

INTEREST: If I receive the principal in more than one advance, each advance will start to earn interest only when I receive the advance. The interest rate in effect on this note at any given time will apply to the entire principal advance at that time. You and I may provide in this agreement for accrued interest not paid when due to be added to principal. Notwithstanding anything to the contrary, I do not agree to pay and you do not intend to charge any rate of interest that is higher than the maximum rate of interest agreed to here (either before or after maturity). If any notice of interest accrual is sent and is in error, we mutually agree to correct it, and if you actually collect more interest than allowed by law and this agreement, you agree to

refund it to me.

INDEX RATE: The index will serve only as a device for setting the rate on this note. You do not guarantee by selecting this index, or the margin, that the rate on this note will be the same rate you charge on any other loans or class of loans to me or other borrowers.

ACCRUAL METHOD: The amount of interest that I will pay on this loan will be calculated using the interest rate and accrual method stated on page 1 of this note. For the purpose of interest calculation, the accrual method will determine the number of days in a "year". If no accrual method is stated, then you may use any reasonable accrual method for calculating interest.

POST MATURITY RATE: For purposes of deciding when the "Post Maturity Rate" (shown on page 1) applies, the term "maturity" means the date of the last scheduled payment indicated on page 1 of this note or the date you accelerate payment on the note, whichever is earlier.

SINGLE ADVANCE LOANS: If this is a single advance loan, you and I expect that you will make only one advance of principal. However, you may add other amounts to the principal if you make any payments described in the "PAYMENTS BY LENDER" paragraph below, or if we have agreed that accrued interest not paid when due may be added to principal.

MULTIPLE ADVANCE LOANS: If this is a multiple advance loan, you and I expect that you will make more than one advance of principal. If this is closed end credit, repaying a part of the principal will not entitle me to additional credit.

PAYMENTS BY LENDER: If you are authorized to pay, on my behalf, charges I am obligated to pay (such as property insurance premiums), then you may treat those payments made by you as advances and add them to the unpaid principal under this note, or you may demand immediate payment of the charges.

SET-OFF: I agree that you may set off any amount due and payable under this note against any right I have to receive money from you. "Right to receive money from you" means:

- (1) any deposit account balance I have with you;
- (2) any money owed to me on an item presented to you or in your possession for collection or exchange; and
- (3) any repurchase agreement or other nondeposit obligation.

"Any amount due and payable under this note" means the total amount of which you are entitled to demand payment under the terms of this note at the time you set off. This total includes any balance the due date for which you properly accelerate under this note.

If my right to receive money from you is also owned by someone who has not agreed to pay this note, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement. Your right of set-off does not apply to an account or other obligation where my rights are only as a representative. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account.

You will not be liable for the dishonor of any check when the dishonor occurs because you set off this debt against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right of set-off.

REAL ESTATE OR RESIDENCE SECURITY: If this note is secured by real estate or a residence that is personal property, the existence of a default and your remedies for such a default will be determined by applicable law, by the terms of any separate instrument creating the security interest and, to the extent not prohibited by law and not contrary to the terms of the separate security instrument, by the "Default" and "Remedies" paragraphs herein.

DEFAULT: I will be in default if any one or more of the following occur: (1) I fail to make a payment on time or in the amount due; (2) I fail to keep the property insured, if required; (3) I fail to pay, or keep any promise, on

any debt or agreement I have with you; (4) any other creditor of mine attempts to collect any debt I owe him through court proceedings; (5) I die, am declared incompetent, make an assignment for the benefit of creditors, or become insolvent (either because my liabilities exceed my assets or I am unable to pay my debts as they become due; (6) I make any written statement or provide any financial information that is untrue or inaccurate at the time it was provided; (7) Any collateral securing this note is used in a manner or for a purpose which threatens confiscation by a legal authority; (8) I change my name or assume an additional name without first notifying you before making such a change; (9) I fail to plant, cultivate and harvest crops in due season; (10) any loan proceeds are used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 C.F.R. Part 1940, Subpart G, Exhibit M.

REMEDIES: If I am in default on this note you have, but are not limited to, the following remedies:

- (1) You may demand immediate payment of all I owe you under this note (principal, accrued unpaid interest and accrued unpaid charges).
- (2) You may set off this debt against any right I have to the payment of money from you, subject to the terms of the "Set-Off" paragraph herein.
- (3) You may demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy.
- (4) You may refuse to make advances to me or allow purchases on credit by me.
- (5) You may use any remedy you have under state or federal law.

By selecting any one or more of these remedies you do not give up your right to later use any other remedy. By waiving your right to declare an event to be a default, you do not waive your right to later consider the event as a default if it continues or happens again.

COLLECTION COSTS AND ATTORNEY'S FEES: I agree to pay all costs of collection, replevin or any other or similar type of cost if I am in default. In addition, if you hire an attorney to collect this note, I also agree to pay any fee you incur with such attorney plus court costs (except where prohibited by law). To the extent permitted by the United States Bankruptcy Code, I also agree to pay the reasonable attorney's fees and costs you incur to collect this debt as awarded by any court exercising jurisdiction under the Bankruptcy Code.

WAIVER: I give up my rights to require you to do certain things. I will not require you to:

- (1) demand payment of amounts due (presentment);
- (2) obtain official certification of nonpayment (protest); or
- (3) give notice that amounts due have not been paid (notice of dishonor).

OBLIGATIONS INDEPENDENT: I understand that I must pay this note even if someone else has also agreed to pay it (by, for example, signing this form or a separate guarantee or endorsement). You may sue me alone, or anyone else who is obligated on this note, or any number of us together, to collect this note. You may do so without any notice that it has not been paid (notice of dishonor). You may without notice release any party to this agreement without releasing any other party. If you give up any of your rights, with or without notice, it will not affect my duty to pay this note. Any extension of new credit to any of us, or renewal of this note by all or less than all of us will not release me from my duty to pay it. (Of course, you are entitled to only one payment in full.) I agree that you may at your option extend this note or the debt represented by this note, or any portion of the note or debt, from time to time without limit or notice and for any term without affecting my liability for payment of the note. I will not assign my obligation under this agreement without your prior written approval.

CREDIT INFORMATION: I agree and authorize you to obtain credit information about

me from time to time (for example, by requesting a credit report) and to report to others your credit experience with me (such as a credit reporting agency). I agree to provide you, upon request, any financial statement or information you may deem necessary. I warrant that the financial statements and information I provide to you are or will be accurate, correct and complete.

NOTICE: Unless otherwise required by law, any notice to me shall be given by delivering it or by mailing it by first class mail addressed to me at my last known address. My current address is on page 1. I agree to inform you in writing of any change in my address. I will give any notice to you by mailing it first class to your address stated on page 1 of this agreement, or to any other address that you have designated.

CONFESSION OF JUDGMENT: If checked on page 1, I authorize any attorney to appear in a court of record and confess judgment, without process, against me, in favor of you, for any amounts owed under this note, together with collection costs including reasonable attorney's fees.

<TABLE> <S> <C>

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The schedule contains summary financial information derived from Kiddie Academy International, Inc.'s audited financial statements for the year ended September 29, 1996, and is qualified in its entirety by reference to such financial statements and the notes thereto.

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